Sustainable Finance Framework

Allocation and Impact Report 2022

United Utilities

Water for the North West

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United Utilities
Water for the North West

2021/22 performance

£297m

of cumulative funding to date for sustainable projects, covering 37 projects

Upper quartile

across a suite of Environmental, Social and Governance (ESG) indices

Making good progress against ambitious 1.5°C aligned science-based targets for

42%

reduction in scope 1 and 2 emissions by 2030

Science-based targets covering

scope 3

emissions verified by Science Based Targets initiative (SBTi)

Commitment to

net zero carbon

by 2030

Met leakage target for the

16th

consecutive year

Over

180,000

customers signed up to Priority Services

Providing sector-leading support for vulnerable customers, supporting over

200,000

households in 2021/22, with around £280m of affordability support being given over the 2020–25 period

Maximum

4 star

rating in the Environment Agency's assessment for 2021

Continued support of the Government's Kickstart Scheme, working with overlooked groups in our communities.

55 Kickstarters

have joined our business, and 24 have found full-time employment with our suppliers

89%

of our employees believe our organisation supports their health, safety and wellbeing

Foreword

I am pleased to introduce our second allocation and impact report. This details the proceeds from our debut bond, issued in 2021, and the amount allocated to Eligible Projects. It provides an overview of the environmental and social impacts generated by our activities, investments and expenditures as well as providing case studies relating to projects funded by the proceeds.

Interest in how companies respond to environmental, social and governance (ESG) challenges is growing and expectations on how they disclose relevant information and data on their responsible business activities is increasing. I welcome these developments and view this report as part of our ongoing demonstration of our strong track record of operating in a responsible manner and fulfilling our purpose.

By acting responsibly, we provide the best possible service to customers and ensure that we are well placed to continue to create long-term, sustainable value for all stakeholders. This year has been no exception as we have sustained a strong level of operational performance, maintained high customer satisfaction and employee engagement, and achieved our best ever performance against customer outcome delivery incentives. We are on track to deliver our 2020-25 environmental improvement programme, which will improve river and bathing water quality in the North West, and have made good progress against our carbon pledges.

We have committed to achieve net zero by 2030 with six pledges to reduce our carbon footprint. We have now met 2 of the 6 pledges and are making good progress on the remaining 4. We were the first company in the sector to secure verified targets for our scope 1, 2 and 3 emissions from the Science Based Targets Initiative, achieving our sixth carbon pledge in the process. We achieved our second carbon pledge as, since October 2021, 100 per cent of our purchased electricity now comes from renewable sources. Last year we generated more renewable energy than ever before at 210 GWh. As a result, our operational emissions (scope 1 and 2) are now at the lowest ever recorded levels. With the addition of carbon to our executive team's long term incentive plan, we are demonstrating the importance of our carbon commitments and reinforcing delivery of our ambitious carbon pledges.

As a responsible purpose-led company, it is right that we share our success with customers. We feel the best way for us to create more value for customers and other stakeholders is by investing financial outperformance to accelerate improvements in customer service and environmental performance. This is in line with the approach we have taken historically, where we shared over £600 million over the 2010-20 period. Between 2020 and 2025, we will invest £765 million beyond the scope of our final determination allowance to help us accelerate environmental and customer outcomes.

We are upper quartile across a suite of ESG indices and our robust balance sheet provides long-term financial resilience. The year ended 31 March 2022 was a relatively light financing year for United Utilities so, in part, this contributed to us not issuing any new sustainable finance under our Sustainable Finance Framework (SFF) during the year. We are committed to maintaining the availability of our SFF as part of our leading treasury management approach.

This report complements our comprehensive corporate reporting of financial and non-financial information that aims to provide stakeholders with the evidence that we are purpose led and that we focus on what matters to them. Continuing our culture of leadership in sustainability reporting we have now included information on our approach to the Task Force on Nature-related Financial Disclosures (TNFD) and how we intend to become an early adopter of TNFD reporting. This can be found in our Integrated Annual Report and Financial Statements.

Phil Aspin
Chief Financial Officer

Complementary reports

- Integrated **Annual Report and Financial Statements** with full disclosure on the Task Force on Climate-related Financial Disclosures recommendations and Task Force on Nature-related Financial Disclosures recommendations
- **Tax Report 2022** – aligned to the Fair Tax Mark accreditation
- **Our Sustainable Finance Framework**
- **2021 Climate Change Adaptation Report**

A purpose-led business operated in a responsible manner

We are a purpose-led organisation and this drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner, looking after the interests of the stakeholders with whom we interact.

Our purpose is to provide great water and more for the North West.

Providing great water means delivering our core water, wastewater and customer services, reliably and to the highest quality.

Providing 'more' means creating value for our stakeholders by understanding what matters to them through strong and constructive relationships. We do this by:

- Supporting **communities** to be stronger
- Caring for **customers** through trusted relationships
- Creating a great place to work for all our **employees**
- Protecting and enhancing the **environment**
- Delivering a sustainable return to **investors**
- Innovating in partnership with **suppliers**

Our strategy is broken down into three themes, which form the framework for what we do:

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

Operating in a responsible manner is key to delivering our purpose, and creating and maintaining value for stakeholders. This is not just about what we do, but how we do it.

We have a strong track record leading on environmental, social and governance matters. We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges. We believe there is a close relationship between ESG performance and investor value.

Having tangible, externally recognised measures of our behaviour and performance help to demonstrate that we are operating in our stakeholder interests. We collate, monitor and report on a wide range of performance measures linked to what stakeholders tell us matter most.

Our Sustainable Finance Framework provides the opportunity for investors to more directly link the benefits of the funding which they provide to the furtherance of our sustainability objectives, such as our transition to a lower carbon economic model in the provision of water and wastewater services and related environmental benefits.

ESG reporting

The frameworks, and standards, by which companies report ESG issues are developing rapidly through organisations such as the International Sustainability Standards Board (ISSB). This is in response to increasing interest in how companies respond to sustainability challenges and growing expectations on how they disclose relevant information and data on their responsible business activities.

As the reporting landscape develops further we will continue to adapt our reporting to take account of international best practice in the presentation of ESG performance and data.

Our sustainable finance and how we have used the funds

Our Sustainable Finance Framework was published in November 2020 (the "Framework") and was developed to align with relevant International Capital Market Association (ICMA) and Loan Market Association (LMA) principles.[1]

Under our Framework we stated our intention to follow market best practice and to communicate in a transparent manner on:

- Use of proceeds
- Process of project evaluation and selection
- Management of proceeds
- Reporting

[1] Green Bond Principles (2018 edition), the Social Bond Principles (2020 edition) and the Sustainability Bond Guidelines (2018 edition) as published by ICMA, as well as the Green Loan Principles (2020 edition) as published by the LMA.

Our sustainable finance portfolio

Our inaugural sustainable bond under the Framework was issued in January 2021 and was fully allocated at that point. There has been no further issuance under the Framework in the year to 31 March 2022.

The detail of our one Sustainable Financing Instrument as at 31 March 2022 is set out below:

Name	GBP 300,000,000.00 0.875% Fixed Rate Notes due 2029
Issuer	United Utilities Water Finance PLC
On lent to	United Utilities Water Limited
Form of financing	Bond
Issue date	28 January 2021
Maturity date	28 October 2029
Credit rating	A3 (Moody's) / A- (Fitch) / BBB+ (S&P)
ISIN	XS2291328735
Net proceeds	£297.0m
Allocation status	Fully allocated

Use of proceeds

An amount at least equal to the net proceeds from the issuance of the Sustainable Financing Instruments, will be used to finance or refinance, in whole or in part, new or existing projects that meet the Project Eligibility Criteria as set out in the Framework.

Eligible Projects are those projects where expenditures have occurred within the three year period prior to the issuance year of the Sustainable Financing Instruments, and/or where expenditure has occurred within a two year period following the issuance.

Eligible project portfolio:

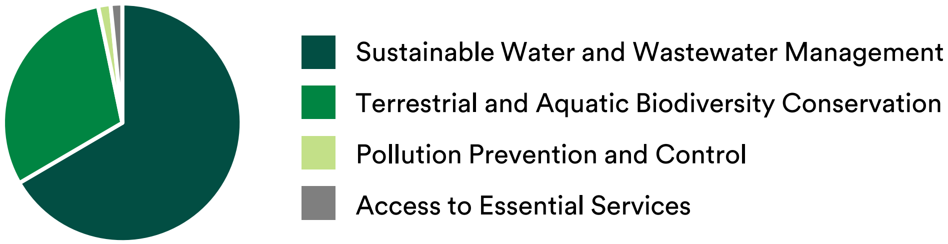
	Year ended 31 March 2019	Year ended 31 March 2020	Year ended 31 March 2021	Year ended 31 March 2022
Eligible project portfolio	£442.5m	£420.2m	£621.3m	£699.7m
Amounts allocated	£(297.0)m	£nil	£nil	£nil
Unallocated eligible projects	Residual now time ineligible	£420.2m	£621.3m	£699.7m

From this portfolio of eligible projects our sustainable finance portfolio has been allocated as follows:

Eligible category	Net proceeds allocated	Focus of projects
Sustainable Water and Wastewater Management	£197.8m Δ	Reducing abstraction and leakage from distribution networks
Terrestrial and Aquatic Biodiversity Conservation	£89.6m Δ	Improvements to river water quality and improving the natural environment
Pollution Prevention and Control	£5.0m Δ	Anaerobic digestion for energy recovery and recycling of biosolids to land
Access to Essential Services	£4.7m Δ	Helping vulnerable customers and those in financial difficulty
Total	£297.0m Δ	
Unallocated amounts	£0.0m Δ	

Δ= limited assurance by KPMG (see right)

Allocation



Assurance statement

As all of our sustainable finance was fully allocated and assured in the prior year, there is no new allocation information and no requirement for any new assurance this year.

KPMG LLP ("KPMG"), our independent auditor, provided limited assurance in the prior year over the selected information in the above table denoted by the symbol Δ using the assurance standard ISAE (UK) 3000.

KPMG's limited assurance report, dated 5 July 2021

Process for project evaluation and selection

To ensure that allocations are made to Eligible Green or Social Projects (as specified in the framework) we have established a Sustainable Finance Committee comprising representatives from Treasury, Sustainability, Finance and the Regulated Business. The committee is supported by a cross-department Sustainable Finance Working Group.

All capital expenditure funded under the Framework is subject to rigorous governance and assurance activity. Project approval committees at three key stages in the project lifecycle approve the release of allocated funding and multi-layer assurance activity ensures that the required project lifecycle steps have taken place. As part of this governance process, projects are initially evaluated and allocated to the eligible categories under the framework. This initial allocation is then verified by a cross-department Sustainable Finance Working Group and signed off by the Sustainable Finance Committee.

The Sustainable Finance Committee has:

- ensured that allocated Eligible Projects have followed the relevant UU project development policies;
- ensured that allocated Eligible Projects are aligned with the ICMA and LMA principles[1] categories;
- approved changes to the register of Eligible Projects where eligibility criteria is no longer met; and
- reviewed and approved this Allocation and Impact Report.

[1] Green Bond Principles (2018 edition), the Social Bond Principles (2020 edition) and the Sustainability Bond Guidelines (2018 edition) as published by ICMA, as well as the Green Loan Principles (2020 edition) as published by the LMA.

Management of proceeds

The net proceeds arising from the issuance under our Framework is managed by our Treasury function. Our inaugural sustainable bond was fully allocated at issuance in January 2021 and there has been no additional issuance under the sustainable finance framework during FY22 and so no temporary investment of the proceeds has been required.

Our Treasury team has ensured that the portfolio of Eligible Projects has exceeded, or been at least equal to, the amount of Sustainable Financing Instruments raised under this Framework.

Contributing to environmental and social performance

Our eligibility criteria link through to overall company responsible business impact metrics that matter to our stakeholders.

Sustainable Water and Wastewater Management

Eligibility Criteria

Projects which reduce pollution and impacts of water abstraction.

Projects which improve water quality.

Projects which reduce water losses from the system.

Flooding mitigation projects.

Overall Company Impact Metrics

Leakage	Year	2019/20	2020/21	2021/22
	Ml/d	439.8	424.7	413.9

Regulated emissions per megalitre of treated water, Kg CO_2e/Ml	Year	2019/20	2020/21	2021/22
	Kg CO_2e/Ml	131.98	118.51	106.91

Regulated emissions per megalitre of sewage treated, Kg CO_2e/Ml	Year	2019/20	2020/21	2021/22
	Kg CO_2e/Ml	168.51	152.26	144.21

Highlights

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.

Relevant SDGs

6 CLEAN WATER AND SANITATION

Terrestrial and Aquatic Biodiversity Conservation

Eligibility Criteria

Investments and/or expenditures relating to projects which deliver improved conservation outcomes.

Investments and/or expenditures relating to river quality improvements.

Overall Company Impact Metrics

Km of rivers improved	Year	2019/20	2020/21	2021/22
	Km	159.5	n/a	n/a

Improving river water quality and the water environment	Year	2019/20	2020/21	2021/22
	Net days schemes delivered early/late[1]	n/a	0	62

Number of trees planted	Year	2019/20	2020/21	2021/22
	Trees	29,696	216,601	244,639

Highlights

Our Windermere catchment strategy has helped to reduce phosphorus entering England largest lake through improved storm water storage and enhanced treatment at two wastewater treatment works.

Relevant SDGs

14 LIFE BELOW WATER

[1] Positive numbers indicate that schemes to improve river water quality and/or the water environment have been delivered early. Negative numbers indicate that schemes to improve river water quality and/or the water environment have been delivered late.

Green Bonds Principles Category	Eligibility Criteria	Overall Company Impact Metrics	Highlights	Relevant SDGs
Pollution Prevention and Control	Investments and/or expenditures relating to projects which reduce waste and increase the proportion recycled, and/or recover energy from waste materials.	See tables below	Anaerobic digestion refurbishment at our Warrington North treatment works has contributed to increasing the amount of renewable energy from biomethane to 149.7GWh in 2021/22.	11 SUSTAINABLE CITIES AND COMMUNITIES

Total energy generated from sewage sludge (CHP and biomethane exported to gas grid as GWh equivalent)	Year	2019/20	2020/21	2021/22
	GWh	135.7	142.4	149.7

Nitrous Oxide (NOx) emissions per unit of renewable electricity generated	Year	2019/20	2020/21	2021/22
	NOx/GWh	n/a	1.3	1.19

% biosolids recycled in compliance with regulatory standard and Biosolids Assurance Scheme	Year	2019/20	2020/21	2021/22
	%	n/a	99.87	100.00

Social Bonds Principles Category	Eligibility Criteria	Indicative Metrics	Highlights	Relevant SDGs
Access to Essential Services	Investments and/or expenditures relating to programmes which enable vulnerable customers to maintain access to water and other supplies.	See tables below	The United Utilities Trust Fund is part of our affordability support for customers who struggle to pay their bills.	6 CLEAN WATER AND SANITATION

Number of customers lifted out of water poverty	Year	2019/20	2020/21	2021/22
	Customers	n/a	71,057	77,312

Number of households registered for Priority Services	Year	2019/20	2020/21	2021/22
	Households	99,992	128,831	186,224

All performance indicators throughout this report have received an appropriate level of assurance, such as independent third-party verification, regulatory reporting assurance processes, or through our own internal audit team.

Delivering for our stakeholders

The proceeds from the sustainable bond contribute to the generation of value for our stakeholders and the delivery of our purpose. We monitor our performance across six stakeholder groups.

More detail can be found in our
Annual Report and Financial Statements

Communities

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

Performance key:

2021/22
2020/21

Customers

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

[1] Latest comparative data available 2020/21.

Employees

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

Environment

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

[1] Based on the latest assessment, which was for 2020. 2021 performance will be reported in July 2022.

[2] As measured against a 2017/18 baseline

[3] As measured against Science Based Target baseline year 2019/20.

Status key:

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

Performance key:

2021/22
2020/21

Investors

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

Suppliers

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

Sustainable bond proceeds in action

Business Insight | The Water Industry National Environment Programme

The Water Industry National Environment Programme (WINEP) is a programme of works developed every five years to establish the environmental enhancements that need to be delivered by water companies. This programme governs the improvements that need to be made across the North West and forms a key element of our price review process in securing the enhancement expenditure allowance from our economic regulator, Ofwat.

Through the 2020–25 period we have a wide programme of investments identified to address spills from combined sewer overflows, reduce phosphorus pollution to water courses in line with the requirements of the water framework directive, restore peatland and create biodiversity, improve the condition of catchment land, protect bathing and shellfish waters and conduct investigations to better understand our impact on the North West environment. This forms a five-year investment programme, two years of which we have already delivered, including investments to meet the above objectives and through our natural capital outcome delivery incentives have sought to maximise opportunities to add value where they exist.

Historically the WINEP has been developed by the Environment Agency and provided to water companies as a set of requirements to deliver the requirements of legislation. At the 2019 water sector price review, however, United Utilities took a far more involved approach to WINEP development to better understand, and challenge, the requirements to ensure that we were able to influence the delivery of better value solutions for customers. For the 2024 water sector price review a new WINEP methodology has been developed which has a longer term focus and puts far more onus on water companies to assess the risks and issues within their area and develop solutions to address these. This also encourages a broader assessment of environmental outcomes and the delivery of better value through our investments, maximising partnership working and co-funding where available.

In order to maximise the environmental benefit that can be delivered through the WINEP in the 2025–30 period all solutions where applicable will be assessed in line with the wider environmental outcomes framework, which looks to understand the broader natural capital benefits that can be delivered and allows us to look at solutions based on both lowest whole life cost and best value overall. All of these options will be assessed through WINEP development and we will select the best options for customers with the potential to deliver beyond statutory requirements where there is clear customer support or available co-funding.

Sustainable bond proceeds in action

Business Insight | Natural capital

Though our Catchment Systems Thinking approach (CaST) we look to assess the needs of multiple stakeholders across catchments bringing together challenges around biodiversity, flooding, water quality, resilience and more to help identify opportunities to work with partners and deliver solutions that provide multiple benefits. As part of this a natural capital approach is key to understanding the additional value that can be created and identify potential partners.

Our approach to natural capital sits across several spatial levels from individual projects to full North West regional assessments to provide the broadest understanding we can. We developed our first corporate natural capital account in 2018 to understand the natural capital we own and the benefits that this delivers for stakeholders. We are updating this account in 2022.

Our relationship with the environment goes far beyond our land ownership as we have an impact, and derive benefit from the natural environment across the North West. As a result we worked with stakeholders to develop a regional natural capital baseline. This was completed in 2021 and has been openly shared with stakeholders through our collaboration portal. The aim of this baseline is to bring stakeholders together and develop joined up activity to maintain and enhance the natural capital of the North West. We will update this periodically to track the condition of the regions natural capital.

On a project level we are the only water company to set a natural capital outcome delivery incentive in our business plan for 2020–25. This is measured by demonstrating additional value created through ecosystem services for customers and the environment. This means that where there are opportunities to deliver solutions through our WINEP programme (see Business Insight: Water Industry National Environment Programme) that use catchment and nature based solutions to deliver a greater natural capital benefit than a traditional hard engineered solution, we can invest in these more effectively and generate reward based on the added value that they achieve. This incentive is used in our decision-making process and has led to solutions such as an integrated constructed wetland being delivered at Southwaite wastewater treatment works in Cumbria. A traditional solution at this works would have involved building a concrete storm tank but we were able to identify an opportunity to deliver a wetland to treat storm spills, delivering the same water quality benefit. This will provide increased biodiversity, and by including public access to the wetland we will generate recreational and health benefits for the community. This solution will provide an added natural capital value of £1.75 million.

Sustainable bond proceeds in action

Business Insight | Better Rivers: Better North West

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

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

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

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

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

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

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

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

Carbon pledges

We have committed to achieve net zero by 2030 with six pledges to reduce our carbon footprint, underpinned by ambitious science-based targets for reducing our greenhouse gas emissions, and we are making good progress against these.

In 2021 we became the first UK water company to have its targets independently verified by the Science Based Target Initiative (SBTi), including for scope 3 emissions. We are committed to playing our part in securing the global goal to curb climate change to no more than 1.5°C.

Pledge 1

Reduce scope 1 & 2 emissions

↓2.2% compared to baseline

We are making good progress towards our science-based target to reduce scope 1 and 2 emissions by 42% from our baseline by 2030.

2021/22: 135,936 tCO_2e
2019/20: 138,961 tCO_2e (baseline year)

Pledge 2 ✓

100% of electricity used from renewable sources

We achieved this pledge from October 2021

From October 2021 the electricity we purchased was from guaranteed renewable sources. In addition, we generated a record 210 GWh of renewable energy in 2021/22, equivalent to 26 per cent of our total electricity consumption.

Pledge 3

100% green fleet by 2028

27 fully electric vehicles (EV) now deployed in our fleet with plans for 200 low carbon vehicles by 31 March 2025

We have installed advanced telematics to improve understanding of travel patterns and are trialling options for larger vehicles. We are enabling employees to shift to EV through changes to the company car policies and launch of a salary sacrifice scheme 'EVolve'.

Pledge 4

1,000 hectares of peatland restoration by 2030

Restoration activity well underway

We have restoration projects across the North West at different stages of maturity. As well as continuing our site work to completion, we aim to become an early pioneer in applying the Peatland Code at scale to independently verify the carbon benefits.

Pledge 5

Create 550 hectares of woodland by 2030

9 hectares planted and validated to the Woodland Carbon Code

Planting in 2021 was postponed due to weather and tree disease. The remaining 541 hectares have been planned and the funding identified.

Pledge 6 ✓

Set scope 3 science-based target

Targets verified by SBTi

Emissions from our value chain are the most challenging to address so we are working with our supply chain. We are exploring how to improve our calculation methods for scope 3 emissions so that we can consider and openly report the impact of our management choices.

Linking carbon to executive remuneration

We are linking executive remuneration to our carbon commitments with four carbon measures for the three-year period ending 31 March 2025, together forming 10 per cent of the Long Term Plan, against which stretching targets have been set. These measures are:

- Green fleet vehicles;
- Woodland creation;
- Peatland restoration; and
- Supply chain engagement.

In addition, carbon has been introduced into the employee bonus scheme. A new capital programme delivery incentive (CPDi) measure is included, which is an evolution of the previous measure that combined time, cost and quality of our capital programme delivery. CPDi now has an increased emphasis on efficiency and takes account of the carbon impact of our enhancement projects, providing a further environmental element to the annual bonus arrangements.

Including targets within our executive remuneration arrangements recognises the importance of our carbon commitments. We have designed these measures to reinforce delivery of our ambitious carbon pledges and science-based targets.

Examples of our activities to respond to climate change

Haweswater Aqueduct Resilience Programme

The Haweswater Aqueduct plays an important role in moving large volumes of water from the Lake District to supply Greater Manchester. The aqueduct was originally completed in 1950 and since 2005 we have been planning how to secure its continued and long-term resilience.

Following extensive planning and stakeholder engagement we are ready to start delivery of a solution designed to meet future demand whilst maintaining a gravity-fed, low carbon water supply. The proposed tunnelling solution has been assessed as having one of the lowest environmental and carbon impacts of all options considered, with further opportunities identified to recycle materials to local sites thus reducing impacts from vehicle movements.

Surface water separation – Blackpool South

We have invested over £30 million to address the combined challenges of climate change, an ageing Victorian sewer network, and increasing urbanisation in Blackpool.

The primary objective of this project was to separate surface water from the combined sewer system. New infrastructure was constructed, including a storm water interception tank, pumping stations, and a new sea outfall to provide a sustainable discharge point for surface waters. This will prevent over 800,000m^3 of surface water from entering the combined sewer system during wet weather. By diverting the surface water away, the flooding risks posed by storms due to the resulting excess volume of wastewater have been significantly reduced.

Developments in environmental reporting

We are currently integrating six-capital thinking (manufactured, financial, natural, social, human and intellectual capital) into business processes as we believe this will better inform our decision-making processes and enable us to create and protect value for all stakeholders. This includes how we might report publicly against these capitals.

In December 2021 we published a comprehensive assessment of our climate risks and plans in our latest Climate Change Adaptation Report.

We are now further developing our approach to climate resilience, including engagement with stakeholders, as we take account of these risks in our long-term business planning process.

Read our 2021 Climate Change Adaptation Report

Continuing our culture of leadership in sustainability reporting we have now included information on our approach to Task Force on Nature-related Financial Disclosures (TNFD) and how we intend to become an early adopter of TNFD reporting, which can be found in our Integrated Annual Report and Financial Statements.

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United Utilities

Water for the North West