Communities

Supporting communities to be stronger – our work puts us at the heart of local communities in the North West.

How we measure performance
Our key performance indicator to measure value created for communities during 2020–25 is community investment, and we target increasing our investment by at least 10 per cent compared with the average between 2010 and 2020.

Community investment
Definition
Total community investment as measured by the Business for Social Impact* (B4SI) method
(* previously LBG).

Target
The average community investment between 2010 and 2020 was £2.56 million per annum. We target community investment to be at least 10 per cent higher than this between 2020 and 2025.

Status
Achieved/confident of achieving target

Link to material issue
- Land management, access and recreation
- Supporting communities
- Trust, transparency and legitimacy

Read more about our approach to materiality on pages 34 to 35

Link to risks
Conduct and compliance

Read more about our principal risks on pages 104 to 105

Performance
This year our direct community investment totalled £2.82 million.

This was higher than the previous year as a result of increased activity with partners, such as payments from our £300,000 Catchment Systems Thinking (CaST) fund, and returning to customer-facing events such as the RHS Tatton Flower Show.

2021/22
£2.82m

2020/21
£2.15m

“We generate value for communities across the North West through local investment, partnerships and educational programmes, as well as employee involvement.”

How we deliver value to communities

Short term

- We look after some beautiful rural landscapes and pockets of urban green space, and open much of our land to the public, supporting regional tourism and offering communities health and wellbeing benefits through access to relaxation and recreation.
- Working in partnership with others means we can accomplish more in tackling mutual issues, such as partnering to develop employability skills for those who need it most.
- Our operations and projects are often near homes and businesses, and we engage with these communities to build understanding and trust.

Long term

- Early career and outreach schemes break down barriers to employment and increase social mobility, reducing welfare costs.
- Managing land responsibly means we leave the North West environment in a better condition for future generations.
- We work with teachers and children to raise awareness about water and the natural environment, giving the next generation an understanding of the true value water brings and how we can all play our part in protecting the services nature provides.

Link to strategic themes

Promoting our support services and campaign messages places us at the heart of communities and builds trust with hard-to-reach groups.

By working with community partners we can share resources, access new funding opportunities and achieve more together.

Providing access to our land enables communities to enjoy the physical and mental wellbeing benefits that green spaces can bring, which in turn helps reduce the burden on health services.

Overview

Our work puts us at the heart of local communities in the North West of England, where our customers and employees live and work. We understand the impact our work can have on everyday lives across our region, and we seek to play an active role in tackling the issues that matter most to these communities. Our approach is to develop strong relationships and build partnerships where we work to generate solutions together. Our employees also get involved in local communities through volunteering, fundraising, and giving.

Our region has a broad mix of rural and urban landscapes, and we look after some beautiful areas of land, from the rolling hills of Cumbria to nature reserves and other green spaces in towns and cities. We open much of our land to the public, which supports the regional tourism industry and offers physical and mental health and wellbeing benefits for communities through access to relaxation and recreation. We also promote sustainable drainage solutions to help avoid flooding in built-up urban areas.

Community investment beyond the B4SI method of calculation

In addition to the £2.82 million of community investment calculated using the B4SI method, we contribute to our Trust Fund to help those struggling to pay their bills, with further support available to help customers reduce their water bill to an affordable amount through our social tariff. We have extended the additional £15 million per annum of support provided through our social tariff during COVID-19 to 2025.

Partnerships

We invest in community partnerships to tackle issues more effectively, to find new solutions to the challenges we face, and to access new funding streams, driving efficiency and a better overall outcome. Last summer we signed two memoranda of understanding with the Royal Society for the Protection of Birds (RSPB) and The Rivers Trust – partners held in high esteem by local communities with a broad membership base, enhancing the credibility of what we do.

As part of our £300,000 CaST fund, we provided funding to community groups across the North West to deliver elements of our catchment management approach, focused in particular on community engagement with nature or helping shape and promote natural capital markets.

One of the first projects to receive funding is led by the Mersey Rivers Trust and focuses on establishing community participation on the lower catchment area of the River Bollin. It aims to increase the number of people connecting with nature and accessing local blue-green space for health and wellbeing. The project will engage volunteers and landowners in restoring the reed bed habitat at Tatton Mere, a popular recreational site in Cheshire.

Helping young people

In addition to our ongoing graduate and apprentice schemes, we have supported the Government's Kickstart programme by providing placements in various roles across the North West. This scheme helps support those traditionally overlooked groups in our communities. Each Kickstarter has had a dedicated skills coach and received job-related and employability skills training. Since April 2021, 55 Kickstarters have joined our business and 24 have found full-time employment with us or our suppliers. A further six have applied, or are being supported with applications, for our apprentice programme.

As part of our work to promote skills for the future, we once again joined forces with five high schools from Warrington to help attract potential engineers. Our partnership with The Challenge Academy Trust (TCAT), now in its fifth year, was set up to inspire young people to pursue a career in science, technology, engineering and mathematics (STEM) fields. Sixty students from the five schools, who are part of TCAT, worked with our engineering mentors over a period of 16 weeks, gaining a real insight into what working life as an engineer is like.

The programme builds up to a 'Dragons' Den' style business competition to showcase the work the students have done, in front of judges from the business. The project provides more than just STEM experience, as the challenges allow pupils to develop valuable skills including teamwork, problem solving, influencing others, and public speaking.

As the water industry deals with the challenge of climate change, and we drive towards carbon neutrality, attracting the next generation of creative, skilled people is key to the success of our business.

Read more about our partnerships on page 55

Our performance in 2021/22

Operational performance

Feedback from students has been positive, with 90 per cent saying they would now pursue a STEM-related career, and 100 per cent stating that they had a better understanding of engineering at United Utilities. Students rated the overall experience ten out of ten.

As COVID-19 restrictions have been lifted, our free 'All about water' sessions have returned to classrooms across the region. Consequently, we have seen a reduction in the number of children benefiting from our online education resources, which increased significantly during lockdown. We are reviewing our approach to education and, as part of this, we will consider the most practical way to deliver educational resources.

Community engagement

Direct engagement with communities provides the opportunity to hear what customers think and to explore ways we can work together to address issues.

For example, to highlight inappropriate use of sewers and the problems created by that, we held a family-friendly interactive exhibition at the Arndale Shopping Centre in Manchester during February half term. Engaging 'Sewer Monster' posters, competitions, fun activities and free giveaways, including fat traps, were all part of our Stop the Block campaign.

At the RHS Tatton Flower Show, we talked to customers about water saving tips and sponsored a garden of resilience. The garden addressed the challenges of extremes of weather and the stresses and strains of the pandemic. It gave visitors ideas for making outdoor spaces better able to cope with too much or too little rain, such as a rainwater planter and a slimline water butt disguised as a bench, and incorporated ideas to encourage people to take time out and contemplate their own personal resilience. Plants were chosen for their resilience to extremes and prolonged spells of dry and wet weather, while their colours complemented the hard landscaping materials. The garden was well received by visitors and won three awards at the show, receiving prime time television exposure on BBC One and social media coverage, helping to raise awareness to a much wider audience. It will continue to inspire gardeners at its new permanent home at RHS Bridgewater in Salford.

Access to our land for recreational use

We encourage the public to access our land and regional bathing waters, and to enjoy them safely. Since the first COVID-19 lockdown in spring 2020, there has been an increase in anti-social behaviour on our catchment land, with issues such as wild camping, illegal fires and littering. We have been working with local groups at several sites to address this.

At Macclesfield Forest, we have joined forces with the rural crime team from Cheshire Police and rangers from the Peak District National Park to tackle anti-social behaviour by undertaking joint patrols at busy times to remind visitors to enjoy the area responsibly.

In spring 2021, we launched a new podcast series entitled 'Acres of Nature' to connect people with the North West's outdoor spaces. Each themed episode takes an in-depth look at the land we manage – such as the Davyhulme Millennium Nature Reserve in the heart of Urmston, Manchester – through the eyes of people who live, work and visit there. Available to all on Spotify, Acres of Nature is all about bringing people closer to nature, and podcast themes have included history, nature and wellbeing.

Measure	2025 target	Performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Community investment	**10% increase (£2.82m)**	**£2.82m** £2.15m	●	●
Partnership leverage	**1:4**	**1:4** 1:7	●	●
Percentage of participants who remain employed six months after completing an early careers or outreach scheme with United Utilities	**50–60%**	**75%** 83%	●	●
Number of children benefiting from education materials	**20,000**	**12,998** 19,120	●	●
Percentage of visitors to our recreation sites who view United Utilities more positively after their experience	**Maintain position above 50%**	**57.3%** Baseline year	●	●

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

£300k
Catchment Systems Thinking (CaST) funding for community groups

55
Kickstarters have joined the business through the government programme

90%
Of students on TCAT STEM programme say they are more likely to pursue a STEM-related career

"It is the first time a partnership has set about designing a framework to bring together everyone with an interest in the health of rivers from source to sea."

Working in partnerships to accomplish more together

Working together for water, nature and people.

We cannot change the water environment on our own. Only by working in partnership with others can we deliver for water, wildlife and local communities. This year, we have committed to two major partnerships aimed at improving the environment of the North West.

Our ground-breaking strategic partnership with The Rivers Trust aims to tackle the big challenges facing rivers in the region. It is the first time a partnership has set about designing a framework to bring together everyone with an interest in the health of rivers from source to sea. It will build better competence for more urgent action to tackle challenges that are increasingly important to society, such as pollution, flooding and water abstraction and help deliver adaptations and resilience to combat the extremes of climate change.

The partnership formalises the existing strong relationship between the water company and the non-governmental organisation, which is the umbrella body for one of the fastest growing environmental movements in the UK.

Both parties expect the new partnership to facilitate longer-term planning of investment priorities, beyond the current water sector five-year regulatory cycle, allowing faster adoption of nature-based solutions and other collaborative ventures.

A new shared vision with the Royal Society for the Protection of Birds (RSPB) builds on joint work at our Haweswater estate over the past ten years. This has demonstrated that nature-based solutions make a very real contribution to meeting the challenge of a changing climate and the economic pressures facing upland farmers.

We already work together at Bowland in Lancashire, Dove Stone Reservoir near Oldham, and Lake Vyrnwy in North Wales. The memorandum of understanding signed in 2021 commits us to explore areas of opportunity by working together, such as helping farming tenancies, creating and managing new wetland, peatland and woodland, and working to improve the visitor experience. Together we intend to tap into natural capital markets including green finance initiatives and the Environmental Land Management scheme to fund beneficial land management projects.

Delivering value for:

Communities Customers Environment

Customers

Caring for customers through trusted relationships – we put customers at the heart of everything we do.

How we measure performance

Our key performance indicator to measure value created for customers during 2020–25 is Ofwat's C-MeX measure, in which we target being in positive reward territory.

C-MeX

Definition

Ofwat's customer measure of experience (C-MeX), comprising two surveys – the customer service survey, and the customer experience survey.

Target

To be in positive reward territory, following the comparison of our C-MeX score with those our of peers seeing us above the industry median.

Status

Achieved/confident of achieving target

Link to material issue

- Drinking water quality
- Customer service and operational performance
- Affordability and vulnerability

Read more about our approach to materiality on pages 34 to 35

Link to risks

- Water service
- Wastewater service
- Retail and commercial

Read more about our principal risks on pages 104 to 105

Performance

For 2021/22, we expect to receive a reward of £2.3 million on C-MeX. We continue to be the highest performing listed company, ranked fourth out of the water and wastewater companies, and seventh overall out of all 17 companies.

On Ofwat's D-MeX measure, for developer customer satisfaction, we are consistently in the top half and expect to receive a small reward for 2021/22.

2021/22
£2.3m
reward

2020/21
£2.1m
reward

"As we emerge from the global pandemic, with significant increases in the cost of living, the affordability support we provide to customers is more important than ever before."

How we deliver value to customers

Short term

- We focus on providing continuous, resilient and reliable water and wastewater services for customers, ensuring clean water is available at their taps when they need it, and wastewater is taken away when it goes down their drains.
- When customers need to contact us, we are helpful, friendly and supportive, talking and listening to them so that we can understand and meet their expectations.
- We maintain bills that are good value for money, providing help and support for those who are struggling to pay.

Long term

- Our water and wastewater services make a major contribution to the long-term health and wellbeing of customers in the North West.
- Through long-term financing and the regulatory framework, we are delivering multi-million pound infrastructure projects to improve services and resilience for the long term. We ensure the cost of this is shared fairly and affordably between those that benefit now and in the future.
- Providing additional help to vulnerable customers builds long-term trust relationships.

Link to strategic themes

We will continue to invest in our assets and people to meet the stretching customer support targets in our regulatory contract.

By achieving sustainable cost reductions we can provide an efficient service, keeping bills low and maintaining good value for money.

We provide assistance schemes to those who need it most and provide practical advice on how to manage water in the home.

Overview

We put customers at the heart of everything we do, with one of our core values being to be customer-focused. The continuous improvements we have driven in recent years saw us enter the 2020–25 period as a leading water and wastewater company, and our level of operational performance and customer satisfaction remain high.

Serving many of the most economically deprived areas in England and Wales, we are always mindful of the need to help customers who struggle to pay their bills, and this has never been more important than it is right now as we emerge from a global pandemic with high levels of inflation increasing the cost of living.

We are providing sector-leading support for vulnerable customers, supporting over 200,000 households this year, with around £280 million(1) of affordability support being given over the 2020–25 period (AMP7).

Operational performance for customers

We have continued to improve performance for customers this year, earning our highest ever one-year net reward against customer outcome delivery incentives (ODIs) at £25 million(2) for 2021/22.

We delivered a strong performance against our ODI in relation to voids, having reduced voids to 4.78 per cent of billable properties, against a target of 5.24 per cent, as a result of which we earned a £6 million reward this year. Reducing voids not only helps economically, but it enables us to keep bills lower for other customers because revenue is spread between more billable properties, making things fairer and more affordable for all customers.

Some of the other commitments for which we achieved rewards were our strong performance in reducing pollution incidents, removing over 3,500 homes completely off lead supply pipes, and lifting more than 77,000 customers out of water poverty.

In areas where we incurred penalties, such as internal sewer flooding incidents and customer contacts in relation to taste and smell, the additional investment we are making over the remainder of AMP7 will help improve our performance for customers in future years.

Our strong performance on customer service metrics this year has helped drive a 14 per cent reduction in written complaints, achieving our lowest ever volume.

We have achieved recertification to the new and enhanced BSI standard 18477:2010 for our Priority Services scheme, which supports over 180,000 customers, and we are proud to have been reaccredited this year with the Institute of Customer Service – Service Mark with Distinction award, one of only 18 brands to achieve the distinction status.

Affordability

We have an extensive range of schemes available to help customers, providing a sector-leading level of customer support. We supported more than 200,000 households with affordability in 2021/22, with over 180,000 on discounted tariffs and grants, and a further 20,000 having received support through our payment matching scheme.

The financial support we committed to in our AMP7 business plan was the largest of any water company, and over the five-year period we are providing around £280 million(1) of customer support.

We are exploring innovative ways to help customers more efficiently. We are the first utility company to harness open banking, which helps us identify and support customers to get access to the right affordability tariffs more quickly and easily. A process that traditionally would have taken weeks can now be done in minutes with the use of open banking, and we have received positive feedback from customers that used the service.

We carried out 39,000 affordability visits, taking our financial support to the customer's doorstep, and we promote our Back on Track scheme via partner organisations and the Hardship Hub, as well as directly to customers.

There is always more we would like to be able to do, and we are a leading supporter of the Consumer Council for Water's drive to introduce a national social tariff, which would help to provide a more equitable sharing of support for customers across the country that are struggling to pay their bill, regardless of where people live.

Read more about our use of open banking on page 59

More information about our ODI performance will be published in July 2022 in our APR, available on our website at: unitedutilities.com/corporate/about-us/performance/annual-performance-report

(1) 50 per cent company funded.

(2) Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID-19 and any enduring effects.

Our performance in 2021/22

Operational performance

Cash collection

Cash collection performance has been good this year, and our household bad debt charge has returned to the pre-pandemic level of 1.8 per cent of regulated revenue, reduced from 2.2 per cent in 2020/21.

We have a high level of Direct Debit penetration, with 72 per cent of customers paying by Direct Debit, and overall we have over 80 per cent of customers on payment plans. This helps to provide a high degree of collection certainty and to spot any potential affordability issues early, at the point of the first missed payment, so that we can make contact swiftly.

For customers that need affordability support, we can quickly get them onto the right scheme to help them get back on track. For those customers that can afford to pay but choose not to do so, we have a comprehensive data-led approach to collections that helps us to accurately pursue payment in an efficient and timely manner. This includes a range of techniques, such as 'nudging' customers through email or text if a payment is late, enhanced credit reference sharing, and credit reporting.

Only £4 million of our net household debtors are aged by more than one year, indicating that we are not storing up a problem for future bad debts.

Our best-in-class approach to collections continues to receive external recognition. This year we have won five awards across the Credit Awards, Utilities and Telecoms Awards, and Utility Week Awards, including 'Utility Team of the Year' and 'Best Use of Technology' at the Credit Awards. We have been recognised for our use of data and technology to provide financial support to those who needed it most during the pandemic and for the introduction of open banking.

Digital transformation

Through a significant increase in the availability and performance of our digital channels, over 1.2 million customers engaged with us digitally, driving both service improvements and cost efficiencies, and we achieved strong customer sentiment scores.

We have been proactive using targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay.

To underpin our contact centre operations, we have implemented new technology in the form of a new workflow system linking billing and operational customer service activities.

			Status	
Measure	**2025 target**	**Performance**	**Annual performance**	**Against 2025 target**
KPI:				
C-MeX	**Above industry median**	**Above industry median** Above industry median	●	●
Additional service measures:				
D-MeX	**Above industry median**	**Above industry median** Above industry median	●	●
Market Performance Standards	**Upper quartile**	**Second quartile** Second quartile	●	●
Operational Performance Standards	**Upper quartile**	**Upper quartile** Upper quartile	●	●
Managing complaints:				
Number of household written complaints compared to WASCs	**Upper quartile**	**Second quartile**[1] Upper quartile	●	●
Speed of resolution	**5 days**	**3.5 days** 3.5 days	●	●
Vulnerability:				
Number of households registered for Priority Services	**In excess of 220,000 (7%)**	**186,224 (5.9%)** 128,831 (4.1%)	●	●
BS18477 'Inclusive service provision' certification for Priority Services	**Maintain certification**	**Maintained** Maintained	●	●
Affordability:				
Number of customers lifted out of water poverty	**66,500**	**77,312** 71,057	●	●
Helping customers look after water in their home	**10% increase**	**23.85%** 13.75%	●	●

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

(1) Latest comparative data available 2020/21.

£280m
Affordability support being given in total over the 2020–25 period

>200k
Customers helped through our extensive suite of affordability schemes

>80%
Of our ODI performance commitment targets met or outperformed this year

> Open banking means we can help customers get the right affordability support in minutes, when the traditional process would have taken weeks.”

Using open banking to help customers faster

Recognising the need for affordable bills, we have implemented a range of industry-leading support schemes including lower tariffs, capped bills, and payment matching schemes. Tailoring payment plans to customer affordability is a key goal and the advent of improved data availability from open banking stimulated an innovative method of improving our customer journey.

Our idea was to utilise open banking technology to verify customer income in real time to improve the accuracy and efficiency of our customer affordability assessments. We implemented an improved customer journey in three key steps:

- Gaining agreement to use open data for the affordability assessment;
- Obtaining customer consent via an online consent portal; and
- Receiving a summarised view of a customer's income straight from their bank account, including evidence of benefit payments.

Open data now forms a key part of one of our most sensitive customer journeys, and initial results showed 45 per cent of customers who were offered the option to use open banking accepted.

Customer feedback on their experience of open banking is very positive, with customers saying it was easy to use and 88 per cent saying they would use it again, despite never having used it before.

The use of open banking has streamlined customer eligibility for reduced-rate social tariffs. Were it not for this solution, customers applying for help with payment of their water bill would have had to manually collate their income and expenditure information, including evidence of benefit receipt, in preparation for their telephone affordability assessment.

What previously would have taken weeks, can now be done in minutes, with the added benefit of increased accuracy.

Open banking improves first-time completion rate, meaning customers are given a decision on tariff eligibility there and then and a sustainable payment plan can be agreed.

Open banking could help facilitate the introduction of a national social tariff, as proposed by the Consumer Council for Water: the efficiency we've delivered into our affordability assessment process will help us manage the expected increases in volume of applications for support, meaning we can help more customers with payment of their water bill.

Delivering value for:

Customers

Employees

Creating a great place to work for all our employees – our employees are essential for us to deliver our services, and are the face of the company.

How we measure performance

Our key performance indicator to measure value created for employees during 2020–25 is our engagement score, in which we target upper quartile against UK utilities norm benchmark.

Employment engagement

Definition

Level of employee engagement as measured by our annual employee opinion survey.

Target

Upper quartile against UK utilities norm benchmark.

Status

Achieved/confident of achieving target

Link to material issue

- Employee engagement
- Diverse and skilled workforce
- Health, safety and wellbeing

Read more about our approach to materiality on pages 34 to 35

Link to risks

- Resource
- Health, safety and environmental

Read more about our principal risks on pages 104 to 105

Performance

Our overall engagement is at 87 per cent, equal to UK high performance levels, which we have now been equal to or above for the last three years.

We are 11 per cent better than the UK norm and 5 per cent better than the UK utilities norm.

2021/22 87%

2020/21 89%

2019/20 84%

2018/19 81%

2017/18 79%

> “We are committed to investing in training and development, promoting diversity and inclusion, and focusing on health, safety and wellbeing.”

How we deliver value to employees

Short term

- We have a strong focus on health, safety and wellbeing. We firmly believe that nothing we do is worth getting hurt for, and we aim to ensure all employees go home safe and well at the end of the day.
- We invest in training and development to enable our employees to grow their skills and to keep them motivated.
- Listening to our employees helps to create an engaged workforce, increasing job satisfaction, and through employee communications and conferences we update our people on business developments so they feel part of a team.

Long term

- Investing in the development of current, and future, employees means we will have a workforce with the right skills for the future.
- Health, safety and wellbeing extends to mental as well as physical health. We promote awareness of stress and other mental health issues, promoting an all-round healthy lifestyle in the long term which, in turn, reduces the burden on healthcare services.
- We provide pension offerings that support employees in later life.
- Promoting diversity and inclusion means we have a workforce that truly represents the region.

Link to strategic themes

Improving our performance creates employee pride in a job well done, enhancing employee satisfaction and a desire to do more.

Encouraging innovative ideas from employees can lead to cost reductions, and high employee satisfaction reduces turnover, which ensures training and development costs are efficient.

We take a responsible approach to protecting the health, safety and wellbeing of our employees, ensuring we send everyone home each day safe and well.

Overview

Our people are critical to the success of our business and it is important we give them the opportunity to develop their skills and knowledge and support them with the most effective technology. We have continued to invest in skills training and accelerate our digital strategy. The health and wellbeing of our employees is paramount and keeping them safe remains our primary concern with 89 per cent of our employees believing our organisation supports their health, safety and wellbeing. We continue to build on our diversity and inclusion agenda, which underpins all aspects of our organisation. Increasing the diversity of our workforce ensures we have access to a broader set of views and we want colleagues to feel valued, supported and respected in the workplace.

We facilitated a smooth return of all employees working from home to the workplace in line with the government roadmap out of lockdown, transitioning around 1,800 staff into hybrid working between the office and home. The transition was well structured with robust governance, including a policy for employees setting out expectations for working in this way and upskilling and support for managers with remote teams.

We are rated 4.6 out of 5 by former and current employees on Glassdoor, and 92 per cent of our employees would recommend United Utilities as a great place to work. We are delighted to be recognised for our efforts, ranking again in the top 1 per cent of over 850 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership, and we were the leading utility company in the Top 50 Inclusive UK Employers Index. We have been included in the Bloomberg Gender Equality Index 2022, one of 418 companies, showing our commitment to more equal and inclusive workplaces.

Committed to equality, diversity and inclusion

We want fantastic people to enable us to deliver a great service now and into the future. We are supporting employees to achieve their full potential and to feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background, and we make sure we are reaching and recruiting from every part of our community. We are making good progress against our refreshed diversity and inclusion strategy, validated by a recent independent audit, which recognised our strong focus on education, awareness and growing our four employee network groups with great progress in all audited areas.

We offer targeted support for future talent through our focused 'Female Leadership Pipeline' and 'Aspiring Manager' programmes, which have been designed to support employees into leadership positions. We have put efforts into developing a diverse leadership pipeline by introducing a new talent programme, the 'Stepping up programme', for employees from ethnic minority backgrounds, giving them the opportunity to develop personal and leadership skills that will help them fast-track their careers at United Utilities.

In the last 12 months, we have welcomed 28 new graduates onto our schemes, and 52 new apprentices have joined us on operational, service and future-facing digital and environmental schemes. Thirty-seven per cent of our new apprentices and 39 per cent of our newly recruited graduates are female. This is higher than the UK average of 24 per cent for females in science, technology, engineering and mathematics (STEM) roles. We have made great progress in recruiting apprentices from more diverse backgrounds, working with our specialist recruitment partner, with 15 per cent of apprentices who joined us this year being from a minority ethnic background. In addition, 21 per cent of new apprentices disclosed a disability or learning difficulty. This represents continued success in our efforts to recruit a more diverse talent pipeline and is a positive result against a backdrop of low attrition levels, regional variations in ethnic diversity, and difficulties attracting females for STEM roles.

We made a public commitment to support the 10,000 Black Interns Programme and we will be welcoming 26 university students for placements this summer, with a further commitment for 120 placements over the next five years. We will welcome university students with autism as part of our support for the 'Ambitious about Autism' programme.

Training and development

Our technical training academy, established in February 2014, continues to go from strength to strength. We are the only employer provider in the water sector to have been inspected by Ofsted and received an overall 'Good' rating. We launched our Digital Skills Academy, a new learning portal for employees to access digital learning content to upskill

Read more about **our approach to diversity and inclusion** on pages 44 to 45

Read more about **our talent pipeline** on page 63

Our performance in 2021/22

Operational performance

them for their roles now and in the future. In the last 12 months, we have delivered 15,000 classroom training events as well as around 40,000 e-learning modules. We launched a new water quality awareness e-learning module to around 4,000 employees as part of our wider 'Water Quality First' programme, which has been designed to ensure water quality remains at the heart of our operations.

Ensuring everyone goes home safe and well

Over the last few years we have introduced 'home safe and well', which focuses on the behavioural aspects of our health, safety and wellbeing culture. Home safe and well is a core thread that flows through our health, safety and wellbeing strategy, which covers our sites, assets and people using three core pillars: personal safety; process safety; and health and wellbeing. Over the last 12 months there has been a focus on employee mental health, expanding our capability in this area.

Since its launch in 2018, we have trained around 5,500 colleagues in home safe and well and continue to do so with new starters. We are now in the third year of our cultural journey where we have seen improvements in our health and safety performance year on year. We continue to create an environment where we look out for ourselves and each other to ensure all our colleagues go home safe and well.

Our commitment to health, safety and wellbeing has recently been externally acknowledged. In early 2022, we were awarded our tenth consecutive Royal Society for the Prevention of Accidents (RoSPA) gold standard medal, which now means we have achieved the RoSPA President's award, which is only awarded to companies who have "achieved a very high level of performance, demonstrating well developed occupational health and safety management systems and culture, outstanding control of risk and very low levels of error, harm and loss."

We continued to see improvement against a number of important performance measures, reducing the number and the severity of accidents, and increasing the proportion of hazards and near misses reported. Our employee accident frequency rate for 2021/22 was 0.073 accidents per 100,000 hours worked, lower than the previous year and amounting to nine accidents reported. Our contractor accident frequency rate also showed significant improvement, with 0.043 accidents per 100,000 hours worked, another improvement on the previous year and representing only five contractor accidents. Our aim is that no one will be harmed while working on our behalf, and we continue to promote, support and improve the wellbeing of our people.

Measure	2025 target	Performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Employee engagement	**Upper quartile against UK utilities norm**	**Upper quartile against UK utilities norm** Upper quartile against UK utilities norm	●	●
Employee opinion survey diversity and inclusion questions score	**UK high performance norm**	**UK high performance norm** UK high performance norm	●	●
Employee opinion survey learning and development category score	**UK high performance norm**	**UK utilities high performance norm** UK utilities high performance norm	●	●
Living Wage accreditation	**Secure and retain**	**Retained accreditation** Secured accreditation	●	●
Pension Quality Mark +	**Retain accreditation**	**Retained** Retained	●	●
Health and safety:				
AFR employees (per 100,000)	**0.064**	**0.073** 0.094	●	●
AFR contractors (per 100,000)	**Year-on-year improvement in score**	**0.043** 0.087	●	●
Wellbeing Charter accreditation	**Retain accreditation**	**Retained** Retained	●	●

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

4.6/5
Rating on Glassdoor by former and current employees

Top 1%
Financial Times' Statista Survey for Diversity and Inclusion Leadership

10th
Consecutive RoSPA gold standard medal, achieving RoSPA President's award

> "We have continued to build on our award-winning apprenticeship schemes, significantly increasing our range of apprenticeships to align to core operational roles and address future skills gaps."

Growing a resilient and diverse talent pipeline

We are passionate about investing in young people and in our local communities. Our early careers opportunities are focused on attracting talent for our core operational and technical roles and for key emerging skills such as digital and green jobs.

Shahbaz, a process controller apprentice who joined us in September 2021, is enjoying the variety an apprenticeship brings. He's developing new skills and says he's proud to work for a company that values diversity and inclusion. "From my first day, I have felt welcomed and part of a large extended family" he said. "The company's stance on diversity and inclusion is amazing to see and be part of. Issues raised aren't just listened to; they're actually heard, and small things like being offered a halal packed lunch on my training course make me feel included."

We have continued to build on our award-winning apprenticeship schemes, significantly increasing our range of apprenticeships to align to core operational roles and address future skills gaps. We have created eight pathways for green jobs, a total of 31 apprenticeship vacancies for 2022/23, and these new roles will support our ambition to become carbon-neutral by 2030. We went from eight apprenticeships in 2017 to 26 in 2022.

New apprenticeships pathways created include Systems Thinking, digital user experience, cyber security and data scientists.

We are pioneering a new Heavy Goods Vehicle (HGV) apprenticeship, and twenty-two-year-old Gabi Ord is our first HGV apprentice. Gabi has completed many hours of training, including fuel-efficient driving and handling an excavator and telehandler – skills she needs in her role transporting sludge cake from wastewater treatment works to farmers and landowners. "Gabi is now performing to a really high standard in terms of safe driving style and fuel efficiency" said her manager, Martin Shaw. "She has set a high benchmark for any future apprentices that follow."

We are supporting those traditionally overlooked groups in our communities, with 44 per cent of the young people we recruited onto the Government's Kickstart Scheme now transitioning into employment. A further six Kickstarters are currently being supported with applications for our award-winning apprenticeships. One of them, who has recently started an apprenticeship in our customer services department, shared the support she's received: "I find that, having dyslexia, it can get quite tiring" she said. "However, I've been given a screen for my monitor, documents are printed off for me, and everyone I meet is so helpful – putting things across in a simple way so I can fully understand."

Delivering value for:

Communities Customers Employees

Environment

Protecting and enhancing the environment – we rely on the natural environment and play a key role in improving the water, land and air of the North West.

How we measure performance
Our key performance indicator to measure value created for the environment during 2020–25 is our performance against the Environment Agency's annual performance assessment (EPA), in which we target being an upper quartile performer.

EPA
Definition
The Environment Agency's annual assessment across six key sector environmental performance measures.

Target
Upper quartile performance within the water industry each year.

Status
Achieved/confident of achieving target

Link to material issue
- Resilience
- Environmental impacts
- Climate change

Read more about **our approach to materiality** on pages 34 to 35

Link to risks
- Water service
- Retail and commercial
- Resource

Read more about **our principal risks** on pages 104 to 105

Performance
The Environment Agency (EA) will publish its annual performance assessment for 2021 in July 2022. The EA's most recent annual assessment was for 2020, and we achieved our best ever performance, as we were green across all measures. We are the first water company to achieve this level of performance since 2015. We were awarded the maximum 4 star rating, meaning we were classed by the EA as an industry-leading company.

2020 Joint 1st

2019 Joint 3rd

2018 Joint 2nd

2017 Joint 1st

2016 Joint 1st

"Our environmental performance is strong, but new requirements could drive significant investment needs, which will need to be balanced with affordability."

How we deliver value to environment

Short term

- We meet increasingly stringent environmental consent levels, which help to improve the quality of rivers and bathing waters and so support tourism in the region.
- Our investment in renewable energy generation is reducing our carbon footprint and contribution to climate change.
- We have invested in new infrastructure, such as our West Cumbria project, to allow us to transfer water around the region more efficiently to avoid depletion of individual water sources.

Long term

- Promoting campaigns to educate the public and younger generations on water usage helps protect this valuable resource and reduce usage now and for years to come.
- We innovate and invest in new technologies to solve environmental challenges for future generations.
- We manage our land in a way that safeguards habitats and protects wildlife that makes its home in rivers and other water bodies.
- We plan far ahead to ensure our activities and investment enhance the long-term resilience of the rural and urban environment in our region.

Link to strategic themes

Many customers care about the environment, so providing the best service to customers involves protecting the places they live in and love.

Many ways we protect the environment reduce cost. For example, renewable energy generation reduces our energy costs as well as our carbon footprint.

We manage water and wastewater in a responsible way that protects the environment and enhances its resilience.

Overview

The North West has a diverse mix of densely populated and built-up urban areas as well as many rural areas of outstanding natural beauty, and there are different environmental considerations needed for each. It is of great importance that we continue to protect and enhance the environment across our region, and manage our land responsibly to preserve and improve it for future generations.

We delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, and increasing our renewable energy production. We have agreed an environmental improvement programme for AMP7 that will continue to improve the river, bathing and shellfish water quality in the North West. Our investment in AMP7 is expected to result in an improvement in water quality in 1,315 kilometres of rivers. Having completed the first two years of the period, we remain on track to deliver the improvements we have committed to.

Environmental Performance Assessment and pollution reduction

In 2020, we had no serious pollution incidents for the second year running. We have been green in our serious incident performance for the last seven consecutive years – the only company to have ever achieved this. We had our best ever performance on total number of pollution incidents (categories 1–3), with a reduction of 31 per cent compared with the previous year. This is our largest ever reduction in pollution incidents, and was delivered while we maintained our excellent self-reporting performance. We expect to be green for serious pollution incidents and the total number of pollution incidents measure again in 2021.

We had no wastewater treatment works classed as failing by the EA – something that has only ever been achieved in the sector once before. With only one failing water treatment works, this represents our best ever combined water and wastewater performance, and our largest ever one-year performance improvement. We expect to remain green on this measure for 2021.

There has been increased public interest in the use of storm overflows across the industry this year, and the Environment Act 2021 requires water companies to secure a progressive reduction in the impact caused by storm overflows, one of several new and emerging requirements. We have made good progress in many of these areas, and launched our Better Rivers: Better North West plan that sets out how we will deliver further improvements. The additional investment we are making will help accelerate environmental outcomes, but there is more needed and this could drive significant increases in future investment, which will need to be balanced with customer affordability.

Greenhouse gas emissions and climate change – carbon reduction

We have committed to six carbon pledges across priority areas of our carbon strategy, including the setting of science-based targets to align with global best practice, switching to low carbon electricity, greening our fleet, restoring peatland and creating woodland. We have made substantial progress, and continue to mature our long-term carbon plans to ensure we achieve our commitments by 2030 and 2050. We are part of the global movement of ‘Business Ambition for 1.5°C: Our Only Future’, are signatories to the UN Race to Zero campaign and are proud to be contributing to the UK water industry’s commitment to be net zero from 2030.

Climate resilience

In AMP6 we invested an additional £250 million to increase resilience to climate change, and we continue to invest to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further develop our understanding of climate risk. In December 2021, we published a comprehensive assessment of our climate risks and plans in our latest climate change adaptation report. We are now further developing our approach to climate resilience, including engagement with stakeholders, as we take account of these risks in our long-term business planning process.

Biodiversity and natural capital

We continue to develop our approach to natural capital and improve our understanding to influence investment decisions, allowing us to assess the full value of our activity. We have an outcome delivery incentive (ODI) on enhancing natural capital value for customers, which encourages assessment of the added natural capital value we deliver by pursuing nature-based and catchment solutions, and we expect to outperform against our performance commitment this year. Understanding this value is a key element of driving

Read more about our Better Rivers: Better North West plan on page 67

Read our TCFD and TNFD sections on pages 86 to 99

Our performance in 2021/22

Operational performance

partnership working and our Catchment Systems Thinking (CaST) approach, which seeks to understand the broader needs of a catchment and deliver these across multiple stakeholders to achieve the outcomes that are needed. As part of this approach, we worked with consultants and stakeholders to develop a north west natural capital baseline to understand the natural assets the North West has, the benefits they provide and the value of them.

Biodiversity is a key pillar of natural capital, and ensuring the preservation and enhancement of biodiversity is a key element of our CaST approach. As a large land owner, with a significant amount of land designated as sites of special scientific interest (SSSI), and a business delivering significant development in the North West, we will strive to play our part in nature recovery and the delivery of biodiversity net gain. We have delivered significant investment to improve the condition of habitats on our land, aiming to have 100 per cent of our SSSI land in either favourable or recovering status by 2030. We are reviewing our approach to biodiversity management and how we can better manage and enhance biodiversity through our land ownership and in the delivery of capital projects.

Leakage reduction

Water is a precious resource and reducing leakage is important in ensuring its resilience. 2021/22 was the sixteenth year we outperformed our leakage target and we have reached a new low in leakage levels. We continue to deliver leakage reductions supported by a network of around 70,000 acoustic sensors, installed over the last two years.

We experienced a relatively mild winter, but the changing COVID-19 restrictions had the potential to impact leakage performance. Resourcing became a particular challenge through December, due to isolation periods, so we increased contractor resources to tackle this. The changing patterns of night use, due to changes in working from home guidance and the return to offices, created uncertainty with leakage levels. We addressed this with additional meter readings and analysis which gave better insight into usage pattern change, enabling more efficient targeting of leak detection activity.

Over AMP7, we plan to reduce total leakage by at least 15 per cent. We actively look to trial new techniques to understand how these can be scaled and embedded in the most effective way, and this gives us opportunities to accelerate and target those interventions which are demonstrated to be the most effective. One such example is our smart water network trial in the Macclesfield area, where we have linked together hundreds of monitors and sensors on the town's water mains. This created a machine-learning Artificial Intelligence (AI) 'brain' that supported enhanced leakage targeting, as well as detecting and preventing other non-leakage problems. We are using the learning from these trials to refine our approach to reducing leakage and applying this to our Dynamic Network Management approach for wastewater.

Measure	2025 target	Performance	Status: Annual performance	Status: Against 2025 target
KPI:				
EA EPA	**Upper quartile**	**Upper quartile[1]** Upper quartile	●	●
Leakage reduction	**15%[2]**	**8%** 5%	●	●
% waste to beneficial use	**98%**	**97.8%** 97.3%	●	●
Enhancing natural capital for customers	**£4m**	**£3.234m** Delivery scheduled from 2022	●	●
Number of trees planted	**500,000**	**244,639** 216,601	●	●
Better air quality: nitrogen oxides (NOx) emissions per GWh of renewable electricity generated	**1.42 NOx/GWh**	**1.19 NOx/GWh** 1.3 NOx/GWh	●	●
Climate change mitigation: % change scope 1 & 2 emissions[3]	**14% decrease**	**2.2% decrease** 1.5% increase	●	●
Climate change adaptation: multiple metrics	**See TCFD section, pages 86 to 97**			

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

(1) Based on the latest assessment, which was for 2020. 2021 performance will be reported in July 2022.
(2) As measured against a 2017/18 baseline.
(3) As measured against Science Based Target baseline year 2019/20.

1,315km
Rivers expected to have improved water quality from our AMP7 investment

4 star
Industry-leading company in the EA's performance assessment for 2020

6
Carbon pledges underpinned by ambitious science-based targets

> We have committed to deliver £230 million in environmental improvements, leading to 184 kilometres of improved waterways."

Better Rivers: Better North West

As more people have come to appreciate the environment since the pandemic, there's a real drive to improve our rivers and waterways. People want to swim, to enjoy riverside walks and get back to nature, and we have an important role to play by upgrading the sewerage infrastructure in the region.

In March 2022, we published a series of commitments to kick start a river revival over the next three years. Better Rivers: Better North West is a four-point plan setting out our commitments to:

- make sure the company's operations progressively reduce impact to river health;
- be open and transparent about our performance and plans;
- make rivers beautiful and support others to improve and care for them; and
- create more opportunities for everyone to enjoy rivers and waterways.

Most of these pledges will be delivered over the next three years, including investment in wastewater systems, enhanced data monitoring and sharing, greater innovation and more use of nature-based solutions.

We have committed to deliver £230 million in environmental improvements, supporting at least a one-third sustainable reduction in the number of spills recorded from our storm overflows by 2025 compared to the 2020 baseline. This investment at sites across the region will lead to 184 kilometres of improved waterways. We will make sure that all storm overflows are monitored by 2023 and real-time data on their operation is made available to the general public.

In addition to the £230 million within our base capital programme, part of the additional investment we are making outside the scope of our final determination allowance will help accelerate these plans.

But that's only part of the solution; we can't do this on our own. Members of the public will be able to get involved too with the launch of a community fund to support local river health initiatives and, working alongside The Rivers Trust, there will be the opportunity for people to volunteer as citizen scientists to collect data on river health, which will help inform further improvement work.

We also continue to engage with the ongoing industry-wide investigations by Ofwat and the Environment Agency into possible unpermitted sewage discharges.

Delivering value for:

Communities Environment

More detail can be found on our website at unitedutilities.com/corporate/responsibility/environment/reducing-pollution

Investors

Delivering a sustainable return to investors – through prudent financial risk management and a strong track record of performance across a suite of environmental, social and governance metrics.

How we measure performance
Our key performance indicator to measure value created for investors during 2020–25 is Return on Regulated Equity (RoRE).

Return on regulated equity (RoRE)
Definition
Key measure encompassing regulatory out/underperformance across financial and operational efficiency, customer satisfaction, and regulatory performance targets. Read more on page 51.

Target
Our targets will be updated throughout the period in line with guidance on the individual components of RoRE.

Status
Achieved/confident of achieving target

Link to material issue
- Customer service and operational performance
- Financial risk management
- Corporate governance and business conduct

Read more about **our approach to materiality** on pages 34 to 35

Link to risks
Finance
Political and regulatory

Read more about **our principal risks** on pages 104 to 105

Performance
Reported RoRE for 2021/22 was 7.9 per cent on a real, RPI/CPIH blended basis, double the base return. Underlying RoRE was slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism. Cumulative RoRE for the first two years of AMP7 is 6.2 per cent on both a reported and underlying basis.

2021/22 **7.9%** reported
Cumulative 6.2% reported

2021/22 **7.7%** underlying
Cumulative 6.2% underlying

> "As a responsible business, we are sharing our success with customers, as we have done previously sharing over £600 million between 2010 and 2020."

How we deliver value to investors

Short term

- Since many of our investors are pension funds, charities and employees, the income we provide through dividends benefits millions of people every year.
- We are committed to high ethical standards of business conduct, strong corporate governance and acting with integrity so investors can have confidence in the way we do business.
- We maintain a high level of quality and transparency in what we report.
- Our innovation culture drives continuous improvements, enabling us to be at the frontier of our industry.

Long term

- The majority of shares in our company are typically held for the long term, and we provide an appropriate return to investors through a combination of short-term dividend income and long-term growth.
- We plan far into the future and invest in our infrastructure to ensure sustainability.
- We manage risk prudently so investors can have confidence in our stability and resilience in the round.
- We link investor returns to our environmental and social projects through our sustainable finance framework.

Link to strategic themes

By delivering better performance for customers we are able to achieve greater regulatory incentives, aligning improved service with investor returns.

By reducing costs in a sustainable way through innovation and efficiency, we can meet our allowed expenditure without compromising operational performance.

Our strong corporate governance, prudent risk management, and clear and transparent reporting create a lower risk investment and build trust.

Overview

We have delivered a strong Return on Regulated Equity (RoRE) performance this year, driven by our continued improvements in operational performance together with good performance on financing and tax. As a responsible company, we believe in sharing our successes and have increased the additional investment we are making outside the scope of our Final Determination (FD) total expenditure (totex) allowance by £400 million to a total of £765 million, which will deliver environmental benefits and improved performance against customer outcomes.

Return on Regulated Equity (RoRE)

Reported RoRE of 7.9 per cent for 2021/22 comprises the base return of 3.9 per cent (including our 11 basis point fast-track reward that we receive in each of the five years of the AMP), tax outperformance of 2.7 per cent, financing outperformance of 1.6 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the total expenditure (totex) impact on RoRE of -0.8 per cent as a result of our additional investment. Underlying RoRE of 7.7 per cent has a lower tax outperformance of 2.5 per cent as it excludes the tax that will be recovered through the regulatory sharing mechanism.

Total expenditure (totex)

The totex impact on RoRE of -0.8 per cent, on both a reported and underlying basis, largely reflects the year two impact of the additional investment we are making outside the scope of our FD, for example our investment in Dynamic Network Management.

Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector, and our performance improvements over AMP6 meant we started AMP7 at a totex run rate that supported delivery of the stretching efficiency challenge in our FD allowance. We are not immune to the impact of inflation, both directly and indirectly through our supply chain, with many of our costs rising above the headline rate. Our totex allowance does increase with inflation, which helps to mitigate some of this cost pressure, and we continue to exploit technology and innovation to help us deliver our investment efficiently.

In this second year of AMP7, we have invested £645 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure), representing the continued acceleration of our AMP7 investment programme and early expenditure against the extension to our original totex plans. Cumulatively, this is £1.3 billion in the first two years of the period, which represents a good start to the delivery of our AMP7 programme. We have been able to deliver this expenditure effectively, maintaining our high performance scores against our Time, Cost and Quality index (TCQi) at over 95 per cent.

Our investment strategy delivers long-term efficiency and sustainable performance improvements, and the additional £765 million investment we are making beyond the scope of our FD will drive further enhancements for customer and environmental performance. £265 million of this investment we expect to be fully recovered through regulatory mechanisms, including Green Recovery and projects that form part of our Water Industry National Environment Programme (WINEP). £250 million of this investment is improving environmental outcomes, funded through investment of outperformance, and subject to regulatory sharing mechanisms. The final £250 million of this investment will drive improved performance against customer outcomes and is supported on a business case basis, delivering improved customer ODI performance.

While we continue to strive to deliver our investment efficiently, as we have demonstrated through this additional investment, we will invest where we are confident we can deliver improved customer or environmental outcomes and better customer ODI performance.

Customer outcome delivery incentives (ODIs)

Customer ODI outperformance of 0.5 per cent, on both a reported and underlying basis, reflects a net reward of £25 million*. This is our highest ever one-year net reward against customer ODIs, reflecting our continued improvements in performance for customers.

Our customer ODI performance has been strong across the board, meeting or beating over 80 per cent of our performance commitments, giving us the confidence to increase our total AMP7 ODI guidance by a third, targeting a cumulative net ODI reward over the five-year period of around £200 million.

* Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID-19 and any enduring effects.

Read more about our £765 million additional investment on page 71

More information about our RoRE performance will be published in July 2022 in our APR, available on our website at: unitedutilities.com/corporate/about-us/performance/annual-performance-report

Our performance in 2021/22

Operational performance

The additional investment we are making will help improve performance in areas where we want to do better. This includes £100 million investment in Dynamic Network Management, which will help us improve performance on sewer flooding, and around £100 million investment in improving water quality.

Customer ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag in accordance with the regulatory mechanism, therefore, the net reward earned this year will be reflected in an increase to revenue in 2023/24 through allowed increases in the rates charged to customers in that financial year.

Financing outperformance

We earned financing outperformance this year of 1.6 per cent, on both a reported and underlying basis, compared with 1.2 per cent last year. This increase mainly results from recent high levels of inflation, which increases the benefit of the roughly £3 billion fixed rate debt we have locked in.

We have consistently issued debt at efficient rates that compare favourably with the industry average, thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise. This delivered significant financing outperformance during AMP6 and the rates we have locked-in for AMP7 compare favourably with the price review assumptions.

Tax outperformance

The 2.7 per cent outperformance on tax on a reported basis reflects our optimisation of available government tax incentives, including research and development tax allowances and the temporary capital allowance "super deductions", net of the tax impact of financing outperformance. The 2.5 per cent outperformance on tax on an underlying basis excludes the tax that will be recovered through the regulatory sharing mechanism.

ESG performance

We are upper quartile across a suite of investor indices. With a score of 76 per cent we were proud to again be included in the S&P Global Sustainability Yearbook 2022, and we have been included in the FTSE4Good Index Series, which measures the performance of companies who demonstrate strong ESG practices against globally recognised responsible business standards, since June 2001. In March 2022, we were assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors, with our management of ESG material risk rated as strong. We received an ESG Risk Rating of 12.8.

Measure	2025 target	Performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Underlying RoRE	**Assessed annually**	**7.7%** 4.6%	●	●
Reported RoRE	**Assessed annually**	**7.9%** 4.3%	●	●
UK Corporate Governance Code	**Maintain compliance**	**Compliant** Compliant	●	●
Maintain performance across a range of trusted investor indices	**Upper quartile**	**Upper quartile** Upper quartile	●	●
Credit rating UUW (Moody's, S&P, Fitch)	**A3, BBB+, A-**	**A3, BBB+, A- (stable outlook)** A3, BBB+, A-	●	●
Gearing	**55–65%**	**61%** 62%	●	●
Maintain sustainable finance framework	**Available/ continued issuance**	**Available** Available	●	●
Fair Tax mark	**Retain annual accreditation**	**Retained** Retained	●	●
Sustainable dividend	**Grow by CPIH**	**In line with commitment** In line with commitment	●	●
Risk maturity	**Year-on-year improvement**	**Met expectation** Met expectation	●	●
Anti-bribery:% of identified employees completing required training	**100%**	**100%** 94%	●	●
Investor engagement:% met or offered to meet by value (active targetable institutional shareholder base)	**75%**	**80%** 81%	●	●

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

7.9%
Return on Regulated Equity for 2021/22, double the base return

£25m
Highest ever one-year reward against outcome delivery incentives (ODIs)

£200m
Anticipated total reward against ODIs over the 2020–25 period

> The additional investment we are making will improve services for customers and accelerate long-term environmental aims."

Investing £765 million to deliver customer and environmental outcomes

The £765 million additional investment we are making over the 2020–25 period beyond the scope of our final determination will help to accelerate environmental benefits, improve performance for customers, and deliver growth in our regulatory capital value (RCV), while maintaining gearing within our target range.

£265 million of this investment is delivering projects that have been agreed with our regulator to help deliver environmental and customer outcomes. These projects are approved additions to our base investment programme, including Green Recovery investment and the Water Industry National Environment Programme (WINEP), and are subject to regulatory mechanisms.

A further £250 million is being targeted at improving performance for customers, including £100 million investment in Dynamic Network Management, a Systems Thinking implementation in our wastewater network that is driving improvements in sewer flooding and pollution performance, as well as projects that will improve water quality.

This investment is supported on a business case basis, and will deliver improved customer outcome delivery incentive (ODI) performance in the current period. The sustainable performance improvements it will deliver also help to support better service for customers, and therefore, better ODI performance, in future periods, providing additional benefit and creating long-term value for all stakeholders.

The remaining £250 million will help us improve environmental outcomes, such as accelerating implementation of the Environment Act 2021, including delivery of the commitments we set out in our Better Rivers: Better North West plan, and delivering improved water quality and resilience.

This is reinvestment of outperformance we have earned, and is subject to regulatory mechanisms. As a responsible company, we believe in the importance of sharing our successes for the benefit of all our stakeholders. This is in line with the approach we have taken historically, sharing over £600 million in 2010–20, and that investment has helped us to deliver the performance improvements we have achieved to date.

As well as delivering significant environmental and customer benefits, this additional investment is contributing to higher growth in our RCV, which is now expected to grow by over 10 per cent more on a nominal basis over the 2020–25 period than we expected at the beginning of the period. This, together with our financial strength and balance sheet headroom, means we expect gearing to remain within our target range of 55 to 65 per cent, retaining financial flexibility and resilience.

Delivering value for:

- Communities
- Customers
- Environment
- Investors

Suppliers

Innovating in partnership with suppliers – we rely on suppliers to deliver our services and to help identify ways to make them better.

How we measure performance

Our key performance indicator to measure value created for suppliers during 2020–25 is payment within 60 days, and we target at least 95 per cent of invoices to be paid within this time frame.

Invoices paid within 60 days

Definition

Percentage of invoices paid within 60 working days of issue.

Target

At least 95 per cent, in line with the requirements of the Prompt Payment Code.

Status

Achieved/confident of achieving target

Link to material issue

- Trust, transparency and legitimacy
- North West regional economy
- Responsible supply chain

Read more about our approach to materiality on pages 34 to 35

Link to risks

Supply chain and programme delivery

Read more about our principal risks on pages 104 to 105

Performance

This year continued to pay suppliers above our target, with over 99 per cent of our invoices paid within 60 days, and our average time to pay was 13 days.

2021/22	2020/21	2019/20	2018/19	2017/18
>99%	>99%	97%	98%	95%

"We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements."

How we deliver value to suppliers

Short term

- We spend significant amounts of money with our suppliers each year to help deliver maintenance and enhancement projects across our asset base, and this helps support thousands of jobs in our region.
- Paying suppliers on time gives them confidence in us and allows companies to maintain cash flow and become more resilient.
- While our operations and suppliers are mainly UK and European, they work closely with us to address human rights, in particular modern slavery.

Long term

- Supporting jobs through our supply chain in the short term catalyses the development of skills and jobs in the North West, providing a stimulus to benefit the regional economy in the long term.
- Working together to develop technologies means we can identify solutions that will make our services better in the future.
- We act with integrity, giving suppliers confidence in the way we do business, which translates to transparency and fairness for our suppliers.

Link to strategic themes

Suppliers work on our behalf, so ensuring they are motivated to deliver good quality work helps us deliver the best service to customers.

Developing innovations with suppliers, and ensuring they deliver goods and services efficiently, contributes to a sustainable low cost for customers.

Working with responsible suppliers who share our sustainability objectives helps us achieve more in tackling environmental and social issues.

Overview

Our activities support around 17,700 jobs in the supply chain, and the acceleration of around £500 million of capital expenditure into the first three years of AMP7 will continue to play a part in helping to generate jobs and income for the North West economy.

This comes at a critical time as the country recovers from the effects of the COVID-19 pandemic and are faced with significant rises in the cost of living.

Suppliers and contractors play an important role in delivering our services and, alongside our employees, often act as the face of our business for many customers and communities.

The pandemic has shown the importance of our relationships with our supply chain partners and we want this to grow as part of our United Supply Chain approach.

Prompt Payment Code

As a signatory to this Code, in addition to the commitment to pay at least 95 per cent of invoices within 60 working days, we are working to pay 95 per cent of our small and medium-sized enterprise (SME) suppliers within 30 days, a new guideline that came into effect in July 2021.

Our efforts have not gone unnoticed and we were awarded one of the first ‘Fast Payer Awards’ by Good Business Pays. This award recognises FTSE350 companies who are fast payers of their invoices and can demonstrate that over the past 12 months they have paid their suppliers in less than 30 days as well as paying 95 per cent or more of all invoices on time.

Responsible sourcing through our United Supply Chain

Our new approach to responsible supply chain management for AMP7, called United Supply Chain (USC), was launched in 2020 and we continue to embed this strategy across our supply chain.

USC recognises suppliers as an extension of the United Utilities family and suppliers are asked, as a minimum, to become a signatory to our Responsible Sourcing Principles. For those suppliers that are integral to our operations, we encourage them to become leaders and to work jointly with us to deliver improvements across ESG areas and to improve value for customers.

In September 2021, we held a USC event to acknowledge the efforts of our suppliers and awarded our first USC awards in Customer, Innovation and Integrity. We worked closely with one of our partner suppliers, Sapphire Utility Solutions Ltd, and awarded them our first USC accreditation badge.

By March 2022, 90 per cent of our targeted suppliers had signed up to our Responsible Sourcing Principles. We continue to engage with the remaining suppliers to reach our target of 100 per cent.

Through our partnership with Supply Chain Sustainability School, we have been able to offer our commercial colleagues and supply chain partners free resources to learn more about the Responsible Sourcing Principles.

In light of the sanctions regime introduced by the UK Government in relation to the conflict in Ukraine, we continue to review our supply chain on an ongoing basis for any potential exposure, and have taken action to mitigate this where necessary by securing alternative sourcing.

Fostering innovation

Our Innovation Lab gives suppliers, often small start-up businesses who might be in the early stages of developing their idea or just starting out on their business growth journey, the opportunity to test solutions in a live environment over a 12-week programme.

This helps us find ideas where others aren’t looking – in different sectors, other countries, and with suppliers we may not otherwise have worked with.

It does all this whilst being fully compliant with procurement legislation – allowing for rapid idea testing and adoption/contract award – an obstacle that most regulated companies struggle with.

The open, collaborative nature means that feedback is given more frequently and ideas get tailored for adoption by us faster than traditional product testing.

We set categories for which we are looking for solutions, all of which are designed to help develop our Systems Thinking plans and enable us to deliver a better service for customers.

Read more about **the world-first water treatment process that came out of our Innovation Lab** on page 75

Our performance in 2021/22

Operational performance

We are currently in our fourth Lab programme, which has the following categories:

- Ideas to help us get to the next level in digital connections across our network;
- Ideas to help us analyse data and use it to improve our energy efficiency;
- Ideas to help us reach our net zero target and use nature-based solutions, for example in biodiversity, natural flood management, and community engagement; and
- Wildcard – a catch-all category for transformative ideas that we feel are worth pursuing despite not fitting into one of the above specific categories.

We are working with 12 suppliers in this programme, with ideas ranging from faster ways to detect water quality issues to drones for water sampling in hard-to-reach areas.

We have worked with more than 20 suppliers in this way in the past, and seen some high profile success. FIDO, which emerged from our second Lab programme to help tackle leakage detection, is becoming known as a disruptor in the global water sector, and we have first mover advantage on new developments. Following development with Typhon, we have recently completed installation of the world's first ever municipal UV LED disinfection system in operation at one of our water treatment works near Carlisle.

			Status	
Measure	**2025 target**	**Performance**	**Annual performance**	**Against 2025 target**
KPI:				
Invoices paid within 60 days	**At least 95%**	**99.34%** 99.55%	●	●
Average time taken to pay invoices	**<28days**	**13** 13	●	●
% suppliers in high risk categories, as identified by sustainability risk assessments, covered by enhanced due diligence audits	**5%**	**Delivery scheduled from 2022** Delivery scheduled from 2021	●	●
% of partner and strategic suppliers that have sustainability risk assessment in place	**75%**	**72%** 35%	●	●
Supplier relationship management score	**90%**	**54%** 69%	●	●
% of targeted suppliers signed up to United Supply Chain	**100%**	**90%** 38%	●	●
CIPS ethical mark	**Retain annual accreditation**	**Retained** Retained	●	●
Savings delivered through innovation and efficiency	**£40m**	**£6.388m cumulative**	●	●

Status key:

Annual performance	**Against 2025 target**
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

>17,000
Jobs in the supply chain supported through our activities

90%
Targeted suppliers signed up to our United Supply Chain

>20
Suppliers we have worked with through our Innovation Lab process

We were delighted to help showcase what can be achieved when industry fully invests in the next generation of talent and ideas.”

Innovating with world-first water treatment process

His Royal Highness The Prince of Wales visited our Cumwhinton Water Treatment Works, near Carlisle, to see how ultraviolet LEDs are making ripples in the field of low energy water treatment. Developed by Penrith firm Typhon, the technology is the only one of its kind capable of disinfecting drinking water supplies on a large scale.

Ultraviolet (UV) light is widely used in the drinking water treatment process to remove bacteria or tastes and odours caused by algae. However, until now, UV LED treatment systems had only been effective at treating small amounts of water for very low flows or domestic use. This project, two years in development, sees the world's first ever municipal UV LED disinfection system in operation at the site.

His Royal Highness met employees from both Typhon and United Utilities and discussed how the award-winning system, with its advantages of superior safety, energy efficiency and low running costs, could help address safe access to water globally.

Typhon CEO, Matt Simpson, said: “We were honoured that His Royal Highness was interested to come and learn more about this hugely important leap for UV technology in the water industry. It was wonderful to be able to share the story of how a small local firm and the local water company have worked together to take the idea all the way through from demonstration scale to a marketable industrial application right here in Cumbria.

“We explained how the process works, the challenges involved in developing such a unique disinfection solution, and the potential future benefits for the water industry globally and for high skilled employment opportunities in the North Lakes area.”

Our head of innovation, Kieran Brocklebank, said: “United Utilities is proving to be quite a force for innovation in the UK water sector thanks to our Innovation Lab programme, where we identify and incubate the best emerging technologies. Our relationship with Typhon is a real success story and we were delighted to help showcase what can be achieved when industry fully invests in the next generation of talent and ideas.”

Delivering value for:

Customers

Suppliers

Our performance in 2021/22

Financial performance

Revenue for the year to 31 March 2022 increased by 3 per cent, mainly driven by higher non-household consumption as business activity has returned to pre-pandemic levels. Household bad debt has returned to 1.8 per cent of regulated revenue, lower than the 2.2 per cent last year and consistent with the level we were achieving prior to the pandemic, helped by our wide ranging affordability schemes and effective approach to managing cash collection. Operating profit was up £8 million as the increase in revenue was largely offset by inflationary increases in power and other core costs.

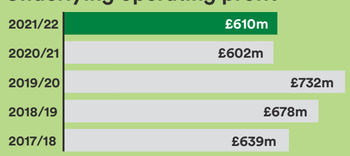
While inflation has increased our operating costs and net finance expense this year, it has also led to a higher level of financing outperformance and, together with the £765 million additional investment we have announced beyond the scope of our final determination, will deliver higher regulatory capital value (RCV) growth over the 2020–25 period.

We have doubled our base return on regulated equity (RoRE) for 2021/22, delivering strong performance on financing, tax and customer ODIs.

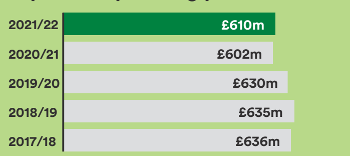
We benefit from having one of the strongest balance sheets in the sector, with an industry-leading, fully funded pension scheme on a low dependency basis, a low level of customer debtor risk, and RCV gearing supporting a stable A3 credit rating with Moody's.

Revenue

Underlying operating profit[1]



Reported operating profit



Revenue

Revenue was up £55 million, at £1,863 million, largely reflecting higher consumption as business activity returns to pre-pandemic levels.

In 2021/22 we have had a £14 million reduction in the revenue cap, incorporating a 1.5 per cent real reduction in allowed wholesale revenues partly offset by a 0.6 per cent CPIH-linked increase.

With many more businesses able to operate compared with last year, when the impact of the initial lockdown was significant, non-household revenue has increased by £106 million. In contrast, consumption from households, although higher than pre-pandemic norms, has decreased £58 million this year. This is due to significantly higher consumption particularly during the first half of last year reflecting the initial impact of people being locked down at home through the warm weather of late spring 2020.

Operating profit

* £8m COVID-related costs was an estimate in the year ended 31 March 2021 because, with the passage of time and as conditions brought about by the pandemic have become embedded into normal business processes, the usefulness of tracking COVID-related costs specifically has diminished.

Underlying and reported operating profit at £610 million was £8 million higher than last year. The £55 million increase in revenue was mostly offset by higher power costs and inflationary pressures increasing our underlying cost base, predominantly in respect of materials and labour.

We have a reduction of around £8 million in operating costs as last year saw additional one-off costs incurred in adapting to operate through the pandemic.

The £17 million of additional costs driving ODI performance are targeted at improving performance against specific customer ODIs, such as spend associated with Dynamic Network Management.

Power costs have increased by £16 million this year, largely in relation to higher prices. Power is a significant cost for our business, which is why we manage this risk through a progressive policy of hedging the commodity price element of power costs to minimise short term volatility (commodity price makes up around half of our annual power costs, with the other half relating to the use-of-system charge and other levies). Through this hedging policy and self-generation, we locked in the cost on the majority of our consumption for 2021/22 before the most recent energy price rises, securing an average rate of £65 per megawatt hour (MWh) for the year, which is significantly lower than the current market rate of over £200 per MWh for next year and has been fundamental to our ability to minimise the impact on our cost base. We are also locked-in on over 90 per cent of expected consumption for 2022/23, and around two-thirds of expected consumption across the final two years of AMP7, at rates that compare favourably to the current market rate.

Cost increases of £16 million largely stem from higher inflation in the period. We are not immune to the impact of the current high inflation environment, but through hedging, constructive cost challenge and commercial negotiations, we have managed to mitigate much of the cost increase to date.

During the year, the IFRS Interpretations Committee (IFRIC) published clarifications on how arrangements in respect of a specific part of cloud technology – Software as a Service – should be accounted for, resulting in £6 million of costs that would previously have been accounted for as fixed asset additions now being treated as operating costs.

Household bad debt is back at our lowest ever level of 1.8 per cent of regulated revenue, having reduced from 2.2 per cent in the year to 31 March 2021 as we return to pre-pandemic levels.

Profit before tax

Underlying profit before tax was £302 million, £158 million lower than last year. This reflects the £8 million increase in underlying operating profit and a decrease in the share of losses of joint ventures of £8 million, more than offset by a £174 million increase in underlying net finance expense. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 82 to 83.

Reported profit before tax decreased by £111 million to £440 million reflecting the £8 million increase in reported operating profit and an £8 million decrease in the share of losses of joint ventures, more than offset by a £90 million increase in reported net finance expense (including fair value movements), and the inclusion last year of a £37 million profit on disposal of our share in the joint venture AS Tallinna Vesi.

Net finance expense

The underlying net finance expense of £306 million was £174 million higher than last year, mainly due to the non-cash impact of significantly higher inflation on our index-linked debt.

The indexation of principal on index-linked debt, excluding the impact of inflation swaps, amounted to a net charge in the income statement of £228 million, compared with a net charge of £53 million last year, resulting in an increase of £175 million. Interest on non index-linked debt of £110 million is consistent with last year, while various smaller year-on-year increases and decreases broadly offset against one another when considered together.

The £306 million underlying net finance expense included in the income statement for the year compares with £118 million net cash interest paid included in the statement of cash flows. This £188 million difference is due to non-cash inflation uplifts on index-linked debt and derivatives of £256 million, less capitalised borrowing costs of £53 million and net pension interest income of £14 million, both of which are non-cash items.

Reported net finance expense of £168 million was £90 million higher than last year, reflecting the £174 million increase in underlying net finance expense, partially offset by an £84 million increase in net fair value gains on our debt and derivative portfolio, excluding interest on derivatives and debt under fair value option, from £54 million last year to £138 million this year.

Joint ventures

For the year to 31 March 2022, we recognised a £2 million loss in the income statement relating to our joint venture Water Plus, compared with a £9 million net share of losses from joint ventures last year, which included a share of profits from the AS Tallinna Vesi joint venture prior to its disposal. In the year to 31 March 2021, we also recognised a £37 million profit on disposal of our share in AS Tallinna Vesi, which was completed on 31 March 2021.

Further details can be found in note 12 of the consolidated financial statements.

Regulatory capital value (RCV) gearing[2]	Total dividend per ordinary share (pence)	Household bad debt as a proportion of regulated revenue
61%	43.5p	1.8%

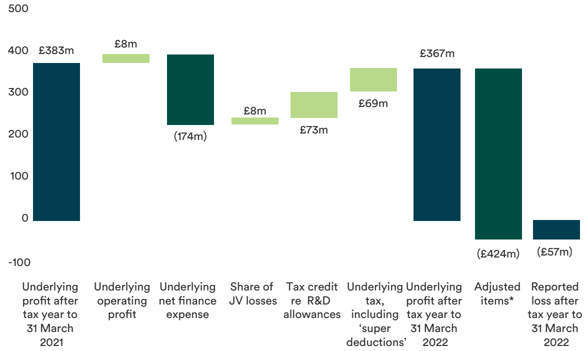
(1) A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 82 to 83.

(2) Gearing calculated as group net debt/United Utilities Water Limited shadow RCV (adjusted for actual spend and timing difference).

Our performance in 2021/22

Financial performance

Profit/(loss) after tax and earnings per share



* Adjusted items are set out on pages 82 and 83

Underlying profit after tax of £367 million was £16 million lower than last year, and underlying earnings per share decreased from 56.2 pence to 53.8 pence, as the £158 million reduction in underlying profit before tax is partly offset by £142 million lower underlying tax (moving from a charge of £77 million last year to a net credit of £65 million this year). The reduction in underlying tax reflects a £73 million tax credit relating to optimising the available research and development UK tax allowances on innovation-related expenditure we had incurred in prior years, and the impact of the capital allowance 'super deductions' announced in the March 2021 Chancellors Budget, which lowers the current tax charge significantly in the current period.

The group has a reported loss after tax of £57 million this year, compared with a £453 million reported profit after tax last year. This £510 million difference reflects the £111 million decrease in reported profit before tax, and a £544 million increase in deferred tax largely due to a one-off charge to restate the brought forward deferred tax liability at the new 25 per cent future headline rate, partially offset by a £145 million positive movement in current tax primarily as a result of adjustments in respect of optimising available tax incentives on our innovation-related expenditure in prior years. Reported basic earnings per share decreased from 66.5 pence to (8.3) pence.

Tax

The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we were delighted to have retained the Fair Tax Mark independent certification for a third year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its over 5,000 strong workforce. The total payments for 2021/22 were around £230 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges as well as corporation tax.

In 2021/22, we paid corporation tax of around £9 million, which represents an effective cash tax rate on underlying profits of 3 per cent, which is 16 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment including the new temporary capital allowance 'super deductions', where the current year tax benefit was around £40m representing a 13 per cent reduction to the effective cash tax rate. We expect a similar tax benefit from the temporary super deduction regime for 2023 as well.

We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. We expect the average cash tax rate on underlying profits to remain below the headline rate of tax for the medium term.

For 2021/22, the group recognised an overall current tax credit of £66 million in 2021/22. This includes a current tax charge relating to 2021/22 of £7 million this year, compared with £80 million in the previous year, key reconciling items being the lower taxable profits and the availability of capital allowance 'super deductions' for 2021/22. In addition, in the current year, there were prior period tax credits of £73 million, compared with £1 million in 2020/21. The current year credit mainly relates to optimising the available research and development UK tax allowances on our innovation-related expenditure for multiple prior years.

For 2021/22, the group recognised a deferred tax charge of £562 million, compared with £18 million for 2020/21. For 2021/22, £403 million relates to the government's planned increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to continue to be broadly in line with the headline rate of corporation tax for the medium term.

In 2021/22, there are £136 million of tax adjustments recorded within other comprehensive income, primarily relating to remeasurement movements on the group's defined benefit pension schemes. As in the prior year the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

Dividend per share

The board has proposed a final dividend of 29.0 pence per ordinary share in respect of the year ended 31 March 2022. Taken together with the interim dividend of 14.5 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2021/22 of 43.5 pence. This is an increase of 0.6 per cent compared with the dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The 0.6 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2021/22 financial year (i.e. the movement in CPIH between November 2019 and November 2020).

The final dividend is expected to be paid on 1 August 2022 to shareholders on the register at the close of business on 24 June 2022. The ex-dividend date is 23 June 2022. The election date for the Dividend Reinvestment Plan is 11 July 2022.

Cash flow

Net cash generated from continuing operating activities for the year to 31 March 2022 was £934 million, £75 million higher than £859 million last year. The group's net capital expenditure was £627 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure, which is treated as an operating cost.

Pensions

As at 31 March 2022, the group had an IAS 19 net pension surplus of £1,017 million, compared with a surplus of £689 million at 31 March 2021. This £328 million increase principally reflects an increase in credit spreads during the year, partially offset by a higher inflation assumption. The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. The IAS 19 position remains volatile to changes in credit spread and changes in mortality, neither of which have been hedged at this current time. This is primarily due to difficulties hedging against credit spread volatility over long durations, and, for mortality, there is lower volatility in the short term and relatively high hedging costs. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption.

Further detail on pensions is provided in note 18 ('Retirement benefits') of the consolidated financial statements.

Financing

Net debt at 31 March 2022 was £7,570 million, compared with £7,306 million at 31 March 2021. This comprises gross borrowings with a carrying value of £7,980 million net of cash and short-term deposits of £241 million and net derivative assets hedging specific debt instruments of £169 million.

Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, indexation and cash interest.

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend and timing difference) regulatory capital value of £12.4 billion, was 61 per cent at 31 March 2022. This is slightly lower than gearing of 62 per cent as at 31 March 2021, and remains comfortably within our target range of 55 to 65 per cent.

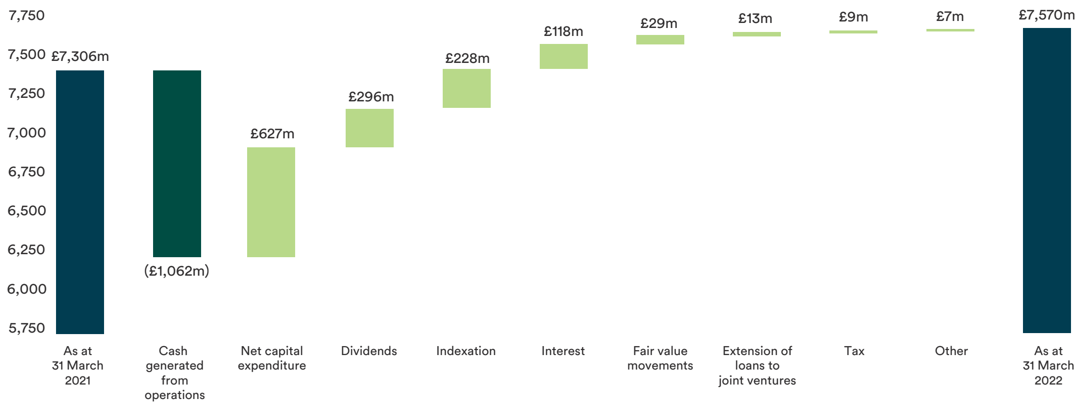
Cost of debt

As at 31 March 2022, the group had approximately £3.2 billion of RPI-linked instruments and £0.4 billion of CPI or CPIH-linked instruments held as debt. In recent years, in response to Ofwat's decision to transition away from RPI inflation linkage, the group has entered into a number of transactions swapping RPI-linked cash flows to CPI-linked cash flows or swapping floating rate cash flows to CPI-linked cash flows. As a result, including these swaps, the group has RPI-linked debt exposure of £3.1 billion at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt exposure at an average real rate of -0.6 per cent.

A significantly higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 5.1 per cent being higher than the rate of 2.5 per cent last year. The average underlying interest rate represents the underlying net finance expense adjusted for capitalised borrowing costs and net pension interest income, divided by average notional debt. More information on this can be found on page 83.

The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis at a net effective nominal interest rate of 2.2 to 2.4 per cent for the remainder of the AMP7 regulatory period.

Summary of net debt movement



Our performance in 2021/22

Financial performance

Credit ratings

UUW's senior unsecured debt obligations are rated A3 with Moody's Investors Service (Moody's), A- with Fitch Ratings (Fitch) and BBB+ with Standard & Poor's Ratings Services (S&P) and all on stable outlook. United Utilities PLC's (UU PLC's) senior unsecured debt obligations are rated Baa1 with Moody's, A- with Fitch and BBB- with S&P, all on stable outlook.

Debt financing

The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme. The MTN programme is updated at least annually and this year's update was completed in November 2021, at which time the previous €7 billion euro programme limit was increased and redenominated to £10 billion. The MTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

In total over 2020–25, we expect to raise around £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. So far in AMP7, we have raised around £1.4 billion, taking advantage of attractive rates available and extending our liquidity position (as at 31 March 2022) out to February 2025.

In November 2020, we published our new sustainable finance framework, through which we expect to raise financing based on our strong ESG credentials alongside conventional issuance. This replaces the green funding we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit. We issued our debut sustainable bond in January 2021, raising £300 million maturing in October 2029 and subsequently swapped to CPI-linkage.

In August 2021, we raised around £74 million of term funding via the issue off our MTN programme of a JPY11 billion privately placed note swapped to GBP with a nine-year maturity, and in September 2021 we priced a £100 million fixed note with a seven-year maturity, the proceeds of which were received in early October.

In April 2022, we raised £100 million of term funding with an eight-year maturity via a bilateral loan with Export Development Canada (EDC). AAA-rated EDC is the Canadian Government's Export Development Agency that looks to promote trade with Canadian firms worldwide. This follows collaboration with EDC in relation to some of the innovation activities that we have undertaken, and we expect such collaboration to continue.

Since March 2021, we have extended £100 million of revolving credit facilities for a further year, renewed £100 million of revolving credit facilities for a further five-year term and entered into £50 million of new revolving credit facilities for a five-year term. The group has also amended the documentation for all of its existing revolving credit facilities to remove references to LIBOR and replace with SONIA.

Interest rate management

Long-term borrowings are structured or hedged to match assets and earnings, which are largely in sterling, indexed to UK price inflation, and subject to regulatory price reviews every five years.

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2022, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 25 per cent of UUW's regulatory capital value (RCV), with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around nine per cent of UUW's RCV, with an average real rate of -0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

A3

credit rating with Moody's

18 years

average term debt to maturity

Our inflation hedging policy is to target around 50 per cent of net debt to be maintained in index-linked form. This reflects a balanced assessment across a range of factors.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, the debt is generally swapped to create a floating rate sterling liability for the term of the debt. To manage exposure to medium-term interest rates, the group fixes underlying interest costs on nominal debt out to ten years on a reducing balance basis.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. Our MTN programme provides further support.

At 31 March 2022, we had liquidity out to February 2025, comprising cash and short-term deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme. In October 2021, UUW prepaid a £100 million floating rate loan a year ahead of its scheduled maturity, this being efficient use of our available liquidity.

We consider that we operate a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. Our cash is held in the form of short-term money market deposits with prime commercial banks.

We operate a bilateral rather than a syndicated approach to our core relationship banking facilities. This approach spreads maturities more evenly over a longer time period, thereby reducing refinancing risk and providing the benefit of several renewal points rather than a large single refinancing requirement.

Outlook

We have delivered another good year of performance, maintaining high levels of customer satisfaction underpinned by our Systems Thinking approach, improving operational performance, and long-term financial resilience, giving us confidence in our ability to continue to create value for customers, the environment, and other stakeholders.

Liquidity to

February 2025

We are accelerating our AMP7 capital programme and investing an additional £765 million over the regulatory period to help us deliver even more sustainable improvements in customer and environmental performance, and to get ahead of the requirements coming into force through the Environment Act. This investment, together with latest views of inflation, contributes to RCV growth over AMP7 of 21 per cent on a nominal basis, more than 10 per cent higher than we expected at the beginning of the period.

Our sustained high level of operational performance is earning outperformance, and we have increased our target of cumulative net outperformance against customer ODIs by a third to around £200 million in total over AMP7. As a consequence of our performance in AMP7 and the additional investment we are making, we are generating around £750 million of value that we expect to receive through an RCV uplift and additional revenues in the 2025-30 period (AMP8).

2022/23 full-year guidance

- Revenue is expected to be around 1 per cent higher than 2021/22, largely reflecting the November 2021 CPIH inflation of 4.6 per cent, largely offset by the regulatory revenue reduction of 1.3 per cent and over-recovery in the current year due to higher than anticipated consumption.
- Underlying operating costs are expected to be around £100 million higher year-on-year. Approximately half of this increase relates to inflationary cost pressures on labour, chemicals and other contract costs, while the other half largely reflects the 2022/23 operating cost impact of the £765 million additional investment.
- Underlying finance expense is expected to be around £150 million higher year-on-year based on our current inflation forecast. As at 31 March 2022, we had £4.3 billion of index-linked debt exposure, therefore every 1 per cent increase in inflation equates to an around £43 million higher interest charge. Our cash interest in 2021/22 was £118 million and we expect this to be broadly the same in 2022/23, with the overall increase in underlying net finance expense largely relating to the non-cash indexation of our index-linked debt. Our cash metrics therefore remain strong and the higher inflation will also apply to our RCV, of which 70 per cent is exposed to the benefits of higher inflation, giving shareholders around a 1.75 times leveraged position to inflation.
- Underlying tax is expected to be a small charge of up to £10 million in 2022/23, as we continue to optimise the use of capital allowance 'super deductions'.
- Capital expenditure (capex) in 2022/23 is expected to be in the range of £640 million to £690 million, including the 2022/23 element of incremental capital expenditure in relation to the £765 million additional investment.
- We are targeting a net customer ODI reward of around £30 million, which is consistent with our updated investment plans and guidance of around £200 million reward in total over AMP7.
- Our AMP7 dividend policy is to grow the dividend in line with CPIH inflation out to 2025, which for 2022/23 would equate to an increase of 4.6 per cent based on November 2021 CPIH inflation.

Guide to Alternative Performance Measures (APMs)

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated income statement, which can be found on page 210. As such, they represent non-GAAP measures.

These APMs have been presented in order to provide a more representative view of business performance. The group determines adjusted items in the calculation of its underlying measures against a framework which considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of reoccurrence and its volatility which is either outside the control of management and/or not representative of current year performance.

In addition, a reconciliation of the group's average effective interest rate has been presented, together with a prior period comparison. In arriving at net finance expense used in calculating the group's effective interest rate, underlying net finance expense is adjusted to add back net pension interest income and capitalised borrowing costs in order to provide a view of the group's cost of debt that is better aligned to the return on capital it earns through revenue.

Adjusted item	Rationale
Adjustments not expected to recur	
Profit on disposal of joint ventures	This relates to the disposal of the group's 35.3% stake in its Estonian joint venture, AS Tallinna Vesi, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are therefore excluded in arriving at underlying net finance expense as they are determined by macro-economic factors which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit

Operating profit	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Operating profit per published results	610.0	602.1
Underlying operating profit	610.0	602.1
Net finance expense		
Finance expense	(187.7)	(103.5)
Investment income	19.4	25.0
Net finance expense per published results	(168.3)	(78.5)
Net fair value (gains) on debt and derivative instruments, excluding interest on swaps and debt under fair value option	(138.0)	(54.3)
Underlying net finance expense	(306.3)	(132.8)
Share of (losses) of joint ventures per published results	(1.8)	(9.3)
Profit on disposal of joint ventures per published results	–	36.7
Profit on disposal of AS Tallinna Vesi joint venture	–	(36.7)
Underlying profit on disposal of joint ventures	–	–
Profit before tax per published results	439.9	551.0
Adjustments in respect of operating profit	–	–
Adjustments in respect of net finance expense	(138.0)	(54.3)
Adjustments in respect of profit on disposal of joint ventures	–	(36.7)
Underlying profit before tax	301.9	460.0
(Loss)/Profit after tax per published results	(56.8)	453.4
Adjustments in respect of profit before tax	(138.0)	(91.0)
Deferred tax adjustment	562.5	18.4
Tax in respect of adjustments to underlying profit before tax	(0.7)	2.2
Underlying profit after tax	367.0	383.0
Earnings per share	£m	£m
(Loss)/profit after tax per published results (a)	(56.8)	453.4
Underlying profit after tax (b)	367.0	383.0
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	(8.3)	66.5
Underlying earnings per share, in pence (b/c)	53.8	56.2
Dividend per share, in pence	43.50p	43.24p

Average effective interest rate

In arriving at net finance expense used in calculating the group's effective interest rate, management adjusts underlying net finance expense to add back pension income and capitalised borrowing costs in order to provide a view of the group's cost of debt that is better aligned to the return on capital it earns through revenue.

	31 March 2022	31 March 2021
Underlying net finance expense	(306.3)	(132.8)
Net pension interest income	(14.3)	(17.5)
Adjustment for capitalised borrowing costs	(52.7)	(30.4)
Net finance expense for effective interest rate (a)	(373.3)	(180.7)
Average notional net debt (b)	(7,368)	(7,315)
Average effective interest rate (a/b)	5.1%	2.5%