Our performance in 2020/21

Operational performance

Our performance at a glance

Communities

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

How we deliver value to communities

Short term

- We look after beautiful landscapes and beaches and open our land to the public, which supports the regional tourism industry and offers 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.
- Engaging with communities near our operations and projects builds understanding and trust between all involved.

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, helping reduce the burden on health services.

OPERATIONAL KEY PERFORMANCE INDICATOR

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

Increasing our investment by at least 10 per cent compared with the average between 2010 and 2020.

Status

Close to achieving target but more work to be done

Performance

The average investment between 2010 and 2020 was £2.56 million per annum and in 2020/21 we supported communities through direct community investment of £2.15 million (calculated using the B4SI method). This is slightly lower than our target, mainly as a result of much lower community activity as a result of the impact of COVID-19. However, we contributed an additional £2.7 million from our Trust Fund to help those struggling to pay their bills and a further £15 million was made available to help customers reduce their water bill to an affordable amount through extending our social tariff. As we emerge from the pandemic, and events can safely recommence, we expect our community investment to increase.

- 2019/20: £2.26 million
- 2018/19: £2.93 million
- 2017/18: £3.65 million
- 2016/17: £3.59 million

READ MORE

Link to material issue

- Land management and access
- Community investment
- Trust, transparency and legitimacy

Read more about our approach to materiality on page 27

Link to risks

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Read more about our principal risks on pages 104 to 107

Overview

Our work puts us at the heart of local communities in the North West, where 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 through active engagement and investment, developing strong relationships and building partnerships where we work together to generate solutions. We also look after beautiful landscapes and open 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.

Helping young people

We are committed to supporting the Government's Kickstart Scheme by providing 250 placements to young people, working with our supply chain. Our new employees will have a dedicated placement manager as well as a Kickstart skills coach, and will also receive job-related and employability skills training to enhance their CVs in order to help secure employment in the future. We work with local schools and training facilities to promote skills for the future, including youth programmes that support young people not in education, employment and training (NEETs) to help improve social mobility in our region and break down barriers in bringing people from all backgrounds into employment. It is estimated this programme has generated over £9 million of social value through avoided welfare costs and new employment. During the school closures brought about by the pandemic lockdowns, our education team created a Home Learning Hub that supported teachers and children across the region, and even extending overseas, with materials for home schooling. Recruitment of apprentices and graduates has continued uninterrupted, with the help of some online challenges, skills sessions and live streamed assessments while face-to-face interaction was limited. We have continued to create our early careers pipeline, welcoming 67 apprentices and graduates in 2020/21.

Social mobility

In October we hosted the sector's first Social Mobility Summit, an online event at which more than 100 organisations joined us for the launch of our Opportunity Action Plan – another first for the sector – which aims to identify and share best practice and leading-edge thinking from businesses that are successful in promoting social mobility, including case studies from our own employees reflecting the progress we have already made.

Charitable support

Our ongoing charitable support, including a voluntary salary reduction by board members at the height of the COVID-19 pandemic, has helped provide support to local communities. One of our donations to the FareShare charity has supported them in delivering 600,000 meals to struggling families across the North West via local foodbanks, and will replace one of the charity's delivery vans, helping to ensure 6.4 million meals get to families in need over the next eight years.

Community engagement

We build trust with local communities through effective engagement, whether that is around large capital projects or day-to-day management of our landholdings. Our consultation for the Haweswater Aqueduct Resilience Programme (HARP) was stopped in its tracks by COVID-19, halfway through the traditional face-to-face exhibitions. We changed approach, developed a virtual consultation, with accessible content advertised through letters and social media, and, as a result, we have seen better engagement. We received over 100 per cent more feedback compared with the traditional approach, with over 8,000 hits to the specific HARP section of the website. Sixty-nine per cent of all feedback has been supportive of the plans. Given the success of this approach, we will continue with virtual consultations for other aspects of this project.

Access to our land for recreational use

As a result of COVID-19 restrictions, there has been a marked increase in the number of people visiting our catchment land to enjoy the countryside and benefit from open spaces. While the majority of visitors have respected the countryside, sadly a small minority have not. Our teams have worked hard to address this anti-social behaviour through a variety of methods, including targeted social media campaigns on issues such as moorland fire risk, improved site signage and the creation of local stakeholder groups. We are currently testing several ideas to better connect visitors to the land and to encourage them to behave responsibly.

250
young people to be supported through the Kickstart Scheme

£9m
social value generated through our youth programme

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Community investment	**10% increase (£2.82m)**	£2.15m	●	●
Partnership leverage	**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%**	83%	●	●
Number of children benefiting from education materials	**20,000**	19,120	●	●
Visitor experience/satisfaction measure at recreation sites	**Dependent on 2021 baseline**	**Baseline in 2021**	●	●

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
● Baseline year	● Baseline year

Our performance in 2020/21

Operational performance

BEING PURPOSE-LED

Kickstarting careers in the North West

We've committed to supporting the Government's Kickstart Scheme, taking on an initial 250 young unemployed people over the year and integrating those with potential into our apprentice schemes – expanding our early careers approach.

Kickstart funds six-month placements with firms for 16–24 year olds who are claiming Universal Credit and are at risk of long-term unemployment. The Government provides a grant of £1,500 per recruit to support skills development.

The recruits will be found placements in customer service, operational support, office administration, grounds maintenance and labs support, and our supply chain partners will also provide placements to support us to achieve our aim. All will be recruited on a six-month fixed-term contract and will have a dedicated placement manager and a Kickstart skills coach. They will receive job-related and employability skills training supported by our learning and development team.

Customer services and people director, Louise Beardmore, explained: "Kickstart is a brilliant initiative that aims to help companies give work opportunities to young people who have borne the brunt of the economic slowdown during COVID-19.

"We know the North West has some of the highest levels of deprivation in the UK and this year life has got even tougher. We're absolutely certain there are some fantastic young people out there who just need a break. For many of the people who apply this will lead to full-time roles, and others will leave us with some great new skills to take to other employers."

We already run several schemes to support young people into work. We recruit around 30 apprentices every year from across the North West, and our graduate scheme recruits people from targeted communities based on their diversity and inclusion data. We also have a Youth Programme for young people between 18 and 24 years who are not in education, employment or training. Around 90 per cent of youth programme participants have a disability or long-term health condition and are from an area of low social mobility and high deprivation.

We have taken part in the Department for Work and Pensions' 'mentoring circles' initiative which provides mentoring, support and coaching to young unemployed people who are Black, Asian or from ethnic minorities, have a disability or long-term health condition.

Generating value for:

Kickstart is a brilliant initiative that aims to help companies give work opportunities to young people who have borne the brunt of the economic slowdown during COVID-19.

Our performance at a glance

Customers

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

How we deliver value to customers

Short term

- We focus on delivering a great service so customers can simply get on with their lives and not have to worry about their water and wastewater services.
- When they do need to contact us, we are helpful, friendly and supportive, talking and listening to customers so we can understand and meet their expectations.
- We maintain bills that are good value for money, providing help and support to those who struggle 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 over the next five years to meet the stretching targets customers support.

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.

OPERATIONAL KEY PERFORMANCE INDICATOR

Our ranking in Ofwat's customer measure of experience, C-MeX, is our key performance indicator for customers as it is influenced by a broad range of service components and so best satisfies the spectrum of what matters to customers.

C-MeX

Definition
Ofwat's customer measure of experience, comprising two surveys: the customer service survey; and the customer experience survey.

Target
To be in positive reward territory.

Status
Achieved/confident of achieving target

Performance
At the end of the year we are ranked fifth out of 17 companies, the highest listed company, achieving a reward of £2.1 million in the first year of AMP7. While our written customer complaints performance for the year has fallen below our targets, in part reflecting the higher level of complaints during the dry spring in 2020 and our focus on collecting cash from those customers who are able to pay, but choose not to, we still expect our relative performance to be upper quartile compared with the other water and wastewater companies.

C-MeX has replaced SIM as Ofwat's measure of customer satisfaction for AMP7. As 2020/21 is the first year of the measurement period, prior year comparators are not provided this year.

READ MORE

Link to material issue

- Customer service and operational performance
- Affordability and vulnerability
- Leakage and water efficiency

Read more about our approach to materiality on page 27

Link to risks

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Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

Overview

We put customers at the heart of everything we do. This relentless focus drove us to deliver significant and continuous improvements over AMP6, ending the period as a leading water and wastewater company. Despite the challenging environment we have continued to operate in during the pandemic, customer satisfaction has remained high. Reliable access to clean water has been more important than ever before, and we have continued to provide a robust service for customers throughout the year. Serving the most economically deprived areas in the country, we are always mindful of the need to help customers who struggle to pay their bills. We reduced typical household bills by 5 per cent this year in real terms, have committed to providing £71 million in financial support to customers over AMP7, and have an extensive range of schemes offering financial assistance and tailored support for customers struggling with affordability and vulnerability. We are delighted to have received a positive recommendation for continued certification to BS 18477:2010, which is the accreditation for our Priority Services scheme and one of our customer ODI measures looking at the quality of services provided to vulnerable customers.

Customer service

We have significantly increased the availability and performance of our digital channels with over 1 million customers engaging with us digitally, driving both service improvements and cost efficiencies. Customers rate us 4.7 out of 5 on the App Store and 4.2 out of 5 on Google reviews.

We have been proactive and used targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay. We have achieved all of our reputational performance commitments, most notably continued certification to BSI standard for our Priority Services scheme that supports over 133,000 customers, and we were recognised as providing the best customer support initiative at the Utilities and Telecoms Awards for the support provided to customers during the pandemic. We are one of only 14 brands in the UK with the Institute of Customer Service Accreditation with distinction.

For developers, customer experience is measured in AMP7 by D-MeX, of which there are two elements: quantitative (service level agreement performance); and qualitative (customer satisfaction survey). For 2020/21, we are ranked first in the sector for our quantitative performance, with final qualitative results expected later in the year. We estimate our overall industry position to be fourth. This strong performance reflects the transformation programme we are delivering in this area that continues to deliver tangible and much improved results, benefiting all developers who are building in the North West.

£15m

extension to our social tariff to support customers affected by COVID-19

200,000

customers benefiting from our support schemes

Operational performance for customers

Our AMP7 business plan includes 46 customer commitments, delivering the outcomes that are important to customers and measured through customer ODIs.

Our performance has been strong across the broad range of our activities with us having met or exceeded over 80 per cent of our performance commitments for the year. We have delivered particularly strong performance in the areas of hydraulic flood risk resilience and pollution, where we have delivered another year of sector-leading performance with no serious pollution incidents for the second consecutive year. We were also able to deliver leakage at its lowest ever level and have more than halved supply interruptions to customers – outperforming our targets on both these key service delivery measures.

We entered AMP7 knowing that our biggest challenge would be against our internal flooding ODI and this is the measure that has yielded the largest penalty this year. As part of the £300 million extension to our AMP7 totex plans, we will be investing around £100 million in Dynamic Network Management (DNM) – a ground-breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to move to a more proactive management of our wastewater network. This new digital capability is expected to improve service to customers and improve performance against our internal flooding ODI.

We work hard to encourage customers to save water through water efficiency programmes, helping them to preserve this precious resource and save money on their bills. More customers have spent more time at home during the pandemic and used more water for sanitation, increasing per capita consumption (PCC) measures for 2020/21. Recognising that the long term impact of COVID-19 remains uncertain and that there may also be a variety of drivers of changes in behaviour, Ofwat has proposed to assess company performance for this customer ODI at the end of the AMP when fuller facts and evidence of absolute and relative company performance are available.

We have our own in-house app development capability and this is paying dividends in creating digital capability for our field and customer-facing teams with agility, flexibility and at low cost. Our new voids app which helps us to easily identify unbilled but occupied properties has contributed to a 93,000 reduction in the number of void properties in the year, helping us earn maximum customer ODI reward on voids this year and underpins a further £24 million reward over the AMP.

Haweswater Aqueduct Resilience Programme (HARP)

In November 2020, we successfully completed the replacement of the Hallbank section of the Haweswater Aqueduct, part of a critical asset that delivers around a third of our total water production to 2.5 million people in Cumbria, Lancashire and Greater Manchester. Work to replace the majority of the aqueduct is expected to be undertaken using a direct procurement for customers (DPC) approach and we have been preparing for a DPC tender in 2021/22. If the tender process proceeds as planned, contract award is anticipated in 2023, with construction to begin later in the AMP.

Cash collection

Despite the impact of COVID-19, our overall cash collection has performed well throughout the year. We are encouraged by the continued growth in our direct debit volumes, now at 72 per cent and one of the highest across the industry. Overall, the proportion of customers on a payment plan has continued to increase to 82 per cent despite the challenging economic environment and providing a high level of collection certainty for a significant proportion of the household customer base.

We are recognised as a leader in credit management and collections across all industries, not just water. In the year we have won three external awards for our credit services, most recently winning the Utilities and Telecoms Team of the Year at the 2020 Credit Awards. Our industry-leading approach to collections and innovative affordability offerings have ensured we were well placed to respond to the challenges brought about by the pandemic.

In the current year, we have enhanced our credit reference sharing process to include another agency with a greater high street focus. This has further extended our footprint and will facilitate improvements in our collections activity, and is just one example of our comprehensive approach to collections activity, supporting our ability to collect cash from customers who have the ability to pay, but attempt to avoid doing so.

Affordability

When the country first went into lockdown we saw an increase in demand for affordability support. The initiatives we delivered over AMP6 enabled us to respond efficiently and effectively, with our Payment Break scheme giving over 8,000 customers the breathing space they required.

The nature of the pandemic and the significant impact it is having on customers' lives has meant we have had to consider the appropriateness of continuing our normal billing and collection activities and the most suitable means of engagement. While as an industry we took steps to pause collection activity, our COVID-19 response encouraged customers to contact us if they had been impacted financially by the pandemic and found themselves struggling to pay. We carried out targeted activities aligned to specific customer segments and changes in customer behaviour to engage with customers, actively promoting our range of affordability support, ensuring customers knew they could talk to us about their bill, and highlighting alternative ways to pay. Over the course of the year we sent over 5 million proactive customer communications; a 30 per cent increase on the previous year.

We have an extensive range of schemes available to help customers and around 200,000 are currently benefiting from that help. Recognising affordability has been even more important during the pandemic, we took swift proactive action and were the first water company to secure support and regulatory approval for an extension to the scale and scope of our social tariff, allowing us to support a broader range of customers whose income has been affected by COVID-19. This augments our support schemes this year with an additional £15 million to help customers keep out of debt and was intended to support an additional 45,000 customers who have been furloughed, are claiming through the self-employed income support scheme (SEISS) or are now unemployed, by reducing their water bill to an affordable amount. Through efficient use of the additional £15 million funding secured we were able to support 73,000 customers – 62 per cent more than originally estimated – preventing customers from falling into debt. This additional support meant that in the year we supported 160 per cent more customers via our Back on Track scheme than the previous year. We promoted the new scheme directly to customers, via partner organisations and the Hardship Hub, to increase overall awareness. The £71 million financial support we have committed to providing over AMP7 is the largest of any water company, and we have accelerated payments this year to provide much needed assistance to households struggling as a result of the economic impact of the pandemic.

We continually innovate to further enhance our affordability processes, and we are piloting a first-of-its-kind real-time income verification tool to streamline eligibility for reduced-rate social tariffs. We're proud to be the first water company in the UK to roll out an Open Banking solution for social tariff applications, modernising our income verification. In March 2021 we were the first water company to begin data sharing with the DWP, leveraging the new provisions under the Digital Economy Act, to assist people living in water poverty. We're excited to be able to use these new provisions to continue to proactively provide lower bill support to customers.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
C-MeX	**Above industry median**	Above industry median	🟢	🟢
Additional service measures:				
D-MeX	**Above industry median**	Above industry median	🟢	🟢
Market Performance Standards	**Upper quartile**	Second quartile	🟠	🟢
Operational Performance Standards	**Upper quartile**	Upper quartile	🟢	🟢
Managing complaints:				
Number of household written complaints compared to WASCs	**Upper quartile**	Upper quartile*	🟢	🟢
Speed of resolution	**5 days**	3.5 days	🟢	🟢
Vulnerability:				
Number of households registered for Priority Services	**In excess of 220,000 (7%)**	128,831 (4.1)%	🟢	🟢
BS18477 'Inclusive service provision' certification for Priority Services	**Maintain certification**	Maintained	🟢	🟢
Affordability:				
Number of customers lifted out of water poverty	**66,500**	71,057	🟢	🟢
Helping customers look after water in their home	**10% increase**	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
⚪ Baseline year	⚪ Baseline year

* Latest comparative data available 2019/20

Our performance in 2020/21

Operational performance

BEING PURPOSE-LED

Support for those customers in need

During the last year, many customers have been affected by COVID-19 due to being furloughed or made redundant, and have contacted us for support with their bills.

We've been able to help many customers get back on their feet with flexible payment arrangements or payment breaks. Our Payment Break scheme was used by over 8,000 customers during the early stages of the pandemic. We also donated £3.5 million into our Trust Fund to support financially vulnerable customers.

We had regulatory approval to extend our social tariff to help even more customers impacted by COVID-19, and, as such, we are currently providing financial assistance to more than 200,000 customers – a significant increase on the previous year. Through our Payment Matching scheme, another 15,000 customers became water debt free in 2020/21.

Our Lowest Bill Guarantee scheme was rolled out in September after a successful pilot to ensure customers who choose to have a meter fitted will not pay more than their current charge method. Customers have saved over £4.6 million as a result.

Since creating the North West Utilities Together group at the start of 2020 with Electricity North West, Cadent and Northern Gas Networks, we have been regularly meeting to discuss ways to help those customers in vulnerable circumstances.

As part of this, we have once again joined with Electricity North West in the promotion of our Priority Services registers on paper medicine bags in over 200 pharmacies across our region, and have worked with Electricity North West and Cadent to jointly fund a £50,000 refurbishment of a mobile advice centre for Age Concern Central Lancashire.

The charity launched this new community outreach service in March 2021, one year on from the first national lockdown, in a bid to reach those in need. The mobile advice centre, which is specially designed to be dementia friendly, will offer support and help promote our services to customers in and around the Lancashire area. The three utility companies involved in the collaboration will be giving residents free advice on water and energy efficiency, as well as tips on how to stay safe and warm in their homes.

Suzanne Carr, CEO of Age Concern Central Lancashire, praised the project: "…we are delighted to have formed partnerships with the North West's big three utility companies which in turn means our customers will have access to a full suite of services, and most importantly, will be able to access one-to-one support on a range of important matters from independent living through to seeking help during an energy crisis."

Generating value for:

We have worked with Electricity North West and Cadent to jointly fund a £50,000 refurbishment of a mobile advice centre for Age Concern Central Lancashire.

Our performance at a glance

Employees

Creating a great place to work for all our employees – our employees are the face of the company and we could not deliver our services without them.

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 help keep them motivated.
- Listening to our employees helps 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 health care 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 improving 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.

OPERATIONAL KEY PERFORMANCE INDICATOR

Our annual employee opinion survey provides a mechanism for formal feedback on a number of topics, including employee engagement which is our key performance indicator for employees.

Employee engagement

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

Target
Upper quartile against UK utilities norm.

Status
Achieved/confident of achieving target

Performance
This year we achieved 89 per cent engagement, which is 5 per cent above the UK high performance norm and is the highest engagement score we have achieved while comparatively tracking engagement over the last six years.

- 2020: 84 per cent
- 2019: 81 per cent
- 2018: 79 per cent
- 2017: 75 per cent

READ MORE

Link to material issue

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

Read more about our approach to materiality on page 27

Link to risks

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Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

Staff Outreach Scheme

established to support employees

390

COVID-secure risk assessments undertaken

96%

of our current female workforce recommend United Utilities as an employer

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 throughout the pandemic and have accelerated our digital strategy to support new ways of working. The health and wellbeing of our employees is paramount and keeping them safe remains our primary concern. During the initial lockdown in 2020, we moved 60 per cent of our workforce to home working and the remainder continued working at our COVID-secure facilities. Around 80 per cent of our employees were designated as key workers, delivering our essential services to customers. We have largely continued with business as usual, operating within COVID-19 guidelines and in line with the government roadmap out of lockdown, while defining and shaping the way we will work post-COVID-19 based on the changes in the last year.

Protecting colleagues through the COVID-19 pandemic

During the pandemic, we have facilitated home working for over 3,000 of our employees and are providing support for employees' health, safety and wellbeing while temporarily working at home in extraordinary circumstances. As well as facilitating home working for more than half of our employees, we have introduced a range of measures to ensure those who are still working on sites and in the field are able to do so in a COVID-secure way. We conducted over 390 COVID-secure risk assessments across all our operational sites and carried out a number of control measures to ensure they met the Government's requirements for COVID-secure workplaces. This included temperature checking stations, extra sanitation provisions, safe desks and one-way procedures in offices to ensure social distancing can be maintained. Additional personal protective clothing has been provided and we have adapted new ways of working for our front line field employees. We adapted the way we carry out our mandatory health surveillance checks to virtual assessments and more recently COVID-secure face-to-face assessments.

With the involvement of over 200 trained mental health supporters and wellbeing champions across the business, we have supported the wellbeing needs of our colleagues, delivering initiatives to help build resilience across our workforce. This includes delivery of several bitesize webinars on topics such as mental health, stress control, and managing change to around 2,000 people over 20 webinars. We have been encouraged by the take up of the zero suicide alliance e-learning module which now includes a specific module on COVID-19 and isolation, and have produced new resource packs and initiatives to help our workers through winter. Crucially, we engage regularly with managers, providing awareness of the support services available and how to make best use of them and the widely introduced Wellness Action Plans, to enable managers to have wellbeing conversations with their teams.

We have not furloughed any employees, but we are aware that our employees and their families are not immune from the hardships caused by the economic impacts of COVID-19. Therefore, we have established a staff outreach scheme (SOS) that provides financial support to employees whose families are struggling financially as a direct result of the pandemic.

Committed to equality, diversity and inclusion

We want fantastic people to enable us to deliver a great public service now and into the future, so we are determined to make sure we are reaching and recruiting from every part of our community. We are supporting employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background. Our employee diversity networks, including LGBT+, gender equality, ability and multicultural groups, have a growing membership of 730 people, and play a pivotal role in providing insight, raising awareness and giving support to colleagues. We are committed to creating a diverse and inclusive workforce and so we are delighted to be one of the top 1 per cent of 15,000 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership.

We are working hard to improve how we attract women into the industry, and developing women within our existing workforce. We are seeing good progress with increasing numbers of female graduates and apprentices in our talent pipeline, and 96 per cent of our current female workforce recommend United Utilities as an employer. Following our 2021 AGM, the measurable targets of 33 per cent female representation on the board and one director of non-white ethnicity will be met. We achieved inclusion in the Bloomberg Gender Equality Index, recognising our commitment to gender equality and transparency.

Training and development

Our technical training academy established in February 2014 has provided skills development and certification to over 2,800 people to date, including programmes for those individuals not in education, employment or training (NEETs). Many people have received multiple training opportunities such that in total, around 11,000 technical training sessions have been delivered over that period. We are the only water company currently governed by Ofsted (Office for Standards in Education), with a “good” overall rating.

Ensuring everyone goes home safe and well

Over the last couple of years our health, safety and wellbeing agenda has centred on behaviours and the part they play in accidents and the culture across our organisation. Having spent a number of years focusing on site standards, asset condition, training and personal protective equipment, it was clear from our root cause analysis that behaviours play a key part in many of the accidents we have had. We delivered our 'home safe and well' behavioural safety programme to everyone in the company and we are embedding a culture of looking after ourselves and each other, to ensure we all go home safe and well.

We are seeing improvements in a number of important performance measures, including the number of accidents, the severity of accidents and an increase in hazard and near miss reporting. Our employee accident frequency rate for 2020/21 was 0.094 accidents per 100,000 hours worked, representing a 15 per cent improvement on performance from the prior year. Our contractor accident frequency remained broadly consistent despite an increased workload at the start of AMP7, with 0.087 accidents per 100,000 hours worked, compared to 0.083 last year. Our aim by 2030 is that no one will be harmed while working on our behalf, and we will actively promote, support and improve their wellbeing.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Employee engagement	**Upper quartile against UK utilities norm**	Upper quartile against UK utilities norm	Green	Green
Employee opinion survey diversity and inclusion questions score	**UK high performance norm**	UK high performance norm	Green	Green
Employee opinion survey learning and development category score	**UK utilities high performance norm**	UK utilities high performance norm	Green	Green
Living Wage accreditation	**Secure and retain**	Secured accreditation	Green	Green
Pension Quality Mark +	**Retain accreditation**	Retained	Green	Green
Health and safety:				
AFR employees (per 100,000 hours)	**0.064**	0.094	Green	Green
AFR contractors (per 100,000 hours)	**Year-on-year improvement in score**	0.087	Magenta	Green
Wellbeing Charter accreditation	**Retain accreditation**	Retained	Green	Green

Status key:

Annual performance	Against 2025 target
Green: Met expectation/target	Green: Confident of meeting target
Orange: Close to meeting expectation/target	Orange: Some work to do
Magenta: Behind expectation/target	Magenta: Target unobtainable
Grey: Baseline year	Grey: Baseline year

STRATEGIC REPORT

Our performance in 2020/21

Operational performance

BEING PURPOSE-LED

Employee networks helping us to drive diversity and inclusion

Our aim is to have a workforce that is representative and understanding of our communities and the customers we serve in the North West.

We are committed to driving equality and providing diverse working environments for all our employees. We want our people to feel valued for individual differences, such as social background, disability, gender and sexual orientation.

Our employee networks play a pivotal role in helping us to achieve our aim, providing insight and feedback on our people policies, helping to challenge the status quo, raising awareness, and giving support to colleagues right across the organisation.

With so many colleagues working remotely over the year, our networks worked tirelessly, and creatively. To mark National Inclusion Week, with its theme for 2020 of 'Each One, Reach One', the groups organised training sessions, webinars, interviews and support, and emphasised that it has never been more important to think about the opportunities we all have to connect and inspire each other to make inclusion an everyday reality.

We have four active employee network groups with a growing membership of 730 people. Each network has a lead and an executive sponsor who supports each network to drive change across the business.

Our Gender Equality Network is open to men and women across the company, and works to support, mentor, develop, inspire and promote all employees.

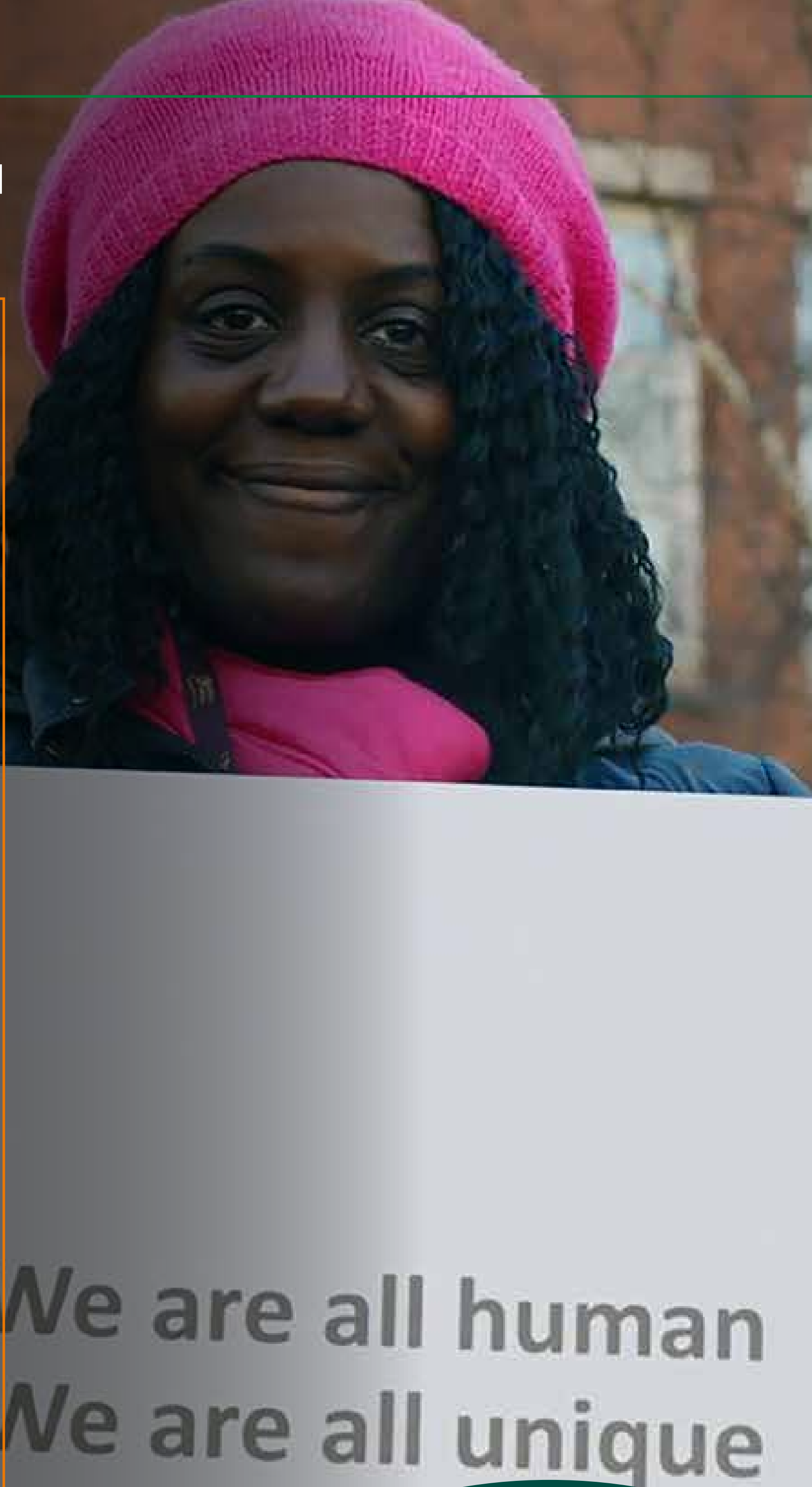
The Identity LGBT+ Network provides a social and support network for LGBT+ employees and those who are LGBT+ friendly, helping to create a safe, inclusive and diverse working environment that encourages respect and equality for all.

Our Ability Network works to bring people with disabilities and long-term conditions together. Its aim is to raise the profile of different disabilities so we can recognise and better support our employees and customers living with those conditions.

The Multicultural Network is about celebrating distinct cultural differences stemming from personal traits such as race, ethnic origin and religion. The group aims to provide a voice to all employees with a multicultural background, and to help ensure everyone feels valued and their talents fully utilised.

More details on what we have done to improve diversity and inclusion can be found on pages 138 to 140

Generating value for:



Our employee networks play a pivotal role in helping us to achieve our aim... helping to challenge the status quo.

Our performance at a glance

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 deliver value to the 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.
- Our accredited environmental management system builds trust with regulators and partners.

Long term

- By promoting campaigns to educate the public and younger generations on water usage, it 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 for indigenous wildlife, as well as protecting 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 environment.

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.

OPERATIONAL KEY PERFORMANCE INDICATOR

The Environment Agency's Environmental Performance Assessment (EPA) of water and wastewater companies in England and Wales comprises a broad range of performance measures on what matters with regard to environmental performance.

EPA

Definition
Environment Agency assessment across six key sector environmental performance measures.

Target
Upper quartile performance within the water industry each year.

Status
Achieved/confident of achieving target

Performance
In the assessment for 2020, we expect to be awarded the maximum 4 star rating, meaning we would be classed by the Environment Agency as an "industry leading company".

- 2019: Joint third
- 2018: Joint second
- 2017: Joint first
- 2016: Joint first

READ MORE

Link to material issue

- Resilience
- Environmental impacts
- Climate change

Read more about our approach to materiality on page 27

Link to risks

1 3 5

Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

15th

consecutive year meeting our leakage target

Zero

serious pollution incidents for the second year running

4 star

rating expected in the EA's Environmental Performance Assessment for 2020

Overview

We are fortunate to have many areas of natural beauty within our region, and these are important in offering health, fitness and wellbeing benefits to local communities and drivers for tourism in the area, as well as being essential for us to deliver our services to customers. It is of great importance we continue to protect and enhance the environment across the North West, and manage our land responsibly to improve the environment in our region for future generations. We delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, increasing our renewable energy production and ensuring zero emissions energy usage. We have agreed an environmental improvement programme to be delivered in AMP7 that will continue to improve the river, bathing and shellfish water quality for the benefit of customers and visitors to the North West as well as society as a whole. Our investment in AMP7 is expected to result in an improvement in water quality in 1,315 kilometres of rivers in the North West. Having completed the first year of the period, we remain on track for the improvements we have committed to.

Leakage reduction

We have beaten our leakage target for the 15th consecutive year and we are now at the lowest ever level of leakage reported in the North West. Our leakage performance improvement has been achieved through a combination of techniques. Alongside satellite technology to geo-locate potential leaks in our network and sniffer dogs to accurately locate the leak, we have deployed 66,000 acoustic loggers since 2019 with a further 29,000 being installed over the next year. We have recruited around 20 per cent additional leakage detection resources, further supported this year by our first intake of apprentices on a bespoke two-year technical training scheme, mitigating the risk of a national shortage in leakage technicians. Over AMP7, we plan to reduce total leakage by at least 15 per cent, with a delivery plan that continues to make best use of available technologies and is flexible to ensure that we can embrace the heightened level of innovation in this area.

Pollution performance

In 2020, we had no serious pollution incidents for the second year running, and have reduced total pollution incidents by almost a third. Here, we are seeing the benefits of delivering the action developed as part of our Pollution Incident Reduction Plan which covers a range of interventions, and for the first time we had no wastewater treatment works classed by the Environment Agency as “failing works”, which is something that has only ever been achieved across the sector once before.

Greenhouse gas emissions and climate change

Carbon reduction ('mitigation') and climate resilience ('adaptation') have influenced both our strategic and operational decisions for over two decades. We have achieved substantial progress over recent years and we have ambitious plans and commitments to go much further.

Carbon reduction – We are signatories to the UN Race to Zero campaign and we are contributing to the UK water industry’s commitment to achieve carbon net zero by 2030. In May 2020 we announced six carbon pledges including the use of science-based targets to reduce our carbon footprint. We have successfully reduced our operational emissions by over 70 per cent in recent years, primarily by investing in our own renewable energy generation capabilities and purchasing green energy from the national grid. We continue to deliver on our commitments to peatland restoration and woodland creation, recently establishing two tree nurseries in the North West. We are also committed to delivering our green fleet strategy and have introduced more low-carbon vehicles and charging.

Our portfolio of renewable energy assets is operating satisfactorily and our investment has delivered the returns that we targeted. Having maximised the opportunities to date and established long-term contracts to secure a proportion of our renewable energy out to 2045, we are now looking at how we can recycle our investment in order to achieve further strong returns and take the next steps in our plans to achieve net zero by 2030.

Climate resilience – In AMP6 we invested an additional £250 million targeted to increase resilience against climate change, and we continue to invest across our business to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further mature our already advanced level of climate risk understanding. We will soon be publishing an overview of our climate risks and plans in our new adaptation report. This will be released in draft for open consultation and engagement before we finalise our submission over the months ahead. Our latest annual statement in support of the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) can be seen on pages 86 to 99, and provides an update on our performance this year.

Natural capital and biodiversity

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 a natural capital ODI in AMP7, which encourages assessment of the added natural capital value we deliver by pursuing nature-based and catchment solutions. Understanding this value will help us drive partnership working and our Catchment Systems Thinking (CaST) approach, which seeks to understand the broader needs of a catchment and deliver outcomes across multiple stakeholders. As part of this approach we have worked with 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. Once completed, we will engage with other partners across the North West to drive a consistent approach in order to drive greater natural capital value. To facilitate this we are seeking to establish a north west governance group for natural capital.

Biodiversity is a key pillar of natural capital and plays an important part in our CaST approach. As the largest private land owner in the UK, and an organisation delivering significant development in the North West, we have committed to no net loss of biodiversity and delivered significant investment in improving the condition of habitats on our land. We are actively reviewing our approach to how we can best manage and enhance biodiversity.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
EA EPA	**Upper quartile**	Upper quartile(1)	Green	Green
Leakage reduction	**15%**(2)	On track	Green	Green
% waste to beneficial use	**98%**	97.3%	Green	Green
Enhancing natural capital for customers	**£4 million**	Delivery scheduled from 2022	Green	Green
Number of trees planted	**500,000**	216,601	Green	Green
Better air quality: nitrogen oxides (NOx) emissions per GWh of renewable electricity generated	**1.42 NOx/GWh**	1.3 NOx/GWh	Green	Green
Climate change mitigation: meeting our science-based reduction target	**14%**	1% increase	Orange	Green
Climate change adaptation: multiple measures	**See TCFD section, pages 86 to 99**			

Status key:

Annual performance	Against 2025 target
Green: Met expectation/target	Green: Confident of meeting target
Orange: Close to meeting expectation/target	Orange: Some work to do
Magenta: Behind expectation/target	Magenta: Target unobtainable
Grey: Baseline year	Grey: Baseline year

(1) For the year 2020, we expect to be awarded the maximum 4 star rating.

(2) As measured against a 2017/18 baseline.

Our performance in 2020/21
Operational performance

The Lancashire-born couple, both from farming backgrounds, have big plans to bring the community into their venture.

BEING PURPOSE-LED

Young couple breathe new life into farmland

Much of our land is managed on our behalf by tenant farmers, who do a great job of handling it in a way that supports our water quality and environmental goals.

Through our Sustainable Catchment Management Programme (SCaMP) and Catchment Systems Thinking (CaST) approach we have a long history of protecting and enhancing the water environment, with wildlife and biodiversity enhancement as key drivers.

During the year, Bradleys Farm, a 103-acre smallholding on the edge of Rivington Village, became vacant and our land management team decided to package the farm as an exciting opportunity, suitable for young farmers interested in a 'starter farm'.

The farm sits within the West Pennine Moors Site of Special Scientific Interest and is included in the Government's Higher Level Stewardship Scheme to promote environmentally beneficial management.

Following enquiries from all over the country and lots of interesting ideas as to how the farm could be run, the farm has been let to Arron Parker and his partner Gemma Coar. The Lancashire-born couple, both from farming backgrounds, have big plans to bring the community into their venture.

They're planning to organise walks and provide educational visits for the public on farming, conservation, ecology and water quality as the farm is a gateway site for the main Rivington reservoirs and associated recreational walks.

"An added aim of our management of the farm is to maintain and improve areas for visitors to enjoy", said Gemma. "As tenants, we have these goals at the forefront of our farming enterprise and land management proposals."

Arron and Gemma can't wait to get started: "We both worked closely alongside my parents at their family farm for many years", said Gemma, "but have always dreamed of managing our own family farm. This is our dream come true. We're able to manage our own farm, close to family and friends, in the beautiful area of Rivington. Our children can grow up in a wonderful place of open space and countryside and we have our lives ahead to plan, enjoy and grow."

Generating value for:

Our performance at a glance

Investors

Delivering a sustainable return to investors – through prudent financial risk management and a strong track record of performance across all components of ESG.

How we deliver value to investors

Short term

- Since many of our shareholders 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, building trust and confidence in what we report.
- Our innovation culture drives continuous improvements, enabling us to be at the frontier of our industry and ahead of peers.

Long term

- Our shareholders have placed their money into our business as a long-term investment and we provide an appropriate return 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 the sustainability of the business and the services we provide.
- We manage risk prudently so investors can have confidence in our stability and resilience in the round.
- We link investors' return 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 shareholder return.

By reducing costs in a sustainable way through innovation and efficiency, we can target outperformance of 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.

READ MORE

Link to material issue

- Customer service and operational performance
- Political and regulatory environment
- Financial risk management

Read more about **our approach to materiality** on page 27

Link to risks

6 10

Read more about **our principal risks** on pages 104 to 107

OPERATIONAL KEY PERFORMANCE INDICATOR

Return on Regulated Equity (RoRE) expresses the return the company has managed to earn above and beyond expectations set by the regulator through financial and operational performance.

Return on Regulated Equity

Definition

Key measure encompassing regulatory out/under performance across financial and operational efficiency, customer satisfaction, and regulatory performance targets.

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

Performance

2020/21 reported RoRE was 4.3 per cent on a real, RPI/CPIH blended basis, mainly comprising 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), financing outperformance of 1.2 per cent and customer ODI outperformance of 0.3 per cent as a result of our year one net reward of £21 million.

Our totex performance of -0.3 per cent represents the year one impact of the £300 million additional totex which provides benefits that are not all reflected in RoRE. Retail performance of -0.3 per cent reflects a small overspend this year in adapting to the effects of COVID-19 and tax performance of -0.5 per cent reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020 (which will be recovered through the tax sharing mechanism), and the tax impact of our strong financing outperformance.

Our underlying RoRE is higher at 4.8 per cent and is adjusted for the tax impact that will be recovered through the tax sharing mechanism and the additional totex that drives better outcomes against future customer ODIs.

This is a new measure for the 2020-25 period hence no prior year comparators. These will be provided from 2021/22 onwards.

Our performance in 2020/21

Operational performance

£21m

net customer ODI reward for 2020/21

£300m

extension to our AMP7 totex plan

Leading

water utility in Sustainalytics ESG Risk Rating assessment

Overview

Our investment strategy and digital transformation, underpinned by our pioneering Systems Thinking approach, is delivering significant performance improvement and efficiency. This has been our best year of operational performance for customers and the environment, manifesting itself in a net reward against our customer ODIs for the year of £21 million. Since accepting our AMP7 final determination, we have increased our totex plan by a further £300 million, all of which we expect to be remunerated through regulatory mechanisms, and we continue to accelerate our overall AMP7 investment programme to deliver benefits sooner and boost the regional economy as we emerge from the worst effects of COVID-19. We have delivered another robust year of financial performance and we are raising finance effectively, locking in rates favourable to the price review assumptions and leveraging our strong ESG credentials.

Total expenditure (totex)

Our AMP7 business plan was assessed by Ofwat as being among the most efficient in the sector. Thanks to the strong performance we delivered in AMP6, we started AMP7 at the target totex run rate and we are confident that we can deliver our AMP7 scope within our final determination totex allowance. Our investment strategy delivers long-term sustainable performance improvements and efficiency and our AMP7 totex plans will be extended by around £300 million, which we expect to be fully remunerated through regulatory mechanisms, with this investment extending our environmental programme, accelerating our digital transformation and exploiting spend to save opportunities.

In this first year of AMP7, we have invested £617 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure (IRE)), representing the continued acceleration of our AMP7 investment programme and early expenditure against the £300 million extension to our original totex plans. This represents a good start to the delivery of our AMP7 programme, benefiting from the early start and transition investment we made in 2019/20 and our ability to continue working, where it was safe to do so, during the COVID-19 pandemic. As a consequence, 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.

While we continue to seek efficiencies in the delivery of totex, as we have demonstrated through the £300 million extension to our totex plans, 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)

Our digital transformation and investment strategy are delivering improved performance and we have made a strong start to AMP7, achieving a £21 million net customer ODI reward for 2020/21. This is ten times the net reward we achieved in the first year of AMP6 and is particularly pleasing in light of the tougher targets we have set.

The earlier 'Customers' section provides more detail on the customer ODIs where we are performing well and others where the targets for AMP7 are challenging. We see opportunities across a number of ODI targets, and our Systems Thinking approach, including new digital capability driven by Dynamic Network Management (DNM), increased use of data and analytics within our retail function, coupled with early investment, have and will continue to help us drive performance improvements.

Unlike AMP6, ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore any net reward earned this year will be reflected in an increase to revenues earned in 2022/23 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism. Overall, we are targeting a cumulative net ODI reward over the 2020–25 period of around £150 million, a significant improvement on the £44 million achieved in the previous regulatory period.

Financing

On financing performance, 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 already locked in for AMP7 compare favourably with the price review assumptions.

In November 2020, we published our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials and replacing the green funding that we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit. In January 2021, we issued our debut sustainable bond, generating a huge amount of interest for the company and our ESG credentials and delivering a coupon of 0.875 per cent. This is not only our lowest ever coupon at this maturity, locking in financing outperformance, but also the lowest ever coupon for any UK corporate at this maturity.

ESG performance

We perform well across a broad range of ESG indices and for 2021 we attained World Class status on the Dow Jones Sustainability Index for the 14th consecutive year. In April 2021, we were ranked 6th out of 613 global utilities in the Sustainalytics' ESG Risk Rating assessment, positioning us as the leading water utility in the index. We achieved a score of A- from the CDP which evaluates how companies assess climate change-related financial risks and opportunities, including their approach to transparency and disclosure. We were assessed by the Environment Agency (EA) as the best performing company on pollution for the second year in a row with no serious pollution incidents and we expect to be awarded industry-leading 4 star rating in the EA's Environmental Performance Assessment for 2020. From an employee perspective, we achieved a significant improvement in the Workforce Disclosure Initiative, scoring well above the overall average and receiving special recognition in the 'COVID-19 transparency' category at its Workforce Transparency Awards.

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
RoRE	**Assessed annually**	4.3%	●	●
UK Corporate Governance Code	**Maintain compliance**	Compliant	●	●
Maintain performance across a range of trusted investor indices	**Upper quartile**	Upper quartile	●	●
Credit rating UUW (Moody's, S&P, Fitch)	**A3, BBB+, A-**	A3, BBB+, A- (stable outlook)	●	●
Gearing	**55–65%**	62%	●	●
Maintain sustainable finance framework	**Available/ continued issuance**	Available	●	●
Fair Tax mark	**Retain annual accreditation**	Retained	●	●
Sustainable dividend	**Grow by CPIH**	In line with commitment	●	●
Risk maturity	**Year on year improvement**	Met expectation	●	●
Anti-bribery: % of identified employees completing required training	**100%**	94%	●	●
Investor engagement: % met or offered to meet by value (active targetable institutional shareholder base)	**75%**	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
● Baseline year	● Baseline year

Our performance in 2020/21
Operational performance

BEING PURPOSE-LED

Our sustainable finance framework

Linking investment to our ESG goals.

Historically, the European Investment Bank funded much of our environmental programme, but following Brexit this funding is no longer available. We were keen to offer a wider range of investors a similar ability to more directly link their investment in us to our environmental and sustainability goals.

In November we formally launched our sustainable finance framework. Dovetailing well with our long-standing and comprehensive ESG strategy, the framework allows us to more clearly demonstrate how investment in our business makes a positive impact on the North West's environment and society in which we live and operate.

Our 'use of proceeds' based framework follows market principles set out by the International Capital Market Association and the Loan Market Association, covering issuance in both bond and loan format. Second-party opinion was provided by Sustainalytics and was assessed to be 'credible and impactful'.

Our framework sets out eight eligible categories of environmental and social spend that can be funded, covering a wide range of areas from core activities such as 'sustainable water and wastewater management' to other more targeted areas such as 'clean transportation' and 'access to essential services'.

Following two days of engagement with institutional investors, our first sustainable bond was issued in January 2021, becoming, at the time, the lowest ever 8yr+ GBP corporate nominal coupon. The £300 million bond was oversubscribed by more than three times and attracted notable new investors to the company.

This additional debt finance option has provided value to both us and investors, and we look forward to giving additional insight into the projects funded through sustainable finance in our allocation and impact reports to be released in 2021.

You can find out more about our sustainable finance framework on our website: unitedutilities.com/corporate/investors/credit-investors/sustainable-finance

Generating value for:

The framework allows us to more clearly demonstrate how investment in our business makes a positive impact on the North West's environment and society.

Our performance at a glance

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 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

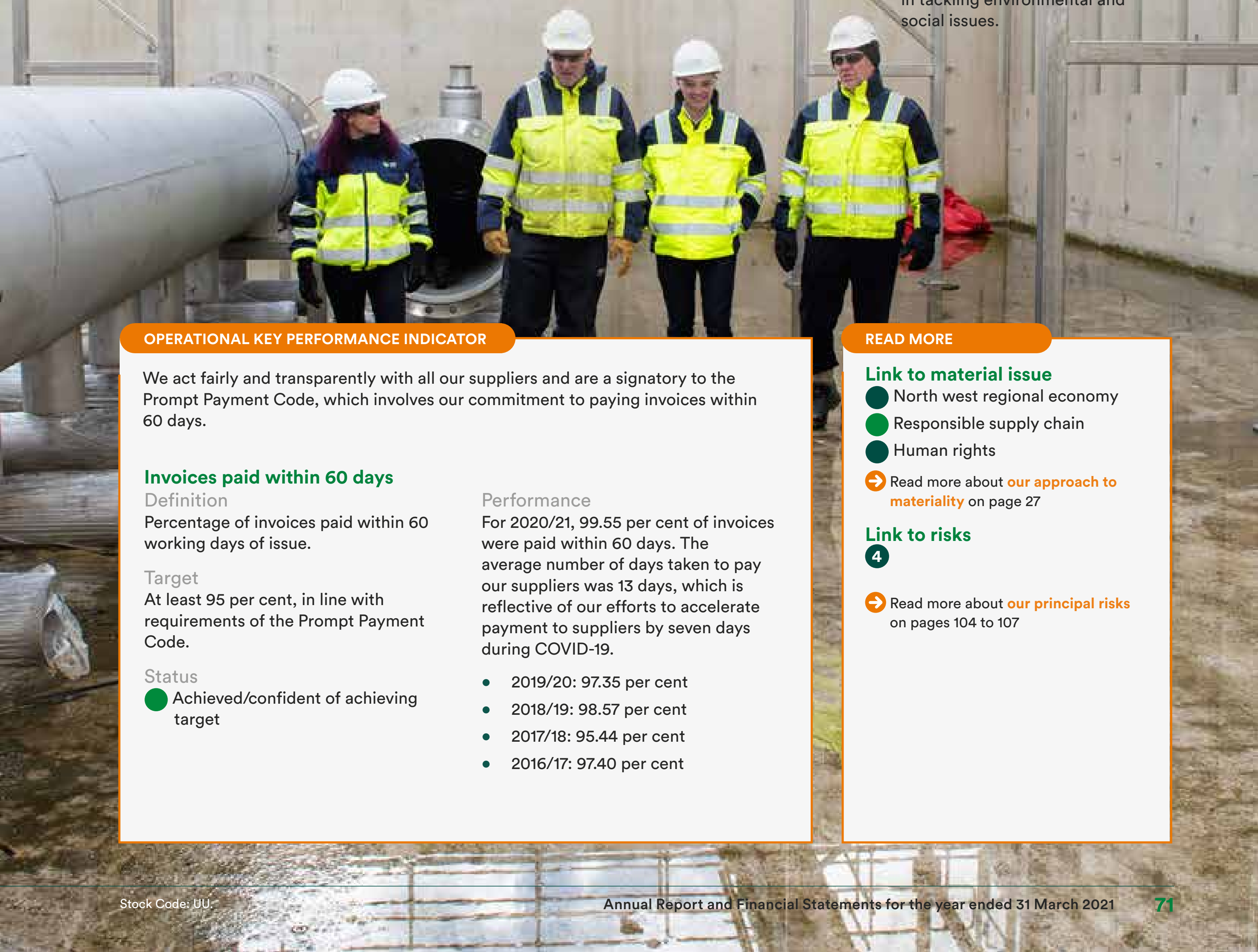
- Supporting jobs through our supply chain in the short term catalyses the development of skills and jobs in the North West, providing a stimulus to benefit the regional economy in the long term.
- Working together to develop innovations and new technologies means we can identify solutions that will 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

Working on our behalf, suppliers are a face for our business. 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 sustainably low cost for customers.

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



OPERATIONAL KEY PERFORMANCE INDICATOR

We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, which involves our commitment to paying invoices within 60 days.

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 requirements of the Prompt Payment Code.

Status

Achieved/confident of achieving target

Performance

For 2020/21, 99.55 per cent of invoices were paid within 60 days. The average number of days taken to pay our suppliers was 13 days, which is reflective of our efforts to accelerate payment to suppliers by seven days during COVID-19.

- 2019/20: 97.35 per cent
- 2018/19: 98.57 per cent
- 2017/18: 95.44 per cent
- 2016/17: 97.40 per cent

READ MORE

Link to material issue

- North west regional economy
- Responsible supply chain
- Human rights

Read more about our approach to materiality on page 27

Link to risks

4

Read more about our principal risks on pages 104 to 107

Our performance in 2020/21

Operational performance

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 play a part in helping to generate jobs and income for the north west economy at a critical time as the country emerges from the worst effects of the COVID-19 pandemic. Suppliers play an important role in maintaining supply for key parts of our business, and contractors, as well as direct employees, act as the face of our business for many customers and communities. The pandemic has shown the importance of our relationship with our supply chain partners. We have continued to work closely with our supply chain and issued guidance reinforcing government guidelines to protect employees, suppliers and customers while maintaining delivery of critical services.

'Better together' through United Supply Chain

In November 2020 we successfully launched our new approach to responsible supply chain management for AMP7 called United Supply Chain (USC). USC recognises suppliers as an extension of the United Utilities family and suppliers are asked to become signatory to our responsible sourcing principles as a minimum. Those suppliers who are integral to our operations we encourage to become leaders and to work jointly with us to deliver improvements across environmental, social and governance areas and improve value to customers. At the end of March 2021 we had signed 38 per cent of our targeted suppliers to our responsible sourcing principles and continue to pursue the remaining suppliers to reach our target of 100 per cent. Via our partnership with the Supply Chain Sustainability School we have been able to offer both our commercial colleagues and supply chain partners free resources to learn more about the responsible sourcing principles.

Innovation in action

Our Innovation Lab programme is designed to "look for ideas where others aren't looking" – in other sectors, other countries and with suppliers that are often small, start-up businesses, just starting on their idea development or business growth journey. It does all this whilst being fully compliant with procurement legislation – allowing for rapid idea testing and idea 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 United Utilities adoption faster than traditional product testing. We have worked with 23 suppliers in this way, and our highest profile success is with FIDO (tackling leakage detection in our Lab 2 programme). FIDO is becoming known as a disruptor in the global water sector, and we have first mover advantage on new developments.

We are part-way through our third Innovation Lab programme; we have published four high level problems and encouraged innovative solutions from around the world. Over 120 supplier applications have been reviewed by our experts and we have selected eight suppliers with high potential ideas; with our help, they could offer a performance step change across a range of areas from helping us to reduce our carbon footprint and be more self-sufficient on energy, to predicting asset failures before they occur. All ideas support our Systems Thinking ambitions, most are digitally-centric, and half are new entrants to the UK water sector.

17,700

jobs supported by our activities

120

supplier applications reviewed as part of our third Innovation Lab programme

OTHER PERFORMANCE INDICATORS

Measure	2025 target	2020/21 performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Invoices paid within 60 days	**At least 95%**	99.55%	Green	Green
Average time taken to pay invoices	**<28 days**	13	Green	Green
% suppliers in high risk categories, as identified by sustainability risk assessments, covered by enhanced due diligence audits	**5%**	Delivery scheduled from 2021	Green	Green
% of partner and strategic suppliers that have sustainability risk assessment in place	**75%**	35%	Green	Green
Supplier Relationship Management score	**90%**	69%	Amber	Green
% of targeted suppliers signed up to United Supply Chain	**100%**	38%	Green	Green
CIPS ethical mark	**Retain annual accreditation**	Retained	Green	Green
Savings delivered through innovation and efficiency	**£40 million**	£3.9million	Green	Green

Status key:

Annual performance	Against 2025 target
Green: Met expectation/target	Green: Confident of meeting target
Amber: Close to meeting expectation/target	Amber: Some work to do
Pink: Behind expectation/target	Pink: Target unobtainable
Grey: Baseline year	Grey: Baseline year

BEING PURPOSE-LED

Working better together

Having an integrated culture throughout our supply chain is fundamental to the successful delivery of our strategic aims.

This means extending our values beyond our own business and into the supply chain, recognising it as an extension of our operations and commitments, delivering critical services to our region and providing great water and more for the North West.

United Supply Chain (USC) is a fundamental step change in the way we are looking to engage and work with our suppliers through AMP7, and into AMP8 – replacing the previous Sustainable Supply Chain Charter used through AMP6. USC is centred on using our responsible sourcing principles to create a high-quality supply chain and provide suppliers with a way of enhancing their performance in the North West and beyond. We believe that operating and procuring in a responsible manner will mitigate risk, build resilience, improve compliance and ultimately deliver better value for customers.

In November 2020, as part of our launch of USC, we held our first digital supplier event, with senior leaders from across the business sharing their role in helping us to achieve our company's vision of being the best UK water and wastewater company.

A variety of supplier engagement activities followed, and we are now in the process of signing up 100 per cent of all targeted suppliers to our responsible sourcing principles. We will then be surveying suppliers to capture our progress and successes, and to identify new ways that we can work better together.

Since 2016, we have had a strong relationship with the Supply Chain Sustainability School, and the launch of USC has seen them partner us on our journey to embed best practice across our business and broader supply chain. This collaboration allows our suppliers direct access to the latest thinking and training in responsible sourcing. Recent insightful workshops have covered carbon and modern slavery – with the latter leading to us enhancing key internal documents to align to best practice.

'Pride in the workplace' training by The Proud Trust provided education on diversity and inclusion, another key theme of our USC roll-out. Ensuring that learning gained from this training is replicated internally and throughout our supply chain will be key to helping us embed USC.

We will be showcasing more examples of collaborative working on our USC supplier web pages, as we work to create, adopt and develop better practice across our delivery chain.

Generating value for:

USC is centred on using our responsible sourcing principles to create a high-quality supply chain and provide suppliers with a way of enhancing their performance in the North West and beyond.

Our performance in 2020/21

Financial performance

Our performance at a glance

We have delivered against our financial key performance indicators this year, reflecting a year of robust financial performance.

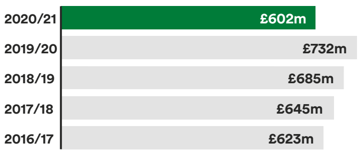
Robust financial performance backed by a strong balance sheet

- Underlying profit after tax[1] of £383 million down 21 per cent, in line with expectation.
- Customer debtor position and household cash collection remain strong.
- Strong balance sheet; A3 stable credit rating with Moody's.
- Pension schemes fully funded on a low-dependency basis.
- AMP7 dividend policy of growth in line with CPIH inflation.

Financial key performance indicators

Underlying operating profit[1]

£602m



Definition

The underlying operating profit measure excludes from the reported operating profit any significant non-recurring items. The group determines adjusted items in the calculation of its underlying operating profit measure by reference to a framework that 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 recurrence, and its volatility, which is either outside of the control of management and/ or not representative of the current year performance. A reconciliation is shown on pages 82 to 83.

Link to remuneration, bonus/LTP

Bonus – direct, LTP – indirect

Status

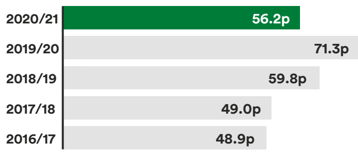
Close to achieving expectation/ target but more work to be done

Performance

Underlying operating profit of £602 million was down £130 million, largely reflecting lower revenue in the first year of the new price control and higher infrastructure renewals expenditure (IRE), as a result of ongoing work to optimise performance.

Underlying earnings per share[1]

56.2p



Definition

This measure deducts underlying net finance expense, underlying share of joint venture losses and underlying taxation from underlying operating profit to calculate underlying profit after tax and divides this by the average number of shares in issue during the year. Underlying net finance expense makes adjustments to the reported net finance expense, including stripping out fair value movements. Underlying taxation strips out deferred tax (including any tax credits or debits arising from changes in the tax rate from reported taxation) or any exceptional tax. Reconciliations to the underlying measures above are shown on pages 82 to 83.

Link to remuneration, bonus/LTP

LTP – indirect

Status

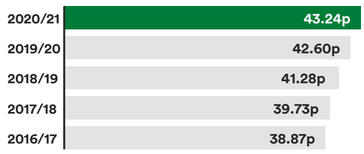
Met expectation/target

Performance

Underlying earnings per share was down 15.5 pence at 56.2 pence due to the decrease in underlying operating profit partly offset by a lower underlying net finance expense due to lower RPI inflation on our index-linked debt.

Dividend per share

43.24p



Definition

This measure divides total dividends declared by the average number of shares in issue during the year.

Link to remuneration, bonus/LTP

LTP – indirect

Status

Met expectation/target

Performance

The board has proposed an increase in the dividend of 1.5 per cent taking the total dividend for the year to 43.24 pence per share, in line with our AMP7 policy of targeting growth in line with CPIH inflation.

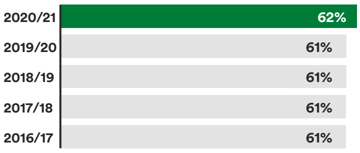
(1) Underlying measures are defined in the tables on pages 82 to 83 and reflect a change in approach to alternative performance measures (APMs) with prior year numbers re-presented for comparability

(2) March 2021 gearing based on new definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments, with prior year numbers re-presented for comparability

Notes:
Note 1: For both our operational and financial KPIs, where we have declared external targets we assess our performance against the most recent public targets. Where there are no externally declared targets we assess our performance against our internal budget; however, our internal budget is not disclosed.
Note 2: In some instances the remuneration committee has used metrics with similar names but calculation methodologies which they consider more appropriate for executive remuneration, as set out in the remuneration report on pages 160 to 189.

Gearing: net debt to RCV[2]

62%



Definition
Group net debt divided by United Utilities Water Limited's (UUW) shadow (adjusted for actual spend) regulatory capital value (RCV).

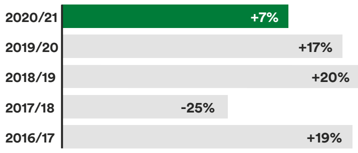
Target
Maintain gearing with a range of 55 per cent to 65 per cent.

Status
Met expectation/target

Performance
Our gearing at 62 per cent is marginally higher this year but remains within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating.

Total shareholder return

+7%



Definition
This measure calculates the return to shareholders based on the movement in share price plus dividends over each financial year.

Link to remuneration, bonus/LTP
LTP – direct

Status
Met expectation/target

Performance
Our total shareholder return was 7 per cent over the year to 31 March 2021.

Low dependency pension scheme

£nil

deficit repair contributions

This is a new measure for the 2020–25 period hence no prior years' comparators. From 2021/22 onwards comparators will be provided.

Definition
Fully-funded defined benefit pension schemes on a low -dependency basis.

Status
Met expectation/target

Performance
Our pension scheme has minimal reliance on the company in order to meet all of its liabilities – in other words, we have achieved low dependency as defined in The Pensions Regulator's defined benefit funding consultation published in March 2020. We have no further deficit repair contributions to make, a position we do not expect to change given our approach to hedging market risk.

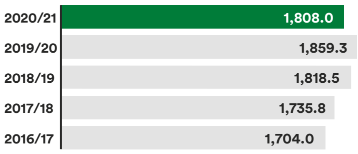
KPI STATUS KEY

- Met expectation/target
- Close to meeting expectation/target
- Behind expectation/target
- Baseline year

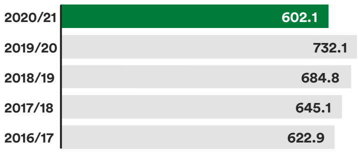
Our performance in 2020/21

Financial performance

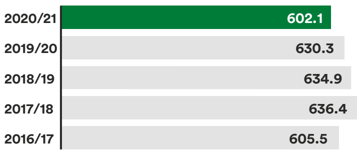
Revenue



Underlying operating profit[1]



Reported operating profit



RCV gearing[2]

62%

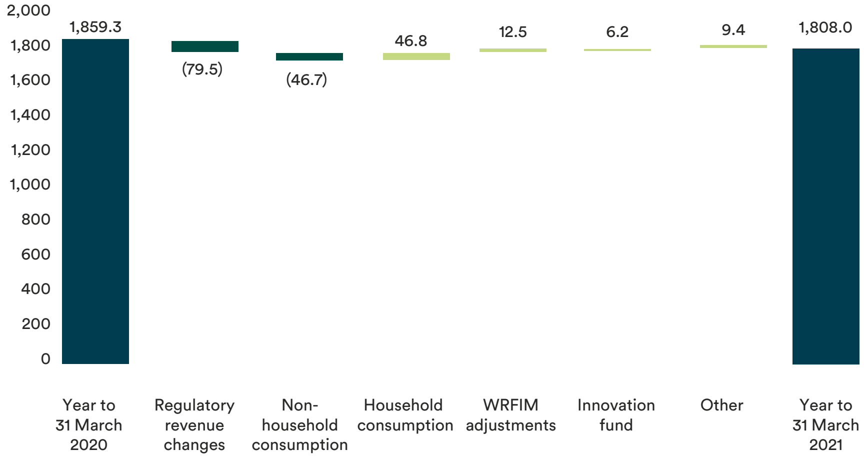
Total dividend per ordinary share (pence)

43.24

(1) We have changed our approach to alternative performance measures (APMs) during the year, with prior year numbers restated for comparability. A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 82 to 83.

(2) Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited shadow RCV (out-turn prices).

Revenue

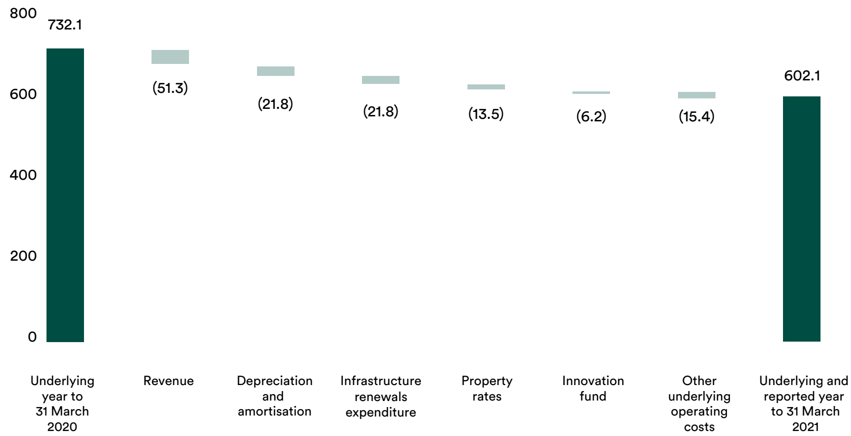


Revenue was down £51 million, at £1,808 million, largely reflecting the £80 million reduction from the new pricing regime in this, the first year of AMP7, incorporating a 5.5 per cent real reduction in typical household bills and a 1.5 per cent CPIH-linked increase.

The impact of the COVID-19 pandemic and related lockdown periods has seen non-household revenue decrease by £47 million, with an increase in household revenue of £47 million as a result of more time spent at home and the hot, dry weather in spring 2020.

Revenue in 2020/21 includes £6 million in relation to the Innovation in Water Challenge Scheme. This is a new scheme introduced by Ofwat in AMP7, and therefore did not apply last year, and is intended to fund industry-wide innovation projects. In 2020/21, we have provided for £6 million of offsetting costs with the balance of revenue and costs as the scheme matures in future years dependent upon how successful companies are in bidding for funds.

Operating profit



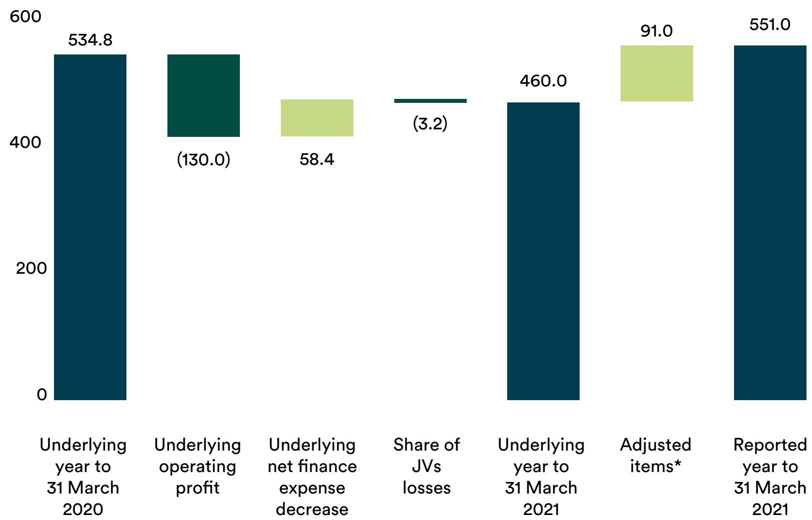
* Adjusted items are set out on pages 82 and 83

Underlying operating profit[1] at £602 million was £130 million lower than last year. This principally reflects the £51 million reduction in revenue, and also a £22 million increase in IRE as a result of ongoing work to optimise the performance of our network. Depreciation is £22 million higher, principally reflecting the higher capex programme in AMP6 with a high number of assets commissioned towards the end of the AMP. In the near term we would expect depreciation to flatten out, reflecting the lower AMP7 capex programme. Property rates are £14 million higher this year, largely reflecting a rates refund received last year. We have accrued £6 million of costs in 2020/21 in relation to the Innovation in Water Challenge Scheme mentioned above, along with £13 million of extra COVID-19 related costs (including a £5 million increase in the underlying bad debt charge), which have been absorbed within our cost base and which have not been treated as adjusted items when calculating our underlying operating profit.

Reported operating profit was £28 million lower than last year, reflecting the decrease in underlying operating profit partially offset by a decrease in adjusted items. As a result of the changes we have made to alternative performance measures, we will no longer, as a matter of course, adjust for restructuring costs to derive underlying operating profit and therefore we do not have any adjusted items in the year to 31 March 2021, with prior year numbers re-presented for comparative purposes. Adjusted items totalling £102 million were made in the full year to 31 March 2020, comprising £83 million of accelerated depreciation of bioresources assets that had been taken out of use and £19 million in relation to provisions for the anticipated impact of COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills. These adjusted items can also be found on pages 82 to 83 and more detail can be found in our announcement of results for the year to 31 March 2020.

Household bad debt is 2.2 per cent of regulated revenue, representing a marginal increase of £5 million on the underlying bad debt cost in the prior year, reflecting the ongoing uncertainty associated with the third lockdown and taking into account expected cash collection into the future, as government support unwinds in the coming months.

Profit before tax



* Adjusted items are set out on pages 82 and 83

Underlying profit before tax[1] was £460 million, £75 million lower than last year. This reflects the £130 million reduction in underlying operating profit, and an increase in the share of underlying losses of joint ventures of £3 million, partly offset by a £58 million decrease 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 increased by £248 million to £551 million, reflecting the £28 million reduction in reported operating profit and the £3m increase in the share of underlying losses of joint ventures, more than offset by a £210 million reduction in reported net finance expense (including fair value movements), a £37 million profit on the disposal of our Tallinn joint venture and the impact in the prior year of our £32 million share of Water Plus losses arising as a result of COVID-19.

Net finance expense

The underlying net finance expense of £133 million was £58 million lower than last year, on a consistent basis. Interest of £83 million on non-index linked debt was £13 million lower than last year due to lower rates locked in on debt and associated swaps. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £54 million, compared with a net charge of £100 million last year.

Reported net finance expense of £79 million was £210 million lower than last year, principally reflecting a £151 million increase in the fair value gains on debt and derivative instruments, from a £76 million loss in the prior year to a £74 million gain in the current year, and lower inflation applied to our index-linked debt.

Joint ventures

On 31 March 2021, the group completed the disposal of its stake in the Tallinn Water joint venture for consideration of EUR 100.3 million (£85.3 million) and a total recognised profit on disposal of £37 million. Given its material and atypical nature, this profit on disposal has been excluded from underlying results.

For the year to 31 March 2021, we recognised £14 million losses in the income statement relating to our joint venture Water Plus, comprising £9 million of our share of Water Plus's underlying losses for the year and £5 million of previously unrecognised share of losses. At 31 March 2021 there was a clear expectation that the £32.5 million revolving credit facility extended to Water Plus would be converted into additional equity share capital, and as a result share of losses are recognised against this capital, this includes recognition of any previously unrecognised losses. The transaction to convert the £32.5 million revolving credit facility was subsequently executed on 23 April 2021.

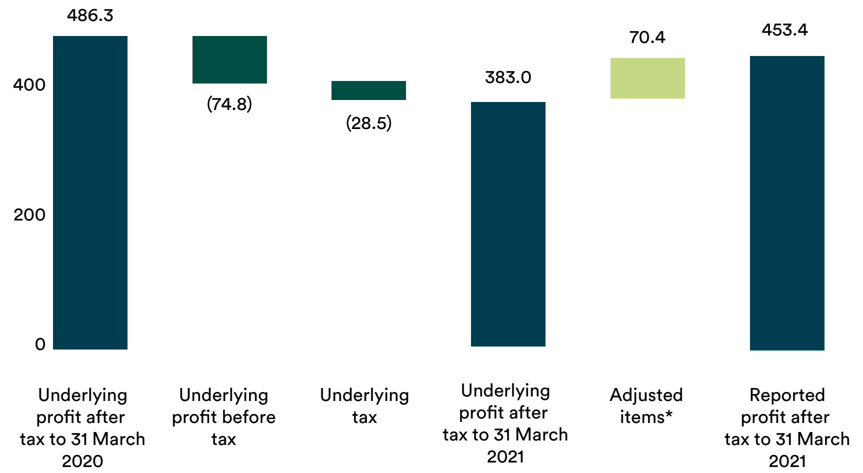
For the year to 31 March 2020, we recognised £51 million losses in the income statement relating to our joint venture Water Plus, comprising £14 million of our share of Water Plus' underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19, as well as a £5 million allowance for expected credit losses. As a result, our long-term interest in Water Plus was written down to £nil. A further £5 million of our share of Water Plus' underlying losses were not recognised in the income statement.

Our £9 million underlying share of losses of joint ventures in the year to 31 March 2021 comprises a £5 million share of profits from Tallinna Vesi AV, more than offset by a £14 million share of losses from Water Plus.

Our performance in 2020/21

Financial performance

Profit after tax and earnings per share



* Adjusted items are set out on pages 82 and 83

Underlying profit after tax[1] of £383 million was £103 million lower than last year, and underlying earnings per share decreased from 71.3 pence to 56.2 pence, principally reflecting the £75 million reduction in underlying profit before tax and a £28 million higher underlying tax charge largely due to the pension deficit repair payment we made last year.

Reported profit after tax increased by £347 million to £453 million, and reported basic earnings per share increased from 15.7 pence to 66.5 pence, principally reflecting the £248 million increase in the reported profit before tax and a £99 million decrease in the reported tax charge primarily as a result of a £136 million deferred tax adjustment for the change in tax rate reflecting the Government's reversal of the planned reduction in the rate of corporation tax recognised in the prior year.

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 second 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 5,000 strong workforce. The total payments for 2020/21 were around £258 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 2020/21, we paid corporation tax of £75 million, which represents an effective cash tax rate on underlying profits of 16 per cent, which is 3 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 and also, in the prior year, pension payments – these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

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.

As well as the payments we also received a repayment of corporation tax of £27 million following agreement of routine prior years' UK tax matters.

The current tax charge was £80 million in 2020/21, compared with £51 million in the previous year. There were current tax credits of £1 million in 2020/21 and £12 million in 2019/20, following agreement of prior years' UK tax matters.

For 2020/21, the group recognised a deferred tax charge of £18 million, compared with £158 million for 2019/20. Of the deferred tax charge for 2019/20, £136 million related to the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020. Excluding the above change in tax rate related deferred tax adjustment in the prior year and the current year non-taxable profit on the disposal of the joint venture investment in AS Tallinna Vesi, the total effective tax rate was around 19 per cent for both the current year and the prior year. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to be in line with the headline rate of corporation tax for the medium term.

In 2020/21, there are £31 million of tax adjustments taken to equity, 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.

An increase in the headline rate of corporation tax to 25 per cent from 1 April 2023 was announced in the Chancellor's Budget on 3 March 2021. This change has been enacted in May 2021, and will result in a future deferred tax charge currently estimated at around £380 million.

Dividend per share

The board has proposed a final dividend of 28.83 pence per ordinary share in respect of the year ended 31 March 2021. Taken together with the interim dividend of 14.41 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2020/21 of 43.24 pence. This is an increase of 1.5 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 inflationary increase of 1.5 per cent is based on the CPIH element included within the allowed regulated revenue increase for the 2020/21 financial year (i.e. the movement in CPIH between November 2018 and November 2019).

The final dividend is expected to be paid on 2 August 2021 to shareholders on the register at the close of business on 25 June 2021. The ex-dividend date is 24 June 2021.

Cash flow

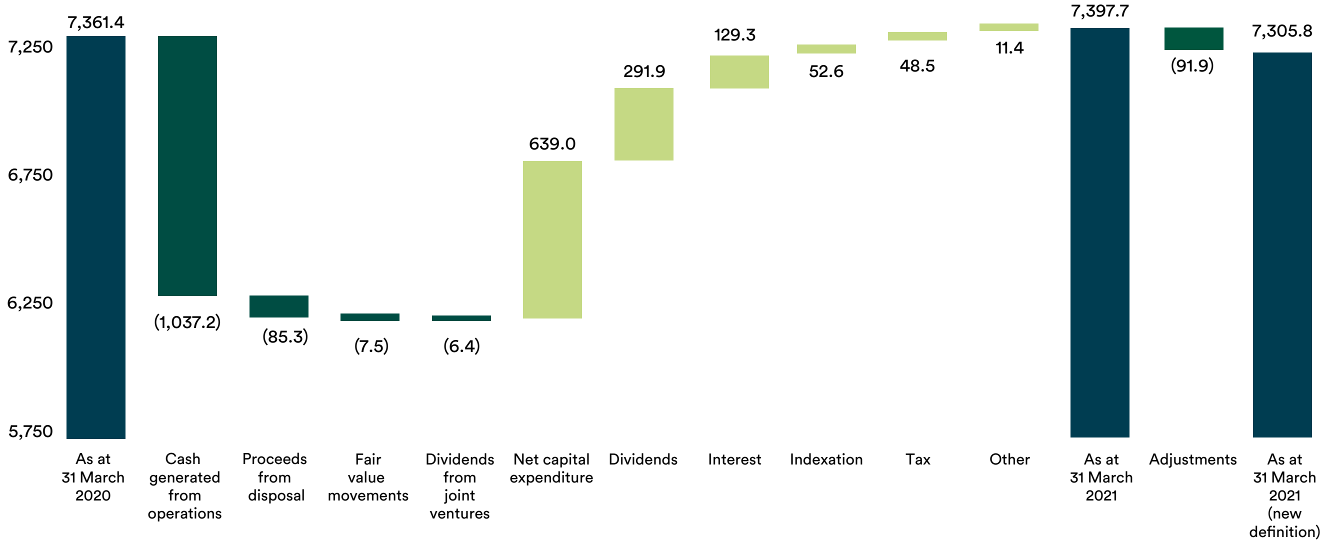
Net cash generated from continuing operating activities for the year to 31 March 2021 was £859 million, broadly consistent with £810 million last year. The group's net capital expenditure was £639 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost. Cash flow capex differs from regulatory capex, since the latter is based on capital work done in the period, rather than actual cash spent.

Pensions

As at 31 March 2021, the group had an IAS 19 net pension surplus of £689 million, compared with a net pension surplus of £754 million at 31 March 2020. This £65 million decrease is predominantly due to the unwinding of a spike in credit spreads at 31 March 2020 due to COVID-19 that resulted in a temporary decrease in the valuation of liabilities. 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 and is hedged for inflation and interest rates. Any inflation and credit spread movements are therefore not expected to have a material impact on the pension liabilities calculated on a scheme-specific funding basis.

Financing

Summary of net debt movement



The group's gross borrowings at 31 March 2021 had a carrying value of £8,452 million. The fair value of these borrowings was £9,855 million. This £1,403 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has increased from £471 million at 31 March 2020 due primarily to a decrease in credit spreads.

Cash and short-term deposits at 31 March 2021 amounted to £744 million.

Net debt at 31 March 2021 was £7,306 million, compared with £7,361 million at 31 March 2020. This comprises gross borrowings of £8,452 million and derivative liabilities of £115 million net of cash of £744 million and derivative assets of £425 million. This is then adjusted to exclude derivatives with a net liability of £92 million under our revised definition of net debt to exclude the impact of derivatives that are not hedging-specific debt instruments and therefore gives a fairer reflection of the amount we are contractually obliged to repay. This approach is more consistent with that taken by the credit rating agencies and better reflects the regulatory economics.

Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, cash interest, indexation interest and tax, and in 2020/21 also reflects the impact of the £85 million sales proceeds from the disposal of our Tallinn JV.

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 31 March 2021. This is marginally higher than the 61 per cent as at 31 March 2020 but remains within our target range of 55 to 65 per cent.

Cost of debt

As at 31 March 2021, the group had approximately £3.0 billion of RPI-linked debt at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt at an average real rate of -0.2 per cent.

A lower RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 2.5 per cent being lower than the rate of 3.4 per cent for the year to 31 March 2020. 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.

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 2.5 per cent for the 2020–25 regulatory period.

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 €7 billion euro medium-term note (EMTN) programme. The EMTN 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 £2.4 billion to cover refinancing and incremental debt, supporting our five-year investment programme. In 2020/21 we have raised £900 million, taking advantage of the attractive rates available and extending our liquidity position out to August 2023.

Our performance in 2020/21

Financial performance

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.

In January 2021, we issued our debut sustainable bond raising £300 million, maturing in October 2029 and subsequently swapped to CPI-linkage.

We remain one of the sector leaders in the issuance of CPI-linked debt in response to Ofwat's decision to transition away from RPI inflation linkage. At 31 March 2021, we have increased the CPI-linkage in our debt portfolio to £1,015 million with a further £50 million of CPIH-linkage, and therefore a perfect match for the regulatory regime.

Since March 2020, we have renewed £50 million of revolving credit facilities with a relationship bank for a further five-year term, and extended £100 million of revolving credit facilities for a further three years, and £250 million of revolving credit facilities for a further year.

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 2021, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 26 per cent of UUW's regulatory capital value, 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 9 per cent of UUW's RCV, with an average real rate of -0.2 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.

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.

Historically, this has been supplemented by fixing substantially all remaining floating rate exposure across a forthcoming regulatory period around the time of the price control determination. Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020–25 regulatory period, we have retained the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance basis, but have not supplemented this with the additional 'top up' fixing at the start of the new regulatory period.

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 €7 billion EMTN programme provides further support.

At 31 March 2021, we had liquidity out to August 2023, comprising cash and short-terms deposits (enhanced by new finance raised in the period), 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.

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.

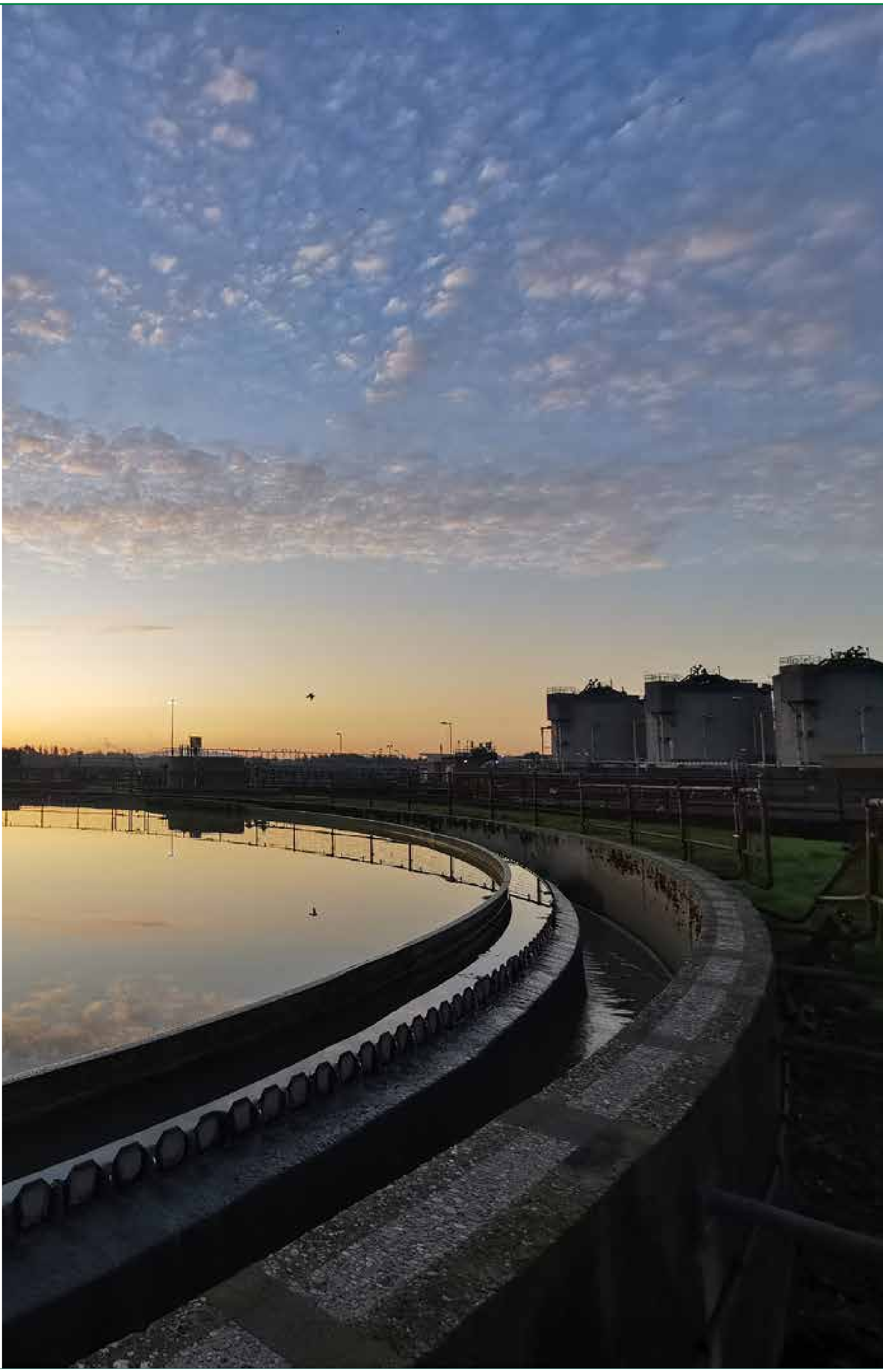
Outlook

We have responded well to the challenges presented by COVID-19 and delivered another year of strong operational performance, building on the improvements we delivered in AMP6. We are leading the way on customer satisfaction and have made a strong start to our AMP7 customer ODIs, delivering net outperformance of £21 million this year. We have extended our AMP7 totex plans by £300 million to underpin the delivery of long-term sustainable performance improvements and efficiency, and we continue with our strategy of accelerating investment to bring forward benefits for customers and the environment and contributing to the economic recovery of our region.

This is a great start to the new regulatory period and provides a strong platform to deliver further good operational performance for the benefit of all stakeholders. This gives us the confidence to target cumulative net outperformance of around £150 million against our customer ODIs for AMP7.

2021/22 full-year guidance

- Revenue is expected to be marginally lower in 2021/22, reflecting the November 2020 CPIH of 0.6 per cent offset by the regulatory revenue reduction of 2.0 per cent.
- Underlying operating costs are expected to be marginally higher year-on-year, reflecting small inflationary increases coming through core costs while IRE is expected to increase, reflecting the additional investment in DNM.
- Underlying finance expense is expected to be higher year-on-year as higher inflation impacts our index-linked debt.
- Capex in 2021/22 is expected to be in the range of £625 million to £675 million, reflecting the ongoing acceleration of our AMP7 programme and around £50 million of additional capex (of the £300 million extension to our AMP7 totex plans).
- Targeting a net customer ODI reward of around £20 million, consistent with targeting a cumulative net AMP7 reward of around £150 million.



Our performance in 2020/21

Financial performance

Guide to Alternative Performance Measures (APMs)

The underlying profit measures in the following table represent 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 international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, in the group's consolidated income statement, which can be found on page 207. 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 recurrence and its volatility which is either outside the control of management and/or not representative of current year performance.

We have simplified our approach to APMs and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matters. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. The tables that follow present the prior year APMs both on a re-presented basis using the new definition of APMs and as presented as at 31 March 2020 for comparative purposes.

In addition, a reconciliation of the group's average effective interest rate has been presented, together with a prior year 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	
Bioresources asset write down	A strategic review of the group's bioresources activities was undertaken in the second half of the year ended 31 March 2020, informed by the PR19 process and the group's zero-carbon commitments. This resulted in the likelihood of future economic benefit being derived from certain assets now being considered remote in light of improvements in alternative lower-cost and more environmentally-friendly processes. This resulted in a material asset write down that was not considered to be part of the normal course of business, with similarly material write downs not expected to reoccur in future years.
COVID-19	The group incurred significant costs resulting from the COVID-19 pandemic in the early part of 2020, including incremental expected credit losses on household and non-household customer receivables caused by the economic impact of business closures and expected increases in unemployment. The group's joint venture, Water Plus, was also significantly impacted, resulting in the business recognising an impairment of certain assets and a higher allowance for expected credit losses at 31 March 2020, feeding through to the group's share of losses from joint ventures. This also caused the group to recognise an allowance for expected credit losses in relation to loans extended to Water Plus. Due to the unprecedented nature of the pandemic and the initial economic shock associated with early lockdown measures, these costs were not deemed to be representative of normal business performance when compared against prior periods. In line with best practice, we make no COVID-19 adjustment in the year ended 31 March 2021.
Profit on disposal of joint ventures	This relates to the disposal of the group's 35.3 per cent 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	
Net fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option(2)	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 macroeconomic 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.
Presentational adjustments no longer applied (1)	
Restructuring costs	The group typically incurs a certain level of restructuring costs each year, the quantum of which is dependent on the significance of discrete events in a given year, which can cause volatility in the reported results. Management adjusts internally for these costs to provide a view of underlying performance which it considers to be representative of the normal course of business and more comparable period to period. For the year ended 31 March 2021 and going forward, an adjustment will only be made if part of a more significant strategic restructure.
Net fair value (gains)/losses on debt and derivative instruments(2)	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macroeconomic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believes it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option(2)	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, 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.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. These significant costs have previously been adjusted for to provide a representative cost of borrowings and current year performance when considered in the context of the return on capital the group earns through revenue.
Agreement of prior years' tax matters	The agreement of prior years' tax matters is part of the group's normal processes of ensuring that the right amount of tax is paid. Depending on the agreements made in any given year, this can be significant, volatile and often related to final settlement of numerous prior year periods. Historically, management has adjusted for this as a matter of course to provide a more representative view of the tax charge/credit in relation to current year performance. For the year ended 31 March 2021 and going forward, an adjustment will only be made if significant and relating to numerous prior year periods.

(1) These adjustments are no longer made in the year ended 31 March 2021 and going forward reflect our change in approach to APMs.
(2) For the year ended 31 March 2021, and going forward, this adjustment combines 'net fair value (gains)/losses on debt and derivative instruments' and 'interest on derivatives and debt under fair value option'.

Underlying profit

Operating profit	Year ended 31 March 2021 £m	Re-presented Year ended 31 March 2020 £m	As reported Year ended 31 March 2020 £m
Operating profit per published results	**602.1**	630.3	630.3
Bioresources asset write down	–	82.6	82.6
COVID-19 – expected credit loss on non-household receivables	–	1.4	1.4
COVID-19 – expected credit loss on household receivables	–	16.7	16.7
COVID-19 – operating expenses	–	1.1	1.1
Restructuring costs	–	–	11.8
Underlying operating profit	**602.1**	732.1	743.9
Net finance expense			
Finance expense	**(103.5)**	(313.0)	(313.0)
Investment income	**25.0**	24.0	24.0
Net finance expense per published results	**(78.5)**	(289.0)	(289.0)
COVID-19 – expected credit losses on loans to JVs	–	5.0	5.0
Net fair value (gains)/losses on debt and derivative instruments, excluding interest on swaps and debt under fair value option	**(54.3)**	92.8	–
Net fair value (gains)/losses on debt and derivative instruments	–	–	76.3
Interest on swaps and debt under fair value option	–	–	16.5
Net pension interest income	–	–	(14.0)
Adjustment for capitalised borrowing costs	–	–	(40.6)
Underlying net finance expense	**(132.8)**	(191.2)	(245.8)
Share of losses of joint ventures per published results	**(9.3)**	(38.1)	(38.1)
COVID-19 – Water Plus impairment losses and expected credit losses	–	32.0	32.0
Underlying share of losses of joint ventures	**(9.3)**	(6.1)	(6.1)
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	**551.0**	303.2	303.2
Adjustments in respect of operating profit	–	101.8	113.6
Adjustments in respect of net finance expense	**(54.3)**	97.8	43.2
Adjustments in respect of share of losses of joint ventures	–	32.0	32.0
Adjustments in respect of profit on disposal of joint ventures	**(36.7)**	–	–
Underlying profit before tax	**460.0**	534.8	492.0
Profit after tax per published results	**453.4**	106.8	106.8
Adjustments in respect of profit before tax	**(91.0)**	231.6	188.8
Deferred tax adjustment	**18.4**	157.5	157.5
Agreement of prior years' UK tax matters	–	–	(12.2)
Tax in respect of adjustments to underlying profit before tax	**2.2**	(9.6)	(11.3)
Underlying profit after tax	**383.0**	486.3	429.6

Earnings per share	£m	£m	£m
Profit after tax per published results (a)	**453.4**	106.8	106.8
Underlying profit after tax (b)	**383.0**	489.5	429.6
Weighted average number of shares in issue, in millions (c)	**681.9m**	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	**66.5**	15.7	15.7
Underlying earnings per share, in pence (b/c)	**56.2**	71.3	63.0
Dividend per share, in pence	**43.24p**	42.60p	42.60p

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 net pension income and capitalised borrowing costs in order to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.

	31 March 2021	31 March 2020
Underlying net finance expense	**(132.8)**	(191.2)
Net pension interest income	**(17.5)**	(14.0)
Adjustment for capitalised borrowing costs	**(30.4)**	(40.6)
Net finance expense for effective interest rate (a)	**(180.7)**	(245.8)
Average notional net debt (b)	**(7,315)**	(7,136)
Average effective interest rate (a/b)	**2.5%**	3.4%