

Corporate governance report

Corporate responsibility committee



Stephen Carter
Chair of the corporate responsibility committee

Quick facts

- The committee comprises four directors appointed by the Board, three of whom are independent non-executive directors.
- The company secretary, corporate affairs director and customer services and people director attend all meetings of the committee.
- Senior operational directors attend the committee to report on the environmental, social and governance aspects of particular topics and initiatives.
- The corporate responsibility committee has existed for over fourteen years.

Quick links



Terms of reference
unitedutilities.com/corporate-governance

Schedule of matters reserved for the board
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at frc.org.uk

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Dear shareholder

I am pleased to introduce the report on the activities of the corporate responsibility committee in 2021/22.

The company's approach to carbon emission mitigation and adaptation to a changing climate was a topic of particular focus, with the CRC encouraged to see it is making good progress in delivering its carbon pledges including the incorporation of carbon into long-term performance incentives. The committee supported steps to strengthen internal carbon governance, recognising the company has a clear plan to 2030. It welcomed the increased regulatory focus on climate change.

The committee commented on the company's third adaptation report ahead of its publication in December 2021 with particular attention on how the company is improving the management of climate change risk and raising its profile within the organisation and with external stakeholders. The committee noted how the report addressed the expected impact of global warming at around 2°C and that a more extreme scenario of up to 4°C is being considered for PR24 and beyond to stress test the plan.

River water quality and storm overflows have been prominent political and societal issues this year, embodied by an amendment to the Environment Act that requires water companies to progressively reduce the impact from overflows. The committee considered how the management team was handling this important reputational matter and supported its approach, in particular the emphasis on developing partnership opportunities alongside actions to be taken by the company. It was clear to committee members that the water sector alone cannot deliver good ecological status in rivers and that collaboration with regional stakeholders is a vital part of any approach.

Over the course of the COVID-19 pandemic, the committee discussed the public's changing attitude to the environment as more people connect to green

Corporate responsibility committee members:



Stephen Carter
Chair of the corporate responsibility committee



Steve Mogford



Alison Goligher



Paulette Rowe

spaces and nature. The growing visitor pressure at the company's recreational sites, coupled with an increase in anti-social behaviour, have led to local stakeholder concerns. The committee was presented with an update on the company's land management approach, appreciating the challenge of balancing the sometimes competing demands of water, wildlife and access.

While the majority of COVID-19 measures eased over the year, the committee considered the company's response to social issues amplified by the pandemic. Support provided to customers as part of the company's affordability and vulnerability response is monitored through regular review of the lower income dashboard. Given the North West's high levels of social and economic deprivation, the committee welcomed the company's support for the Consumer Council for Water's recommendation that a national social tariff is introduced.

It was pleasing to see the results of the Employee Opinion Survey 2021, in particular the high levels of employee engagement. Efforts to bring the employee voice to the boardroom and to provide a two-way flow of communication have played their part alongside the additional support provided during the pandemic.

In recent years, there has been greater investor interest in Environmental, Social and Governance (ESG) matters. The committee discussed investor views of ESG and performance in ESG indices. The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong. The committee endorsed a targeted approach to engage with the most relevant independently assessed indices so that the company can demonstrate to investors that its strong responsible business credentials are externally evaluated.

The committee reviewed performance against the suite of measures and targets adopted by the company to provide evidence to its stakeholders that it is fulfilling its purpose to provide great water and more for the North West. These form part of the performance section of this report on pages 52 to 75. Publishing a set of performance measures and targets in this way enables stakeholders to judge for themselves whether or not the company is delivering on its purpose.

In addition, specific papers on gender pay and community investment expenditure were presented to the committee.

The committee sought insight on how the company's approach to purpose and responsible business is integrated. It received reports on how digital/data and the AMP7 investment programme are embracing a purpose-led approach. The committee supported plans to launch a digital academy and the digital contribution to major transformation activities such as the wastewater Dynamic Network Management programme. It praised progress in implementing sustainability in all aspects of capital delivery activities and the contribution to the company's net zero carbon commitment.

From a committee governance perspective, members agreed to a minor amendment to its terms of reference to refer to 'purpose' and 'values' in a clause under Policy Direction. As part of its annual evaluation of performance the committee sought a discussion to ensure it focuses its efforts on the right topics given the rapidly evolving interest in ESG.

On behalf of the board, it has been a real privilege to oversee the company's responsible business agenda for the past six years. I am confident that the company has built the right foundations so it can deliver on its purpose and to create value for all of its stakeholders. As I prepare to hand over chair of the corporate responsibility committee to Paulette Rowe, I know that she will ensure it continues to champion corporate responsibility on behalf of the board. I wish Paulette, and the company, every success.

As a listed company, United Utilities complies with the UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

Stephen Carter

Chair of the corporate responsibility committee



Read more about [our approach as a responsible business](#) on pages 12 to 13



Read more about [Dynamic Network Management](#) on page 43

Main responsibilities

The committee approved a slightly modified set of terms of reference in February 2022. Its main duties are to:

- consider and recommend to the board the broad corporate responsibility (CR) policy, taking into account the company's desired CR positioning;
- keep under review the group's approach to CR and ensure it is aligned with the group strategy including the company purpose and values;
- review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review the status of the company's reputation and examine the contribution the group's corporate responsibility activities make towards protecting and enhancing this;
- monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- monitor and review the steps taken by the company to support customers in vulnerable circumstances; and
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

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Read more about our approach to climate change on pages 86 to 97



Read more about Employee Voice on page 126

The committee's agenda during the year:

Environmental

Climate change mitigation

The committee discussed progress against the company's carbon pledges and related matters such as the outcomes from COP26 and the impact to the business, strengthening internal governance, incorporating carbon into long-term performance incentives and the potential introduction of performance commitments for operational and embedded emissions.

Climate change adaptation

Ahead of the publication of the company's third adaptation report the committee reviewed progress on climate resilience. The committee welcomed steps to capture key climate change risks in the corporate risk framework and the use of the latest UK Climate Projections (2018) in developing the Water Resources Management Plan (WRMP24). It supported strengthening the Task Force on Climate-related Financial Disclosures in the 2021 Annual Report through the inclusion of an assessment of the financial impact of climate risk.

Land management update

The committee was updated on the strategic review of the group's land management approach, reflecting on the challenge to balance changing expectations of stakeholders and the behaviour of some visitors with the drivers of water quality and quantity. The committee discussed applying strategies such as adopting an asset management approach, exploring opportunities to invest in the estate and connecting customers to the company's land ownership.

Approach to clean air

An overview of the company's approach to clean air was discussed by the committee. It noted plans to undertake further research to understand the scope of the risk posed by poor air quality, to baseline activity to capture the total extent of the company's emissions and the opportunity to engage with government and regulators on the topic.

Social

National social tariff

The committee discussed the recommendation by the Consumer Council for Water to introduce a national social tariff for customers struggling to pay their water bills. It noted plans by Defra to consult on this in 2022 and commented that similarities could be drawn with the implementation of a national social tariff in the electricity sector and how lessons could be learnt. The committee requested an update in September 2022.

Affordability and vulnerability: lower income groups

Two updates were provided to the committee on the company's performance in assisting customers on low incomes. The committee noted the positive performance across many measures.

Next ways of working

As pandemic restrictions eased, the committee discussed the 'next ways of working' project and welcomed the return to office for hybrid roles. The potential disadvantages of hybrid working for those in the early stages of their careers and maintaining engagement for those not in hybrid roles were debated alongside methods for meeting these challenges.

Gender pay report

The committee commented on the draft gender pay report and commended the work undertaken to attract more women to the company to address, in particular, middle and upper senior manager roles. It welcomed the use of leading indicators and the success of the company's aspiring manager programme to nurture a pipeline of talent for senior roles.

Community investment expenditure 2020/21

The annual update on community giving expenditure was presented to the committee. It noted that total expenditure was lower than usual due to restrictions on community activity arising from COVID-19 lockdown measures. Lessons to be learnt from other companies were discussed.

Governance

Employee Voice

Twice a year the committee reviews progress on employee and board engagement. It noted how the Employee Voice panel had met virtually while COVID-19 restrictions were in place, providing a valuable mechanism for employees to give feedback, particularly on how they had been supported throughout the pandemic. Topics presented to the panel included the company's reward strategy, HR support for people managers and progress updates from each sub-group: employee opinion survey; employee networks; and culture. The committee noted that the company was satisfied that activities and progress enabled it to demonstrate compliance with the UK Corporate Governance Code.

Employee opinion survey 2021

The committee welcomed the results of the annual employee opinion survey and the high levels of engagement. It noted that the values of the organisation, the approach to health and safety and reward had a direct correlation to the employment relationship and support for employees during the pandemic. Committee members were updated on plans by the company to ensure high levels of engagement were retained through local action planning.

Stakeholder engagement and reputation

Engagement and reputation remained a standing agenda item allowing time to examine the relationship between responsible business and reputation. Each paper provided an update on national and regional political and regulatory engagement, and interaction with people and organisations representing regulatory, social and environmental interests. In particular, the committee sought to understand the role of environmental NGOs and the media in driving awareness of storm overflows and it welcomed the company's first investor ESG webinar.

Progress against demonstrating purpose

The committee endorsed a set of stakeholder value measures and targets through which the company will demonstrate how it is fulfilling its purpose. Performance updates were provided on two occasions and members asked that consideration be given to how improvements over AMP7 are made evident and to ensure that the measures stay relevant.

CR committee terms of reference

The committee approved a minor amendment to its terms of reference to refer explicitly to 'purpose' and 'values' as part of its duty to ensure alignment with the group's overall approach to corporate responsibility. This reflected the increasing interest from ESG stakeholders that companies demonstrate they are 'purpose-led' and generate public value. The amended terms of reference were recommended for approval to the group board.

CR committee evaluation

The committee reviewed the external evaluation results, in particular points about ensuring papers were succinct and future topics for committee discussion given the rapidly evolving ESG landscape. The committee discussed its membership in this context and it was agreed that it would be reviewed by the nomination committee for approval by the board.

Cross cutting

Responsible business digital and data framework

An update on the company's approach to digital and its alignment with purpose and responsible business was presented to the committee. This included the 'next ways of working' project, shaped by the company's pandemic response, and updates on major transformation projects such as the wastewater Dynamic Network Management programme and the West Cumbria Operating Strategy. The committee discussed issues such as seeking user consent in relation to their data, plans to baseline digital skills and the launch of a digital skills academy.

Investors and ESG

The committee was updated on investors' views of ESG and agreed with the company's approach to demonstrate its responsible business credentials through continued transparency and engagement with selected investor ESG indices and ratings. Members discussed investor interest in diversity and inclusion and nature and endorsed early disclosure on these topics.

Brexit and regulatory convergence – environmental and employment legislation

Following conclusion of the Brexit transition period, an overview of UK environmental and employment legislation was discussed. It focused in particular on the Environment Act and statutory targets on air quality, biodiversity, water and waste; new duties for water companies; the Office for Environmental Protection which will hold public bodies including UuW to account on their environmental obligations; and governance mechanisms such as regional water groups and internal drainage boards. The committee agreed that no further updates in relation to Brexit are required.

Capital programme: delivery of sustainability objectives

How the company's purpose, and ESG in general, is being implemented across its capital programme was presented to the committee. It welcomed progress in implementing sustainability in all aspects of the capital programme, especially on the West Cumbria project, and the contribution to the company's net zero carbon commitment. The committee discussed whether, looking ahead to PR24, there was scope to be more ambitious in realising ESG objectives.

Looking to the next year, the committee will:

- review new or updated responsible business strategies including the company's approach to education, its community strategy and approach to smart metering;
- consider the responsible business themes emerging for PR24;
- return to several issues to review progress including land management, air quality, waste and circular economy including plastics, embedding multi-capital thinking, diversity and inclusion and talent and young people;
- review performance on how the company is fulfilling its purpose, ESG rating performance and the dashboard tracking the company's efforts to support customers on low incomes;
- on behalf of the board, review progress and issues arising from the Employee Voice panel and the company's approach to culture;
- continue to examine the interaction between purpose, ESG and reputation and review the approach to stakeholder engagement and the management of reputational risks;
- oversee matters of general governance such as reviewing the gender pay report; and
- undertake matters of committee governance such as reviewing its rolling calendar of agenda items, the annual committee evaluation and examination of the committee's terms of reference.

