

Directors' remuneration report

Remuneration Committee Report

Chairman's Annual Statement



I am pleased to present the Remuneration Committee's report for the year to 31 March 2021.

The purpose of the Remuneration Committee is to put in place the incentive and retention structures that allow Southern Water to drive performance delivery and improvement across a broad and balanced set of outcomes. These outcomes look to deliver for our customers, the environment and our shareholders.

Summary of the year

2020–21 has been an extraordinary year as the company has continued to deliver throughout the global pandemic. Throughout the year the committee had taken into consideration the views of customers, stakeholders and has consulted with its shareholders on its remuneration policies and practices. The application of these has been governed by the Remuneration Committee, reporting to the Board.

Throughout the year the Remuneration Committee reviewed Remuneration policy, Committee Terms of Reference and satisfied itself on their application. It also sought the opinion of PWC Remuneration Consultants on a number of remuneration matters.

Membership of the Committee remains a majority of independent non-executive directors.

Remuneration Outcomes for the 2020–21 Year

During this extraordinary year in the history of the company, Southern Water has successfully operated throughout the pandemic, with a significant increase in demand, and has successfully delivered and improved its essential service. The operation of the core purpose of the company has underpinned the health and wellbeing of millions of customers within the communities it serves throughout this difficult period.

The company has worked hard to support those customers who through no fault of their own have found themselves vulnerable and unable or struggling to pay, and to support this the Remuneration Committee removed any incentive linked to the pursuit of bad debt.

The team has never worked harder and has delivered a good underlying operational performance improvement across a broad and balanced set of outcomes. There is, of course, always space for improvement but what is clear is that the company is emerging as a stronger and more agile business and existing performance trajectories in areas of apparent weakness such as pollution have already significantly improved.

During this period the company did not furlough any employee, took no government support and achieved its highest Colleague Engagement scores.

The KPIs and targets for the year were very stretching and made further so by the global pandemic. The committee set out at the beginning of the year that it would consider applying its discretion, within the rules of the scheme, where it felt that the bonus outcome was significantly impacted by COVID-19. The committee did apply its discretion to the range applicable to the cash flow KPI, where it was felt that a number of mitigating factors related to bad debt and non-household income did negatively impact an otherwise strong performance. No other adjustments were made. As such a bonus of 63.33% of maximum was awarded for all levels of the company. Individuals can earn a small amount above or below this based on their personal performance.

Under the rules of the scheme, bonus awarded to executives is paid into a 'Deferred Incentive & Retention Pool' and normally no more than 50% of that pool is paid in year. All deferred elements are subject to malus and clawback clauses.

Looking ahead to 2021–22

The arrangements for the coming year will continue to comply with the code on executive remuneration and at least 50% of variable pay will be directly linked to customer outcomes.

Many of the performance areas targeted by the KPIs in last year's scheme are seen as important long term indicators. Accordingly, it was deemed appropriate to maintain the principal structure of the scheme for this next year to ensure targeted improvements are truly embedded. We anticipate wider changes for 2022–23.

The Remuneration Committee remains committed to ensuring that we maintain a well-designed, forward-looking bonus scheme that is flexible to the needs of all stakeholders

Paul Sheffield

Chair of the Remuneration Committee

30 June 2021

Directors' remuneration report continued

Remuneration Committee Report continued

Committee membership (in year)



Paul Sheffield
Chair

Attendance 4/4



Rosemary Boot
Committee Member

Attendance 4/4



Sara Sulaiman
Committee Member

Attendance 4/4

Areas of focus this year:

- Management corporate objectives outturn
- Management corporate objectives targets
- Management corporate objectives
- CEO Executive personal objectives outturn
- Gender Pay Gap
- COVID-19 impact
- Remuneration Policy review

Priorities for 2021–22:

- Review of bonus targets for 2022–23
- Gender Pay Gap
- Diversity

Introduction

This report details the activities of the Remuneration Committee for the period to 31 March 2021. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company. It has been prepared in accordance with our Code, the guidance issued by Ofwat in Regulatory Accounting Guidance (RAG) 3.12 and, where relevant for a non-listed company, has taken into account the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The Remuneration Committee of Southern Water

The Remuneration Committee has the responsibility for setting the remuneration policy and structure of the executive directors and senior management. It is also responsible for setting the remuneration of the Chairman. The committee has defined terms of reference, which are published at [southernwater.co.uk/board-committee-terms-of-reference](https://www.southernwater.co.uk/board-committee-terms-of-reference).

We recognise that the independent non-executive directors have an important role to play in determining and challenging remuneration policy and practice. In order to reflect this, the independent non-executive directors are a majority on the committee and neither executive directors nor the Chairman are permitted to be members of the committee.

Following his appointment as a non-executive director with the remit for communicating the views of the workforce to the Board, Kevin McCullough has now been appointed to the committee.

Only committee members are entitled to attend meetings, with the Managing Director (accountable for People) and the Chief Executive Officer and Chief Financial Officer attending by invitation. The Company Secretariat acts as secretary to the committee.

No attendee participates in discussions regarding their own remuneration.

Remuneration at a glance

Key objectives

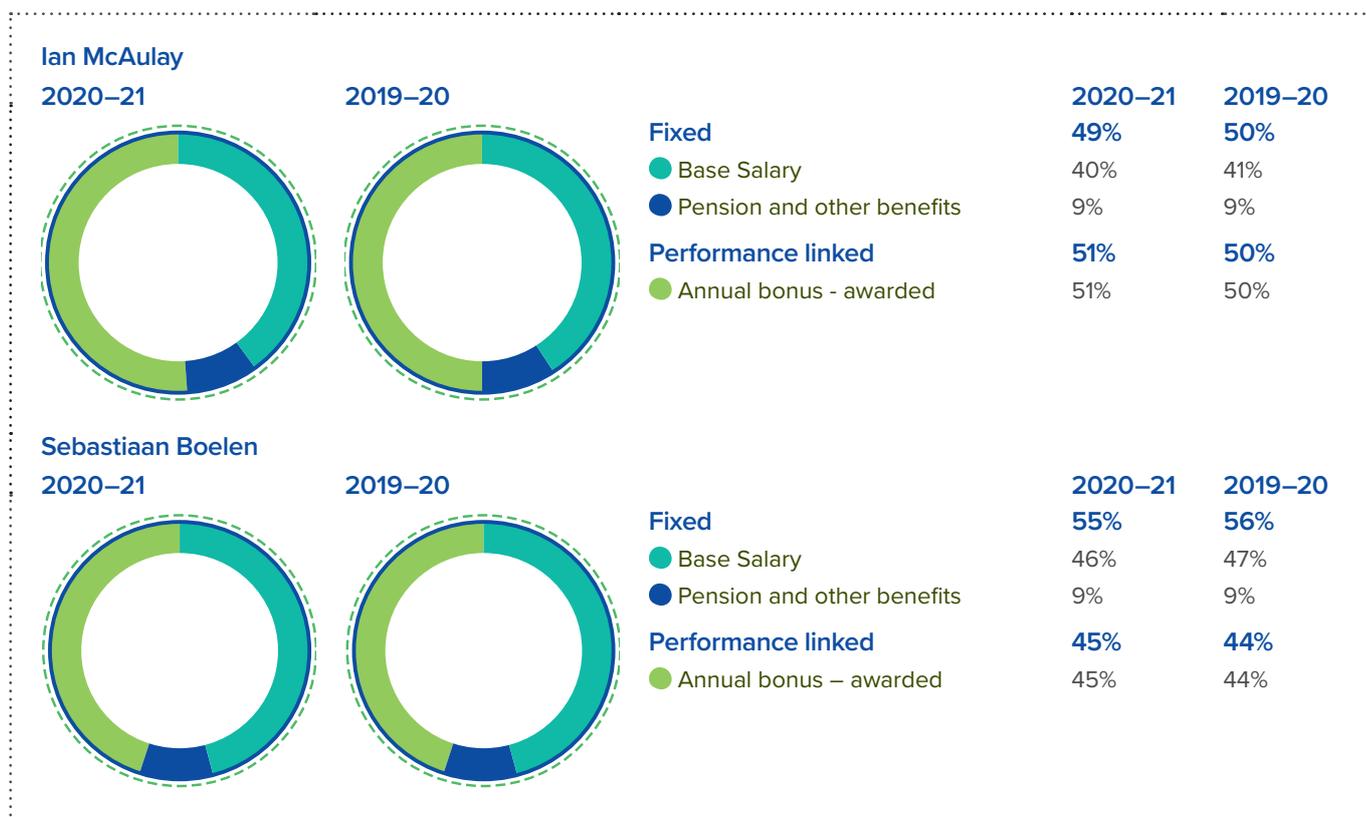
Providing transparent alignment between performance-related pay and quality customer outcomes

Governance, risk management and rigorous application

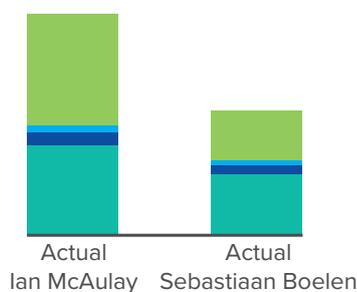
Applying stretching targets linked to customer outcomes

Executive directors' remuneration policy

Elements of executive directors' pay



Single total figure of remuneration for executive directors for year ended 31 March 2021



Ian McAulay

Bonus award	£550.9
Benefits	£18.2
Pension	£78.3
Salary	£435.0

Sebastian Boelen

Bonus award	£290.8
Benefits	£14.4
Pension	£45.0
Salary	£300.0

Directors' remuneration report continued

Remuneration Committee Report continued

Remuneration policy applicable in year (unaudited)

Purpose

This remuneration policy applies to all Southern Water employees. The Board of Directors has adopted the remuneration policy at the recommendation of the Remuneration Committee. This policy applies to remuneration earned from 1 April 2020 to 31 March 2021. This was updated in March 2021 to add clarity to a small number of points.

Providing transparent alignment between performance-related pay and quality customer outcomes

The policy reflects the Board's commitment to being open and transparent in respect of executive pay. In line with the expectations set out in Ofwat's 'Putting the sector back in balance' the Board has also committed during the year to ensuring that performance-related executive pay has a clear alignment to delivering stretching performance improvement, which is in the interests of customers as well as providing sustained and long-term value creation for shareholders and other stakeholders by:

- setting stretching performance targets that are based on the performance ambitions set out in our business plan
- ensuring that targets and metrics have a substantial and demonstrable link to stretching performance delivery and quality outcomes that align with the interests of customers
- transparently reporting how performance-related executive pay is linked to the underlying performance of the company
- embedding behavioural competence built around company values to underpin the cultural change and instil a way of working that will increase employee engagement and therefore productivity
- ensuring employees feel encouraged to create sustainable results and that a clear link exists between customers, shareholders and employees' interests
- ensuring that performance payments do not compromise employees' compliance with the Ofwat Section 19 requirements
- aligning pay to the market-median position, recognising the need, from time to time, to implement specific arrangements for certain individuals

- ensuring employees are offered a competitive and market median-aligned remuneration package, which balances the fixed and variable remuneration components according to job role
- ensuring that Southern Water is able to attract, develop and retain high-performing and motivated employees in a competitive market.

The table on page 201 summarises the elements of our executive directors' remuneration package and our policy for each item.

Governance, risk management and rigorous application

The Board applies sound and effective risk management principles to ensure that the policy is rigorously monitored and applied through:

- the application of good corporate governance by taking into account regulatory requirements and, among others, the UK Corporate Governance Code and any corporate governance principles issued by its regulator, Ofwat, from time to time
- a stringent governance structure for setting relevant and stretching goals, which are aligned to customer outcomes, and communicating these goals to employees
- clear alignment with our business strategy, company values, priorities and long-term goals
- the Remuneration Committee consists of two independent non-executive directors and one non-executive director and no executive directors, which avoids any conflicts of interest and aligns the principle of protection of customers and the interests of investors
- a commitment to the transparent reporting of executive pay within our Annual Report and Financial Statements, and any other channels as appropriate in accordance with legal and regulatory requirements, including the Ofwat Board leadership, transparency and governance principles
- a commitment to transparently report any changes to the policy, including the underlying reasons, within the Annual Report and financial statements, and any other channels as appropriate
- an annual review of the constitution and terms of reference of the Remuneration Committee to maintain its operational effectiveness and publishing these on our website for transparency
- ensuring the ongoing effectiveness of the Board and its committees through regular external and independent evaluation.

Applying stretching targets linked to customer outcomes

The Board sets stretching bonus targets linked to outcomes for customers that require stretching performance. The Board is committed to setting more than 50% of bonus targets that are linked to these outcomes. For 2020–21 these included customer outcomes such as ODIs, C-Mex, D-Mex, efficiency of service delivery, service through people as well as treating the environment as our customer.

Customers will also benefit from the value metrics, which will drive the long-term financial resilience of the organisation and capture the financial consequences of delivering for our customers, aligned with the needs of our shareholders. For 2020–21, these included outcomes such as Totex and net operating cash flow.

All metrics were used throughout the organisation so that all company employees are incentivised to achieve stretching levels of customer service. More detail can be found on pages 74 to 99 of this report.

Executive remuneration components

Executive remuneration comprises both fixed and variable elements with the four remuneration components detailed as follows:

- Fixed remuneration (including fixed supplements)
- Performance-based remuneration (variable percentage of salary)
- Pension schemes, where applicable
- Other benefits in kind (e.g. car allowance and private medical cover).

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions and is frequently benchmarked against industry peer groups.

The performance-based remuneration motivates and rewards those employees who significantly contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term delivery of quality outcomes for customers and generate income and shareholder value.

The Board of Directors has determined a maximum percentage of performance-based remuneration relative to the fixed salary remuneration for the executive management positions. The table below shows the maximum limit on variable remuneration (excluding any pension allowance) for the CEO and CFO for 2020–21. The maximum percentages are made up of customer metrics and value metrics as follows:

	CEO	CFO
Customer metrics range and maximum:	0% – 100%	0% – 80%
Value metrics range and maximum:	0% – 100%	0% – 75%
Total maximum variable remuneration	0% – 200%	0% – 155%

Performance-based remuneration is disbursed as a cash bonus. The total of any executive bonus earned during the year is added to the individual's bonus pool carried over from prior years. Each year, 50% of the pool is paid out in cash, with the remaining 50% deferred and retained as the bonus pool for future years. Rules of the scheme include bonus recovery provisions, which allow for the possibility of a reduction or clawback of bonuses already earned, or those deferred, to incentivise sustained, long-term executive performance.

Executive directors are covered by an insured four times salary 'death in service' lump sum benefit and a contribution to a personal pension arrangement. The CEO receives an 18% of base salary contribution rate and the CFO receives 15%. Where retirement savings have exceeded the Lifetime Allowance (as defined by HMRC for their circumstances) the employer contribution may instead be taken as a pay supplement, subject to the relevant tax and National Insurance deductions.

The policy is that remuneration should be market-competitive relative to other comparable companies, with a significant proportion being performance-related. The performance-related element is only paid out if stretching targets are achieved that benefit both customers and shareholders. In setting the remuneration policy for executive directors, the committee takes into account the remuneration practices found in other UK companies of a similar size or operating in the same sector. It also ensures that the remuneration arrangements for the executive directors are appropriate when compared with those for other senior executives and the wider workforce. Attracting and retaining first class leadership is vital to the long-term success of the company.

Directors' remuneration report continued

Remuneration Committee Report continued

In particular, the committee is kept informed on a regular basis of the following, which it uses to set executive remuneration policy:

- The level of salary increase for the general employee population
- Company-wide benefit provision and any proposed changes
- Overall spend on management bonus arrangements
- The gender pay gap across the company.

An investor representative non-executive director sits on the committee and is closely involved in setting remuneration levels, monitoring the performance of the executive directors, agreeing payments and approving any changes to executive reward packages. This involvement ensures that shareholders play a key part in shaping remuneration policy and decisions. Along with the independent non-executive directors they ensure that the link between pay and performance is closely managed.

To ensure that our remuneration practices remain competitive, the committee periodically calls upon experienced specialist consultants. During the year, the committee also received some guidance and market practice information from external, independent advisers, PwC.

Remuneration components

Element of remuneration	Purpose and link to strategy	Policy and approach	Maximum opportunity 2020–21
Base salary	<p>Takes into account experience and personal contribution to our strategy and performance.</p> <p>Attracts and retains executives of the quality required to deliver our strategy.</p>	<p>Reviewed annually with changes effective from 1 July if applicable.</p> <ul style="list-style-type: none"> • Consideration given to individual and company performance. • General pay increases to all employees taken into consideration. • Aim to pay within a mid-market range, but may pay higher salaries to attract and retain executives of the right calibre or for out-performance by the individual or company. • Referenced against UK companies of a similar size, utility companies and other water companies. 	<p>Base salary increases are applied in line with the annual review.</p>

Element of remuneration	Purpose and link to strategy	Policy and approach	Maximum opportunity 2020–21
Incentive and Retention Plan	<p>Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.</p> <p>It is also structured to provide retention incentives to executives.</p>	<ul style="list-style-type: none"> • Details of the operation of the plan are shown on page 202. • Performance metrics and targets are established annually by the Committee, making sure they are sufficiently stretching while also recognising the nature and risk profile of the company. • Where applicable, between 0% and 85% of the opportunity available for each measure is created for achieving a threshold target. 90%-100% is awarded for achieving the actual target, with stretch targets creating between 95% and 150% for achieving outstanding performance. • The Committee has discretion to amend or withdraw payments based on the consideration of other factors which could significantly affect business performance. • Awards made under the plan are disclosed on pages 203 to 207. 	<p>200% of salary for the CEO</p> <p>155% of salary for the CFO</p>
Pension	<p>Defined contribution scheme minimises the risk to the company associated with defined benefit pension plans.</p>	<ul style="list-style-type: none"> • A company contribution into a defined contribution scheme, and/or • A cash allowance in lieu of pension. 	<p>CEO 18% of salary</p> <p>CFO 15% of salary</p>
Other benefits	<p>Provides market competitive benefits.</p>	<p>May consist of:</p> <ul style="list-style-type: none"> • Car allowance • Health cover • Disturbance or relocation allowances. 	<p>Based on individual circumstances</p>

Notes to the policy table

Directors' pay

Executive directors who served during the 2020–21 year are shown below:

Ian McAulay Chief Executive Officer
 Sebastiaan Boelen Chief Financial Officer

Details are given on page 204 of the amounts paid to them in the year ended 31 March 2021.

Directors' remuneration report continued

Remuneration Committee Report continued

Operation of the Incentive and Retention Plan

The Incentive and Retention Plan operates as follows:

1. **Annual Contribution:** Each year, participants have the opportunity to earn an annual bonus contribution based on performance against targets pre-determined by the Board. This is then added to the 'bonus pool'.
2. **Annual Pay-out:** Each year, following the Annual Contribution, 50% of the total amount in the 'bonus pool' is paid out to participants in cash.
3. **Deferred value:** Each year, the remaining 50% of the 'bonus pool' is carried forward. These deferred amounts will therefore roll over to the subsequent years.
4. **Repeat:** The following year, the process repeats, and continues for an indefinite period of time. This serves to increase the retention incentive and also give the Remuneration Committee a long-term view of sustainable outcomes for the company, customers and shareholders.

Measures used in the Incentive and Retention Plan

During the year, the Remuneration Committee identified and operated both customer and value performance measures in the Incentive and Retention Plan. The Customer performance measures for 2020–21 were focused on issues that affect customers such as:

- Customer satisfaction, as measured by our C-MeX performance
- Delivery of our business plan commitments, as measured by our in-year ODI performance
- A number of other measures aimed at reducing our operating costs, which ultimately helps us to reduce bills for customers.
- Creating an Environment plan, which was approved by the Board in March 2021, which includes measurable milestones that underpin deliverable metrics as agreed with the Board, including progress towards net-zero.

Value metrics for 2020–21 included a number of KPIs, all of which underpinned performance improvement.

An executive leaving the company will only be eligible for release of any deferred incentives if they are deemed as a 'good leaver' and meets specific targets prior to departure.

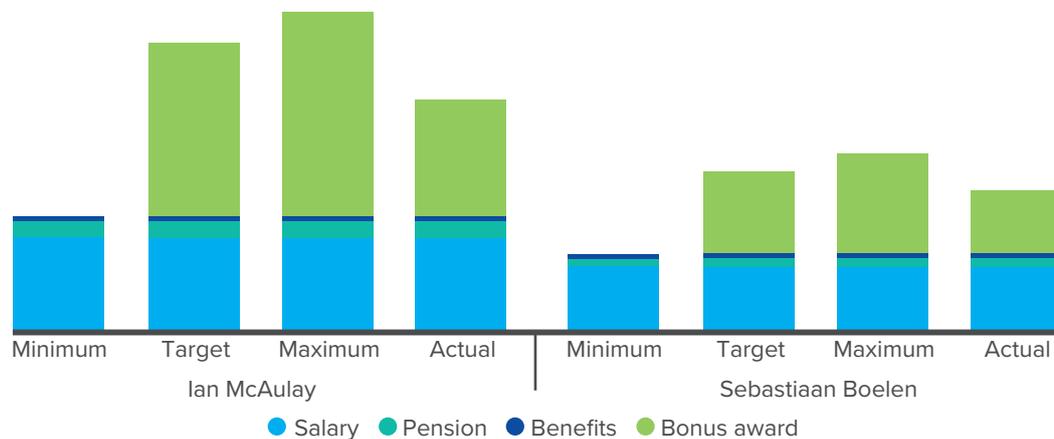
An individual is usually deemed to be a 'good leaver' if they leave the company in the following circumstances:

- Retirement
- Redundancy
- Disability
- Death
- Other circumstances which the committee deems appropriate.

Remuneration scenarios for 2020–21

The following chart sets out the remuneration scenarios payable to the executive directors for various levels of performance as well as the actual remuneration for 2020–21.

Remuneration scenarios and actual for 2020–21



Ian McAulay

	Minimum	Target	Maximum	Actual
Bonus award	£ -	£807,686	£957,000	£550,900
Benefits	£18,249	£18,249	£18,249	£18,249
Pension	£78,300	£78,300	£78,300	£78,300
Salary	£435,000	£435,000	£435,000	£435,000

Sebastiaan Boelen

	Minimum	Target	Maximum	Actual
Bonus award	£ -	£382,620	£465,000	£290,800
Benefits	£14,361	£14,361	£14,361	£14,361
Pension	£45,000	£45,000	£45,000	£45,000
Salary	£300,000	£300,000	£300,000	£300,000

Directors' remuneration report continued

Remuneration Committee Report continued

Notice periods for joiners and leavers

The table below sets out the contractual notice periods for the executive directors. If the notice period is worked, no termination payment is payable, otherwise a payment up to a maximum equivalent to the notice period of basic salary, pension and car allowance is payable.

	Notice period
Ian McAulay, CEO	12 months by either party
Sebastiaan Boelen, CFO	Six months by either party

Annual remuneration report

Single figure of remuneration for 2020–21 (audited)

Details of the remuneration received by the executive directors are shown below. The figures shown are the amounts paid or awarded for each of these financial years. Base salary is generally reviewed in July each year and so the amounts reported for base salary reflect a part-year effect of any pay award granted.

£'000		Base salary paid	Benefits	Annual Bonus/ Incentive and Retention Plan ¹	Total	Pension related benefit	Total including pension
Ian McAulay	2020–21	435.0	18.2	550.9	1,004.1	78.3	1,082.4
	2019–20	435.0	17.3	538.1	990.4	78.3	1,068.7
Sebastiaan Boelen	2020–21	300.0	14.4	290.8	605.2	45.0	650.2
	2019–20	290.5	12.8	277.0	580.3	43.6	623.9

¹ The amount reported is added to the bonus pool for the year as shown in the table under Incentive and Retention Plan on page 207. That table also provides details of payments made from the bonus pool and that carried forward to future years.

Notes to the single figure of remuneration (unaudited)

Base salary

The base salary for Ian McAulay was reviewed on 1 July 2020 and, as in previous years, at Ian's request (which was supported by the Board), remained unchanged from the 1 July 2018 level of £435,000. The base salary for Sebastiaan Boelen was reviewed on 1 July 2020 and remained unchanged at £300,000 per annum. Salary was paid monthly via PAYE.

Incentive and Retention Plan (customer and value metrics)

The performance measures agreed by the Committee for 2020–21 were:

- In-year ODIs – delivery of performance commitments
- ODIs RIF (minus C-Mex and D-Mex) – total AMP forecast position
- Retail cost to serve (retail Totex), excluding bad debt – efficient delivery of the operational promises made to customers as part of our business plan
- C-MeX – incentivises excellent customer experience for residential customers across the retail and wholesale parts of the value chain
- D-MeX – incentivises excellent customer experience for developer services (new connections) customers
- Environment – building our future environmental plan
- Gallup Q12 people rating – colleague engagement
- Health, Safety & Wellbeing – ensuring our employees are kept safe and healthy at work
- Totex (Wholesale Totex) – total expenditure within plan
- Progress against PR19 Maturity Assessment – progress against the commitments agreed with Ofwat to ensure we robustly manage performance to avoid further regulatory breaches
- Net operating cash flow – cash generation

The performance for 2020–21 was assessed by the committee in May 2021. Details of the maximum bonus achievable, targets and outturn percentage for each executive director are shown in the tables below.

CEO	Maximum bonus achievable	Outturn %	Outturn as a % of salary
Customer targets	100%	39.20%	39.20%
Value targets	100%	87.45%	87.45%
Total outturn as a percentage of salary			126.65%

CFO	Maximum bonus achievable	Outturn %	Outturn as a % of salary
Customer targets	80%	39.20%	31.36%
Value targets	75%	87.45%	65.58%
Total outturn as a percentage of salary			96.94%

Directors' remuneration report continued

Remuneration Committee Report continued

The overall bonus awarded across the business of 63.33% is the weighted average of the customer and value target performance shown above. The outturn as a percentage of salary is calculated by multiplying the maximum bonus achievable by the outturn percentage.

Incentive and Retention Plan 2020–21	2020–21	Threshold performance level	Target performance level	Stretch performance level	Performance for the year ¹	CEO Weighting (% of salary)	CFO Weighting (% of salary)	CEO Pay-out (% of salary)	CFO Pay-out (% of salary)
In-year ODIs	Performance	£16.8m	£16.0m	£12.8m	£39.65m	30.0%	24.0%	0.00%	0.00%
	Bonus percentage	25%	100%	150%					
ODIs RIF (minus C-Mex and D-Mex)	Performance	£83.0m	£74.7m	£66.4m	£74.35m	10.0%	8.0%	10.20%	8.16%
	Bonus percentage	75%	100%	150%					
Retail cost to serve (Retail Totex), excluding Bad Debt	Performance	£52.5m	£48.3m	£44.1m	£43.1m	15.0%	12.0%	18.00%	14.40%
	Bonus percentage	80%	100%	120%					
C-MeX	Performance	15th	14th	13th	16th	20.0%	16.0%	0.00%	0.00%
	Bonus percentage	75%	100%	120%					
D-MeX	Performance	13th	11th	9th	15th	10.0%	8.0%	0.00%	0.00%
	Bonus percentage	75%	100%	120%					
Environment	Performance	n/a	Plan agreed	n/a	Plan agreed	5.0%	4.0%	5.00%	4.00%
	Bonus percentage	0%	100%	0%					
Gallup Q12 Colleague Engagement	Performance	3.79	3.81	3.85	3.89	5.0%	4.0%	6.00%	4.80%
	Bonus percentage	80%	100%	120%					
Health, Safety & Wellbeing	Performance	90%	95%	100%	78%	5.0%	4.0%	0.00%	0.00%
	Bonus percentage	80%	100%	120%					
Totex (Wholesale Totex)	Performance	£728.2m	£662.0m	£595.8m	£694.43m	50.0%	37.5%	45.10%	33.82%
	Bonus percentage	80%	100%	150%					
Progress against PR19 Maturity Assessment ²	Performance	Some progress	Satisfactory progress	Excellent progress	Satisfactory progress	25.0%	18.75%	22.35%	16.76%
	Bonus percentage	85%	90%	95%					
Net operating cash flow	Performance	(£1.3m)	(£0.4m)	(£0.1m)	(£9.7m)	25.0%	18.75%	0.00%	0.00%
	Bonus percentage	80%	100%	150%					
Total								106.65%	81.94%
Adjustment applied to Net operating cash flow of £8.4m recognising COVID-19-related costs ³								20.00%	15.00%
Total awarded								126.65%	96.94%

1 Where the performance for the year has been based on the latest forecast position available at the time, any subsequent changes to the final outcome position will be adjusted for in the following performance year and in accordance with the IRP scheme rules.

2 This KPI comprises two elements – Progress against PR19 Maturity Assessment (10% maximum) and progress against S19 undertakings (15% maximum). The outturn achieved was 90% of max (9%) in respect of PR19 Maturity Assessment and 89% of max (13.35%) for S19 undertakings.

3 Having reflected on the overall performance of the company and taking into account the views of shareholders, the Board applied a discretionary adjustment to net operating cash flow, recognising the significant impact of COVID-19 on various cash collection issues.

CEO bonus distribution



CFO bonus distribution



- Operating costs
- Environment
- Preparation for 2020–2025
- Cash performance
- Performance commitments
- Customer service
- Employee engagement
- Health, Safety and Wellbeing

The threshold, target and stretch bonus percentages shown reflect the level of bonus award for achievement of the threshold, target and stretch performance levels for each metric.

Incentive and Retention Plan Contribution 2020–21	(a) Bonus pool brought forward (£'000)	(b) Bonus awarded in year (£'000)	(c) Bonus paid out (£'000) (50%)	(d) Bonus pool carried forward (£'000) (50%)
Ian McAulay	476.3	550.9	513.6	513.6
Sebastian Boelen	157.2	290.8	224.0	224.0

The amounts paid out (c) and carried forward (d) are each calculated as $((a) + (b)) \div 2$.

Pension contributions

The pension contribution for the Executive Directors is set out in the table below:

Pension	Salary received (£'000)	Pension contribution as a % of base salary	Cash allowance in lieu of pension (£'000)	Pension contribution to scheme (£'000)	Total Pension related benefit (£'000)
Ian McAulay	435.0	18%	74.3	4.0	78.3
Sebastian Boelen	300.0	15%	34.2	10.8	45.0

Following the closure of the company's defined benefit pension scheme to future accrual and the introduction of a new defined contribution scheme for the company's workforce, the Remuneration Committee reviewed the pension contribution payable to the executives. In doing so, the Remuneration Committee also considered the expectation in Provision 38 of the UK Corporate Governance Code that the pension contributions payable to the executive directors are aligned to that of the workforce. Accordingly, it was agreed that from 1 April 2020, the employer pension contributions offering for new executive director appointments would be aligned to the 'all employee' rate of 11%.

Non-executive director fees for the year (audited)

The Chairman and the non-executive directors each receive a fee and do not participate in any performance-related incentive arrangements. The investor-nominated non-executive director does not receive any remuneration from the company.

The Board as a whole is responsible for setting the level of non-executive director fees and in doing so receives input from the Remuneration Committee.

Directors' remuneration report continued

Remuneration Committee Report continued

Details of the emoluments received by the Chairman and non-executive directors are shown below:

£'000	2020–21			2019–20		
	Fees	Other	Total	Fees	Other	Total
Keith Lough (Chairman) (appointed 1 August 2019)	275.0	7.7	282.7	183.3	2.4	185.7
Paul Sheffield (Senior independent non-executive director; acting chairman between 1 April and 31 July 2019)	70.0	0.0	70.0	130.0	5.3	135.3
Rosemary Boot (Independent non-executive director)	50.0	0.2	50.2	59.6	1.7	61.3
Mike Putnam (Independent non-executive director)	60.0	1.4	61.4	57.5	4.0	61.5
Dame Gillian Guy DBE (Independent non-executive director)	50.0	0.0	50.0	50.0	0.0	50.0
Kevin McCullough (Independent non-executive director) (From 18 July 2019)	65.0	2.3	67.3	36.7	1.3	38.0
Malcolm Cooper (Independent non-executive director) (From 23 December 2019)	65.0	0.8	65.8	17.8	0.1	17.9
Marykay Fuller (Greensands Board-nominated non-executive director from 15 June 2020)	47.7	0.4	48.1	–	–	–
Wendy Barnes (Greensands Board-nominated non-executive director until 27 March 2020)	–	–	–	60.0	14.9	74.9
Sara Sulaiman (Investor-nominated non-executive director)	–	–	–	–	–	–

The base fees for the non-executive directors are £50,000, with the exception of Sara Sulaiman, who receives no fee from Southern Water as an investor-nominated non-executive director.

Paul Sheffield was appointed as acting Chairman from 1 April 2019 to 31 July 2019, during which time a fee of £250,000 per annum, prorated as appropriate was paid. Upon the appointment of Keith Lough as Chairman on 1 August 2019, Paul Sheffield's base fee reverted to £50,000 per annum plus the applicable responsibility supplements for his roles as senior independent non-executive director and Chair of the Remuneration Committee.

In May 2019, the Remuneration Committee reviewed the fees payable to the non-executive directors and assessed these against practice within both the sector and elsewhere using benchmarking data supplied by PwC. Following this assessment, responsibility payments were reviewed and the Remuneration Committee agreed that it was appropriate to keep base fees unchanged. The table below provides details of the applicable responsibility payments.

Responsibility supplement	Current Chair and date appointed	Responsibility supplement	Comments on supplement
Audit Committee Chair	Malcolm Cooper* 23 December 2019	£15,000	Increased from £10,000 with effect from 1 July 2019
Risk Committee Chair	Mike Putnam 1 July 2019	£10,000	Introduced with effect from 1 July 2019
Remuneration Committee Chair	Paul Sheffield 1 April 2015	£10,000	Introduced with effect from 1 October 2018
Senior independent non-executive director	Paul Sheffield 1 July 2015	£10,000	No change from 2019–20
Workforce non-executive director	Kevin McCullough 26 February 2020	£15,000	Role introduced with effect from 26 February 2020
Greensands Board-nominated director	Marykay Fuller** 15 June 2020	£10,000	No change from 2019–20

* Rosemary Boot was Interim Audit Committee Chair from 1 April 2019 to 22 December 2019.

** Wendy Barnes was Greensands Board-nominated director until she resigned from the Board on 27 March 2020.

The other amounts payable to the non-executive directors include taxable expenses incurred in connection with attendance at Board meetings and shareholder events.

None of the directors who held office during the financial year had any disclosable interests in the shares of Southern Water or the group; there are no share options in place and no payments were made to them by any other group companies.

Gender pay (unaudited)

Creating an environment to enable a diverse and inclusive workforce will have a positive effect on our organisation and this is a key part of Southern Water's People Strategy. The Gender Pay Gap report produced by the company provides details of the company's focus on this area and we are pleased to see that the median pay gap has reduced this year from 2.4% to -2.0% in favour of female employees. In terms of the median bonus gap, we have seen a small reduction from 26.8% to 24.5% linked to seniority; an area we are addressing via succession planning. These results show a positive change in both pay and bonus gaps, indicating that in general remuneration is applied fairly in our organisation, and we are keen to do more to create an increasingly inclusive organisation.

Using the Deloitte diversity and inclusion model, our executive leadership sponsors have set a goal of a leader-led (level 3 of 4) organisation by the end of 2022 where Engagement, Diversity and Inclusion (ED&I) is part of what we do.

It is acknowledged that there is still more to be done. The company will continue to support the aspirations of its female employees, concentrating on further improvements in the areas of recruitment, talent development and remuneration as well as policies which further support colleagues to achieve a balance of work with family commitments. For more information, see the report on our gender pay gap at southernwater.co.uk/gender-pay-gap.

Directors' remuneration report continued

Remuneration Committee Report continued

It is our policy to eradicate bias

We are committed to creating a diverse and inclusive workforce that represents the communities we serve, and we value the skills that each individual brings to our organisation. Diversity and inclusion is at the heart of a sustainable workforce and is a key focus for Southern Water. We recognise the huge value this brings to our company, both culturally and in increased engagement from our colleagues, so from November 2020, we have appointed an Inclusion and Engagement Partner, allowing us to really focus on this key agenda. In terms of pay, we are committed to narrowing the gender pay gap over time and to ensure that our gender pay gap reporting is open and transparent. We are also looking to improve our data around ethnicity so that we can better measure and improve our approach to diversity in the workplace.

Executive pay gap reporting

From 2020 onwards, the Companies (Miscellaneous Reporting) Regulations 2018 require all publicly-listed companies with more than 250 UK employees to publish the ratio between their CEO's full-time equivalent remuneration and that of employees at the 25th, 50th and 75th percentile when total remuneration is calculated and ranked from highest to lowest.

Although not a listed company, Southern Water has chosen to publish this information in line with our commitment to providing information about pay diversity and fairness within our organisation.

The regulations set out three options for calculating the pay ratio.

- Option A – takes into account all forms of remuneration and payments (pension etc)
- Option B – uses the Gender Pay calculation figures
- Option C – uses some other method

Our ratio has been calculated using 'Option A' as this takes into account full remuneration and is therefore the most comprehensive comparison.

Year	Method	25th Percentile Ratio	50th Percentile Ratio	75th Percentile Ratio
2020	A	27.3:1	22.0:1	17.2:1
2019	A	28.7:1	22.8:1	17.8:1

Implementation of policy for 2021–22 (unaudited)

Base salary

The basic salary for Ian McAulay will remain unchanged for 2020–21. The base salary for Sebastiaan Boelen will be increased by 1% in July 2021.

The revised base salaries for each Executive director are as follows:

Base salary	Base salary for 2020–21 (£'000)	Base salary increase (%)	Base salary from July 2021 (£'000)
Ian McAulay	435.0	0.0	435.0
Sebastiaan Boelen	300.0	1.0	303.0

Incentive and Retention Plan

The Incentive and Retention Plan will be based on performance conditions designed to focus the Executive directors on the areas of key strategic importance for the company. As such the performance conditions will be based on customer objectives that focus on delivering positive outcomes for our customers and other stakeholders and value objectives, which long-term create value for our shareholders and our customers alike.

Bonus potential for 2021–22

The table below shows the maximum bonus potential for the Executive directors in 2021–22.

	CEO		CFO	
	2020–21	2021–22	2020–21	2021–22
Total maximum variable remuneration	200%	200%	155%	155%

We have fully committed to comply with Ofwat’s code of practice for executive remuneration for 2020–25

We made significant steps towards compliance in our 2020-21 Remuneration Policy, which set out:

- our policy to provide transparent alignment between executive performance-related pay and stretching outcomes for all our stakeholders and, substantially, for our customers
- our policy to apply stretching targets linked to customer outcomes
- our policy to apply rigorous application of incentive scheme rules and provide independent governance of remuneration decisions, while taking into consideration risk management principles
- our policy to defer an element of bonus so that performance can be measured over the medium to long term.

Our performance measures for 2021–22 focus on positive outcomes for our customers and other stakeholders

In determining the performance measures for 2021–22, the Remuneration Committee considered the expectation under the Ofwat Principles that the company’s performance-related elements should be linked to stretching delivery for customers, as well as the steps needed to further embed the Ofwat code of practice for executive remuneration. It was agreed that the following measures will be used to assess our performance:

- In year ODIs
- ODIs RIF (minus C-MeX and D-Mex, which are stand-alone targets)
- Retail cost to serve (Retail Totex, including bad debt and velocity)
- C-MeX
- D-MeX
- Environment – delivering a number of critical elements of the plan
- Q12 Colleague Engagement
- Health, Safety, Security and Wellbeing
- Totex (broken down into opex, capex and capital efficiency)
- Progress against WRMP and Resilience Action Plan and the Section 19 undertakings given to Ofwat
- Net operating cash flow

In determining the performance measures, the Remuneration Committee sought to balance the expectations of both the company’s investors in terms of an efficient and well-run company as well as the company’s obligations to its customers and other stakeholders.

Weightings and targets, along with actual performance, will be fully disclosed in the 2021–22 Remuneration Report.