

UUW48

Deliverability - Overall plan

October 2023

Chapter 8 supplementary document

This document provides key cross references to the business plan that show we have comprehensive evidence that we can deliver the proposed plan. In particular, it shows that we understand what drives our current performance and how this affects customers and the environment, that we have set ambitious but credible performance targets – robust, stretching but achievable – that are grounded in our AMP7 performance and that we can deliver the required step changes in performance and resultant programmes of work. It also shows evidence that we can effectively finance the programme and have robustly challenged and assured all plan components. In addition, we provide evidence that we have reflected customer views and built the plan in a way which maximises social and environmental value, that we have taken effective measures to manage the affordability of the programme and that we can be relied upon to act responsibly in the way that we implement the plan.

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1. Deliverability – Overall plan

1.1 Key messages

- **Our plan provides comprehensive evidence that we can deliver the proposed plan:** In particular, this document provides signposts key elements of the plan here we show that:
 - We understand what drives our current performance and how this affects customers and the environment
 - We have included performance targets that are credible and directly grounded from our performance in AMP7
 - We can deliver the required step changes in performance and resultant programmes of work.
 - We can effectively finance the programme.
 - We have robustly challenged and assured all the components of the plan.
- **We have further provided evidence that**
 - We have reflected customer views and have built the plan in a way which maximises social and environmental value.
 - We have taken effective measures to manage the affordability of the programme.
 - We can be relied upon to act responsibly in the way that we implement the plan

1.2 Purpose

- 1.2.1 This document is designed to summarise and provide some important cross references to the key evidence within our business plan that demonstrates the credibility of our plan and how our track record of performance, or lessons learnt from poor performance, support the credible delivery of the proposals in our plan.
- 1.2.2 It sets out references to some of the detailed evidence within our business plan that demonstrates how our track record of performance, or in some cases the lessons learnt from areas or poorer performance, supports the credible delivery of the proposals within in our plan.
- 1.2.3 This document is structured as:
- Section 2 describes how we have understood what drives our current performance, and the effect on customers and the environment;
 - Section 3 describes how our performance commitments for AMP8 have been built on our AMP7 performance;
 - Section 4 describes how we can deliver the resultant programmes of work;
 - Section 5 describes how we can finance the programme;
 - Section 6 describes how we have robustly challenged and assured all components of our plan;
 - Section 7 describes how we have reflected customers views across all areas of our plan;
 - Section 8 describes all the affordability measures to manage the affordability of the plan;
 - Section 9 describes how we can be responsibly relied upon to implement the plan; and,
 - Section 10 presents our conclusion.

1.3 Overview

- 1.3.1 We recognise the importance of the sector retaining credibility and providing Ofwat and other stakeholders with confidence that our plan will deliver for customers, communities and the environment.
- 1.3.2 In our feedback on the draft methodology we agreed with the broad scope of Ofwat's quality assessment criteria and we were strongly supportive of the inclusion of customer affordability and acceptability within the assessment, which we have always regarded as being a priority, but which is a particularly acute issue for PR24 given inflationary pressures and the ongoing cost of living crisis.
- 1.3.3 We did however, consider that the quality assessment in the draft methodology placed insufficient emphasis on the deliverability of companies' proposals. And we expressed concerns that companies could be encouraged to include and ultimately be rewarded for, ambitious proposals that they were unlikely to deliver.
- 1.3.4 We therefore welcome Ofwat's decision to add a minimum expectation to the 'Data, information and assurance' area of the quality component of the QAA, to *"provide sufficient and convincing evidence that companies can credibly deliver the proposals in their plans"*.
- 1.3.5 For our plan to be credibly deliverable we need to specifically provide evidence that our plan meets the following five "deliverability" requirements and supporting sub tests:
- **(D1) We understand what drives our current performance and how this affects customers and the environment.**
 - The evidence should demonstrate that our plans reflect and act upon the strengths and weaknesses highlighted in published reports.
 - The evidence should demonstrate our understanding of the relationship between the long term performance of our assets and customer service or environmental impact.
 - **(D2) We have included performance targets that are credible and directly grounded from our performance in AMP7.**
 - The evidence should demonstrate that our AMP8 targets are based on and are consistent with detailed longer term plans that are integrated with other related regional or national plans.
 - The evidence should demonstrate that the performance targets have been developed robustly and are both stretching and deliverable.
 - **(D3) We can deliver the required step changes in performance and resultant programmes of work.**
 - The evidence should demonstrate that the proposed programmes of work are efficient.
 - The evidence should demonstrate that we are able to deliver the programmes of work and should be validated by the actual steps that have already been taken to prepare for the delivery of the programmes.
 - **(D4) We can effectively finance the programme.**
 - The evidence should demonstrate that our current financial position will allow us to robustly finance the AMP8 programme in a way which allows us to maintain the long term viability of the company.
 - **(D5) We have robustly challenged and assured all the components of the plan.**
 - The evidence should demonstrate that we have implemented a detailed challenge and assurance process and that this is demonstrated through a comprehensive Board Assurance Statement.
- 1.3.6 In addition to being able to demonstrate that the plan is deliverable, we also think that it is important to be able to demonstrate that the plan will appropriately contribute to the sector retaining or rebuilding

credibility. To demonstrate that our plan will support the broader credibility of the industry we need to provide evidence that the plan meets three additional “credibility requirements”:

- **(C1) We have reflected customer views and have built the plan in a way which maximises social and environmental value.**
 - The evidence should demonstrate that engagement has actively informed the development of our plan and that customers and communities support the improvements and strategies proposed in our plan.
 - The evidence should demonstrate that our plan protects and grows the value we deliver to customers, society and the environment throughout the North West.
- **(C2) We have taken effective measures to manage the affordability of the programme.**
 - The evidence should demonstrate that our proposals ensure that long term bill impacts have been managed in line with customer priorities and are supported by our current track record.
- **(C3) We can be relied upon to act responsibly in the way that we implement the plan.**
 - The evidence should demonstrate that the suite of performance commitments and price control deliverables will protect customers, if we do not deliver.
 - The evidence should be based upon and validated by our performance, behaviours and track record in AMP7.
 - The evidence should demonstrate the commitments we have made with respect to corporate responsibilities and behaviours in AMP8.

- 1.3.7 The main body of this document highlights and provides cross references to the sections of our business plan where we have provided evidence to demonstrate that we have fully met each of the above requirements.
- 1.3.8 It also highlights where we have taken on board comments and feedback from our regulators, where we have reflected and reacted to this feedback and how we have responded to the feedback in developing our final plan.

2. We understand what drives our current performance and how this affects customers and the environment.

2.1.1 This section sets out examples of how we have demonstrated that we understand what drives our performance and the impact on customers and the environment.

Chapter 2: Provide great water for a stronger, greener, healthier North West

Chapter two and its associated supplementaries demonstrates that our plans demonstrably reflect and act upon the strengths and weaknesses highlighted in published reports.

- 2.1.2 Chapter 2 demonstrates that we have developed a stretching and ambitious plan that is designed to protect the health and wellbeing of communities and the environment and to underpin the economy as a key enabler for sustainable growth.
- 2.1.3 Section 2.6.1 highlights our strengths and areas for improvement, demonstrating that we have reflected the feedback from customers and stakeholder including regulators. It shows that we recognise that we have areas of strength as well as some significant long-term challenges.
- 2.1.4 For the areas of strength we have considered where we can go further to continue to deliver industry leading outcomes for customers, and for the identified areas where there are significant long-term challenges, we have focused our efforts to aim to deliver a step changes in performance over AMP8. The long-term challenges identified in chapter two include:
- Achieving a step change in performance on storm overflow spills;
 - Further improving wastewater treatment to meet new stringent permits;
 - Targeting a 50% reduction in leakage;
 - Reducing household and non-household consumption;
 - Reducing contacts about the taste, smell and appearance of drinking water; and,
 - Delivering the step changes required at a pace which is affordable for customers
- 2.1.5 We have reflected this feedback and analysis in our plan for the AMP8 period. Section 2.1.2 summarises the highlights from our plan, which include:
- Achieving a step change in performance on storm overflow spills
 - Advancing industry frontier performance on avoiding pollution
 - Further improving wastewater treatment to meet new stringent permits
 - Reducing contacts about the taste, smell and appearance of drinking water
 - Targeting a 13% reduction in leakage and reducing household and non-household consumption
 - Delivering the step changes required at a pace which is affordable for customers
- 2.1.6 The first of these highlighted areas reflects the scale of our response to the current focus on storm overflows. The second reflects that although we are seen as a top performer on pollution incidents, we believe that we can continue to improve and have set ourselves a stretching target.
- 2.1.7 The next three highlighted areas align with four of the five areas where UU's performance was highlighted as being poorer than the performance commitment level within Ofwat's latest Water Company Performance Report. The fifth area highlighted in the Water Company Performance Report is internal sewer flooding, where (as we set out in more detail later in this document) we are proposing to implement the second five years of the ten year plan that we set out in our PR19 submission. Our sewer flooding performance is on an improving trajectory and our targets are stretching and ambitious in the context of our operating environment.

- 2.1.8 The final bullet reflects the feedback we have received from customers and customer groups and demonstrates that we have recognised and reflected the need to continue to focus on affordability.

Chapter 7: Resilience and asset health

Chapter 7 provides evidence that we have demonstrated that we understand what drives our current performance and how this affects customers and the environment.

- 2.1.9 Chapter 7: Resilience and asset health for the North West demonstrates that we have a detailed understanding of our asset base and the risks associated with these assets and that we used this to develop an active and adaptive approach to securing resilience, which is designed to protect customers and the environment from unacceptable service losses
- 2.1.10 Section 7.4 demonstrates how we maintain a multi-layered approach to resilience, reducing potential single points of failure and shows how our approach has evolved from the original Cabinet Office 4Rs model first published in 2011 in their 'Keeping the country running ' document.
- 2.1.11 We show how our past strategic decisions have secured a solid resilience foundation. In AMP7 we have invested in innovative approaches to better understand the real time performance of our assets, which has enable a step change in the forecasting of asset health and performance. Our approach to understanding future resilience risks and to securing stable asset health is certified to ISO55001 and was recognised in Ofwat's AMMA assessment, where UUW was the highest scoring company for asset information¹.
- 2.1.12 The effectiveness of our approach can also be seen in our response to the extreme weather incidents seen in recent years, with further examples of the effectiveness of our resilience strategy being set out in case studies, for example, artificial intelligence for sewer condition assessment and water mains modelling deterioration in support of leakage detection.
- 2.1.13 Section 7.6 provides more detail on our operational approach and demonstrates that we use three primary concepts to consider measurement of asset health, which are outlined in our well-received submission to Ofwat's Future Ideas Lab². It also shows that our business risk and resilience management process has been developed and assessed against the International Risk Management Standard ISO31001. Our maintenance excellence strategy being awarded the 'Best Leadership for Reliability Uptime' Award in 2022 at the International Maintenance Conference.

¹ Asset management maturity assessment – insights and recommendations

² ofwat.gov.uk/wp-content/uploads/2021/04/United-Utilities-Asset-Health-Framework-Future-Ideas-Lab.pdf

3. We have included performance targets that are credible and directly grounded from our performance in AMP7

- 3.1.1 This section sets out examples of how we are building on a strong track record of performance on AMP7 PCs and ODIs.

Chapter 2

Chapter two demonstrates that our proposals are based on and are consistent with detailed longer term plans that are integrated with other related regional or national plans.

- 3.1.2 Chapter 2: Great Water for the North West demonstrates that we have developed a stretching and ambitions plan that delivers a step change in performance and that the plan has been developed within a long-term context and based upon robust and adaptive plans.
- 3.1.3 Section 2.3 shows that we work closely with regulators, stakeholders and communities who have been instrumental in shaping and influencing our investment plans and in many cases directly supporting the delivery of those plans through partnerships and collaboration. Section 2.4 shows that regular, in depth conversations with customers and stakeholders, have shaped our longer term vision and the specific ambitions and investment proposals for AMP8 and beyond.
- 3.1.4 Section 2.5.1 shows that we have adapted our approach to long-term planning in response to Ofwat feedback and guidance. It also shows how planning for the long-term has supported us in defining our performance targets and identifying the key enhancements required for the AMP8 period and in ensuring that our AMP8 investment is efficient, well targeted and low regrets. Key examples of this are, prioritising sustainable drainage and monitoring impacts before investing in more traditional assets and in carrying out modelling and investigations during AMP8 to determine the best value longer term solutions.
- 3.1.5 Section 2.5.2 shows that we have tested our plans against a range of scenarios to ensure that our plans can adapt to future uncertainty. It also shows that we intend to review our long-term strategy annually from the start of AMP8 and fully update cyclically, at least every 5 years, reflecting latest data on performance, trends, scientific understanding and technical capability.

Chapter 7

Chapter 7 and Chapter 5 are the key areas that provide evidence that the performance targets have been developed robustly and are both stretching and deliverable.

- 3.1.6 Chapter 7: Resilience and asset health for the North West demonstrates that we used our detailed understanding of the risks associated with our assets and our active approach to securing resilience, to underpin our proposals to protect customers and the environment from unacceptable service losses and to ensure that we can deliver the service levels that we are proposing.
- 3.1.7 Section 7.4 demonstrates how we have used our industry leading understanding of our assets to enable more precise asset planning and investment in AMP8 and to underpin our proposals to drive further improvements in service by transitioning to a strategy which shifts the balance of interventions towards asset renewal, informed from our investment in situational awareness.
- 3.1.8 Section 7.5 provides additional detail on our long term strategy and demonstrates that in AMP8 we will continue to focus on:
- Securing appropriate levels of asset resistance, reliability, redundancy and response and recovery capabilities that are efficient and agile to current and anticipated risks and service expectations;
 - Continuing to improve asset information and decision-making processes so as to ensure that risks are fully understood at an asset and systems resolution;
 - Improved accounting for interdependency and cascade failure risks; and,

- Developing tools to support identification of investment needs and the people and processes to deliver the required interventions.

Chapter 5

Chapter 7 and Chapter 5 are the key areas that provide evidence that the performance targets have been developed robustly and are both stretching and deliverable.

- 3.1.9 Chapter 5: Delivering Great Service demonstrates that we are targeting stretching performance levels based on historical performance and historical targets across the industry, whilst being mindful of cost pressures on customers and pace of delivery over AMP8 and the long term.
- 3.1.10 Section 5.3 sets out the performance targets for the AMP8 common PCs and demonstrates that these proposals include stretching performance improvement both up to the end of AMP7 and throughout AMP8. It also demonstrates how these improvements in performance are backed up by carefully considered delivery plans and a strong track record of delivering on our performance commitments in AMP7.
- 3.1.11 Section 5.4.1 demonstrates that during the first three years of AMP7 we met or beat targets for around 80% of our performance commitments. This track record demonstrates that we understand what is expected of companies in an outcomes-based regime and gives us confidence to propose an ambitious package for AMP8.
- 3.1.12 Section 5.4.4 demonstrates how the way that we have developed our performance commitment levels (PCLs) fully aligns with the PR24 final methodology. This means that we have used the most up to date and longest data sets available, considered upper quartile and frontier levels achieved during AMP7 and then compared these to our own ambitions, to verify the level of stretch and that we have set PCLs that reflect both the performance we propose from base expenditure and the performance we propose from enhancement expenditure.
- 3.1.13 Sections 5.7 to 5.10 set out full details of how we have calculated our stretching PCLs for each of the common and bespoke performance commitments, with more detail on these being provided in the supplementary document *UUW30 - Performance commitments technical document*.
- 3.1.14 In the majority of cases our proposals fully align with the expectations set out in the PR24 methodology and demonstrate how we are addressing the issues that were identified within the regulatory reports that have been published during the AMP7 period, together with any other sources of external feedback. There are however three performance commitments where we have adopted a clearly different approach. These are internal sewer flooding, storm overflows and unplanned outages of water treatment works. In each case, we have taken an approach that sets robust, deliverable but stretching targets in the context of our operating environment. The alternative – of adopting the proposed approach set out in the methodology – would not be capable of meeting those tests and we would not be able to declare that the targets were robust, deliverable but stretching.
- 3.1.15 **Internal sewer flooding.** Section 5.7.5 sets out that in PR19 we proposed a two-AMP strategy that was designed to deliver a 57% reduction in flooding incidents, with these proposals reflecting the significant environmental differences between company regions and showing how these differences impacted on attainable performance. Despite our proposals, Ofwat set a common PR19 performance commitment level (PCL) for internal sewer flooding based on the simple upper quartile of industry sewer flooding incident levels, and is proposing the same approach for PR24.
- 3.1.16 Setting a common PCL would not lead to an equivalent level of stretch being applied to each company, some companies would be penalised for not being able to deliver unachievable targets, whilst others would be rewarded for outperforming targets that are straightforward to attain within their regional operating circumstances. We are therefore proposing that ‘common (environmentally adjusted)’ PCLs are set, that are equally stretching for all companies. For UUW, we are proposing a demonstrably stretching further improvement of 31.9%, which would bring us to the two AMP target set out in our PR19 submission. Much more information on our approach to estimating robust, deliverable but

stretching sewer flooding targets is included in *UUW44 – Cost adjustment claims, Enhancement Case 18 – Sewer flooding in UUW65 and UUW30 – Performance commitments technical appendix*.

- 3.1.17 **Storm overflows.** Section 5.8.12 demonstrates that we have already achieved a 39% reduction in reported spills from storm overflows since 2020 and are committed to going further with our AMP8 proposals including the largest environmental improvement programme we will have ever delivered.
- 3.1.18 An extension of the analysis that we have undertaken for internal flooding also demonstrates that the unique operating circumstances in our region present us with a particular challenge. As a result we are proposing a company specific PCL which reflects our ambition to significantly reduce storm discharges and that we have included a stretching 32.9% performance improvement, to deliver a sustainable average spill frequency of 19.6 by 2030 – a significant improvement from our current baseline of 49.7 spills. Much more information on our approach to setting robust, deliverable but stretching targets on storm overflows is set out in *Enhancement Case 13 – Storm Overflows in UUW64 and in UUW30 – Performance commitments technical appendix*.
- 3.1.19 **Unplanned outages:** Section 5.9.3 sets out that our targets here are predicated on the continuation of raw water quality as an allowable exclusion for this PC. As a predominantly surface water fed company, our water sources can suffer from a wider range of variability in aesthetic quality. Such effects do not impact groundwater sources by their nature, but upland sources are prone to large swings in surface water quality due to various factors including algal blooms and geosmin. These effects are unpredictable and largely outside of management control.
- 3.1.20 The historic solution to managing this issue (and protecting customers from water quality issues) has been through the management of our integrated water supply system. Where an issue is identified with a particular water source, then we take the source out of use and provide customers with an alternate water supply through the network, before they're aware of an issue. This active decision to cease using a particular source means we can manage the customer experience of aesthetic water quality and provides them with the quality of water that they expect. This strategy was recognised as a legitimate approach through the previous unplanned outage PC definition, which excluded outages that were enacted on the basis of raw water quality.
- 3.1.21 Removal of the exclusion would mean that we would face double jeopardy on both the Water Quality Contacts and Unplanned Outage PCs. In the event of a raw water quality issue we would face penalties whatever our course of action. If we chose to close the works and provide supplies from elsewhere, we would be penalised under this asset health measure (even though the decision to close the works was not driven by asset health.)
- 3.1.22 Alternatively, if the works was left in service then we would be penalised on the basis of water quality and the elevated levels of water quality contacts. Our proposal is made on the basis that Ofwat reinstates the exclusion, noting that closure of a works based on poor quality raw water is not representative of an asset health failing. Rather, it is a valid strategy to protect the quality of customers' water supplies.

4. We can deliver the resultant programmes of work

4.1.1 This section sets out examples of how we can deliver the AMP8 programme.

Chapter 8

Chapter 8 demonstrates that the proposed programmes of work are efficient.

- 4.1.2 Chapter 8: Delivering at efficient cost demonstrates that although our proposed total AMP8 expenditure is £13.7 billion the vast majority of the increase in cost is due to the environmental improvement programmes, which at £5.7 billion are around seven times larger than the AMP7 FD. It also demonstrates that we are stretching ourselves to drive significant efficiencies out of our base and enhancement expenditure.
- 4.1.3 Section 8.3 demonstrates that we are committed to providing the best value for money for customers and shows how we have used internal and external sources of challenge and insight to ensure that our plan is as efficient as possible. It also shows that we are already leading the industry in using direct procurement for customers (DPC) and are committed to pursuing further opportunities in AMP8 and beyond.
- 4.1.4 Section 8.4 sets out the process we have undertaken to build our AMP8 business plan and how we have used internal and external challenge and insight to drive ambitious levels of efficiency into our plan at every step, to ensure that we are achieving the best value for money.
- 4.1.5 Section 8.4.1 demonstrates how the choices we have made during AMP7 have helped to improve the efficiency of our proposals. This includes the investment we have made in exploring innovations and in improving our asset management capabilities and our asset resilience. It also includes the significant voluntary reinvestment that we have made to accelerate improvements for customers and respond to issues such as the Environment Act 2021 and Industrial Emissions Directive, with this investment allowing us to begin working on these environmental improvements as quickly as possible and to reduce the top-down cost drivers going into AMP8.
- 4.1.6 Section 8.5 demonstrates that our AMP8 plan delivers significant performance improvements from base expenditure and that we are targeting over £1bn of efficiencies in AMP8 and the remaining two years of AMP7 to offset the incremental costs required to deliver these improvements. As a result we are proposing to deliver improved performance at a base totex level that is broadly in line with the AMP7 FD, and slightly lower than our forecast actual AMP7 botex.
- 4.1.7 Section 8.5.2 identifies three areas where our costs in AMP8 will be materially higher than in AMP7, due to increases to the scope of our base expenditure. These areas are:
- Increased ongoing costs of maintaining and operating assets following AMP7;
 - Costs of increased treatment for water and wastewater following population growth; and
 - Growing expectations of customers and regulators for improving performance levels.
- 4.1.8 Section 8.7.2 demonstrates that the additional cost that will be required to deliver this increased scope of work will be material and sets out the basis of the well-evidenced cost adjustment claims that we have included within our plan.
- 4.1.9 Section 8.5.3 demonstrates that a substantial proportion of our base efficiency will be delivered through innovation and optimisation of solutions. We have a strong track record of innovation and have been involved in successful bids to influence over £90 million of projects as part of Ofwat's AMP7 innovation fund, leading on seven projects (around 25 per cent of all awarded funds). More information can be found in supplementary document *UUW49: Innovation framework and strategy*. Section 8.5.4 demonstrates that the remainder of the efficiency challenge, to our base programmes, will be delivered through robust internal cost challenge and getting best value for money from our supply chain.

- 4.1.10 Section 8.7 overall describes how we have developed a robust and balanced suite of cost models, which were triangulated with other views on efficiency to derive an efficient forecast level of base costs for AMP8. It also shows how our proposed costs are below the stretching base cost derived from these models. The details of this modelling approach are set out in supplementary document *UUW46: Cost assessment proposal*.
- 4.1.11 Section 8.8 sets out the detail of our enhancement programme and shows how a significant proportion of the benefits that will be delivered by these programmes, will be delivered from base expenditure, through contributions from partnerships or via DPC arrangements.
- 4.1.12 Section 8.9 sets out how we have ensured that our enhancement proposals are based upon best value for money solutions. The process we have adopted utilises four main components; robustly challenging the need, scale and phasing of investment (Section 8.9.1), embracing the benefits that competition can deliver and maximising the use of markets to deliver a competitive service (Section 8.9.2), leveraging the benefits of partnerships working and taking further advantage of the use of Direct procurement for customers (DPC) (Section 8.9.4). Taken together these initiatives have driven over £2 billion of cost out of our enhancement programmes.
- 4.1.13 Section 8.10 sets out how we have complemented the bottom up review of our costs by undertaking independent assurance of our approach to cost assessment, with this review concluding that it was robust and appropriate.

Chapter 8 and supplementary document *UUW47* demonstrate that we can deliver the proposed step changes in the capital programmes.

- 4.1.14 Section 8.3 demonstrates how we have used internal and external sources of challenge and insight to ensure that that we have the capability and capacity to deliver the plan. It also demonstrates how we have supported government accelerations including Green Recovery during AMP7.
- 4.1.15 Section 8.11 demonstrates that we recognise that delivering our AMP8 capital programme, which is the largest ever five-year programme we have proposed and contains a very different mix of work than usual with a commitment to move away from grey towards more blue/green solutions, will present new and unique challenges, for us and for the industry more generally.
- 4.1.16 Section 8.12 demonstrates how we have used accelerated and transition investment to initiate key elements of the programme that require time to mobilise and deliver. Bringing forward this investment will also assist in smoothing the profile of AMP8 contractor spend, mobilising the supply chain early and smoothing the demands on capacity.
- 4.1.17 This early investment is in two main areas, Ofwat’s final decision on infrastructure projects to be brought forward, included £1.5 billion of investment for United Utilities, £197 million of this will be spent in the remainder of AMP7. Our plan also includes a further £107 million of transition investment mainly focusing on WINEP projects but also including preparatory work for our smart metering programme and enabling expenditure to manage growth at wastewater treatment works.
- 4.1.18 **Supplementary document *UUW47 Deliverability*** focuses on the deliverability of the AMP8 capital programmes and describes how we have assessed the challenges we will face and sets out the changes we are making both internally and with our supply chain to address these challenges. It also demonstrates why we are confident that we will be able to rise to these challenges.
- 4.1.19 Section 2.1 demonstrates that we have a good track record of delivery and as set out in the EA’s OPA report, we have delivered all of the required outputs in the AMP7 WINEP and are on track to deliver the entire programme on or before the target dates agreed with the EA.
- 4.1.20 Section 2.2 demonstrates that we recognise that we need to change, with Section 2.4 setting out how we have taken a detailed and structured approach to assessing the deliverability of the plan by using a “3-Cs” approach. This approach focuses on ensuring:
- That we understand and can clearly quantify the “challenge”;

- That we have the “capability” to successfully execute our plans to the required time cost and quality; and
 - That we have the “capacity” both internally and within the supply chain, to successfully deliver the programme.
- 4.1.21 Section 2.4.2 provides a detailed table setting out the actions that we have taken in response to the 3-Cs challenge process.
- 4.1.22 Section 2.5 demonstrates how the approach that we have adopted fully addresses the deliverability tests that were set out in the PR24 methodology for Board Assurance Statements. Section 3 provides significantly more detail to demonstrate how we have identified the risks and challenges that we needed to manage and including more detail and some case studies on some high priority areas, for example implementing alternative phosphate removal techniques.
- 4.1.23 Section 4 sets out how UU is transforming itself to successfully address these challenges. It describes our transformation programme and highlights how we have created new directorates to focus on higher risk areas such as CSOs and Rainwater Management. It also sets out our resourcing and engagement strategy and shows how we are addressing our internal capacity and capability needs and utilising specialist external resources to supplement identified gaps.
- 4.1.24 Section 5 sets out how we have assessed the capacity of the supply chain to address the identified risks and growth areas and taken steps to secure the required resources. It highlights how we have assessed local and national supply chain capacity and capabilities. Shows how the extensive engagement we have undertaken has allowed us to access a broader supply chain and expand and develop our supplier relationships. It also describes how feedback from the supply chain has helped to shape our future delivery and procurement model; by utilising a runways approach and by taking steps to manage identified risks, including targeted interventions on issues such as chemicals, river water monitors and smart meter installations.
- 4.1.25 Section 6 provides more detail on our standardisation programme, which is one of the key approaches we are adopting to both drive future efficiencies and support the delivery of the programme.
- 4.1.26 Section 7 provides more detail on our innovation approach and demonstrates why this will continue to be at the heart of our agile and evolving approach to delivering our AMP8 programme.
- 4.1.27 Section 8 demonstrates how we have already used our active participation in the Accelerated Infrastructure Delivery scheme and the Advanced WINEP programme, to accelerate our plan in two key areas (CSOs and rainwater management).
- 4.1.28 Section 9 demonstrates how we have challenged and assured the deliverability of our plan and how we have demonstrated that we have the required capability and capacity to deliver out AMP8 programmes and have addressed the key Ofwat tests.

5. We can effectively finance the programme.

5.1.1 This section sets out examples of how we can finance the programme.

Chapter 9

Chapter 9 demonstrates that our current financial position will allow us to robustly finance the AMP8 programme in a way which allows us to maintain the long term viability of the company

5.1.2 Chapter 9: Risk, return and responsible behaviour demonstrates that we have a sustainable, resilient and responsible approach to capital structure and financing, sets out how we have understood and assessed the risks in the plan, demonstrates that our plan is financeable on both an actual and notional financial structure and demonstrates that the plan allows us to maintain long term viability.

A responsible approach to capital structure and financing

5.1.3 Section 9 of this document demonstrates that we are a benchmark company in terms of financial resilience and that we have made clear commitments to responsible policies on gearing, dividends, benefit sharing and executive pay in AMP8.

Risk assessment and management

5.1.4 Section 9.3 demonstrates that a fair alignment of risk and return, placing risks where they are best able to be managed, is crucial to the successful development and delivery of a business plan and that, given the significant investment programmes that will need to be delivered and the broader environment where there are many competing investment needs, the UK water sector must be able to attract investment to keep the cost of financing the sector as low as possible.

5.1.5 Section 9.3.1 sets out the key levers that we employ to manage downside risk and demonstrates that our plan has a downward skewed risk/return profile, with an overall RoRE range of minus 4.52% to plus 3.10%. This range reflects the stretching costs and performance targets in our plan, but still provides opportunities for rewards in the event of exceptional performance.

5.1.6 Section 9.3.3 demonstrates why we believe that the risks associated with the significant and unpredictable change in the bioresources sector have the potential to drive very significant new investment requirements and that we have proposed a notified item, as the most appropriate way to manage these risks.

Financeability of the plan

5.1.7 Section 9.4.2 demonstrates that we have adopted Ofwat's early view WACC guidance for our wholesale price controls, along with the margin that underpins our residential retail price control. It does however, demonstrate why we do not consider the 'early view' WACC to be fully reflective of the cost of capital over AMP8 and why it is essential that the final determination includes a fair and balanced position, reflecting both the quantitative and qualitative components that the sector will face in the AMP8 period.

5.1.8 Section 9.5.3 demonstrates why, despite financeability constraints, we are not proposing to advance any revenue, either through RCV run-off (which we have aligned with natural rates) or PAYG and are apportioning our carry forward adjustments between RCV and revenues in line with Ofwat's proposed PR19 reconciliation mechanisms.

5.1.9 Section 9.6.2 confirms that our financeability assessment had fully complied with Ofwat's guidance. Section 9.6.3 demonstrates that a financeable water company has to have good prospects for accessing equity finance and can attract sufficient levels of investment, in a competitive market where international investors have a choice of where to invest, and have resilient access to debt capital market financing in a range of market conditions at an efficient cost. Section 9.6.4 then reviews the financeability constraints and levers of our plan on a notional and actual company basis.

- For the notional company, even though gearing increases, this metric remains in line with the target ratings over AMP8. The opening gearing assumption of 55% is a key driver in enabling various

interest cover metrics to be met and once gearing increases to a more typical level, for the sector, the financeability constraint is then felt on those interest cover metrics.

- For the actual company, gearing initially act as a financeability constraint but is swiftly followed by various interest cover metrics, as despite the actual company's higher proportion of index-linked debt and below sector cost of debt, this is not enough to offset the additional interest costs associated with financing the proposed investment programme.

5.1.10 To resolve these financeability constraints we have included the following financeability levers in our plan that will allow both the notional and actual companies to maintain strong credit ratings, enabling efficient access to debt funding and to attract equity investment to support our planned investment programme:

- Assumed £2.25 billion of equity issuance for the notional and £1.35 billion for the actual company to ensure that our large investment programme is funded by an appropriate mix of debt and equity;
- Reduced cash dividend pay-out amounts by adopting a policy of a base distribution of the allowed cost of equity less 100bps for both the notional and actual company, to further bolster equity retention; and
- For the actual company only we have also utilised positive AMP7 reconciliation adjustments due to be received in AMP8 as an alternative choice to additional equity issuance or dividend restriction and to ensure that customers do not bear the costs of resolving actual company financeability constraints.

5.1.11 Section 9.6.5 sets out selected key financeability ratios. A full list of our forecast AMP8 financeability financial ratios, after financeability levers, for the notional and actual companies are set out in supplementary document *UUW69 - Evidence of Financeability*.

5.1.12 Section 9.6.6 demonstrates that the targeted debt financeability ratings with Moody's and Fitch are demonstrably met for both the notional and actual company, although the S&P metrics are more challenging. It concludes that, on the basis that the notional and actual companies should achieve target credit ratings with at least 2 of the ratings agencies, we consider that both the actual and notional companies are financeable from a debt perspective after our proposed application of financeability levers.

5.1.13 Section 9.6.7 demonstrates that as a regulated utility facing a step change in investment, it will be necessary for UUW to demonstrate that we are an attractive investment proposition for equity and that the overall PR24 risk and return package, and the level of allowed returns are all likely to be material factors in determining equity financeability. It sets out the key factors that will need to be reflected in determining the final WACC used within the PR24 determination and the likely sources of the new equity capital. Section 9.6.8 summarises the financeability assessment and concludes that on the assumption that the overall PR24 risk and return package and the level of allowed return are set at an appropriate level at the FD, we are confident that our plan is financeable from a debt and equity perspective on both a notional company basis and an actual company basis.

Long term Viability

5.1.14 Section 9.7.2 demonstrates that the board has provided a high quality viability statement out to March 2035. It also demonstrates that we have performed comprehensive stress testing of the plan, which has included the Ofwat prescribed and combined scenarios as well as additional reverse stress testing of two extreme theoretical scenarios, focusing on totex overspend and persisting low inflation, which has demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but plausible' scenarios before UUW's long-term viability would be at risk.

6. We have robustly challenged and assured all the components of the plan

6.1.1 This section sets out examples of how we have challenged and assured across all components across our plan.

Chapter 10

Chapter 10 demonstrates that we have implemented a detailed assurance process and this is demonstrated through a comprehensive Board Assurance Statement

6.1.2 Chapter 10: Assurance and track record demonstrates that we have provided evidence that all sections of the plan have been robustly challenged.

6.1.3 Section 10.3 demonstrates that the strategic direction of the plan has been driven by the board, that the plan is underpinned by a strong assurance process and that we have sought to meet or exceed each of Ofwat's requirements for a high quality plan.

6.1.4 Section 10.6 describes our PR24 assurance framework. It details the governance and accountabilities that have been developed to support this submission, which includes independent challenge and review, external expertise on content creation and third-party assurance.

6.1.5 Section 10.7 describes our approach to programme organisation and control and demonstrates that our five-year business plans has been developed in the context of a 25-year long-term delivery strategy. With Section 10.8 demonstrating how we have established a strong programme management office (PMO) to manage the development of our PR24 business plan. The PMO oversaw the development of the plan and managed the capture of all regulatory and business requirements, with each requirement having an executive sponsor, who was required to confirm that their work and the supporting assurance actions had been fully completed.

6.1.6 Section 10.9 demonstrates how we utilised a series of internal gateway reviews (skeleton, bronze, silver and gold) throughout the development of the business plan. The reviews involved a combination of executive, senior management, and peer review and assessed both progress and the quality of the deliverables against increasingly exacting approval criteria. Any documents failing at a gateway were required to be reworked and re-submitted.

6.1.7 Section 10.10 Demonstrates that we also undertook three high level independent reviews of our plan and sets out the findings of these reviews.

- We commissioned Arup to undertake independent scrutiny and challenge on the UUW WINEP programme, which was also informed by an independent panel. The scrutiny and challenge was focused on assessing whether activity included in the WINEP was needed, costed appropriately and whether the programme was correctly optimised.
- We used Deloitte as an "assurance aggregator" to provide confidence that each component of the programme had been developed appropriately and to a high-quality standard. Two main assessments were performed over the duration of the programme. The first was aligned to the Bronze gateway and the second aligned to the Gold gateway. The assessments confirmed that assurance requirements were met and that any identified risks/issues identified had been satisfactorily addressed.
- We also utilised our independent challenge group, the 'YourVoice' panel, to independently challenge our plan. YourVoice's findings were reported to the board alongside the findings of our Corporate Audit team and external assurance providers to aid the board's decision to approve the submission.

6.1.8 Section 10.12 demonstrates that through the governance and controls that had been established, aligned to the robust application of our assurance framework, we are confident that we have produced

a submission which is high quality, ambitious, stretching but deliverable. With this being confirmed in the Board Assurance statement that is set out within document *UUW11 Board Assurance statement*.

- 6.1.9 Other supplementary documents supporting this chapter and which help demonstrate that we robustly challenged and assured all elements of the plan are are: *UUW76 - Confidence and assurance of the submission* which describes key assurance processes and outputs; *UUW77 - Board leadership of the business plan* which describes how the board has engaged with and provided strategic direction throughout creation of the plan; *UUW79 - Statutory obligations* summary which sets out how we have met commitments in AMP7 and our approach to doing so in AMP8; and *UUW80* which provides the assurance aggregation report from external assurance providers Deloitte LLP.

7. We have reflected customer views and have built the plan in a way which maximises social and environmental value

- 7.1.1 This section sets out examples of how we have reflected on the views of customers to build the plan to deliver to customers, society and the environment.

Chapter 3

Chapter 3 demonstrates that engagement has actively informed the development of our plan and that customers and communities support the improvements and strategies proposed in our plan

- 7.1.2 Chapter 3: Customers and communities shaped our business plan demonstrates how our proposed service improvements and our long-term aspirations and strategies to adapt to current challenges, are endorsed by customers and that communities and stakeholders in the North West believe this is the right plan for the region.
- 7.1.3 Section 3.3 provides an overview of our customer research methodology and demonstrates our transparent approach to sharing research. Wherever practicable we publish our reports on a dedicated area of our website, in an open data source that anyone can use.
- 7.1.4 Section 3.4 shows how we take issue specific approaches, to draw on a range of methods to secure greater stakeholder insight. With Section 3.5 demonstrating how customer engagement continually informs our plans. This includes using external sources of insight such as water industry research reports from CCW, MOSL, Ofwat, CIWEM and UKWIR. We have also been active members in the Ofwat and CCW collaborative research sessions into ODI rates and affordability and acceptability testing and have used the products and outputs from the Ofwat/CCW centralised research within our plan and also adopted this centralised methodology for testing our bespoke performance commitments.
- 7.1.5 Section 3.6 demonstrates how we have continued to track customer priorities over time and fed this into our investment prioritisation and that customers were informed about and support our business plan. With Section 3.7 demonstrating how we have addressed community and stakeholder feedback in the plan. For example through targeted consultation events, which allowed us to obtain direct and detailed feedback, including from our regulators, via an open stakeholder and customer 'Your water, your say' forum, which was in line with Ofwat and CCW guidance and held on 29 June 2022.
- 7.1.6 Considerably more evidence on how the plan has used high quality research to both inform and shape the plan is provided in supplementary document UUW21 – Customer research methodology.

Chapter 6

Chapter 6 demonstrates that our plan protects and grows the value we deliver to customers, society and the environment throughout the North West

- 7.1.7 Chapter 6: Delivering social and environmental value highlights the benefits of our plan, and demonstrates how it delivers social and environmental value for the North West both as a whole, and for each of the diverse counties we serve. It also describes how delivering social and environmental value can be maximised through our approach to partnership working.
- 7.1.8 Section 6.3 demonstrates that politicians, the media and our regulators have raised their expectations for water companies, with customers placing a higher value on the environment over time and wanting us to deliver more social and environmental value. In response we have used a robust and consistent approach to prioritise interventions in our business plan that deliver both social and environmental benefits and represent best value for customers. For more information on our best value decision-making approach, please refer to supplementary document *UUW45 - Our approach to deliver best value totex*.

- 7.1.9 Section 6.5 demonstrates that our purpose drives us to deliver our services in a socially responsible manner, reflecting the interests of all our stakeholders. For instance, we deliver value through water and wastewater services and by providing support to customers who are struggling to pay their bill or are in vulnerable circumstances. We also provide apprenticeships, employee health and wellbeing schemes, pay suppliers on time, reduce our environmental impacts, encourage access to our land and invest in our local communities.
- 7.1.10 Section 6.6 demonstrates that our core business is inextricably linked to the resilience of the natural ecosystems of the North West and that our strategy will protect and enhance the natural environment to meet the needs of water customers today and tomorrow.
- 7.1.11 Section 6.7 demonstrates that we recognise that collaboration is critical to meeting complex environmental and social challenges in the most efficient and effective means. Over recent AMP periods, we have gained extensive experience of working in partnership to co-design, co-finance and co-deliver solutions and to secure greater value for customers and the environment than we could have achieved by working alone. In AMP8 we will expand on the use of partnership working to help tackle some of the challenges that we face and to unlock sizable new opportunities. We provide detail of this strategy and our track record in the supplementary document *UUW38 – Working in Partnership*.
- 7.1.12 Section 6.7.3 demonstrates that delivering projects with multiple drivers through different partnerships involves inherent uncertainty and project specific challenges, which require flexibility to maximise the potential benefits. To support this we have developed an organisation-wide partnership framework that sets out our overarching approach and provides a clear set of principles to provide consistency and guidance and to ensure that clear and effective governance is in place, guaranteeing support, commitment and accountability from our Board ESG Committee.
- 7.1.13 Section 6.7.3 also demonstrates how we have already started to use our Advanced WINEP to create the flexibility to unlock innovative investment and initiate partnerships on rainwater management and storm overflows.
- 7.1.14 As well as the supplementary documents highlighted above on partnerships and delivering best value totex, a further supplementary document on how our plan delivers value is *UUW39 – How our plan delivers social and environmental value*.

8. We have taken effective measures to manage the affordability of the programme

8.1.1 This section sets out examples of our packages of affordability support for AMP8.

Chapter 4

Chapter 4 sets out our plans to ensure that long term bill impacts have been managed in line with customer priorities, which are supported by our current track record.

8.1.2 Chapter 4: Driving affordability demonstrates that in AMP7 United Utilities led the industry in the breadth and depth of our affordability support and won recognition as a leader in the industry and in the wider economy for the strength of our approach. It also sets out the unprecedented package of affordability support we are proposing for AMP8.

We have a strong track record

8.1.3 Section 4.3 demonstrates that we are a leader in the water industry in affordability and vulnerability assistance, with a wide range of support schemes for customers, many of which were firsts for the industry and that we have outperformed against our PR19 plans.

8.1.4 Our range of affordability support meets best practice standards and in some instances exceeds them, being held up as best in class. We have been repeatedly recognised as industry leading for the wide range of support offerings available to our customers. We were recognised for “exemplary” performance following Ofwat’s ‘Paying Fair’ review into company provision and customer access to affordability schemes, debt management and cash collection processes.

8.1.5 Practices such as our new flexible PayAsUGo scheme, extensive partnership working including our annual Affordability Summit and use of insight and intelligence to anticipate the needs of customers and target action have been highlighted by both Ofwat and CCW as representing good practice for others to follow.

8.1.6 We challenge ourselves against the best in the country, not just the water sector, and over the last 5 years have been recognised as not just water or utility industry leaders but best in class against a wide range of industries. In February 2023 we won the prestigious CICM Excellence in Credit Management Award; the Chartered Institute of Credit Management’s highest accolade. The professional body awards this accreditation only to organisations that can demonstrate they meet specific challenging criteria as confirmed by the Institute’s Executive Board. We are one of only seven organisations across the UK to hold this status.

8.1.7 Over the last 5 years we’ve won twenty five awards recognising our approach to supporting vulnerable customers, our innovative use of technology and overall collections performance. The awards are judged by a wide range of leading industry experts and recognise our outstanding performance. Most recently our affordability and collections team have won B2C Collections Team Award at the British Credit Awards 2023; Water Team of the Year, Best Code of Conduct and Culture and Best Vulnerable Customer Support team at the U&T Awards 2022; and the Utility Week Cost of Living award 2022; recognising our extensive approach to responding to customers’ needs as result of increasing cost of living pressures

Managing affordability in AMP8

8.1.8 Section 4.4 sets out the work we have undertaken to develop a clear understanding of affordability and vulnerability in the North West, and shows how we have used this customer insight to help us design appropriate services and support. External assessments and benchmarks demonstrate that our support for customers is strong. In 2021 CCW published its affordability review, including recommendations of good practice for supporting customers who find their water bill unaffordable. We received a green assessment, no recommendations for improvement, and were one of only two companies to provide the full suite of affordability offerings expected.

- 8.1.9 Section 4.6 demonstrates that the degree of socio-economic challenges in the North West means that the need for financial support for customers is greater in our region than other areas of England. In response to this we have committed to go even further to support those that need it, bringing together our range of support schemes under a unified “Water without worry” banner.
- 8.1.10 Our plan for AMP8 builds on our established capability and proven track record in delivering effective and meaningful support for our customers. Our AMP8 plan reflects a proposed £525 million of direct financial support for low income and financially distressed households, including £200 million of shareholder funded support (the largest shareholder commitment seen in the water sector to date). We estimate that this will enable us to increase the number of customers helped each year to c.590,000 (over 1 in 6 households), this significant increase in financial support will mean we can avoid any increase in levels of water poverty despite increases in average bills.
- 8.1.11 In addition to shareholder contributions, we have proposed an innovative and stretching bespoke performance commitment. This measure is designed to support a number of socially important non-household customers to be able to afford and pay their water bill, through water efficiency interventions and to provide meaningful help to a group of customers that would not receive help otherwise.
- 8.1.12 Section 4.7 demonstrates that support in affording water bills is only one aspect of the additional help customers may need from their water company. In response we have developed a range of support mechanisms, including a new emergency support scheme designed to support customers experiencing transient vulnerability as a result of sewer flooding. The UU Trust will administer the fund, and make independent, case by case decisions on grants.
- 8.1.13 Section 4.5 demonstrates that we consulted with the independent challenge group ‘YourVoice’, including its Affordability and Vulnerability sub panel, about the affordability impacts of our plans and that their views have helped inform our proposals, and have directly led to a number of changes to our plans. For example, we have reformed the way that we engage with customers about the potential benefits of switching to a meter. Details of the YourVoice panel can be found in supplementary document *UUW25 - Affordability and Vulnerability Operational Response*.
- 8.1.14 Supplementary document *UUW73 – Cost of capital considerations* identifies how customer acceptability and customer affordability support would be robust to changes in the cost of capital.

9. We can be relied upon to act responsibly in the way that we implement the plan

9.1.1 This section sets out examples of how we can act responsibly in the implementation of the plan.

Chapter 5

Chapter 5 demonstrates that the suite of performance commitments and price control deliverables will protect customers, if we do not deliver.

9.1.2 Chapter 5: Delivering Great Service sets out how we have developed our performance commitments and price control deliverables

9.1.3 Section 5.3 sets out the performance targets for the AMP8 common PCs and demonstrates that these proposals include stretching performance improvements. Section 5.4.2 demonstrates that we have developed a well-rounded package of incentives for these measures. In addition to the performance commitments and the wide range of other customer protection tools that ensure that monopoly companies operate appropriately and in the interests of customers and the environment, we have proposed a suite of price control deliverables (PCDs) to provide customer protection in the event of non-delivery of significant enhancement allowances.

9.1.4 Section 5.4.4 demonstrates how the way that we have developed our performance commitment levels (PCLs) fully aligns with the PR24 final methodology. Specifically this means that we have considered upper quartile and frontier levels achieved during AMP7 and then compared our own ambitions to these, to verify the level of stretch and have set PCLs that reflect both the performance we propose from base expenditure and the performance we propose from enhancement expenditure.

9.1.5 Sections 5.7 to 5.10 set out full details of how we have calculated our stretching PCLs for each of the common and bespoke performance commitments, with more detail on these being provided in the supplementary document *UUW30 - Performance commitments technical document*.

9.1.6 Section 5.6 demonstrates that we have included Ofwat's June 2023 indicative ODI rates in our business plan and propose financial ODIs for all bespoke PCs. These are calculated in line with Ofwat's stated approach and based on a rigorous and externally assured approach to triangulation of various sources of customer research and valuation. For further details please see *UUW31 - customer triangulation document*.

9.1.7 Section 5.6.4 demonstrates that we have developed PCDs for all relevant enhancement programmes against a common framework, taking account of Ofwat's developing process, as set out in its PR24 methodology, follow up workshop and subsequent Information Notice 23/05. Our key principles for PCDs include:

- Our PCDs ensure that customers are compensated in the event of non-delivery of enhancement investment assumed at price control, and hence funded from customer bills; and
- Our PCDs compensate customers for the time value of money arising from late delivery of investment relative to that assumed at the price control

A full table showing references to PCDs is provided in Chapter 8, Section 8, Table 8-8. Detailed PCDs by investment case are set out in the relevant enhancement case supplementary.

Chapter 9

Chapter 9 and chapter 10 demonstrate that the commitments that we have made are supported by our current performance and track record in AMP7

9.1.8 Chapter 9: Risk, return and responsible behaviour demonstrates that we are a benchmark company in terms of financial resilience and have made clear commitments to responsible policies on gearing, dividends, benefit sharing and executive pay in AMP8. It is notable that in its PR19 business plan –

submitted in 2018 – United Utilities Water was already implementing measures on dividends and executive pay that anticipated the requirements now incorporated into company licences. It has delivered on these commitments during AMP7 and will continue to do so in AMP8.

9.1.9 Section 9.7.1 Demonstrates that we are a benchmark frontier company in terms of financial resilience and have a long track record of maintaining robust financial resilience. Key factors from our track record are:

- **Responsible approach to paying dividends.** We have demonstrated a cautious approach to paying dividends, as evidenced during the onset of the Covid pandemic. Further detail of our dividend policy is set-out in sections 9.3.3 and 9.4.6 and in supplementary document *UUW70 - Capital Structure and Dividend Policy*.
- **Maintaining an appropriate level of gearing.** UUW has consistently reported below sector average gearing as noted in section 9.3.3 and supplementary document *UUW70 - Capital Structure and Dividend Policy*.
- **A prudent level of headroom and liquidity.** Headroom and liquidity is about having enough cash or readily available committed facilities to draw on to meet the funding requirements of the business on an ongoing basis. We have a longstanding board policy of maintaining between 15 and 24 months of financial headroom on a rolling basis, which provides a substantial level of liquidity to meet any short-term cash flow impacts that may arise.
- **A responsible approach to financial risk management.** We take a responsible approach to financial risk management including the use of hedging in a cost effective manner against interest rate, inflation, foreign currency and electricity prices in line with clearly articulated treasury policies.
- **UK leading approach to pension scheme risk management.** We have the most robust and resilient defined benefit pension scheme in the industry and one of the strongest in the UK, with both schemes being fully funded on a low dependency basis and significantly de-risked.
- **Financial resilience benefits from highest governance and disclosure standards of being a public listed company.** Publicly listed companies must adhere to the highest levels of governance and accountability, carefully balancing the interests of all stakeholders and working in their long-term interests. Publicly listed equity finance provides the broadest degree of shareholder ownership³ and a viable source for further equity investment through access to a deep and liquid market.

9.1.10 As a result of this approach UUW continues to set a robust benchmark in terms of financial resilience:

- Gearing at 66% as at 31 March 2023;
- Robust credit ratings: A3 with Moody's, an Issuer Default Rating (IDR) of BBB+ and senior unsecured debt ratings of A- with Fitch, and BBB+ rating with Standard & Poor's (S&P) all on stable outlook;
- Prudent level of headroom and liquidity and our board has provided a high quality long-term 12 year viability statement out to 2035;
- Responsible approach to financial risk management and UK leading approach to pension risk management; and,
- Group parent is publicly listed providing robust market evidence for water sector beta and access to deeper and more liquid pools of equity capital versus privately owned peers.

9.1.11 Section 9.3.4 demonstrates that UUW has a strong long term track record of sharing outperformance with customers and other stakeholders across 2010-25. In total, this represents over £2 billion of reinvestment over the period, of which £1,225 million was met through shareholder funds that were reinvested in the business for the long term rather than distributed as dividends.

³ At 31 March 2023, we had over 63,000 equity investors, the largest of which held a c8% stake.

9.1.12 Section 9.8 and the supplementary document UUW72 set out how we are meeting, and will meet or exceed in AMP8, the expectations Ofwat has set on executive performance pay. We have a long track record of ensuring that executive performance pay is aligned to customer and environmental outcomes, sets stretching targets and that governance and accountability for executive pay meets or exceeds all best practice requirements.

Chapter 10

- 9.1.13 Chapter 10: Assurance and track record demonstrates that we have a comprehensive board assurance statement supported by a robust assurance process. It also shows that we have a strong track record of transparency and good governance with a track record of doing the right thing and setting standards for the sector as a responsibly behaved and financially resilient company.
- 9.1.14 Section 10.4 provides evidence of our track record in delivering on our promises and shows how this gives confidence that we can deliver what we set out within our PR24 business plan submission.
- 9.1.15 Section 10.4.1 demonstrates that we have a strong focus on doing business the right way, proactively leading by example, behaving responsibly and being open and honest about it. When we perform well through innovation we share this with the industry, such as through the industry wide workshop we held in 2023 on reducing the number of pollution incidents. When things go wrong we learn from it and share that learning too. We demonstrated this after the Franklaw water treatment works incident in AMP6.
- 9.1.16 Section 10.4.1 demonstrates that we have a long-standing commitment to corporate responsibility and environmental, social and governance (ESG) business practices. Our openness about how we do business, and the manner in which we report it, is regularly recognised externally. For example, at the Chartered Governance Institute UK and Ireland Awards 2022 we received the top awards for 'Strategic Report of the Year', 'Sustainability Disclosure of the Year', 'Audit Disclosure of the Year' and we were 'highly commended' in the 'Annual Report of the Year (FTSE100)' category. We were also 'highly commended' in the 'Reporting in the FTSE 350' category at the PwC Building Public Trust Awards 2022, with our commitment to ESG reporting, helping us to win the 'Sustainability reporting of the year, EMEA' category at the Sustainable Company Awards 2022.
- 9.1.17 Section 10.4.1 demonstrates that as a FTSE 100 company with a workforce of over 5,000 employees and a major, multi-billion pound investment programme, the way we act as a business has a profound influence on the social, economic and environmental wellbeing of the North West and that we are determined to play our part through a socially, environmentally and financially responsible approach to our day-to-day activities.
- 9.1.18 Section 10.4.2 and 10.4.3 sets out how we are delivering responsibly against key requirements for core activities on environmental protection and improvement and drinking water standards, including the improvements we have made during AMP7 in achieving frontier performance on avoiding pollution incidents and in delivering our "Water Quality First" initiative which has demonstrated to the DWI that we could exit its transformation programme.
- 9.1.19 Section 10.4.4 demonstrates that we are a responsible actor in the sector, stepping up to lead the way on affordability schemes for customers, support for contestable markets and reinvesting outperformance to improve services for customers and the environment. We consistently demonstrate the right behaviours, because it is the right thing to do and we want our behaviour to be seen as an example for others to follow.
- 9.1.20 Section 10.4.5 sets out our forward looking approach on carbon and greenhouse gases and Section 10.4.6 describes how we have performed in delivering Outcomes over AMP7. Section 10.4.7 reflects on the way in which we collaborate, share and learn with other parties and partners.
- 9.1.21 Section 10.4.9 demonstrates that we engage positively in key industry challenges. We have led in getting DPC bedded into the water sector. Getting DPC off the ground has taken a lot of effort from both UUW and Ofwat, but we can see the customer benefits of this alternative method of delivery for large scale

investments. We are also currently attempting to resolve issues with how to open up the bioresources market to competition. For further details see *UUW58 - Bioresources business plan*.

Chapter 9

Chapter 9 demonstrate the commitments that we have made with respect to corporate responsibilities and behaviours in AMP8

- 9.1.22 Section 9.3.5 demonstrates that our current dividend policy complies with or exceeds the updated licence condition P requirements and previous Ofwat guidance including “Putting the sector back in balance”. Our board remains committed to implementing this policy responsibly, with UUW being one of only four water companies who paid a dividend in 2021/22, which was assessed by Ofwat as “*The company has generally met our current expectations on dividend policy and its application*”⁴.
- 9.1.23 Section 9.4.6 demonstrates that we have set out a clear and transparent AMP8 dividend policy which ensures there is strong alignment between our approach to dividend and the delivery for customers and the environment over the longer term. The Board is committed to taking the guidelines published by Ofwat in IN23/04 into account in assessing and paying of dividends and we expect that our approach to dividends, both in policy and practice, will meet or exceed the requirements of Condition P of the licence. Full details are available in supplementary document *UUW70 Capital Structure and Dividend Policy*.
- 9.1.24 Section 9.3.6 demonstrates that in AMP7 we committed to providing £71 million of company funded financial support for customers. We propose to improve this in AMP8 through our CommUnity Share 2030 commitment, which:
- Provides £200 million of company funded, customer support schemes targeting improved affordability.
 - Commits to Sharing half of the financial benefits arising from gearing exceeding 65%, in the event that gearing exceeds 70%
 - Commits to providing a 1:1 matching contribution (CommUnity dividends), in the event that we pay dividends that are in excess of 3% of RoRE above the base cost of equity.
- 9.1.25 Section 9.4.4 demonstrates that we are committed to acting in a responsible manner in relation to our tax affairs⁵ and will continue to pay our fair share of tax in AMP8. Evidencing this, we were delighted to have retained the Fair Tax Mark independent certification in 2023 for the fifth consecutive year
- 9.1.26 Section 9.8 demonstrates that we are confident that our executive pay policy and approach in AMP8 will meet or exceed Ofwat’s expectations of performance related executive pay.
- 9.1.27 Section 9.8.1 demonstrates that we understand why there is a high level of scrutiny and concern amongst stakeholders around water company performance, and the corresponding focus on executive pay. It also demonstrates that we take a responsible approach to our environmental commitments and obligations and reflect this in remuneration arrangements, through links to measures such as Environmental Performance Assessment (EPA), sewer flooding, leakage, pollution, treatment works compliance, and the Compliance Risk Index. These measures are consistently reviewed and updated; in 2022/23 we introduced two new measures, one focusing on improving the appearance of drinking water, and the other delivering on our Better Rivers commitments and in 2023/24 we introduced two new measures relating to reducing storm overflow spills.
- 9.1.28 Section 9.8.2 demonstrates that we are accelerating the process for reviewing the policy to make sure that it is and in place for the start of the AMP8 period. It also demonstrates that we plan to go beyond Ofwat’s stated expectations in three specific areas:

⁴ Ofwat’s Monitoring financial resilience report 2021/22 (published December 2022)

⁵ See our tax policies and objectives on page 150-151 of UUW’s Annual Report and Financial Statements 2023

- The committee will take account of developments of a regulatory nature and issues affecting other stakeholders so that any potential impact on the executive pay approach can be considered.
- Our remuneration approach will be updated to reflect changes arising from the FRC's consultation on enhancing the UK Corporate Governance Code's effectiveness in promoting good corporate governance, expected to take effect in 2025.
- We will commission an annual independent assessment of our compliance with relevant reporting and governance standards.

9.1.29 Section 9.8.3 demonstrates that we are already applying Ofwat's published guidance on its expectations regarding performance related pay in AMP7 and will continue to use it to support decision making throughout AMP8. Our AMP8 pay policy and approach is set out in supplementary document *UUW72 – Executive Pay*.

10. Conclusion

- 10.1.1 This document sets out or provides sign posts to some of the evidence within our business plan that demonstrates that we have provided sufficient and convincing evidence that we can credibly deliver the proposals in our plans. It also shows how our plan has fully addressed the five deliverability and three credibility requirements that we set out within this document to underpin this high level objective.
- 10.1.2 We have analysed the independent reviews of our performance that have been published by our regulators and recognise that we need to improve our performance in some areas and that we need to do significantly more work than most companies to meet the current expectations with regard to sewer overflows.
- 10.1.3 We have based our improvement programmes on a combination of expansion of the approaches we have been successfully adopted in AMP7 supported by substantial areas of enhancements, for example to address water quality issues through investment in the Vyrnwy aqueduct and to address spills from overflows and other requirements set out in our WINEP, through the largest enhancement programme we have ever implemented.
- 10.1.4 Our analysis demonstrates that these programmes of work should allow us to deliver the performance expectations set out within the PR24 methodology. There are three very important cases where we do not consider that the methodology would allow us to make proposals that are robust, deliverable but stretching: these are on measures related to internal sewer flooding, spills from storm overflows and unplanned outages of water treatment work. In all cases we have provided compelling evidence why the approach we have set out is appropriate and reflects a stretching performance given the circumstances in which we operate and why, therefore, the proposals we have made are able to meet the tests of being robust, deliverable but stretching performance commitment levels.
- 10.1.5 Our plan includes our largest ever programme of work at over £13bn. The vast majority of this increase is due to the enhancement programmes, which we have demonstrated to be efficient. Our maintenance programmes remain broadly consistent with AMP7, with the proposed increase in service levels being broadly offset by efficiencies, there are however, three areas of base expenditure where the scope of work is materially different from AMP7 and we have included three cost adjustment claims.
- 10.1.6 Our programmes of work have been developed to align with the proven capacities of the delivery streams, both internally and within the supply chain and we have already taken the early steps that will be required to ramp up the resources required to deliver these programmes, both through the effective utilisation of the advanced investment programmes and via early and active engagement with the supply chain.
- 10.1.7 This work has demonstrated that we will be able to deliver the programmes of work, if we get early approval of our investment proposals, with any underfunding or delay in approval inevitably putting increased pressure on the programme and increasing the risk that we will be unable to deliver our commitments.
- 10.1.8 We have also carefully and responsibly managed the financial performance of the business over recent AMPs and as a result will start the AMP8 period in a strong financial position. As a result of the scale of the enhancement programmes, we will need to raise significant new equity to effectively finance the required programmes of work. The successful delivery of our proposals are therefore dependent upon the final WACC being sufficiently attractive to both equity and debt investors.
- 10.1.9 In addition we believe that we have fully lived up to the behaviours that society expects from a privatised monopoly company, with this being recognised through numerous rewards and pieces of feedback. We have committed to build on this foundation by including a plan which actively focuses on delivering social and environmental value and includes substantial and ambitious proposals to manage the affordability of the programme and which commits to continue to meet the highest standards of corporate responsibility.

- 10.1.10 As such we believe that we have clearly demonstrated that our plan is deliverable and that it will play a significantly part in supporting the industry in rebuilding trust and confidence.
- 10.1.11 However, this review also demonstrates that we will only be able to deliver these proposals and make the proposed impact, if our proposals remains materially unchanged by the PR24 determination process.

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