

Our business model – our external drivers

What matters most to our stakeholders

We continuously challenge ourselves to make sure we understand what matters most regarding our role in society, the impact that we have and the value we create.

Our materiality assessment process

1. Define

We reviewed current best practice in materiality reporting. The assessment criteria for stakeholder interest and our ability to create value was confirmed. Building on our existing matrix we brought in more stakeholder views and evolved the matrix design. We committed to provide more detailed commentary on the most material issues.



2. Engage

Views were obtained from across all our stakeholder groups. Insight from consultations and data was made available through the engagement processes described on pages 30 to 33. Key internal subject matter experts and stakeholder relationship managers provided further insight on issues.



3. Assess

Comments and data were drawn together to form an initial view of the issues. The rationale for issue selection and its significance was presented to senior management for discussion. This included potential new issues, removal of issues and movement of existing issues.



4. Align

We cross-referenced and aligned identified issues with our principal risks and uncertainties, as set out on pages 104 to 105. Matrix visuals were then created to easily communicate the prioritisation of issues. For the first time an indication of how issues have moved since the previous review has been included.

Our approach to materiality

Understanding what matters most to our stakeholders is fundamental to being a purpose-driven organisation. We consider these stakeholder priorities alongside our own assessment of what has the biggest impact on the company and its ability to create value, and the output is presented in the material issues matrix.

This stakeholder materiality assessment informs decisions about what we report in documents such as this annual report. Setting out issues in this way helps ensure we understand key stakeholder priorities and consider their interests in strategic decision-making, helping us create long-term value.

In defining the strategic relevance of an issue to the company, we have adopted the integrated reporting framework definition of materiality, which states: “a matter is material if it could substantively affect the organisation’s ability to create value in the short, medium or long term”. Value, in this context, may be created internally (for the company and employees) and there can be external value (for customers, communities, investors, suppliers and the environment). Value may be financial or non-financial.

Our 2021/22 assessment

This year we carried out a thorough review of our material issues and matrix design.

Striking the right balance between different interests and views is not easy but our assessment process consolidated feedback based on a balance of views obtained from all our stakeholders.

Material matters in 2021/22

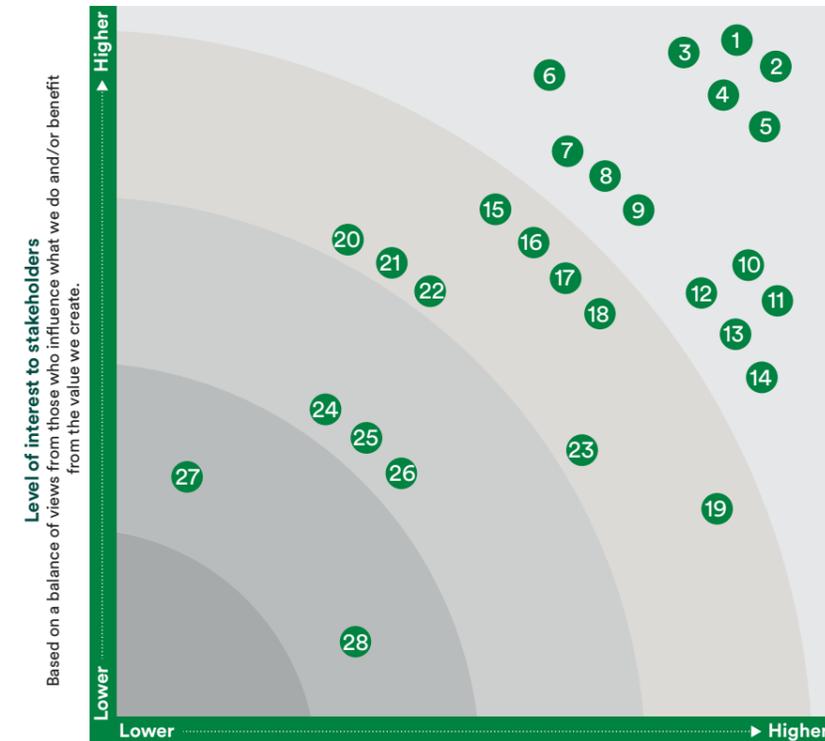
The assessment process identified 28 material issues. More information about the most material issues can be found on the following pages. We describe the issue, provide our response to managing the issue, explain how the issue links to our strategic themes and how it is included in our plans for the future.

Materiality matrix

Issues are plotted on the matrix from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value.

Independent review

Our approach has been reviewed by responsible business consultancy Corporate Citizenship, which commented that “United Utilities has set out the orderly, balanced and comprehensive process by which it has arrived at its refreshed materiality assessment. The detailed coverage of the six most material issues fosters public understanding. It sets out the links to strategic themes, risks and future actions. It shows how United Utilities recognises the most important issues and acts upon them”.



Key
 = Issue with no change in significance
 ↗ Issue with increased significance
 ↘ Issue with decreased significance
 N New issue in 2021/22 assessment

Effect on our ability to create value
 Based on the potential effect on our ability to create value over the short, medium and long term. Value can be created for United Utilities and our stakeholders. Value can be financial and non-financial.

Material issue	Movement relative to previous review	Material issue	Movement relative to previous review
1 Trust, transparency and legitimacy	=	15 Health, safety and wellbeing	↗
2 Resilience	=	16 North West regional economy	=
3 Customer service and operational performance	=	17 Land management, access and recreation	↗
4 Climate change	↗	18 Sewage sludge to land	N
5 Political and regulatory environment	=	19 Energy management	=
6 Affordability and vulnerability	=	20 Environmental impacts	=
7 Drinking water quality	N	21 Data security	=
8 Sewer flooding and storm overflows	↗	22 Diverse and skilled workforce	↗
9 Water resources and leakage	↘	23 Responsible supply chain	=
10 Financial risk management	=	24 Employee engagement	↗
11 Corporate governance and business conduct	=	25 Supporting communities	↗
12 Nature capital and biodiversity	=	26 Competitive markets	=
13 Innovation	=	27 COVID-19	↘
14 Cyber security	=	28 Human rights	=



United Utilities recognises the most important issues and acts upon them.”



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What matters most to our stakeholders

Understanding and responding to the most material issues affecting our business is key to delivering our purpose. Addressing these issues over the short, medium and long term is an integral part of our strategic themes and risk management.

1. Trust, transparency and legitimacy

Description

Strong stakeholder relationships are based on trust. Being open, honest and transparent is key to building and maintaining trust and legitimacy. As well as reporting openly, this means setting out commitments and delivering on them. Our stakeholders want to know that we are treating employees fairly, protecting customer data, and paying our fair amount of tax.

The societal trend of mistrust in governments, and media, is crossing over into the corporate world. This has led to growing calls for companies to demonstrate how they are contributing to society as a whole and operating in the public interest.

In recent years, the UK water sector has faced challenges to its legitimacy, amplified by some specific issues at a small number of companies. Consequently, trust has been eroded and questions raised about the ownership structure of the sector, and Ofwat has called for further transparency and disclosure around board leadership and decision-making processes, as well as starting discussions on companies' contribution to public value.

Our response

Being open about our purpose and transparent about how we are delivering for all of our stakeholders is key to operating in a responsible manner.

We aim to maintain high ethical standards of business conduct and corporate governance. We apply the principles and report against the provisions of the 2018 UK Corporate Governance Code. Additional governance and assurance is applied to our regulatory reporting.

We have open and transparent reporting around all of our equity and debt financing arrangements, do not use offshore financing vehicles, and we have secured the Fair Tax Mark independent certification since 2019.

We maintain a comprehensive set of policies, linked to and including, human rights, modern slavery and whistleblowing.

Cybercrime has been on the increase and, as the holder of customer information, it is a threat we take very seriously through our policies and dedicated data protection team.

We work with suppliers and contractors whose principles, conduct and standards align with our own. Our key suppliers have committed to our United Supply Chain approach (read more on page 73). We are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers.

Link to strategic themes

 We engage on a continual basis with customers to understand their expectations in relation to service and behaviour, through activities like our quarterly brand tracker.

 We maintain stable credit ratings with key agencies, which helps us to retain efficient access to the debt capital markets.

 We set qualitative and quantitative performance targets across all of our stakeholders to evidence how we are delivering on our purpose.

Future plans

Operating in a responsible manner is a key driver of trust with our stakeholders. Our continued compliance with the corporate governance requirements of a listed company helps ensure the transparency of our reporting and behaviour. We will continue to use ESG indices as benchmarks of best practice to drive further improvements in transparency and disclosure.

Link to risks



2. Resilience

Description

Resilience is a broad and interconnected topic that is of interest to many of our stakeholders. A resilient company will embed resilience throughout its operations, financing and corporate systems of governance and control. Providing essential services to customers requires long-term planning to manage future challenges, such as population growth and climate change, to ensure they are provided effectively to meet increasing expectations.

Long-term financial resilience starts with a robust balance sheet and management of financial risks. Companies have to be aware of their own financial situation and make sure that they understand the financial resilience of others, such as suppliers and former employees.

As the world becomes increasingly digital, companies need to have the right people and skills to manage in the modern world. Increasingly, stakeholders are interested in the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in all aspects of their business.

Our response

It can take many years and require substantial investment to increase the resilience of existing assets or build new ones, which is why our long-term planning is so important. We have detailed plans in place to anticipate future challenges and understand what we need to do to address these. We build these needs into our business plans for each five-year regulatory period to anticipate the future funding we need to allocate in order to act at the right time. Our Systems Thinking approach provides opportunities for us to increase our operational resilience further.

We have a strong balance sheet, a secure pension position, and take a prudent approach to financial risk management, which delivers long-term predictability and resilience to financial shocks. As a public listed company, we consistently adhere to the highest

levels of governance, accountability and assurance. We have a robust risk management framework for the identification, assessment and mitigation of risk.

We maintain good relationships with employees, and employee representatives, to ensure an engaged and motivated workforce, and we continually strive to build diversity across all types of role and all levels within our business. We build skills resilience internally through training and development, including digital skills. We have graduate and apprentice schemes, and ambassadors that work with schools and education institutions to encourage the younger generation to pursue science, technology, engineering and mathematics (STEM) careers.

Link to strategic themes

 Through innovative approaches we are improving the reliability and resilience of our assets, helping to reduce unplanned service interruptions, and enabling us to be more proactive.

 Our robust capital structure, relatively low gearing and strong pensions position provide long-term financial resilience and future financial flexibility.

 We launched our Digital Skills Academy, a new learning portal for employees to access digital learning content to upskill them for their roles now and in the future.

Future plans

Our Haweswater Aqueduct Resilience Programme (HARP) will be progressed through direct procurement for customers in AMP7 and AMP8, addressing one of our biggest operational risks in a critical pipeline that transports water from the Lake District to Greater Manchester. Read more on page 106.

Link to risks



Risk exposure

An indication of the current exposure of each principal risk relative to the prior year.

-  Decreased
-  Stable
-  Increased

Our principal risks

-  1 Water service
-  2 Wastewater service
-  3 Retail and commercial
-  4 Supply chain and programme delivery
-  5 Resource
-  6 Finance
-  7 Health, safety and environmental
-  8 Security
-  9 Conduct and compliance
-  10 Political and regulatory

3. Customer service and operational performance

Description

In an increasingly digitised and instant economy, customers expect more from services than ever before. This includes the water sector, with high expectations for the reliability and responsiveness of services.

Since the pandemic, more people have come to appreciate the environment and there is increasing stakeholder focus on the operational performance of companies that rely and impact on the environment.

Ensuring a reliable service in the face of a growing population, changing climate and increasing expectations of service requires integrated long-term thinking and targeted investment to ensure both short and longer-term reliability.

Many of our assets are ageing compared to other utilities. To meet the expectations of customers and regulators, it is critical that we combine modern technology into our networks and management of customer service.

Our response

To provide great water and more is reliant on delivering good operational and customer performance. Our pollution incident reduction plan and reinvestment of regulatory outperformance has improved our environmental performance.

We have improved customer service provision through both traditional and digital channels, measuring ourselves against key external benchmarks such as securing the Institute of Customer Service accreditation with distinction. This is alongside making new services available to customers, such as 'Get Water Fit' which is helping over 95,000 customers learn more about their water usage.

Our culture of innovation and Systems Thinking drives us to adapt our assets and the way we operate to use modern technology and the best new ways of working. Examples include sensors across our network that allow remote monitoring and control from our Integrated Control Centre, and our fleet of alternative supply vehicles (ASVs) that can inject treated water directly into supply while we undertake repairs.

We monitor the performance and health of our assets, with the help of sensors across the network, and this allows us to be proactive. For example, by monitoring pressure in the water network we can spot issues and fix them before we get a burst, saving costs and sparing customers the impact.

We have a substantially enhanced social media presence to respond quickly to stakeholders. Over one million customers now engage with us digitally, whether this is through our website, our mobile app or on social media.

Link to strategic themes

 Our Systems Thinking approach is delivering operational excellence – benefiting customers and the environment.

 We balance our capital and maintenance expenditure to ensure affordability and reliability over the short, medium and long term.

 Our Better Rivers: Better North West commitments and additional £65 million investment in our Green Recovery proposals will deliver improvements for customers and the environment by 2025.

Future plans

Wider deployment of Systems Thinking, for instance through Dynamic Network Management (read more on page 43), will deliver further improvements in the reliability of services. We have a number of challenging targets for the 2020–25 period that will help improve the reliability of our services, including helping and encouraging customers to use less water.

Link to risks



Key

-  The best service to customers
-  At the lowest sustainable cost
-  In a responsible manner

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What matters most to our stakeholders

4. Climate change

Description

Greenhouse gas emissions and how they are affecting the earth's climate is important to many stakeholders. There is a growing expectation on companies, across all sectors, to take action to reduce their carbon emissions and to adapt to the impacts of climate change.

Weather is fundamental to the delivery of water and wastewater services, and so climate change will always be of strategic and operational importance to the water sector and its stakeholders.

Already, we are seeing the effects of climate change on the North West's weather, with increasing summer temperatures, wetter winters and more extreme rainfall events. With these trends set to continue, unless we take action there will be increasing impact on the services we provide to the communities we serve.

Companies must plan well into the future to understand what changes are likely to occur, and continually adapt to meet the risks and opportunities this presents.

Our response

Our response to climate change risk involves mitigation (minimising our greenhouse gas emissions) and adaptation (ensuring our services are resilient to a changing climate). Where practical, we generate renewable energy on our sites through solar panels, wind turbines, and the use of bioresources at wastewater treatment works, helping to reduce our emissions. We have reduced our carbon footprint considerably since 2005/06 and have set ambitious science-based targets as part of our continued efforts to reduce emissions. We have committed to six pledges to help us achieve significant further reductions in emissions and from this year the long-term incentive outcomes for our executives will be linked to these.

We have detailed plans that set out how we will adapt our services to meet the challenges of climate change such as the 25-year Water Resources Management Plan, and we are targeting a 15 per cent reduction in leakage over AMP7, one of our actions to address the risk of water sufficiency events.

We work with third parties to encourage sustainable drainage solutions to help cope with surface water in periods of heavy rain and are finalising a Drainage and Wastewater Management Plan with key authorities across the region.

We have reported against the recommendations of the Task Force on Climate-related Financial Disclosures for the past three years to provide transparency of our approach.

Link to strategic themes

 We help customers use less water, with advice and free water saving gadgets, saving them money and water.

 Generating our own renewable energy helps to reduce our reliance on purchasing energy and, therefore, saves costs.

 Our six carbon pledges, including science-based targets covering all of our emissions, demonstrate our commitment to reducing our footprint.

Future plans

We have a detailed 25-year Water Resources Management Plan, a Drought Plan, and we published our third adaptation report in 2021 setting out how we aim to adapt to meet the challenges of climate change. Read more about our approach to climate change on pages 86 to 97.

Link to risks



5. Political and regulatory environment

Description

The UK Government's current goal is to be the first generation to leave the environment in a better state than we found it. The Environment Act, which became law in 2021, includes commitments to improve water management, and the water sector has a leading role to play to implement its requirements. This could drive significant increases in investment in the future which will need to be balanced with customer affordability.

Environmental and quality regulators set stringent consents for water company activities to ensure the environment and water quality is protected. In meeting these obligations, companies need to work hard to maintain compliance. This requires striking a balance with other environmental impacts, such as the use of natural resources and emissions of greenhouse gases. Read more about our regulators on page 27.

Our response

We welcome the Environment Act and the inclusion of aspects relating to storm overflows. Many of our Better Rivers: Better North West 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. Read more about Better Rivers: Better North West on page 67.

The Environment Agency assesses water companies' performance across a basket of measures, and we are one of the best-performing companies over the last five years. Our regulatory framework shapes the way we manage natural resources and our interaction with the environment, and we work with our environmental regulators to agree long-term plans.

Alongside this, we need to deliver other core regulatory obligations – such as those set out by Ofwat – and compliance with ever increasing drinking water quality standards. This year we launched our Water Quality First programme with

the aim of providing our customers with industry-leading water quality.

A phased, long-term approach to address all of the concerns and interests of our many stakeholders, including environmental regulators, ensures that the necessary work can be delivered without placing too much pressure on customer bills by spreading some of the spend over several years.

We work with partners to improve the quality of rivers and bathing waters in our region, providing access to the recreational benefits of the natural environment and boosting the local tourism industry.

Link to strategic themes

 We balance customers' bills against longer-term investment.

 By using natural-based solutions and innovative markets to deliver outcomes we are delivering more for customers' money.

 Engaging political stakeholders on matters relevant to the water industry and our operations in the North West.

Future plans

Engaging with local authorities and devolved administrations on the important role they play in addressing water management issues including surface water management and river water quality.

New legislation, such as the Environment Act 2021, could drive significant increases in investment, which will need to be balanced with customer affordability.

Link to risks



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-  Finance
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6. Affordability and vulnerability

Description

The socioeconomic situation in the UK remains challenging. Many people across the region are facing real challenges as we emerge from a global pandemic and are faced with significant rises in the cost of living, so water poverty continues to be an important issue.

Maintaining trust and confidence in the sector in the years ahead will be crucial. The North West already suffers high levels of acute deprivation with twelve per cent of households affected by water poverty, higher than the national average. Research indicates that many customers who struggle with water charges are behind on other bills and many have a pay-day loan.

Our stakeholders are interested in how we provide support for customers in vulnerable circumstances beyond just financial distress, such as disability, first language not being English, or temporary vulnerability brought on by illness or a life event.

Our response

Our industry-leading approach to collections and innovative affordability offerings have enabled us to respond to the pandemic and the emerging cost of living crisis. The temporary extension to the social tariff we secured at the start of the COVID-19 pandemic to support those customers most affected has now been made permanent, so we have an additional £15 million of support available per annum for each of the remaining years of AMP7.

We have the sector's widest range of affordability and vulnerability schemes. Through these schemes over 77,000 customers were lifted out of water poverty over the past two years. Our extensive affordability schemes are providing £280 million of support over AMP7.

We led the sector in establishing our Priority Services scheme, with dedicated teams providing additional support to customers with physical, mental health, or financial difficulties during an incident. This scheme is accredited by the British Standards Institute and over 150,000 customers are now registered for this support, with more joining every day.

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.

 We are the first UK utility company to harness real-time open banking as part of our processes to verify customer eligibility for reduced-rate social tariffs.

 Backing the Consumer Council for Water's drive to launch a national social tariff.

Future plans

We will continue to provide substantial affordability assistance through support tariffs and other forms of support, while extending our Priority Services offering to over 210,000 customers by 2025, improving the quality and scale of the support we provide.

Link to risks



Key

-  The best service to customers
-  At the lowest sustainable cost
-  In a responsible manner