United Utilities 2020/21

Annual Performance Report

United Utilities

Water for the North West

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Introduction

A regulated water and wastewater company

United Utilities Water Limited (UUW) provides regulated water and wastewater services in the North West of England, serving around seven million people and 200,000 businesses. Its ultimate parent company is owned by United Utilities Group PLC, a publicly listed company on the London Stock Exchange. We are regulated by Ofwat, the economic regulator of the water sector in England and Wales, the Drinking Water Inspectorate (DWI) and Consumer Council for Water (CCW) the quality regulators and the Environment Agency (EA) the environmental regulator.

Our purpose

We are a purpose-driven organisation. Our purpose is to provide great water and more for the North West. This is the reason we exist, and is what drives us to continually improve our performance.

Our vision

Our vision is to be the best UK water and wastewater company. We will deliver this by providing the best service to customers at the lowest sustainable cost and in a responsible manner.

Our strategic themes

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

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

Our core values

Our core values provide the cultural framework within which we operate.

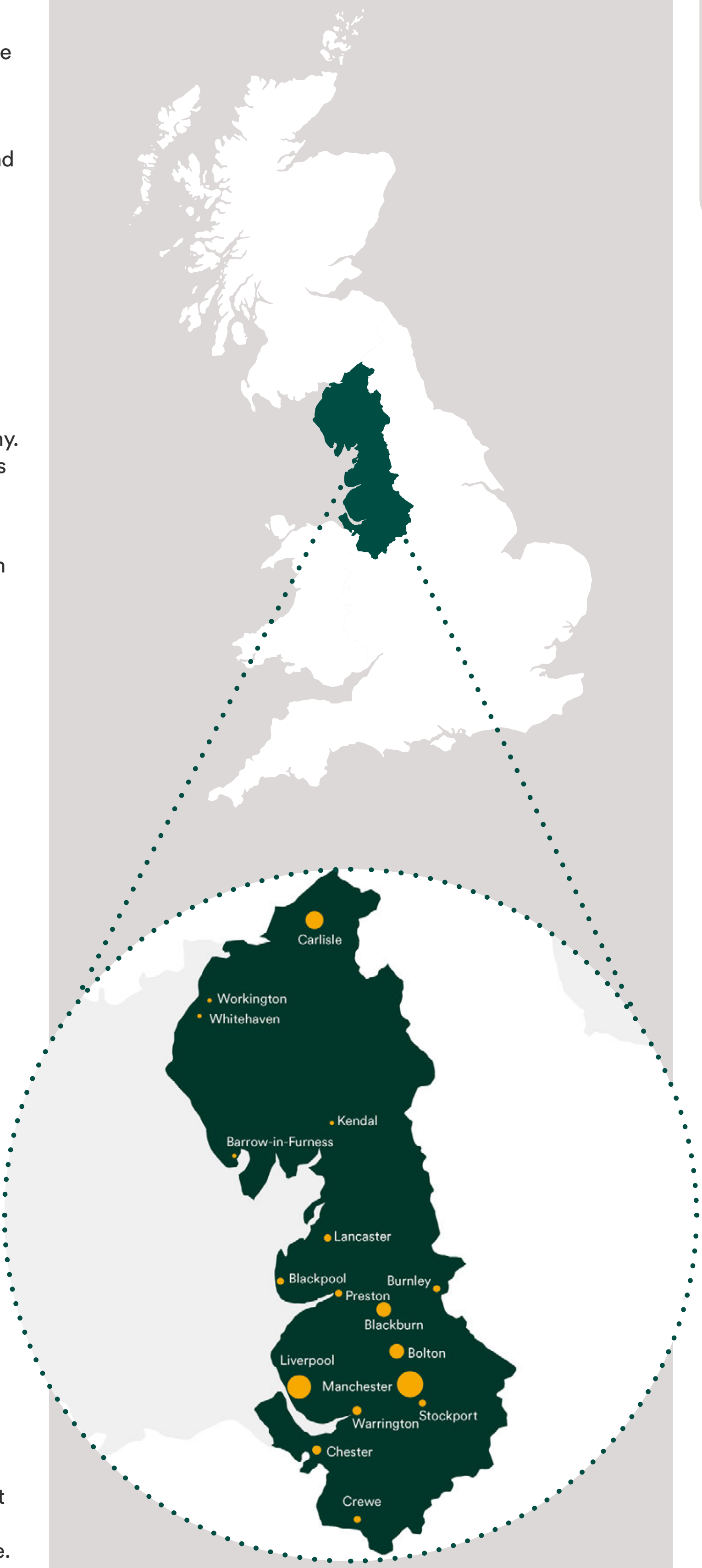
- Customer focused – customers are at the heart of everything we do, and we aim to provide a great and resilient service at the most efficient cost.
- Innovative – we continually look for new ways to make our services better, safer, faster and cheaper.
- Trustworthy – we make promises knowingly and keep them, behaving responsibly towards all of our stakeholders.

Performance reporting

This is year one of AMP7 (our five year business plan period running from April 2020 to March 2025). Throughout AMP7 we will be delivering against a stretching plan that was developed through the price review process. This plan was subject to scrutiny, changes and approval following an extensive review by Ofwat and outlines the price and service package that we aim to deliver for customers and the environment in the North West.

The Annual Performance Report

This Annual Performance Report (APR) tracks performance against our AMP7 plan. It provides an update on the delivery of our performance commitments at the end of year one and a forward looking view of performance anticipated for future years. It also includes information about our financial performance, our assurance approach and the board's approach to leadership, transparency and governance.



Introduction

We publish a suite of documents which support the APR. This helps to provide a wide range of information to a variety of different stakeholders, regulators and customers in formats that help them access the data they want. We actively seek and act on feedback we receive on our publications and this helps us to support engagement with our reporting. Any comments about this or any other of our publications can be sent to: myview@uuplc.co.uk.

The summary below outlines the key information that we publish;

Annual Performance Report – A comprehensive, detailed and assured account of our performance (this document)

Customer summary guide – An overview of our performance structured around the seven outcomes. This customer friendly document achieves a Crystal Mark for plain English

Performance infographic – This graphic highlights our key deliverables and is published on our website and on social media platforms

Summary animation – Short narrated animation describing our performance highlights

Accounting methodology statement – An overview of the process used to prepare the upstream services tables in the APR, with commentary on significant movements

YourVoice customer panel reflections – Independent reflections and feedback on UUW's performance during year one

United Utilities Water's ultimate parent company is United Utilities Group PLC, a company listed on the London Stock Exchange. Additional information about UUW and the group and how we deliver water and more for the North West can be found in the United Utilities Group PLC Annual Report and Financial Statements. This is an integrated strategic, governance and financial report which is available as an interactive website at:

www.unitedutilities.com/corporate/investors/results-and-presentations/annual-reports

The report is designed to provide detailed information on the strategy, performance and governance of the group from a financial and non-financial position. It provides extensive disclosure on the performance metrics we use to measure how we are creating value for communities, customers, employees, the environment, investors and suppliers.

We also publish other key performance information on our corporate responsibility website which can be found at: **www.unitedutilities.com/corporate/responsibility**

This website is designed to describe the way that the group has fulfilled its purpose and demonstrate the extent to which we have upheld the highest standards of performance with respect to the way we work.

Together, the reports and our website provide a clear and comprehensive view of our purpose, performance, delivery and governance which is reliable, accurate and transparent.

Transparent reporting

The provision of reliable, accurate and transparent information and data is an essential part of building and maintaining trust with customers and other stakeholders who rely on the services we provide.

Given our position as a provider of essential public services, we have a responsibility to provide accurate and easily accessible information about performance. We pride ourselves on publishing trusted information and have a proven track record of providing open, transparent and high quality information about our performance to customers, stakeholders and regulators.

Throughout AMP6 we developed a sound approach to assurance which is a key enabler to providing high quality data. We intend to build on this approach to assurance and reporting during AMP7 to reinforce the trust we have earned, make improvements where shortcomings are identified and to enhance the confidence that customers, regulators and other stakeholders can have in United Utilities' performance reporting.

We have applied our assurance approach to the data and information that is within this document and the supporting APR publications. This helps to ensure that the information we provide receives the appropriate level of challenge, review and approvals.

We have published details of our final assurance plan for year one of AMP7 and a description of our assurance framework which can be found on our website at: **www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25**

Introduction

YourVoice

The YourVoice panel plays an important role in monitoring, challenging and reporting on the delivery of our AMP7 business plan commitments.

As an independent body of individuals from different sectors and backgrounds and with a variety of different areas of expertise, YourVoice looks at how the company can continue to capture and strengthen the views and engagement of customers in our activities.

You can read more about the work of the panel on our website at: **www.unitedutilities.com/corporate/about-us/performance/yourvoice**

Structure of the Annual Performance Report

We have structured our report so that we can meet Ofwat's reporting requirements and provide a comprehensive overview of financial and non-financial performance. The main sections of the document are outlined below.

Introduction
Overview and navigation of the document

Executive summary
Sets out the key messages of this report

Risk and compliance statement
Board confirmation that UUW has complied with its relevant obligations in year one

Performance summary
Summary of our year one performance structure around our seven outcomes

Regulatory accounts
Detailed regulatory accounting data and disclosures, including copies of the pro forma data tables

Appendix 1
A summary of the assurance undertaken to support this report, including a summary of the assurance findings

Appendix 2
Certificate to demonstrate the delegated authority to sign off Condition I (ring fencing)

Appendix 3
Non-standard performance commitments calculations


United Utilities
Water for the North

2020/21 United Utilities Water Board statement

Ofwat's revised board leadership, transparency and governance (BLTG) principles came into effect from 1 April 2019 and were embedded into the licence on 1 August 2019. These require UUW to meet the objectives of the principles and to explain in an effective, accessible and clear manner how this has been achieved.

This statement demonstrates how United Utilities Water Limited's board of directors (the board), has met the BLTG objectives during 2020/21. It references the provisions set out within the guidance when explaining how we are delivering against these objectives.

This statement briefly summarises how, by implementing this approach, the company is delivering for its customers and other stakeholders. Further detail to support this statement is set out within the UUW Annual Performance Report, the United Utilities Water Limited statutory accounts and the United Utilities Group PLC Annual Report and Financial Statements 'ARFS'. We provide references to this material below.

A) The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The board, supported by the executive team, is committed to achieving the very best results for the company, the customers it serves and its wider stakeholders.

We believe our purpose, strategy, vision and values will promote the long-term sustainable success of the company, further customers' interests, create value for shareholders and take account the needs of other stakeholders. Our intention is to hand over the business to our successors in a better and more resilient position for the future. The structure of our purpose, strategy, vision and values is set out on pages 16 and 17 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements. As individual directors, we are mindful of our statutory duty to act in the way each of us considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to S172 (1) (a-f) of the Companies Act 2006.

i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.

As a provider of an essential service in our region, our purpose is to provide great water and more for the North West. Our three core values – customer focused, innovative and trustworthy – provide the cultural framework through which we operate. Behaving responsibly has been part of the United Utilities ethos for many years and aligns with our purpose. The corporate responsibility committee has a principal role in the group's governance structure. It leads, on behalf of the board, in the review and challenge process to ensure management's activities in the increasingly broad area of environmental, social and governance matters, are consistent with that of a business behaving in a responsible manner. The report of this committee can be found on pages 156 to 159 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements.

We work to deliver our vision to be the best UK water and wastewater company through three strategic themes of providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In defining the company's purpose, the board took into account information and views from stakeholders through utilising research and engagement – including that which contributed to our AMP7 business plan – and the other feedback and intelligence obtained from customers through both programmatic research and day to day interactions. It is a standing item for the board's corporate responsibility committee to discuss engagement with national and regional stakeholders each time it meets. For the year ended 31 March 2021, the board is satisfied that the formulation of our aspirations in terms of our purpose, vision, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all. We believe, particularly during this most extraordinary year, the company has played its part in contributing to the North West and has demonstrated the 'more' of its purpose for our customers, employees, shareholders and other stakeholders.

ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.

Our vision is to be the best UK water and wastewater company. To ensure that we deliver our purpose and work towards our vision, we have three strategic themes – which define the way we operate – and three core values – which provide the cultural framework within which we operate.

- **The best service to customers** – This means that we put customers at the heart of everything we do. As well as delivering a reliable water service and removing wastewater, we proactively keep customers informed about work we are doing in their area and communicate with them in ways that meet their individual needs. We seek to engage with communities and customers about matters that are important to them, providing advice and support. We are always available through multiple channels when customers need us, interacting in a friendly and helpful manner and offering tailored support and assistance for customers, households and businesses as well as the communities we serve. We ensure we have an active programme to act and listen to customers, using research, insight and data to make the service we deliver every day better. We consult regularly and co-design solutions with a customer panel of over 7,000 customers so that the services we deliver build on the input received from the very customers we are proud to serve everyday.
- **At the lowest sustainable cost** – In order to run a resilient business, it is important to ensure cost reductions are sustainable so that we can keep costs down in the long term without compromising on the resilience or quality of services we deliver. When we develop our plans and assess different options for consideration, we look to minimise the whole-life cost through a holistic approach. Our Systems Thinking approach helps us look at all options, and operating our entire network as a system rather than discrete assets, opens up new avenues for service delivery that would otherwise not have been identified. Innovations in recent years have included installing sensors across our network that allow remote monitoring and control

from our integrated control centre, and building a fleet of alternative supply vehicles that inject treated water directly into supply while we undertake repairs and minimise supply disruptions.

- **In a responsible manner** – Our purpose 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. This means protecting and enhancing the natural environment, using natural solutions where possible and reducing our carbon footprint and waste. It means promoting a safe, healthy and engaging workplace for our employees, supporting their physical and mental health and working hard to drive a more inclusive and diverse workplace, ensuring that our services are representative of the customers we serve. It drives us to support local communities on issues that matter to them and work with local schools and training facilities to promote skills for the future. Above all it means we are open, honest and transparent in our dealings and in reporting our performance.

Our core values are:

- **Customer focused** – Customers are at the heart of everything we do and we aim to provide a great and resilient service at the most efficient cost.
- **Innovative** – We continually look for new ways to make our services better, safer, faster and cheaper.
- **Trustworthy** – We make promises knowingly and keep them, behaving responsibly and with integrity towards all of our stakeholders.

The United Utilities Group PLC and Financial Statement demonstrates how these strategic themes run through everything we do. For further information and explanation of our approach, we would refer in particular to the 2020/21 Strategic Report (pages 16 to 109), our key performance indicators pages (operational pages 51 to 52, and financial pages 74 to 75), our risk management framework pages (100 to 109) and our description of governance (pages 112 to 191).

iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.

Our values demonstrate how we behave individually and collectively as the board and how we ask our employees to behave. Our employees are fundamental to delivering our strategy and achieving our purpose.

Our core values of being customer focused, trustworthy and innovative underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's values. As well as our engagement survey we run regular employee barometers to ask employees what they are seeing, hearing and feeling. This approach allows us to act quickly if there are any areas of misalignment and take immediate actions.

Our employees are at the heart of the culture of our business and further insight and evidence, as part of the board's assessment and monitoring of culture, has been gathered and fed back to the board by Alison Goligher, the current designated non-executive director for engagement with the workforce. Ordinarily, Alison would have held face to face meetings with employees and visited a number of the company's sites but this, has unfortunately not been possible due to the COVID-19 pandemic. Meetings of the Employee Voice panel have continued to be held virtually and chaired by Alison. The Employee Voice panel comprises representatives of a number of employee groups and employee networks already in existence (such as gender, ethnicity, ability and LGBT+) and with representatives drawn from across the geographical region.

Alison is keen to ensure, through these interactions, that there is a two-way flow of communication and information between the board and employees. The board has discussed updates from the Employee Voice panel including an oversight of the panel's activities, its links to employee network groups, its contribution to the work on diversity and inclusion and the 'next ways of working project' which is considering how workplaces and work practices should evolve in the coming years. The board reflected on the insight provided by the Employee Voice panel and the results of the annual employee engagement survey.

In addition to the existing reporting, management has developed a dashboard of cultural metrics to provide a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from the annual employee engagement survey; human resources policies in relation to diversity and associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and measures that evidence how we are fulfilling our purpose.

In the last reporting year, the board has considered several matters relating to purpose and values. For example, it reviewed progress with our aspiration for a diverse and inclusive workforce and was kept appraised of our programme of work to increase diversity of the workforce and improve inclusivity. Our commitment to embed a health and safety culture to ensure employees go home safe and well was discussed, including examination of health, safety and wellbeing activities and consideration of health and safety incidents of employees and contractors. The implementation of employee wellbeing policies and activities was a major focus throughout the year. From an external perspective, the board reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain and it approved the 2021/22 slavery and human trafficking statement.

Taken together, the board is satisfied that policies, practices and behaviours within the business are aligned with the company's purpose, vision, values and strategy. Details of how the board monitors culture and employee engagement are set out on pages 126 to 127 of the 2020/21 United Utilities Group PLC Annual Report and Financial statements.

2020/21 United Utilities Water Board statement

B) The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

The group operates a structure that allows directors to be members of the boards of both UUW and its ultimate holding company, United Utilities Group PLC (UUG). These arrangements have been in place since March 2011 and were in place throughout the year ended 31 March 2021.

As a listed company UUG has applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code (the code), for the year ended 31 March 2021.

The boards of both UUG and UUW fully support Ofwat's drive for the highest standards of board leadership, transparency and governance in the industry. We are satisfied that current practices and the application of the code at both holding company and regulated company levels are entirely consistent with the Ofwat principles.

Provisions:

i. **The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.**

The UUW board has full responsibility for all aspects of its business as an appointee. Furthermore there are no items/topics relating to the regulated activities of UUW contained within UUG board's schedule of matters reserved for its own decision.

A copy of which can be found at: **www.unitedutilities.com/globalassets/documents/pdf/03---schedule-of-matters-reserved-for-decision-by-the-board.pdf**

UUW and UUG are distinct legal entities and are operated as such. Notwithstanding that the same individuals are directors for both companies and scheduled board meetings of each company are held on the same day, they are held as separate meetings with board packs and agendas being prepared for each company's meeting, thereby creating distinction between meetings. Given that UUW represents approximately 98 per cent of UUG's revenues, decisions taken for UUW are unlikely to be in conflict with those of UUG. Were that to be the case, the directors would be responsible for taking decisions on behalf of each entity in accordance with S172 of the Companies Act 2006, and acting in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The company secretary would advise on any potential conflict of interest, and the board would seek independent advice on any matter if thought necessary.

ii. **Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.**

The UUW board has delegated specific powers, subject to certain limits, relating to the capital investment programme to the UUW capital investment committee and in relation to financing, by way of power of attorney, to the Chief Financial Officer and/or the Treasurer. UUW does not duplicate board committees already in operation at the UUG level (the board committees). The activities of the board committees, as required in accordance with the code, whose members are made up entirely of independent non-executive directors (in accordance with provisions 9 and 10 of the code who are directors of the company) are necessarily targeted towards UUW matters, given that UUW represents approximately 98 per cent of UUG's revenues. The alignment of the interests of UUW and UUG ensures that the interests of UUW and its customers are safeguarded, and avoids unnecessary duplication. The group has operated in this manner since 2011.

iii. **The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.**

Meetings of the board are fully focused on the company's regulated obligations and activities as an appointee in accordance with its licence as a provider of water and wastewater services and the board is supported by the director of strategy, policy and regulation. Typically, board meetings receive the following standing items: operational activities and incidents; review of performance against operational and financial KPIs; regulatory updates and customer updates.

The board, whose directors' biographies can be found on pages 112 to 115 of the United Utilities Group PLC Annual Report and Financial Statements, includes a strong independent non-executive representation with a diverse range of backgrounds, skills and experience. As part of the director recruitment process, potential conflicts of interest would be assessed to ensure the suitability of the candidate in this respect (amongst others). A register of directors' interests is maintained and directors are asked to identify any potential conflicts of interest on any subject matter on the board's agenda at each meeting.

C) The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

Excellent governance is part of who we are and United Utilities was delighted to be accredited with the Fair Tax Mark in July 2019 and to have attained World Class ranking in the Dow Jones Sustainability Index for 14 consecutive years. We adhere to the highest levels of corporate governance. Fairness and transparency is key to the way we report, the way we operate, and the way we interact with all our stakeholders. In the last reporting year, the board has reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud. It concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud, the latter having been reviewed by the audit committee.

2020/21 United Utilities Water Board statement

Our human rights policy can be found on our website

www.unitedutilities.com/corporate/responsibility/our-approach/human-rights/

with links to other related policies including our modern slavery policy and our approach to sustainable supply chain called United Supply Chain. We work with suppliers and contractors whose business principles, conduct and standards align with our own. We support the appointment of a small business commissioner to investigate companies who do not treat suppliers fairly, are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers. During the pandemic, we engaged with our supply chain partners and shortened our payment terms to assist them with their cash flow.

In recent years the UK water sector has faced challenges to its legitimacy, and questions raised about the ownership structure of the sector. We have been open and transparent in reporting our equity and debt financing arrangements and do not use offshore financing vehicles. Throughout AMP6 we developed a sound approach to assurance which is a key enabler to providing high quality data provision. We are maintaining, and where appropriate evolving, our approach to assurance into AMP7 to build further on the trust we have earned, making improvements where shortcomings are identified and to enhance the confidence that customers, regulators and other stakeholders can have in our performance reporting.

Each year the board reviews and discusses the external evaluation of the board, its committees and individual directors and conflicts of interest. Once every three years this process is undertaken by an external organisation and in the intervening years the evaluation is completed by the company secretary's team. The external review took place this year in February 2021. This process identified action points and ongoing training needs. Further details can be found on pages 135 to 136 of the 2020/21 United Utilities Annual Report and Financial Statements. As part of its annual governance processes, the terms of reference for the audit, remuneration, treasury and corporate responsibility committees were reviewed by each committee and the board received post-meeting reports from the chairs of each committee summarising discussions and actions. It implemented matters arising from its biannual updates on changes and developments in corporate governance. Further details of the company's approach to transparency and governance can be found in the corporate governance report contained within pages 112 to 191 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements.

Provisions:

i. A detailed explanation of the structure of the United Utilities group is set out on page 131 of the 2020/21 United Utilities Water Limited Annual Report and Financial Statements.

ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including employees).

In January 2020 the board set UUW's AMP7 dividend policy. This included a reduced assumption in relation to the base dividend compared to AMP6. In addition, the board committed to a significant number of additional considerations which will ensure that dividend payments continue to be taken subject to consideration of the interests of a broad range of stakeholders who have interests in the performance of the company. This approach includes commitments on financial assistance schemes for customers, safeguards about the level of company gearing, sharing of future outperformance, consideration of financial resilience, delivery of statutory obligations and delivery against performance targets. Further details of these policies is provided in section 2.4 of the APR. This section explains UUW's prudent decision to pay no dividends during 2020/21, demonstrating the application of the checks and balances outlined in the 2020–25 dividend policy.

iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.

The principal risks and uncertainties to the success of the business and the ways in which these risks are managed, monitored and mitigated are set out on pages 100 to 109 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements.

iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast.

Board attendance table for the year ended 31 March 2021 – set out below are the number of scheduled meetings attended and the maximum number of scheduled meetings that could have been attended.

Sir David Higgins	8/8
Steve Mogford	8/8
Phil Aspin(1)	4/4
Mark Clare	8/8
Stephen Carter	8/8
Kath Cates(2)	4/4
Brian May	8/8
Alison Goligher	8/8
Paulette Rowe	8/8
Doug Webb(3)	4/4
Russ Houlden(4)	4/4
Sara Weller(5)	4/4

(1) Phil Aspin was appointed as a director and CFO with effect from 24 July 2020.

(2) Kath Cates was appointed as a non-executive director on 1 September 2020.

(3) Doug Webb was appointed as a non-executive director on 1 September 2020.

(4) Russ Houlden stepped down from the board on 24 July 2020.

(5) Sara Weller stepped down from the board on 24 July 2020.

Details of the attendance at meetings of the board committees can be found on page 124 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements.

v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.

A detailed explanation of the group's directors' remuneration policy during 2020/21 is set out on pages 182 to 188 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements. Details of remuneration for the directors of UUW is set out within Section 2.5 of the Annual Performance Report and page 132 to 134 of the UUW Limited Statutory Accounts. The criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied, with executive pay arrangements aligned to our purpose, vision, values and strategy, thereby incentivising great customer service and the creation of long-term value for all.

As set out in these disclosures, for AMP7 the company has committed to ensuring that performance pay for executive directors is aligned to delivery for customers, embeds stretching targets and is being rigorously applied. We will continue to provide transparent reporting on executive pay each year.

D) Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

As detailed above, the group operates a structure with the same directors sitting on the boards of both UUW and UUG, thereby increasing the efficiency and effectiveness of the corporate governance structure. As a result and given that UUW represents approximately 98 per cent of UUG's revenues, the company does not duplicate the board committees already operating at the UUG level. Full details of the UUG board and board committees are set out within the corporate governance report that can be found on pages 120 to 196 in the 2020/21 United Utilities Group PLC Annual Report and financial statements.

Provisions:

i. **Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify which customer and stakeholder expertise is needed in the boardroom and how this need is addressed.**

The board and the board committees have an appropriate combination of skills, experience and knowledge, biographies of the directors are set out on pages 112 to 115 and the skills matrix of directors is set out on page 133 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements. Consideration is given to the length of service of the board as a whole and membership is regularly refreshed, non-executive directors would normally only serve a term of up to nine years in accordance with the code (the tenure of board directors is set out on page 131 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements). Appointments to the board are subject to a formal, rigorous and transparent procedure. The board diversity policy (see page 133 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements) is taken into account during the recruitment process. The policy incorporates targets for gender and ethnic diversity, which are to maintain 25 per cent and aspire to 33 per cent gender diversity by 2020 and to have at least one director of non-white ethnicity by 2021. These targets will be met as at the end of July 2021. An effective succession plan is maintained for board and senior management. Improving diversity and inclusion within the group has been a particular focus for the board during the year – further detail is set out on pages 138 to 140 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements. Input into the work on diversity and inclusion was provided, amongst others, by both the Employee Voice panel and from board members.

ii. **Independent non-executive directors are the largest single group on the board.**

There are currently seven independent non-executive directors on the board out of a total of ten. Their biographies can be found on pages 112 to 115 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements. Independence is tested against the criteria set out in the code.

iii. **The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.**

Sir David Higgins was appointed to the board in May 2019 as chairman designate and in line with the BLTG provisions, he was independent on appointment when assessed against the circumstances set out in the code. He was appointed as Chairman on 1 January 2020. The roles and responsibilities of the Chairman are set out as part of the group's governance framework.

iv. **There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.**

A board evaluation is conducted annually, with an independent assessment every third year, as has been the case for a number of years. This year the evaluation was undertaken by Independent Audit Limited. Full details, including recommendations, can be found on page 135 of the 2020/21 United Utilities Group PLC Annual Report and Financial Statements.

v. **There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.**

Details of the approach to board succession can be found on pages 130 to 137 of the 2020/21 United Utilities Group PLC Annual Report and financial Statements.

vi. **To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.**

Kath Cates and Doug Webb, who were appointed to the board on 1 September 2020 met (via video call) with representatives of Ofwat prior to their appointment on 2 July and 16 July 2020 respectively, as have all Non- executive directors since April 2016.

vii. **There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.**

Independent non-executive directors form the members of the board committees and chair the audit, remuneration, treasury and corporate responsibility committees.

2020/21 United Utilities Water Board statement

E) Delivering for customers and stakeholders.

In this first year of AMP7 we have delivered our best ever year for operational performance. We beat our leakage target for the 15th consecutive year, delivering our lowest level ever of leakage using a combination of techniques ranging from satellite technology to sniffer dogs. We have seen the benefits of delivering our Pollution Incident Reduction Plan with no serious pollution incidents for the second year running and reducing total pollution incidents by almost a third. For the first time ever we had no failing wastewater treatment works as classified by the Environment Agency. We entered AMP7 knowing that our biggest challenge would be against our internal flooding performance commitment and this is the measure that has yielded the largest underperformance payment this year. As part of the £300 million extension to our AMP7 totex plans, we will be investing around £100 million in Dynamic Network Management (DNM) – a ground breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to move to a more proactive management of our wastewater network. This new digital capability is expected to improve service to customers and improve performance against our internal flooding commitments.

We have experienced significant variations in weather this year facing both long, dry periods and significant rainfall events, which has impacted on our performance for per capita consumption and numbers of flooding incidents. Despite all of the challenges we faced this year, customer satisfaction with the services that we provide remains strong.

We are helping more customers struggling to pay their bills than ever before through our extensive support schemes and acted swiftly during the early stages of the COVID-19 pandemic to increase eligibility for our social tariff. We contributed an additional £2.7 million from the Trust Fund to help those struggling to pay their bills and a further £15 million was made available to help customers reduce their water bill to an affordable amount through extending our social tariff. We recognise that we are in a unique position to make a real, positive contribution to society and have an ambitious and innovative approach to addressing affordability and vulnerability.

Our ongoing charitable support has helped provide support to local communities. One of our donations to the FareShare charity has supported them in delivering 600,000 meals to struggling families across the North West via local foodbanks, and will replace one of the charity's delivery vans, helping to ensure 6.4 million meals get to families in need over the next eight years.

Our activities support thousands of jobs in the supply chain, all of which play a part in helping to generate jobs and income for the North West economy. This is even more important this year as the country emerges from the worst effects of the COVID-19 pandemic. Suppliers play an important role in maintaining supply for key parts of our business, and contractors, as well as direct employees, act as the face of our business for many customers and communities. We have been working closely with our supply chain partners following government guidelines to protect employees, suppliers and customers while maintaining delivery of the critical services that we provide. We act in a fair and transparent manner with all of our suppliers and are a signatory of the Prompt Payment Code, paying over 99 per cent of our invoices within 60 days during the first year of AMP7. In November 2020 we launched a new approach called United Supply Chain, which recognises suppliers as an extension of the United Utilities family and asked them to become a signatory to our responsible sourcing principles as a minimum. We encourage those suppliers who are integral to our operations, to become leaders and to work jointly with us to deliver improvements across environmental, social and governance areas and improve value to customers. At the end of March 38 per cent of our targeted suppliers have signed up to the approach which will help us to deliver improvements across environmental, social and governance performance and deliver benefits to customers.

Our purpose drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner and what we do creates a deep connection with the customers and stakeholders we serve. We achieved our climate changes objectives up to 2020, reducing greenhouse gas emissions by 73 per cent from a 2005/06 baseline and we have made good progress in achieving our six carbon pledges. This year we have utilised 100% renewable electricity though our self-generation and purchasing of green energy. Our Catchment Systems Thinking (CaST) approach continues to mature, delivering partnership based solutions in key catchments in the region. We have been working with the Environment Agency (EA) and other stakeholders to develop a North West natural capital baseline and once this process is complete, we will engage with other partners across the region to drive a consistent approach to delivering greater natural capital value. This year, we pledged a £300,000 CaST Fund, for which charities and community groups are able to bid, in order to boost the idea of working collaboratively to address the challenges facing the environment.

Overall, the board considers that the company has responded well to the continued challenges faced in delivering our services to customers throughout the COVID-19 pandemic. Our teams have addressed the unprecedented challenges of the last year, providing a largely seamless service to customers, whilst delivering high levels of customer satisfaction and resilient services in times of significantly increased demand.

Signed on behalf of the board

Sir David Higgins
Chairman

Steve Mogford
Chief Executive Officer

This statement was approved at a meeting of the United Utilities Water Limited board on 29 June 2021 and signed off on its behalf by Sir David Higgins Chairman and Steve Mogford, Chief Executive Officer.

Executive summary

Overview

Overview

This is our first Annual Performance Report of AMP7, the five year price control period running from April 2020 to March 2025. In this document we set out our performance s on how we have performed against both our financial and non-financial targets and commitments which were set for the regulatory period. This report covers year one of the AMP, running from April 2020 to March 2021. We describe how and why we have delivered this level of performance in meeting, beating or falling short of the targets and how we believe we will perform against them in future years.

We have responded well to the challenges presented by the COVID-19 pandemic and have delivered our best year of operational performance for customers and the environment. We have met or exceeded over 80 per cent of our performance commitments for the year. We have delivered particularly strong performance in the areas of hydraulic flood risk resilience and pollution where we have delivered another year of sector leading performance with no serious pollution incidents for the second consecutive year. We were also able to deliver leakage at its lowest ever level and have more than halved supply interruptions to customers.

Our investment strategy delivers long-term sustainable performance improvements and efficiency. Since accepting our AMP7 final determination, we have increased our totex plan by a further £300 million in relation to confirmed extensions to our environmental programme, spend to save opportunities and the acceleration of our digital transformation. This expenditure is remunerated through regulatory mechanisms.

The first year of our AMP7 investment programme has progressed well. As we did in AMP6, we have accelerated the investment schedule so as to deliver benefits sooner and taking advantage of the transitional investment we made in 2019/20 to give us a flying start to the new regulatory period.

We have significantly increased the availability and performance of our digital customer communication channels with over one million customers engaging with us digitally, driving both service improvements and cost efficiencies. We have been proactive and used targeted communications with customers to offer support to those who are impacted financially by the pandemic and may be struggling to pay. We have achieved all of our reputational performance commitments, including certification to BSI standard for our Priority Services scheme that supports over 133,000 customers. We are one of only 14 brands in the UK with the Institute of Customer Service Accreditation with distinction. We are also recognised as providing the best customer support initiative at the Utilities and Telecoms Awards for the support provided to customers during the pandemic.

Overall, we have delivered a strong set of financial results for the year ended 31 March 2021, and we continue to maintain a strong balance sheet and solid credit ratings. During 2020/21 we have already raised c.£880 million of required AMP7 financing including a c.£300 million issuance under our new sustainable finance framework which helps support us in raising finance based on our strong Environmental, Social and Governance (ESG) credentials.

Headlines from the year are:

01
We delivered our best ever year for operational performance

02
We met or exceeded over 80% of our performance commitments

03
Provided improved resilient and reliable services to more than seven million people

04
Earned financial rewards for strong performances on the C-MeX and D-MeX measures of customer satisfaction

05
We had no serious pollution incidents and around a one-third reduction in total pollution incidents

06
We achieved our lowest ever levels of leakage and water supply interruptions

07
Affordability support schemes helped 200,000 customers in the region

08
We delivered a 4% reduction in typical household bills in 2020/21

09
Exceeded targets for 2020 reducing carbon emissions by 73% and are delivering carbon pledges to net zero by 2030

10
We are accelerating investment to support green economic recovery and bringing forward service improvements

Executive summary

Overview

Overview of year one

In year one of AMP7 and we have delivered our best ever year for operational performance, despite all of the challenges that we have faced as a result on the ongoing COVID-19 pandemic. We have been delivering our plans to protect and enhance the environment bringing forward some investments and where possible using digital technology so that we can deliver benefits sooner. Our performance has been strong across the broad range of our activities with us having met or exceeded over 80 per cent of our performance commitments for the year. We have delivered particularly strong performance in the areas of hydraulic flood risk resilience and pollution where we have delivered another year of sector leading performance with no serious pollution incidents for the second consecutive year. We were also able to deliver leakage at its lowest ever level and have more than halved supply interruptions to customers outperforming our targets on both these key service delivery measures.

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

We supply a very high level of water quality and we have continued to deliver a water quality improvement programme this year, focussing on training and behavioural change for our staff, process improvements and targeted investment. There are, however, some areas where we will look to improve in future years and get closer to delivering our targets for the compliance risk index and for reducing water quality contacts due to taste, smell and appearance.

We work hard to encourage customers to save water through water efficiency programmes, helping them to preserve this precious resource and save money on their bills. More customers have spent more time at home during the COVID-19 pandemic and used more water for sanitation, increasing per capita consumption (PCC) measures for year one. We have explored this further in section 1.3 where we have outlined the performance commitments that have been directly impacted by the COVID-19 pandemic.

We have faced and addressed the unprecedented challenges of the last year, delivering high levels of customer satisfaction and resilient services in times of significantly increased household demand. We are helping more customers struggling to pay their bills than ever before and acted swiftly during the early stages of the pandemic to increase eligibility for our social tariff and to promote our extensive range of support schemes.

Year one operational performance

Over AMP7 we will be delivering across seven different outcomes. Each outcome consists of a number of different performance commitments. In section 1.1 of this document we have provided further narrative around each of these outcomes, explaining why each is important to customers. This section details each of the 46 different performance commitments which sit within the outcomes, describing the actions we have taken in delivering our performance and targets for year one. The table below outlines each of the seven outcomes, the number of performance commitments in the outcome, how many performance commitments we have successfully delivered in year one and the net outcome delivery incentive (ODI) position. In Appendix 1 we outline our approach to assuring our data and information. We also provide details on any areas where we are not fully compliant with reporting methodologies, including the reason for non compliance, its impact and the actions we are taking to address the issue.

Outcome description	Number of performance commitments passed per outcome	Net ODI position (£m)
Your drinking water is safe and clean	3/5	-£1.038
You have a reliable supply of water now and in the future	9/11	£2.024
The natural environment is protected and improved in the way we deliver our services	7/9	£5.417
The risk of flooding for homes and businesses is reduced	4/6	£3.621
Collect and recycle wastewater	1/2	-£2.363
You're highly satisfied with our service and find us easy to do business with us	5/5	£3.597
We will improve the way we work to keep bills down and improve services	8/8	£7.823
Total	37/46	£19.081[(1)]

(1) Including the impact of year one PCC performance.

Our expenditure and revenues

Introduction

The PR19 price review process was structured around four wholesale price controls and two retail price controls.

The wholesale business undertakes the operational activities of collecting, treating and distributing water to customers and then collecting and treating the wastewater and managing the bioresources produced by the wastewater treatment process. At PR19 the two previous wholesale price controls (water and wastewater) were further split out to create four distinct price controls: water resources, water network plus, wastewater network plus and bioresources.

The retail business undertakes the customer contact and billing activities and this continues to be split into two separate price controls. One of these is for retail services for household customers, which we continue to operate. The other retail services is for business and other non-household customers.

The non-household retail market opened to competition in April 2017, following which UUW exited the non-household retail market and non-household customers have been able to obtain their retail services from a number of retailers. Further details of the non-household retail market can be found on the Open Water website.

The remainder of this section of the APR sets out how we have performed against the PR19 expenditure and revenue assumptions for the wholesale price controls and the household retail price control.

Wholesale

Overview of the wholesale price controls (assumed expenditure and allowed revenue)

In section 1.1 of this document we set out that the performance expectations of the wholesale services are captured by performance commitments with associated outcome delivery incentives. The PR19 process also determined the assumed levels of total expenditure (totex) that were required to deliver these performance levels and to continue to meet our other regulatory and statutory obligations.

These expenditure assumptions across the four wholesale price controls were then used to determine the amount of revenue that would need to be recovered from customers to allow the business to finance the delivery of the operational and capital expenditure programmes for AMP7, to provide ongoing finance for the previous investment programmes and to pay tax on our operations.

Totex incentivisation

The totex investment regime takes a holistic view of capital and operating expenditure (capex and opex) to generate a total expenditure level (totex).

Any variance between the initial totex assumptions and actual expenditure over the full five-year period will be assessed through the cost reconciliation mechanism at the end of the regulatory period. This mechanism ensures that if we have been able to make greater efficiencies than assumed in the final determination then, for the majority of spend, half of the saving would be retained by the company and half would be returned to customers. Similarly, if our expenditure is higher than the determined allowance, half of the increased expenditure would be recovered from customers and half would be paid for by the company.

The impact of any net variance will be assessed as part of the PR24 price review process which concludes in 2025 and will then be reflected in customer bills during subsequent periods.

Interaction of operational and financial incentives

The totex incentive regime is designed to work alongside the outcome delivery incentive regime to ensure that companies are incentivised to strike the right balance between expenditure and performance. This approach is designed to encourage companies to innovate and to achieve efficiencies or improved service levels, rather than simply setting fixed (or capped) expenditure allowances and performance requirements.

Wholesale expenditure

Our wholesale totex expenditure, as compared with the totex expenditure levels set out in the PR19 final determination, is shown in the table below.

Wholesale expenditure in 2020/21 (out-turn)

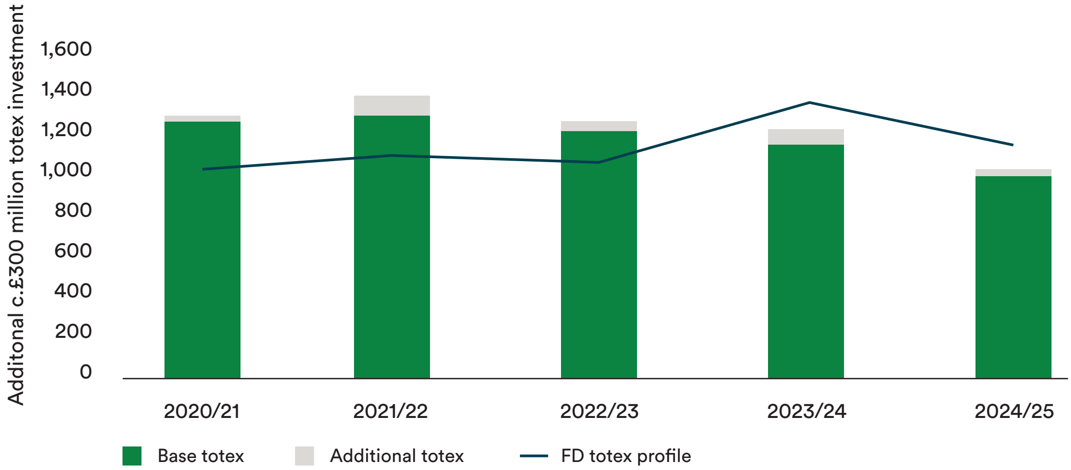
	Spend – year ending 31 March 2021		
Financial measure	**FD assumption(1) (£m)**	**Actual (£m)**	**Variance (£m)**
Water resources totex	77	73	-4
Water network plus totex	460	575	+115
Wastewater network plus totex	453	583	+130
Bioresources totex	77	70	-7
Total totex	**1,067**	**1,301**	**+234**
Shadow RCV (March 2021)	11,681	11,729	+47

(1) Inflated from FD allowances (presented in 17/18 prices) to out-turn applying 20/21 average CPIH

Information from APR table 4C

Our expenditure and revenues

Net regulatory totex



Total expenditure in 2020/21 was significantly higher than assumed within the PR19 FD, with total actual totex spend of £1,301 million (including £25 million of transitional spend carried over from 2019/20) compared to £1,067 million assumed in the FD. The key reason for this increased expenditure is because we have chosen to accelerate approximately £200 million of our AMP7 investment programme to enable us to deliver benefits – including improved customer service, outcome delivery incentive performance and efficiencies – sooner and to boost the regional economy as we emerge from the worst effects of COVID-19.

As the above chart shows, we expect to continue to accelerate spend in 2021/22. However, our current plans indicate that we should be able to deliver our overall AMP7 FD programme of work at the allowed level of expenditure across the five-year regulatory period. This means that this element of overspend in years 2020/21, 2021/22 and 2022/23 relates to timing differences only, with more spend earlier in the period and less spend later in the period.

In addition to the accelerated spend, we also announced our intention to increase our AMP7 totex plan by a further £300 million (shown by the grey additional totex bars in the above chart) in relation to confirmed extensions to our environmental programme, spend to save opportunities and the acceleration of our digital transformation. In 2020/21 we incurred £32 million of spend in relation to these additional projects.

Our capital delivery continues to be achieved in an increasingly effective and efficient manner as measured by our internal time, cost and quality index (TCQi). The upwards trajectory on this measure has continued and in 2020/21 was 95.3 per cent (up from 95.1 per cent in 2019/20 and 90 per cent in 2015/16), meaning that, on average, over 95 per cent of our capital expenditure in the last year was delivered to time, at the budgeted cost and meeting the high level of quality required.

Household retail

Overview of the retail price control and incentives

The PR19 process determined an allowed 'cost to serve', plus an assumed margin that could be recovered for providing retail services to household customers. The allowed cost reduces through the AMP7 period in real terms, as no direct allowance is made for inflation.

The initial cost to serve allowance was based upon assumed numbers of customers through the period. Total allowed cost to serve levels for each year therefore vary depending upon actual customer numbers.

Actual operating costs in 2020/21 were £11.4 million higher than the cost allowance reflecting actual changes in customer numbers versus those assumed in the FD. Underlying costs (excluding the £5 million expected credit loss and £3.5 million COVID-19 costs) were £2.9 million higher than the cost allowance. Allowed retail costs were reduced by £9.1 million compared to the prior year (£96.3 million in 2020/21 versus £105.4 million in 2019/20) as a result of more stringent assumptions in the FD.

Additional bad debt costs were incurred as a result of increased measured sales during the year due to higher levels of consumption during a period when many of our customers were based at home. During the year we have also billed additional properties that were previously identified as void. Using credit reference and land registry data we have been able to identify properties for which the occupant can now be identified. Collection was therefore impacted by timing of billing for new customers and the timing of Direct Debit reassessments made to recover increased consumption. There is no cost sharing mechanism for retail costs. Any variations in actual cost to service compared to the allowed level of costs impacts company returns – not customer bills – in the period.

Our expenditure and revenues

2020/21 performance – household retail

Measure	Ofwat FD assumption	Allowance based on actual customer numbers	2020/21 actual	Variance
Cost to serve excluding margin	£94.9m	£96.3m	£107.7m	£11.4m
Margin	£12.6m	£12.8m	£12.8m	£0.2m

Actual household customer numbers at 3.09 million (table 2F) were 43,885 higher than assumed in the PR19 FD. This change has primarily been driven by higher than forecast new connections and a reduction in void premises. Taking account of an increase in customer numbers, operating costs for 2020/21, assumed in the PR19 FD would be £96.3 million.

Actual operating costs in the year (as set out within APR table 2C) were £107.7 million which is £18.3 million lower than in 2019/20. Cost reductions are due to:

- £16.8 million reduction in the bad debt charge. This is principally a reduction due to the £19.7 million expected credit loss adjustment posted for COVID-19 in 2019/20 offset by a £5 million expected credit loss adjustment in 2020/21;
- A £3.5 million reduction in charitable donations made by UUW. These are now made through United Utilities Group plc;
- £1.5 million reduction in other operating expenditure;
- This has been offset by:
  - £3.5 million increase in costs associated with COVID-19. This included additional telephony costs associated with a new homeworking solution, the cost of additional resource to manage the loss of productivity associated with homeworking and additional costs associated with the provision of assistance to customers facing increased financial uncertainty and those facing higher bills due to increased consumption.

Our expenditure and revenues

Our financial performance

Overview of the PR19 determination

Consistent with prior regulatory periods, Ofwat developed the PR19 determinations for all companies based upon a notional capital structure (rather than basing them on company specific capital structures). It applied a common weighted average cost of capital (WACC) for all companies of 2.96 per cent real (CPIH), inclusive of 0.04 per cent retail allowance (this excludes the 'fast-track' reward given to some companies).

To demonstrate that the plan was financeable, the anticipated performance against a key suite of equity and debt financial indicators was set out as part of each company's determination. In addition, Ofwat set out the assumed notional base case return against the company's regulatory equity (RORE). For UUW this value was 3.86 per cent (CPIH) on average across AMP7.

UUW was one of only three companies across the industry fast-tracked through the PR19 process during 2019/20. As well as allowing us to achieve a flying start on our investment programme for this AMP, our fast-track status also provided a reward equivalent to an annual 0.1 per cent of regulated equity, worth around £25 million across the 2020–25 period.

The overall determination and incentive package was therefore positioned to be sufficiently broad and challenging that companies needed to manage diverse risks and utilise available opportunities in order to earn a balanced return for investors, whilst delivering the best possible package of price and service to customers and the environment.

2020/21 performance – UUW financial performance

Overall, we have delivered a strong set of financial results for the year ended 31 March 2021.

Profit levels remain resilient despite the planned reduction in customer bills applied this year, the first of the new AMP7 regulatory period. As the growth in CPIH inflation was slower than last year, we have benefited from a reduction in our index-linked financing charge for the year, increasing reported profit before tax. Overall, we continue to maintain a strong balance sheet and solid credit ratings.

In total over 2020/25, we expect to raise around £2.4 billion to cover refinancing and incremental debt, supporting our five-year investment programme. In 2020/21 we have raised *c.*£880 million, taking advantage of the attractive rates available. This included a *c.*£300 million issuance under our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials, issued at a UK corporate record low coupon rate at this maturity of 0.875 per cent. We remain one of the sector leaders in the issuance of CPI-linked debt in response to Ofwat's decision to transition away from RPI inflation linkage. At 31 March 2021, we have increased the CPI-linkage in our debt portfolio to £1,015 million with a further £50 million of CPIH-linkage, and therefore a perfect match for the regulatory regime.

Our treasury management secured a low cost of debt compared with industry wide regulatory assumptions for AMP7, with an appropriate mix of index-linked and nominal debt. Our hedging policy means we are well placed to manage future financing costs. We have a robust liquidity position with *c.*£1.1 billion of available liquidity as at 31 March 2021 and have published a seven year long-term viability statement.

We have a responsible and sustainable dividend policy, with consideration given to a broad range of stakeholders who have interests in the performance of the company. For 2020/21, in light of the huge uncertainty surrounding the COVID-19 pandemic, we took the prudent decision to suspend dividend payments for the year.

The following pages provide commentary on our financial performance through an overview of our income statement, our financial position and a range of key financial metrics. The overall impact of this performance upon return is also assessed through our return on regulatory equity (RORE) and financial flows.

Additional detail is provided within the UUW Regulatory accounts in section 2.

Our expenditure and revenues

Income statement

Our income statements for the years ending 31 March 2021 and 31 March 2020 are summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory accounts.

Income statement measures for the years ending 31 March 2021 and 31 March 2020

Income statement measure (£m)	2020/21	2019/20	Movement
Revenue	**1,786.9**	1,832.4	-45.5
Operating Profit	**594.2**	605.0	-10.8
Profit before tax	**486.7**	283.0	203.7
Profit after tax	**394.7**	96.4	298.3

Information from APR Tables 1A

In 2020/21, regulated revenue reduced by £46 million to £1.77 billion, largely reflecting the £80 million reduction from the new pricing regime in the first year of AMP7, incorporating a 5.5 per cent real reduction in typical household bills and a 1.5 per cent CPIH-linked increase. Partly offsetting this reduction, revenue increased in 2020/21 by £13 million reflecting a downwards adjustment to 2019/20 revenues under Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM) mainly due to actual volumes being higher than our original assumptions during AMP6. Revenue in 2020/21 also includes an additional £15 million due to the billing of premises previously marked as void following our strong focus on identifying void properties, including the roll-out of our new void app, and £6 million in relation to the new Innovation in Water Challenge Scheme.

Although COVID-19 changed patterns of demand for our services, changes in consumption between different customer groups have broadly offset each other in total. The COVID-19 pandemic and related lockdown periods led to a decrease in non-household revenue of £47 million, with an offsetting increase in household revenue of £47 million as a result of more time spent at home and the hot, dry weather in spring 2020.

Operating profit of £594 million was down £11 million from 2019/20, reflecting the £46 million decrease in revenues, a £22 million increase in IRE as a result on ongoing work to optimise the performance of our network and an £11 million increase in other operating costs, partly offset by a £62 million reduction in depreciation and a £5 million reduction in losses of asset disposals.

2019/20 reported depreciation included an atypical charge of £83 million in relation to the accelerated depreciation of bioresource assets that have been taken out of use. On an underlying basis depreciation is up £21 million, reflecting a high number of assets commissioned towards the end of the AMP. The £11 million increase in other operating costs includes a £14 million increase in rates largely reflecting a rates refund received last year, £8 million COVID-19 related costs (vs £3 million in prior year) which we have absorbed within our cost base and £6 million of new costs in relation to the Innovation in Water Challenge Scheme mentioned above, partly offset by a £17 million reduction in the regulatory bad debt charge.

Profit before tax of £487 million was up £204 million. This reflects an £11 million reduction in operating profit more than offset by a £66 million reduction in net interest expense, mainly due to the impact of lower inflation on our index-linked debt, plus a £148 million fair value movement on financial instruments from a loss of £77 million in 2019/20 to a gain of £71 million in 2020/21 predominantly reflecting an increase (2019/20) and subsequent decrease (2020/21) in credit spreads across the two years.

Reported profit after tax of £395 million was up £298 million from 2019/20, reflecting a £204 million reduction in profit before tax, plus a £95 million reduction in the reported tax charge. Reported tax decreased despite an increase in profit before tax because the 2019/20 deferred tax charge included an atypical charge of £132 million relating to the government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

Our expenditure and revenues

Financial position

Our financial position for the years ending 31 March 2021 and 31 March 2020 is summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory accounts.

Financial position for the years ending 31 March 2021 and 31 March 2020

Financial Position	2020/21	2019/20	Movement
Total assets (£m)	**13,541**	13,534	7
Total liabilities (£m)	**11,322**	11,629	-307
Net asset value and total equity (£m)	**2,219**	1,905	314
Increase in net cash (£m)	**151**	175	-24
Net Debt (£m)	**7,628**	7,890	-262
Ofwat RCV (£m)	**11,681**	11,653	28
'Shadow' Regulatory Capital Value (£m)	**11,729**	11,887	-158
Gearing (%)	**65.3**	67.7	-2.4

Information from APR tables 1C, 1D, 1E and 4C

Net assets were up £314 million, with total assets up by £7 million and liabilities down £307 million, impacted by the £262 million reduction in net debt (described below). There was a £151 million increase in cash, mainly due to the timing of finance raised towards the end of the year, reflecting operational financing requirements.

Reported net debt (table 1E) was down by £262 million, largely a result of net operating cash inflows partly offset by our net capital expenditure, cash interest, indexation interest and tax.

The 'Shadow' regulatory capital value decreased by £158 million vs reported in 2019/20, largely as a result of regulatory adjustments applied to the AMP7 opening position. Post adjustments to the March 2020 RCV balance was £11,753 million and so the like-for-like RCV decrease was £24 million, impacted by the relatively low levels of inflation during 2020/21.

Reported gearing (which uses the RCV incorporated into Ofwat's final determination) decreased by 2.4 per cent to 65.3 per cent, reflecting the movement in net debt described above and reflecting that UUW did not pay any dividends this year. This reduction is despite the acceleration of our overall AMP7 investment programme with £204 million brought forward in 2020/21 from future years of AMP7, resulting in increased gearing at the beginning of the AMP, with additional spend being reflected in net debt but not yet fully reflected in RCV. In addition, we invested additional totex of £32 million in 2020/21. This represented the first year spend under our additional c.£300 million AMP7 totex plan to extend our environmental programme, accelerate our digital transformation and to exploit spend to save opportunities.

UUW's capital structure continues to support a solid A3 credit rating with Moody's. With UUW having eliminated its pension deficit position and with a lower scheduled AMP7 capital programme compared with AMP6, gearing is expected to end the 2020/25 period lower than it started. However, it is still expected to remain above the nominal gearing level of 60 per cent assumed by Ofwat in setting the PR19 FD, largely due to the discretionary expansion of totex to drive performance improvements. It should also be noted that the extent of any gearing reduction will be impacted should CPIH inflation outturn lower than the assumptions embedded in the PR19 determination.

Our expenditure and revenues

Financial metrics

Our performance against the key financial measures set out in the FD for the years ending 31 March 2021 and 2020 is summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory accounts.

Financial metrics for the years ending 31 March 2021 and 31 March 2020

Financial ratios	Notes	Ofwat PR19 FD assumption	2020/21 actual	2019/20 actual
Interest cover ratio (ICR) (cash)	1	4.58	**6.07**	5.44
Adjusted cash interest cover ratio (ACICR)	1	1.52	**2.29**	2.60
Funds from operations (FFO)/debt	1	10.83%	**11%**	10%
Gearing (net debt/RCV)	1	56.98%	**65.3%**	67.7%
Dividend cover	1	1.56	**–**	0.19
Retained cash flow (RCF)/Net Debt	1	8.58%	**11%**	4%
Return on capital employed (ROCE)	1	4.32%	**4.57%**	5.01%
Credit ratings	2	Investment grade	**A-; A3; BBB+**	A-; A3; BBB+

Information from PR19 final determination: United Utilities and APR table 4H

Notes:

(1) Ofwat FD ratios are derived on a notional capital structure with a notional cost of debt and reflect 100 per cent of IRE expensed in the income statement.

(2) Minimum credit rating as required in UUW licence.

The interest cover ratios illustrate a company's ability to pay interest on its outstanding debt. The cash interest cover looks at the ratio of funds from operations (FFO) before the payment of interest, to cash interest payable. The adjusted cash interest cover adjusts the numerator by subtracting regulatory depreciation which is an approximation of the capital cost that would be incurred if companies were to maintain the RCV at the same level. Both metrics remain comfortably above the assumptions made in the PR19 final determination.

The FFO/Debt ratio is calculated by taking the net cash generated from operating activities, adjusting for changes in working capital and dividing by net debt. This ratio is often used by credit rating agencies to look at the ability of companies to repay their debt and to fund their capital expenditure requirements. It should be noted, however, that each credit rating agency has its own approach to the calculation of these ratios which may differ from the Ofwat calculation method used here. For example, applying Standard & Poor's (S&P's) usual methodology, which deducts all interest to derive FFO compared to Ofwat's method which deducts cash interest only, S&P's FFO/Debt for 2020/21 would be lower at around 9.7 per cent, compared to 10.9 per cent under Ofwat's FFO/Debt metric calculation. The 10.9 per cent reported under Ofwat's method is in line with Ofwat's PR19 FD assumption of 10.83 per cent.

The debt to RCV gearing ratio measures the proportion of debt in a company's capital structure relative to its regulatory capital value. This ratio is often used by credit rating agencies to assess a company's level of leverage and capital strength. The movement on this metric is explained on the previous page.

Our credit ratings with Moody's (A3), S&P (BBB+) and Fitch (A-), all on stable outlook, remain unchanged from the prior year. These are all well above the minimum investment grade and at or above PR19 business plan targets for Moody's (BAA1) and S&P (BBB+) on a notional basis. No PR19 business plan target was provided for Fitch.

Dividend cover shows the number of times the dividend can be paid from the distributable profits earned in each year. 2020/21 dividend cover is infinite following UUW's decision to pay no dividends in the year. 2019/20 dividend cover reflected the one-off end of AMP true-up of outperformance accrued across AMP6.

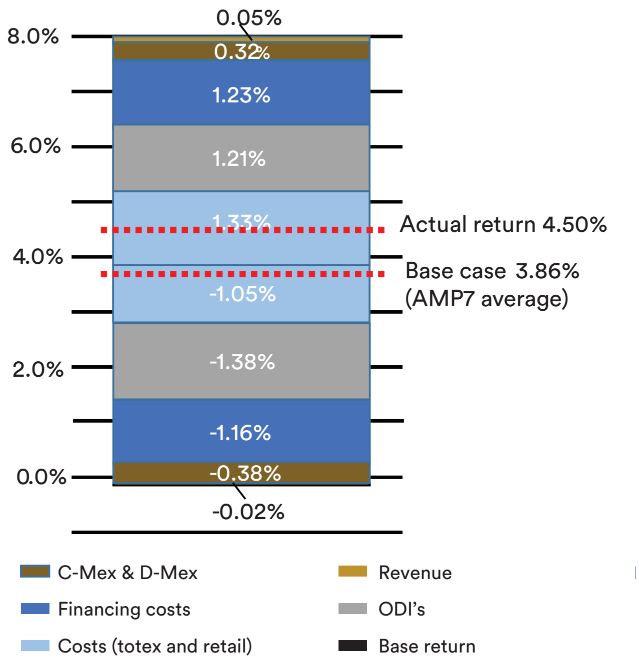
RCF/Net debt shows FFO retained by the business post dividend payments as a percentage of net debt. RCF/net debt of 11 per cent reported in 2020/21 is significantly above the PR19 FD assumption of 8 per cent largely as a result of UUW paying no dividends in the year.

ROCE measures profit before interest less current tax divided by RCV. ROCE of 4.57 per cent in 2020/21 is slightly down from last year's ROCE of 5.01 per cent reflecting the expected reduction in regulatory returns between AMP periods and paying a higher level of corporation tax in 2020/21, although remains above the FD assumption of 4.32 per cent.

Our expenditure and revenues

Return on Regulatory Equity (RORE)

The UUW final determination set out the theoretical range of returns that UUW could expect to earn dependent on its actual performance in the period, with this return being expressed as a return on the regulated equity of the business (RORE).



The RORE value reported in our APR is designed to measure the returns (after tax and interest) that a company has earned by reference to the notional regulated equity, where regulatory equity is calculated from the RCV and notional net debt (60 per cent of RCV).

The notional base case RORE that was assumed in the FD was 3.86 per cent (real, CPIH/RPI blended) and was assumed to be able to vary between -0.1 per cent and 8.0 per cent, depending upon actual performance in the period.

UUW reported a RORE of 4.50 per cent in 2020/21, with strong outperformance on financing and ODIs, partly offset by underperformance on totex, retail costs and tax. Adjusting for the discretionary additional totex, providing future benefits not yet reflected in RORE and the tax impact that will be recovered through the tax sharing mechanism at the end of the AMP, our underlying RORE of 4.8 per cent is higher than reported RORE. This underlying RORE of 4.8 per cent provides a more representative view of actual business performance in 2020/21.

Although reported RORE is within the expected range published by Ofwat and exceeds the assumed base case, comparisons between these two values need to be made with care. The assumed return within the FD is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt, whereas the actual values reflect the UUW actual company-specific position. The RORE measure has also changed to align to financial flows for 2020/21 reporting with one key change being that this now includes all tax out/under performance on a new line, whereas previously the components within RORE were all presented post-tax. This means that the numbers are not directly comparable.

The impact of our operational and financial performance on the key factors that are used to determine RORE is set out below.

Base return – The actual base return of 3.91 per cent (real, RPI/CPIH blended) was enhanced by a 0.11 per cent uplift as a result of UUW successfully securing fast-track status at PR19. Note that the Ofwat assumed base return of 3.86 per cent is an AMP7 average and UUW's base return, pre fast-track uplift, was 3.80 per cent for 2020/21.

Operating costs (totex and retail) – Whilst we have reported a totex underperformance within RORE of 0.19 per cent in 2020/21, this has been adversely affected by the £32 million year one element of the £300 million additional totex which provides benefits that are not yet reflected in RORE. On a like-for-like basis we are on track to deliver the AMP7 scope broadly in line with the AMP7 totex allowance.

Costs incurred in household retail have been slightly higher than the FD allowance in 2020/21 largely reflecting costs incurred in adapting to the effects of COVID-19.

Outcome delivery incentives – Our good operational performance has delivered net ODI outperformance payments of £15.2 million (inclusive of per capita consumption ODI underperformance payment of £1.7 million), across the wholesale and retail services, equivalent to 0.34 per cent of RORE.

C-MeX/D-MeX – This is a measure of relative intercompany performance. Whilst our strong customer service performance in 2020/21 is expected to result in rewards in both C-MeX and D-MeX, this is reported within RORE with a one year lag. This means that this years performance should enhance 2021/22 RORE.

Tax – Underperformance within 2020/21 RORE of 0.45 per cent reflects the government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020 (which will be recovered through the AMP7 tax sharing mechanism) and the tax impact of our actual interest charge being lower than the notional amount assumed in the price control calculations.

Financing – The balance of the increase in the calculated actual RORE relates to financing. Ofwat's central case RORE value for UUW was based on a theoretical, efficient company with a notional capital structure and a notional cost of debt. This means that the values are not directly comparable with the actual performance calculated based on actual, company specific figures.

Please see section 2.5 of the Annual Performance Report for more narrative on reported RORE.

Our expenditure and revenues

Financial flows

RORE represents the real return for each water company assuming a notional capital structure (i.e. 60 per cent PR19 notional gearing level). Financial flows expands on reported RORE by also presenting the actual return on the actual capital structure of the company. It includes the inflationary return to derive total shareholder returns as well as presented retained value, net of dividend distributions.

A summary of our 2020/21 performance is provided below. Table 1F of this APR provides more detail.

Financial measure	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	3.91%	3.30%	3.91%
• Financing	0.00%	1.32%	1.28%
• Operational performance	0.00%	-0.12%	-0.14%
RORE	3.91%	4.50%(1)	5.05%
Total shareholder return	**5.04%**	**5.41%**	**5.94%**
Net dividend	-3.00%	–	–
Retained value	**2.04%**	**5.41%**	**5.94%**

(1) Equals reported RORE as presented in table 4.

On a notional equity basis, actual RORE at 4.50 per cent is consistent with the reported RORE metric described in the RORE section above. On an actual equity basis, reported RORE is higher at 5.05 per cent, reflecting the impact of slightly higher actual gearing than the assumed 60 per cent notional level. Total shareholder return includes the inflationary return on RCV (not reflected in RORE which is on a real return basis). Actual retained value of 5.41 per cent on a notional equity basis, and 5.94 per cent on an actual equity basis, is consistent with total shareholder return reflecting that UUW did not pay any dividends this year. Please see section 2.5 of the Annual Performance Report for more narrative on reported financial flows.

Risk and compliance statement

UUW Board's Risk and Compliance Statement 2020/21

The board of United Utilities Water Limited (the company or UUW, where the context requires), is required by Ofwat to provide an annual statement confirming its compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers for the report year 2020/21. This statement is complementary to other statutory board statements.

The Statement

The board considers that the company has applied its processes and internal systems of control in a manner that has enabled it to satisfy itself, to the extent that it is able to do so from the facts and matters available to it, that the company:

- Has a full understanding of and has complied with its relevant statutory, licence and regulatory obligations in all material respects in year one;
- Has taken appropriate steps to understand and meet customer expectations;
- Has sufficient processes and internal systems of control to fully meet its obligations;
- Has appropriate systems and processes in place to identify, manage, mitigate and review its risks; and
- Has confidence that the data and information provided to Ofwat and published in the reporting of 2020/21 performance was accurate and complete.

Departures from this statement are set out and explained in a table following the compliance statement.

Managing compliance with our obligations

The primary statutory and regulatory obligations relevant to our functions as a Water and Sewerage Undertaker are set out in either the Water Industry Act 1991 or in our Instrument of Appointment – the 'licence'. The licence also requires us to meet the requirements imposed under any other statutory and regulatory obligations as necessary to fully discharge our duties as a Water and Sewerage Undertaker.

The company has an established compliance working group, chaired by the company's Senior Solicitor, with representation from relevant business areas. The group formed in 2015, following a question from the board to Head of Audit and Risk around how the company's diverse obligations are identified and discharged.

The group maintains a log of the company's key obligations, together with a list of the internal policies, associated risk assessment and assurance activities for each obligation. Each obligation also has an owner who is a member of the working group and a named owner of each obligation's linked policy, who usually is more senior and often at Executive or CEO level. The group also carries out horizon scanning to identify new legislation.

The board manages the effective and efficient delivery of its obligations and operation of everyday activities within the business by the interaction of:

- **Authorisations, approvals and procedures.** These are set out in the United Utilities Group PLC (UUG) Internal Control Manual (ICM) to provide guidance to employees as to the system of internal controls that they must follow when acting on behalf of UUW and UUG as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.
- **Policies.** The board has adopted an overriding set of business principles. These are supported by a range of underlying policies that provide guidance to its employees as to how they should conduct themselves when acting on behalf of UUW and UUG as a whole. Everybody working for or on behalf of UUW must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal proceedings in serious cases.
- **Governance and control.** The board delegates responsibility for specific matters to a number of committees and working groups. This provides a framework that employees are expected to be aware of and comply with, where relevant to their role, to ensure business decisions are taken in accordance with best business governance practices.

To oversee and take decisions affecting the execution of its obligations, the UUW board:

- Receives and reviews performance reports from the relevant employees of the company;
- Receives and reviews reports and presentations from the UU Corporate Audit Team, the financial and technical auditors;
- Receives and reviews reports and presentations from the Water, Wastewater and Digital Services, Environmental Planning and Innovation, Customer Service and People, Strategy, Policy and Regulation and Finance directorates; and
- Has access to executive and senior managers in the company to verify information.

Should a significant regulatory risk or issue materialise during the year, then UUW will update Ofwat accordingly to demonstrate that the company is aware of and is responding appropriately to manage that risk or issue.

Understanding and meeting customer expectations

Our investment priorities and performance targets for the 2020–2025 period were shaped by listening to customers and stakeholders and understanding their priorities for the years ahead. This work resulted in a series of outcomes, which represent what we are aiming to achieve in the areas that customers and stakeholders told us were most important to them.

Each outcome is underpinned by specific performance commitments that allow customers and stakeholders to judge our performance. The performance commitments provide a transparent mechanism that allows us to demonstrate to customers whether the performance they have received from us has met or not met expectations. Some of these measures also contain outcome delivery incentives (ODIs) with performance against these measures potentially resulting in financial incentives for outperformance or underperformance.

The performance commitment and outcome delivery incentive framework is designed to reflect customer priorities and provide strong incentives for companies to become more innovative and more efficient, both protecting customers

Risk and compliance statement

against under-delivery and where merited, rewarding companies for outperformance in areas determined as part of a customer focused price review process.

The customer challenge group YourVoice has also continued to play a valuable role in challenging our customer engagement and improving the transparency of our reporting. Throughout the year we have continued to work with YourVoice to demonstrate how we are delivering on our performance commitments during year one of AMP7. YourVoice's comments on our performance during the year are published on our website.

Published on our website: https://www.unitedutilities.com/corporate/about-us/performance/yourvoice

We believe that it is important to be transparent and to provide information to customers and stakeholders that they can trust and that enables them to understand how the company is performing. The summary of the assurance that has been undertaken and the findings from that assurance are set out in Appendix 1 of our 2020/21 Annual Performance Report.

Processes and systems

The directors have a reasonable expectation that the processes and systems of control the company uses are adequate for it to meet its obligations.

This statement takes into account the relatively stable and regulated nature of the business and is based, amongst other matters, upon a review of the company's performance for 2020/21, the results of the annual management control self-assessment, the work of Corporate Audit and a review of the company's risk and issues process and register.

In respect of this Statement, assurance is provided by:

- **Using UUW's established processes and methodologies for reporting performance**. This requires data providers, their managers and business unit directors to produce and approve Performance and Compliance Statements that set out the evidence to support the reported performance and control checks that have been applied. Operational performance data is collected at month six, month nine and at year-end.
- **Comparing the reported outturn performance with our company business plan targets, regulatory targets and predicted future performance**. This exercise allows variances to be identified and explored. Where required, explanatory statements are sought from business managers. These statements are analysed and assessed by the Regulatory Contract Team (within Strategy, Policy and Regulation) and findings are reported to the relevant Executive Directors, with any material issues highlighted to the UUW board.
- **Requiring Business Unit Directors and Senior Managers to complete an annual management control self-assessment questionnaire**. The self- assessment is overseen by UU Corporate Audit and serves as one input to the board's annual review of internal control effectiveness in accordance with good governance principles. The self-assessment questions are intended to assess the design and application of internal controls, highlighting the incidence of significant weaknesses in either the design or operation of key controls during the period that have had, or could have, a material impact on the company's performance or condition.
- **Reviews are undertaken by the UU Corporate Audit team of the company's processes, risks and controls.** In 2020/21, Corporate Audit continued to review the company's processes risks and controls, which covered operational areas, support functions, regulatory reporting information, the UUG and UUW Annual Report and Financial Statements. Findings are reported to aid the board's decision to approve these reports. The team reviewed UUW's compliance with Ofwat's board leadership, transparency and governance principles.
- **The Group Audit & Risk Board's (GARB's) review and monitoring of compliance with governance processes, risk management and the internal control framework to identify emerging themes and trends.** GARB reviews any issues and receives summary level reports (typically by exception) arising in relation to Corporate Audit activities, Management control self-assessment activities, the Risk Management framework as well as other key compliance activities.
- **Reviews are undertaken by UUW's Corporate Audit team and Technical Auditor of the Company's processes, risks and controls**. Their findings are reported to the board to aid the board's decision to approve the annual Risk and Compliance Statement. The effectiveness of the Corporate Audit team is continually monitored through assurance reports, a quality dashboard, an annual stakeholder survey and periodic external assessment.

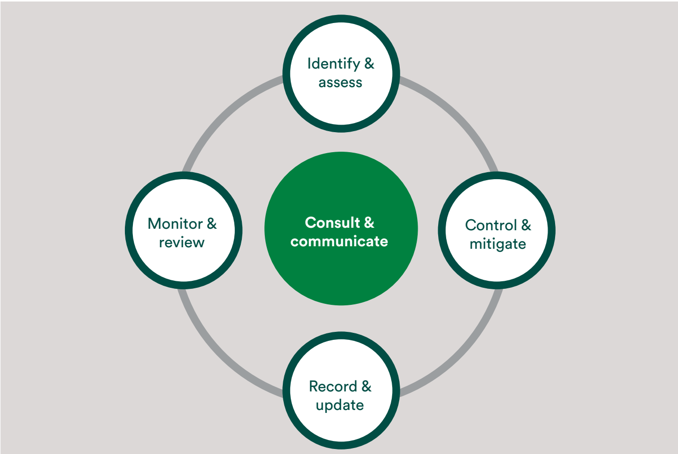
Where material issues are identified and/or the board considers it is unable to support the expectations of the Statement then exceptions are set out in a table following the compliance statement.

Risk and compliance statement

Risk Management

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for the North West.

Our emphasis is on our capacity and capability to manage risk and uncertainty and to build and maintain long-term resilience across our corporate, financial and operational structures.



Key components of the framework include:

- An embedded group-wide risk management process that is aligned to ISO 31000:2018;
- A board-led approach to the company's risk appetite and tolerance framework;
- A strong and well-established governance structure giving the board oversight of the nature and extent of risks the group faces, as well as the effectiveness of risk management processes; and
- A portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

Individual business areas and functions are accountable for identifying, quantifying, communicating and controlling the risks relevant to their business activities. We use a forward-looking approach to take into account new and emerging areas of concern and the long-term impact of risks. The process involves group level evaluation, benchmarking and calibration to enable a consistent approach, an appreciation of the most significant risks from a financial and reputational context, together with an assessment of how these relate to our risk appetite and tolerance. The identified risks cover a wide range of potential events including regulatory, legal, core operations, service and hazard risks.

Oversight and governance process

The board ensures that its oversight of risk remains effective through a number of established reporting routes.

Twice yearly the board receives a full update on the risk profile as part of the full and half-year reporting cycle. This provides an overview of the nature and extent of risk exposure in the context of the group's principal risks, and emphasises the most significant risks in both their current state relative to the risk appetite and the target state of acceptable exposure.

This practice is in compliance with the code, and enables reports to be provided to the board for each full and half-year statutory accounting period. The board is therefore able to:

- Make decisions on the level of risk it is prepared to manage in order to deliver on its strategy;
- Engage with the business to put appropriate controls in place, and to ask questions and test the appropriateness of plans;
- Report externally on the long-term viability of the company in an informed manner; and
- Monitor and review the effectiveness of procedures, systems and risk management thinking.

Our approach to corporate risk management and principal risks and uncertainties are set out in the United Utilities Group PLC 2020/21 Annual Report and Financial Statements.

www.unitedutilities.com/corporate/investors/results-and-presentation/annual-reports

In respect of regulatory reporting UUW has maintained its tailored risk management and assurance approach that has been used in our previous regulatory reporting periods. This process identifies high-risk elements of our reporting and ensures that action plans are established to manage or mitigate the risks and appropriate governance and assurance is in place.

The regulatory reporting risk assessment process and final assurance plan for our 2020/21 regulatory reporting are set out on the United Utilities website: www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25/

Appendix 1 of the Annual Performance Report provides confirmation that this assurance plan has been implemented and sets out the findings of that assurance.

Data and information provision

We have a well-established assurance framework which we apply to regulatory submissions. This framework utilises a targeted risk assessment process which determines the nature of the governance and the level of the assurance required and is subsequently applied to each component of submissions. This framework forms the basis for assuring our data.

The AMP7 assurance framework has been reviewed and challenged by the board and has been published on the company website at: www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25

Data reporting

The accountability for operational performance and regulatory reporting sits with relevant business units responsible for the day to day management of the associated processes. The data which underpins the reporting of performance commitment and other operational performance has an Executive sponsor, with their team being responsible and accountable for the end to end process from delivery to performance reporting.

Risk and compliance statement

Data assurance

The process by which we capture and report data is defined in a suite of methodology statements, which are developed by subject matter experts. The methodology outlines how we comply with reporting requirements and sets out the systems used to capture and report data, role accountabilities, processes used to analyse and calculate the resultant performance levels. Additionally the methodology statements include the key process controls and checks that assure the resulting data. Each of the methodology statements are reviewed during the year and signed off appropriately by the relevant senior manager or member of the Executive dependent on the associated level of risk. In addition to these methodology statements, Performance and Compliance Statements (P&CS) are also compiled that set out the evidence to support the reported performance and the control checks that have been applied. Operational performance data is collected and reported in this way at month six, month nine and at year-end as part of our regulatory reporting process. The P&CS is also signed off appropriately based upon the risk level assessed.

Risk assessment

Reported metrics are risk assessed to determine the minimum level of assurance applied. This is based upon the importance of the data (both financial and reputation) and the materiality of any potential risks or issues. The risk assessment ensures that issues are escalated to, and signed off by, the appropriate accountable manager or Executive. This risk assessment is generally undertaken at least twice annually in order to ensure any emerging risks are taken in to account.

Targeted assurance

The process for capturing and assuring our regulatory data is underpinned by a ‘three lines of assurance’ approach to the analysis, review and assurance of the reporting of regulatory information. In the first line of assurance management has accountability for developing and maintaining sound processes, systems and controls in the normal course of its operations. In the second line of assurance the Economic Regulation or Finance team has accountability for providing the framework and governance for regulatory reporting and ensure that methodologies have been complied with. The UU Corporate Audit team also provide an independent review of the effectiveness and application of the assurance framework and undertake targeted reviews. A report is presented to the board outlining its findings and any areas of non-compliance. The third line of assurance provides independent audit and assurance activity through independent technical auditors and in some cases specially appointed third party providers. A report is presented to the board outlining its findings and any areas of non-compliance.

Data review

Performance data is used to report performance throughout the business up to board level. Performance data produced either monthly for scorecards or the regular reporting processes outlined above is compared against regulatory targets and predicted future performance. Monthly scorecards are shared widely throughout the business as part of the monthly briefing process. This exercise allows variances to be identified and explored. Where required, explanatory statements are sought from business managers. These statements are analysed and assessed by the Economic Regulation Team and findings are reported to the relevant Executive Directors, with any material issues highlighted to the UUW board. This scrutiny supports understanding of our performance so that it can be explained and challenged. Where necessary corrective action can be taken to try to bring performance back on track.

Board engagement and challenge

The board has considered and challenged the AMP7 assurance approach which supports the publication of its performance data and the risk and assurance processes, governance structures and individual accountabilities which support the provision of information to the board and other stakeholders. The board is also fully engaged with understanding – and where appropriate challenging – how we perform against our performance commitments, receiving detailed regular performance reports at board meetings, with particular focus at half-year and year-end. At year-end Corporate Audit and the independent technical assurer separately present the results of their assurance findings and any areas of non-compliance.

Other key regulatory submissions are also approved by the board during the year. These are subject to a clearly defined assurance process prior to being submitted to the board for consideration. This process includes detailed scrutiny from senior management, first and second line risk and assurance teams, as well as independent experts for third line assurance where required. Exceptions and issues identified from the assurance process and the actions taken to resolve or mitigate them are raised with the board for consideration.

Independent challenge and review

We regularly discuss our performance against targets with the YourVoice panel. Actions and plans to deliver against our targets are reviewed and discussed together with the impacts that these actions have on performance and financial incentives. We also work with the panel to ensure that performance outcomes are communicated clearly and transparently to customers alongside the main Annual Performance Report. As part of the year end process the YourVoice Chair reports the panels’ findings directly to the board.

Risk and compliance statement

Confirmation of key reporting requirements

Corporate governance (Licence condition P3)

United Utilities continues to fully support Ofwat's drive for the highest standards of board leadership, transparency and governance in the industry. United Utilities Group PLC (UUG) is compliant with the code as disclosed most recently in the 2020/21 Annual Report.

Ofwat's board leadership, transparency and governance (BLTG) principles came into effect from 1 April 2019 and were embedded into the licence on 1 August 2019. These require UUW to meet the objectives of the principles and to explain in an effective, accessible and clear manner how they have done so. The board is satisfied that its current practices and application of the BLTG objectives at regulated company level are entirely consistent with the Principles published by Ofwat.

In addition, and as required by licence condition P3 the board has developed an annual board statement, which aims to explain how it is meeting the BLTG objectives in a manner that is effective, accessible and clear. This statement is published on pages 8 to 13 of this year's Annual Performance Report.

Links between directors pay and standards of performance (Water Industry Act section 35A)

As required by section 35A of the Water Industry Act 1991 UUW has published a Statement of directors' remuneration and standards of performance, which can be found in Section 2.5 of our Annual Performance Report. Included within this statement are details of the arrangements and the remuneration that have been paid or become due during 2020/21 to the directors of the company as a result of arrangements for linking the remuneration of the directors of the company to standards of performance in connection with the carrying out by the company of the functions of a relevant undertaker.

Ring-Fencing Certificate (Licence condition P30)

The directors have issued a 'Ring-Fencing Certificate' under paragraph P30 of licence condition P, stating that the company will have available to it: i) sufficient financial resources and facilities; ii) sufficient management resources and systems of planning and; iii) sufficient rights and resources other than financial resources, to enable it to carry out the regulated activities, for at least the next twelve months. This certificate also confirms that all contracts entered into between UUW and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to UUW, to ensure that it is able to carry out the regulated activities. This certification statement can be found in Section 2.5 of our 2020/21 Annual Performance Report.

Transactions with associated company (Licence condition P19)

The directors of UUW have declared, to the best of their knowledge that: i) every transaction between the appointed business and any associated company is at arm's length, so that neither the appointed business nor the associated company gives a cross-subsidy to the other; and ii) that the appointed business neither gives nor receives any cross-subsidy from any other business or activity of the appointee. Information in respect of transactions between UUW and any other business or activity of the appointee or associated company is set out in Section 2.5 of our 2020/21 Annual Performance Report

Maintaining investment grade credit rating (Licence condition P26)

UUW has current long-term issuer credit ratings of A3/BBB+ with Moody's and S&P respectively and a long-term issuer default rating of BBB+ with Fitch, all on stable outlook. Additionally, UUW's current senior unsecured debt ratings are A3/BBB+/A- with Moody's, S&P and Fitch respectively, all on stable outlook. Assuming no significant changes to existing ratings agencies' methodologies or sector risk assessments, UUW aims to maintain long-term issuer credit ratings of at least A3/BBB+ with Moody's and S&P, respectively and a senior unsecured debt rating for UUW of at least A- with Fitch.

Long-term viability statement

As set out in the long-term viability statement on pages 148 to 150 of this Annual Performance Report, the directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of UUW's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2028.

Outcome delivery

Performance against the outcomes and performance commitment targets set out in the PR19 final determination, is monitored on a monthly basis throughout the business as part of internal company scorecard reporting. Annual and longer-term performance summaries are reported on a regular basis through the year to the UUW board and to the customer challenge group YourVoice.

Full details of the 2020/21 performance against these outcomes is included within Section 1.1 of our 2020/21 Annual Performance Report. Actions that are being undertaken to address any measures where we have not met the target are also set out within the report.

Signed on behalf of the board

Sir David Higgins
Chairman

Steve Mogford
Chief Executive Officer

This statement was approved at a meeting of the board of directors of United Utilities Water Limited on 29 June 2021 and signed off on its behalf by Sir David Higgins, Chairman and Steve Mogford, Chief Executive Officer.

Risk and compliance statement

2020/21 departures from the Risk and Compliance statement

The board considers that the company has applied its processes and internal systems of control in a manner that has enabled it, to the extent that it is able to do so from the facts and matters available to it, to identify material departures from the obligations or exceptions in data accuracy or completeness are set out below:

Description of duty/obligation	Purpose of duty/obligation	Disclosure
Environmental Permitting (England and Wales) Regulations 2010	WTW and WwTW discharge permit compliance.	One WTW has been classified as failing its discharge permit in year one and we have achieved an overall compliance of 99.8 per cent for the Environmental Agency's Environmental Performance Assessment (EPA) per cent discharge compliance measure. This level of performance is behind the year one target set for the performance commitment 'treatment works compliance'. More details are provided in Section 1.1 of the APR.
Water Industry Act 1991 Water Supply Requirements	Duties of water undertakers with respect to water availability.	As a result of the Habitats Directive the Environment Agency (EA) will revoke our abstraction licence from Ennerdale Water. UUW has implemented a series of short-term measures to mitigate the risk to supply, with a long-term solution to transfer water from Thirlmere reservoir to the West Cumbria supply zone now underway. More details are provided in Section 1.1 of the APR.
UUW Instrument of Appointment (licence) Condition J	Condition J (Levels of service information and service targets) creates obligations regarding the setting, monitoring and reporting of service targets.	Because of changes to the regulatory approach we are no longer required to fulfil these obligations.
UUW Instrument of Appointment (licence) Condition L	Condition L (Underground asset management plans) creates obligations regarding the preparation, review and revision of underground asset management plans.	Because of changes to the regulatory approach we are no longer required to fulfil these obligations.
Water Industry Act 1991 Information provisions	Water Industry Act Section 199 places an obligation on wastewater companies to maintain maps of its sewers.	In common with all other wastewater companies in England and Wales, not all our sewers are mapped because the cost of doing so is generally agreed to be uneconomic.

1.0 Year one performance

Introduction and coverage

This section of the Annual Performance Report sets out how we have performed in year one of AMP7 against the service, expenditure and revenue expectation set in the 2019 price review. This year we present this as six sections:

1.1 Outcome delivery – how we have performed against the performance commitments set in our AMP7 final determination.
1.2 Greenhouse gas emissions – we report our greenhouse gas (GHG) performance in the APR for the first time and on a voluntary basis.
1.3 COVID-19 – overview of the impacts of COVID-19.
1.4 Wholesale totex – how our actual spend compares to the totex allowances set out in our AMP7 final determination.
1.5 Wholesale revenue and current cost financial performance – how our actual revenues compare to the level of wholesale revenue assumed in our AMP7 final determination.
1.6 Retail expenditure and revenues – how our actual retail revenues compare to the allowances set out in our AMP7 final determination.

Section 2 of this document comprises the UUW Regulatory accounts for 2020/21. This contains finance and operating information required by Ofwat through both the accounting document and a series of pro forma tables.

Together with Appendix 1 and 3, this provides the information required to support the application of an in-period determination whereby Ofwat reviews the performance information provided and then considers what – if any – changes are required to future revenue recovery in AMP7 in order to reflect the impact of our performance.

1.1 Outcome delivery – Introduction to performance commitments and ODIs

The outcome of a price review is a defined price and service package that companies are tasked to delivered for customers, the environment and other stakeholders. Delivery of service is described through a series of customer – focused outcomes which in turn are supported by more granular performance commitments.

We routinely report performance against these outcomes and performance commitments to customers, stakeholders and regulators, including to the YourVoice customer and stakeholder panel.

Having performance information that is easy to understand and navigate allows customers and other stakeholders to challenge water and sewerage companies on their performance and encourages them to deliver better levels of service. This helps everyone build trust and confidence.

We have committed to seven outcomes for the AMP7 period (2020–2025):

- Your drinking water is safe and clean;
- You have a reliable supply of water now and in the future;
- The natural environment is protected and improved in the way we deliver our services;
- You're highly satisfied with our service and find it easy to do business with us; and
- We will improve the way we work to keep bills down and improve services for you and future customers.
- We collect and recycle your wastewater.
- The risk of sewer flooding for homes and businesses is reduced.

The outcomes section of this document sets out our performance in each of the seven outcomes and provides a summary about each of the individual component performance commitments detailing the definition, targets, commentary on the performance for year one of the AMP and the financial implications of the performance that we have achieved.

Performance commitments

Underpinning each outcome is a set of performance commitments. These are service targets for specific types of activities that we undertake to deliver. If we achieve or outperform against these targets, then this supports the delivery of outcomes for customers, the environment and other stakeholders. Performance commitments are designed to be stretching and deliver an improved level of performance for customers and stakeholders compared to the levels achieved in the past.

There are 15 performance commitments that are being applied to all water companies during AMP7. These are 'common measures' and each has a standard definition set by Ofwat. These common measures are then supplemented by 'bespoke' performance commitments which reflect additional levels of service or focus for investment which are specific to each company's customers.

We need to deliver against 46 performance commitments in the AMP7 final determination, comprising the 15 common measures and 31 bespoke measures which are specific to United Utilities.

We have published a suite of definition documents. These technical documents outlines each of our performance commitments explaining our method and outlining targets and explaining any assumptions and calculations.

Further details on our performance commitments can be found in section 1.1. We have also published a high level summary of our performance which can be found on our website a **www.unitedutilities.com/globalassets/documents/pdf/apr-2020-21-customer-summary**

Customers can also quickly and easily see how this performance compares to other water companies using the industry's comparison dashboard called 'Discover Water' at the following website www.discoverwater.co.uk

Outcome delivery incentives (ODIs)

Outcome delivery incentives or 'ODIs', are incentives which apply to performance commitments.

There are four types of outcome delivery incentive which can apply to performance commitments. These are:

Underperformance only – This is a financially driven incentive. When performance is worse than the target or deadband level, this results in an underperformance payment.

Outperformance only – This is a financially driven incentive. When performance is better than the target or deadband level, this results in an outperformance payment.

Underperformance and outperformance – This is a financially driven set of incentives. Underperformance payments are incurred when performance is worse than the target or deadband level, outperformance payments apply when performance is better.

Non-financial – This is an incentive driven by reputation only. Poor performance could cause reputational damage but good performance could enhance our reputation, but no direct financial incentives are applied.

1.0 Year one performance

39 of our 46 performance commitments have a financial incentive. The other seven performance commitments do not have a financial incentive and are therefore driven by reputational only.

Some ODIs have an outperformance cap or underperformance collar, beyond this point no further incentive is applied.

Some performance commitments include a deadband. This is a narrow range of performance above and/or below the target level within which the company can operate without being subject to financial incentives. For measures without a deadband, any incentive applies as soon as our performance is above or below the target level for the performance commitment.

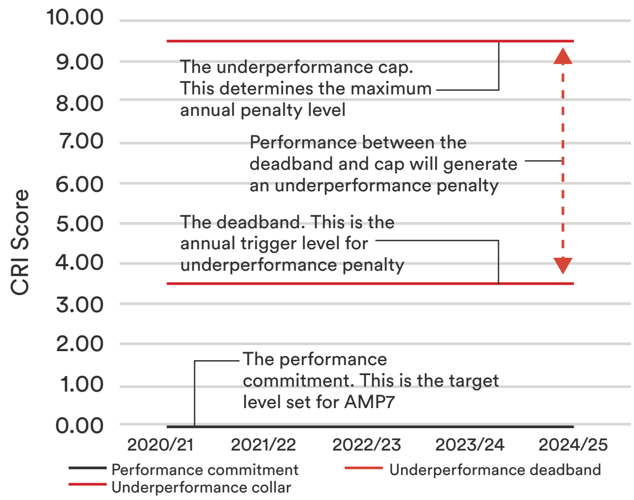
Most ODIs are applied on an annual basis during the AMP. These are referred to as 'in-period'. Some ODIs, however, are applied only at the end of the AMP. These are know as 'end of period' incentives.

Examples of how Performance commitments and ODIs work

Example one – water quality compliance (CRI)

Water quality compliance (CRI) is a common industry measure, which supports our 'your drinking water is safe and clean' outcome. This measure is subject to a financial incentive which means we suffer a financial penalty if we underperformance the target (beyond the deadband). There is no outperformance incentive so it is not possible for us to earn an outperformance payment for meeting or beating the target. The lower our score is on CRI, the better our performance is against this measure and we are incentivised to deliver a CRI score as low as possible.

As you can see in the diagram below, this measure has a performance commitment, a deadband and an underperformance collar. If the annual company performance is between the performance commitment and deadband level, no financial incentive is applied. However, for any annual performance in between the deadband and the collar the financial incentive rate will be applied.

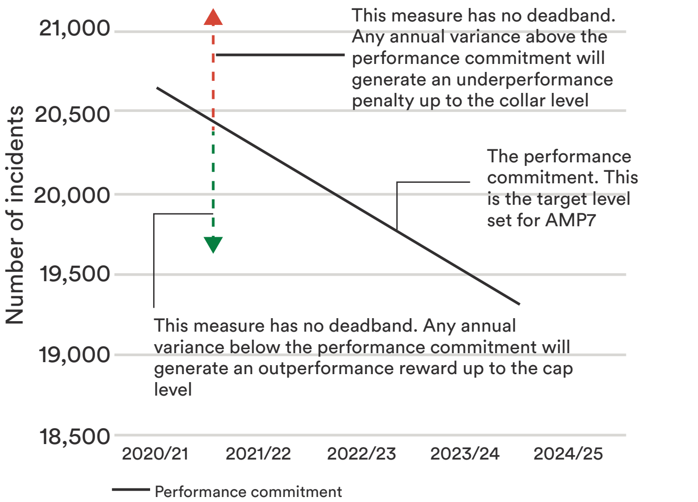


Example two – sewer blockages

Sewer blockages is a bespoke measure which supports our 'we collect and recycle your wastewater' outcome. This measure is subject to financial incentives for either underperformance or outperformance of the target. The lower the number of blockages recorded, the better our performance is against this measure and we are incentivised to deliver as lower number as possible.

As you can see in the following diagram, this measure has a performance commitment, but no deadband, outperformance cap or underperformance collar.

If the annual company performance is better than the performance commitment level a set financial incentive rate would be applied and the company would earn a financial incentive for outperforming the target. If the annual company performance is worse than the performance commitment level then a set financial incentive rate would be applied and the company would be subject to an underperformance payment.



Models

We have calculated our outperformance and underperformance incentive payments using Ofwat's ODI model and input these values in to the in-period adjustments model. We have submitted a copy of both the ODI and in-period adjustment models to Ofwat. A summary of the model outputs can be found on page 90 along with a description of the impact that this will have on customer bills. We have two non standard calculations for abstraction incentive mechanism (C03) and better air quality (C10). The calculations to derive any outperformance or underperformance payments for these two non standard performance commitments are outlined in Appendix 3.

Assurance

We have a well established assurance framework that we apply to our regulatory reporting submissions. We have followed this framework in assuring the data and information which supports the Annual Performance Report, supporting information and out submission for an in-period adjustment reflecting our ODI performance.

Any specific assurance requirements identified in the PR19 final determination outcomes performance index are outlined in Appendix 1 in this document. This section also identifies any areas of deviation from the common methodologies.

Further details of our AMP7 assurance framework are can be found on our corporate website at: www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25/ and in appendix 1 of our 2020/21 APR.

Performance summary

A summary of our net performance for year one can be found on pages 88 to 89 of the outcomes section.

Bill impacts

The overall bill impact of this performance can be found on page 91 of the outcomes section.

Your drinking water is safe and clean

Customers want a reliable supply of high quality water that they trust. To deliver this outcome we will continue to ensure water quality is at the heart of our decision making, achieving a significant reduction in water quality events and an improvement in the aesthetic parameters that impact customers' perceptions of water quality. Our water quality vision is 100 per cent compliance with current and future drinking water quality standards, providing a reliable supply of safe, clean drinking water for future generations.

How have we done?

We have passed or are on track to deliver, three out of five performance commitments which support this outcome. In year one we have generated a net underperformance payment of £1.038 million.

We have not met our performance commitment for water quality compliance (CRI) achieving 2.58 against a target of 0.00. Whilst infringements have increased at service reservoirs we have seen a reduction at water treatment works. We are delivering against our continuous improvement plan focussed on key areas such as training and behavioural change, process improvements and targeted investment.

We have also not met our performance commitment for reducing water quality contacts due to taste, smell and appearance this year. Although there has been an improvement in the number of contacts associated with taste and odour, we have seen a deterioration in customer contacts associated with appearance of drinking water. We are actively working with the DWI to reduce the number of contacts, and have committed to a number of actions to improve performance over the upcoming period.

We have increased customer awareness of how they can look after water in the home. We used a number of targeted campaigns to customer groups, including those with particularly high consumption.

Two of the five performance commitments (numbers of properties with lead risk reduced and discolouration from the Vyrnwy aqueduct) are based on the delivery of schemes. No schemes under either of these measures were scheduled for delivery in year one of AMP7. All schemes expected to be completed later in the AMP are currently forecast to be on track against our delivery plan.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
A01 – Water quality compliance (CRI)	2.58	Underperformance payment	-0.653
A02 – Contacts for taste, smell and appearance	17.7	Underperformance payment	-1.246
A03 – Number of properties with lead risk reduced(1)	On track	–	–
A04 – Helping customers look after water in their home	13.8	Outperformance payment	0.861
A05 – Discolouration from the Vyrnwy aqueduct(1)	On track	–	–
Your drinking water is safe and clean net position	3/5 achieved		-£1.038m

(1) Performance commitments with no outputs to be delivered in year one.

A01

Water Quality Compliance (CRI)

Performance commitment description

The compliance risk index (CRI) is an industry common measure of drinking water quality that has been defined by the water quality regulator, the Drinking Water Inspectorate (DWI). Performance against this measure is calculated by the DWI and reported on a calendar year basis. Performance reported below relates to calendar year 2020. A score is calculated for every water quality compliance failure at water supply zones, supply points, treatment works and service reservoirs. When scoring the compliance failure the DWI considers the standard failed, the impact on customers and the response of the company to the failure. The annual CRI score is the sum of the individual CRI scores for every compliance failure reported during the calendar year (2020).

Performance commentary

We have not met the performance commitment this year, although there has been a 20 per cent improvement compared with the previous years performance. In 2020 there have been fewer infringements at water treatment works but infringements at service reservoirs have increased in comparison to 2019. The COVID-19 pandemic has impacted our sampling programmes during 2020, with more samples being taken from upstream assets. This has meant each infringement is likely to have a higher index score. During March to September there were a number of metals infringements taken at service reservoirs which supply areas with existing Notices or Undertakings, increasing the CRI score significantly.

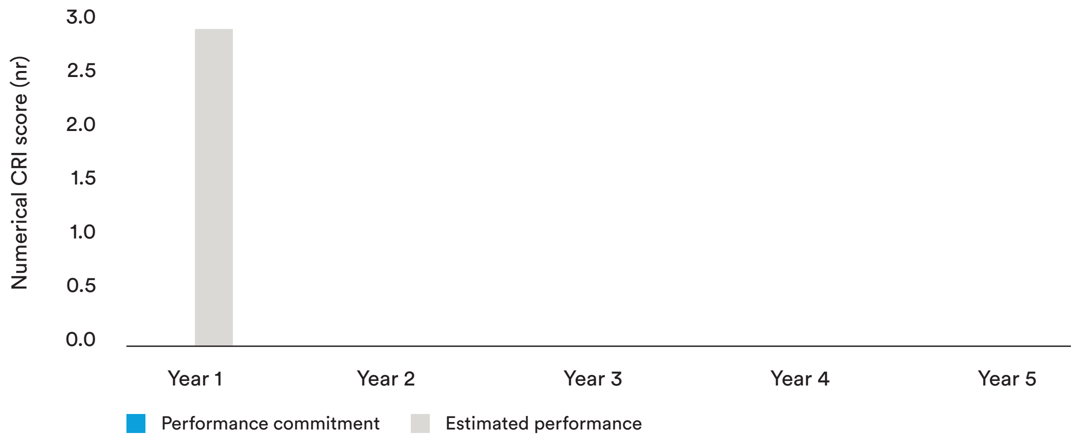
We are continuing to deliver our continuous improvement plan focussed on a number of key areas covering training and behavioural change, process improvements and targeted investment. Consistent and high standards across all teams will be achieved by competency reviews, assessment of existing knowledge and targeted training. Investment will be targeted at critical assets with the help of our innovative hazard risk assessment reviews for treatment (HAZREV), for network (NETREV) and for catchment (CATCHREV) which provide a consistent, structured, multi-disciplinary, end-to-end process review of risks and issues.

The DWI will confirm the final CRI score in July. The performance published in this report is based on the provisional figure provided by the DWI.

Financial implications

This performance commitment has outcome delivery incentives for underperformance only. Performance in year one means we incur an underperformance payment of £0.653 million. We believe achieving 100 per cent compliance with standards – as required to achieve a perfect zero CRI score – will be very challenging. One of the reasons for this is that CRI includes infringements caused by customers' internal plumbing which can be difficult for us to anticipate or influence.

Actual performance for the 'water quality compliance' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Estimated Performance[1]	Pass/Fail
One	2020	0.00	2.58	Fail

(1) The DWI will confirm the final CRI score in July.

A02

Reducing water quality contacts due to taste, smell and appearance

Performance commitment description

The definition for this measure is set by the DWI and reported on a calendar year basis. Year one performance reflects calendar year 2020. This measure counts the number of times customers contact us due to the taste, smell or appearance of their drinking water. Customer contacts include those made by phone, letter, email, in person, completion of web forms or messages left on a helpline. The number is reported as the number of contacts per 10,000 population.

Performance commentary

We have narrowly missed our performance commitment this year. Compared with performance in the previous year we have seen a reduction in taste, smell and appearance contacts of over 4 per cent. Although there has been an improvement in the number of contacts associated with the taste and odour of drinking water we have seen a deterioration in customer contacts associated with appearance of drinking water.

We are driving improved taste and odour performance by driving greater consistency of chlorine dosing to reduce variations in the network. Risk assessments have been revised to provide an increased focus on the impact of water quality following changes in sources and enhanced communications with customers to reduce the risk of customer contacts during source water changes.

Customer contacts associated with the appearance and specifically black, orange, brown discolouration are the largest proportion of taste, smell and appearance contacts received. We are working with the DWI to reduce the number of these discolouration contacts and have committed to:

(1) Develop a discolouration root cause analysis methodology to understand the reasons for discolouration utilising all sources of data, with input from relevant stakeholders;

(2) Review discolouration data from all sources and prioritise zones for root cause analysis;

(3) Undertake a root cause analysis to understand discolouration within the company's zones using all available sources of data;

(4) Complete an independent verification of root cause analysis methodology and outputs;

(5) Benchmark our discolouration strategy against other water companies and current industry good practice;

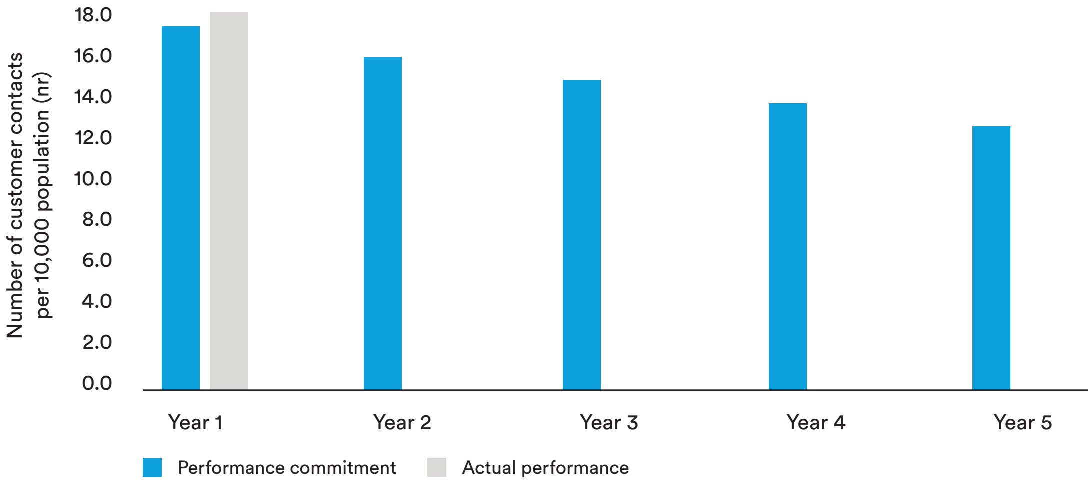
(6) Using the outputs from the root cause analysis, develop bespoke solutions specific for each zone, to reduce the risks of discolouration to consumers; and

(7) Set up a discolouration board to deliver and review progress and outputs of the above actions.

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. Our performance for year one means we incur an underperformance payment of £1.246 million. We forecast a steady improvement in performance over 2021–2025.

Actual performance for the 'reducing water quality contacts due to taste, smell and appearance' performance – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	17.2	17.7	Fail

A03

Number of properties with lead risk reduced

Performance commitment description

This measure incentivises complete lead service pipe replacements, in order to reduce the level of customer exposure to lead. The measure is defined as the number of complete lead service pipe replacements completed in the year. To qualify the replacement must fall into one of these three categories:

- Any property that has a full service pipe replacement from the water main to the first incoming tap;
- Any property that has either its communication pipe or supply pipe replaced where the remainder of the service pipe is confirmed to already not be lead (excluding those funded through the lead and/or common supply pipe replacement scheme); and
- Pipes whose long-term lead health risk is removed through the use of innovative techniques developed in the future and approved by the DWI.

Although we were not targeted with delivering any lead pipe replacements through this measure in year one, we have been developing the process and reporting capabilities so we can outperform the performance commitments in future years.

Performance commentary

No schemes were planned for delivery in year one of the AMP. Planning is underway for delivery in years two to five and we are on track for performing well for this commitment.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. It is subject to in-period reconciliation. As there are no delivery targets in year one of the AMP no underperformance or outperformance incentives are applied.

Actual performance for the 'number of properties with lead risk reduced' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass

A04

Helping customers look after water in their home

Performance commitment description

This measure incentivises us to raise customer awareness of the actions that they can take to be more water efficient and prevent water quality deterioration in their home. We measure performance against a baseline level awareness of 19.5 per cent based on a survey of customers in 2018. Targeted communication on water quality and water efficiency within homes will be used in order to improve awareness on these issues. Repeat surveys, using a consistent question set, will measure performance through to 2025.

Performance summary

We have exceeded our performance commitment this year achieving an overall level of awareness of 33.3 per cent which is 13.8 per cent above the baseline position. Our target was to be at least 2.0 per cent above the baseline. Although there has been good performance, many of our usual methods of promoting the messages around this performance commitment have been curtailed due to COVID-19 limiting our face to face contact and using more online methods of communication.

For water efficiency, our activities complement those for per capita consumption. For example, we continue to promote water efficiency across our website and digital media, as well as promoting key messages as part of our sponsorship of the local ITV weather. Water saving devices are available from our website.

www.savewatersavemoney.co.uk/

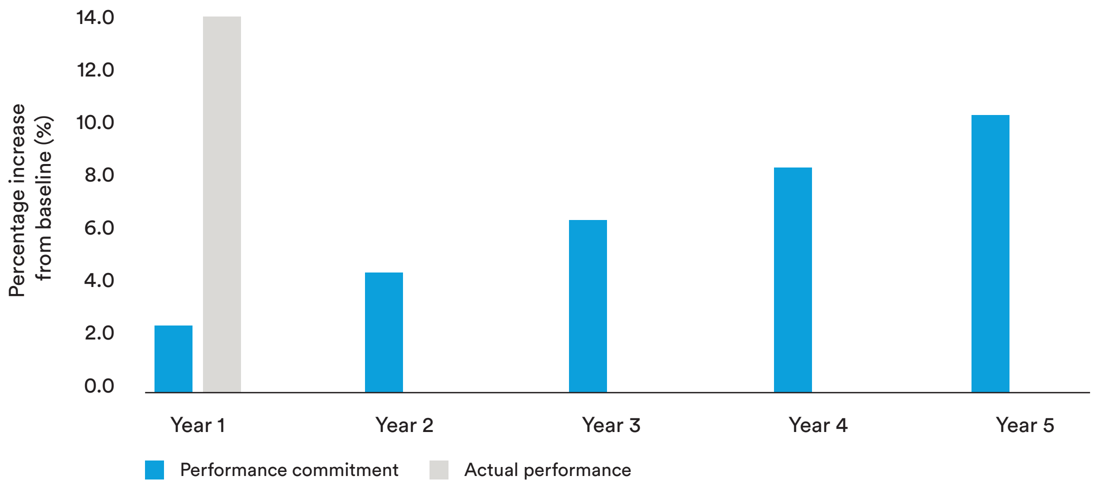
For water quality in the home, we have focussed on increasing customer awareness of potential discolouration events (e.g. due to planned maintenance) and how these can be managed in the home. We use a number of channels to raise awareness. To provide more immediate self-help, we have developed new digital content and a guided self-help tool – Report a problem – which includes interactive information to advise customers on what to action take on the particular issue they may have.

In addition, following research with our customer panel, we have developed water in the home hygiene advice and guidance associated with tap cleanliness and the type of tap installed around the home. As home visits have gradually returned Water Quality Officers and our Water Network Teams can leave leaflets with customers covering water quality, discoloured water, tap hygiene and water efficiency.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. In year one we beat our performance commitment and earned an outperformance payment of £0.861 million. We anticipate that our positive performance will continue over the remainder of the AMP.

Actual performance for the ‘helping customers look after water in their home’ performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	2.0%	13.8%	Pass

A05

Reducing discolouration from the Vyrnwy treated water aqueduct

Performance commitment description

This measure records the length of the Vyrnwy treated water aqueduct cleaned or relined, if required by the DWI to meet the target for reduction in water discolouration. It is measured in number of kilometres.

The performance commitment is set at zero on the basis that there was no requirement at the outset of AMP7 to undertake cleaning/relining of the aqueduct. The performance commitment was put in place to facilitate the cleaning/relining work if it became a DWI requirement.

Performance summary

In September 2020 the DWI confirmed that work on cleaning/relining would need to occur during AMP7. We currently expect that this will extend to 58.99km and we are in the process of planning delivery of this work.

Financial implications

This performance commitment has an outcome delivery incentive for outperformance. Work has not commenced on cleaning/relining the aqueduct in year one and therefore, no financial incentives apply this year. If we deliver 58.99km of cleaning/relining in years four and five then this would result in an outperformance payment of £32.327 million for the AMP.

Actual performance for the ‘reducing discolouration from the Vyrnwy treated water aqueduct’ performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.00	0.00	Pass

You have a reliable supply of water now and in the future

Customers want to rely on us to provide enough water resources to meet our current and future needs. We want to improve supply reliability, reducing both short-term interruptions and the risk of longer-term interruptions. We are targeting a reduction in leakage and encouraging water efficiency, which research has shown to be key priorities for customers.

How have we done?

We have passed or are on track to deliver nine out of eleven performance commitments which support this outcome. In year one we have generated a net outperformance payment of £2.024 million.

We achieved our best ever leakage performance and are on track to reduce leakage by 15 per cent between 2020 and 2025. We also more than halved the time customers' water supplies are interrupted, achieving our best ever performance.

We have outperformed our mains repair performance commitment using our AI managed event recognition system. The system provides continuous proactive detection and recognition of events so we can improve the operation of assets to reduce the risk of mains bursts.

We met or exceeded the performance commitment for our resilience measures – drought risk resilience, water service resilience, keeping our reservoirs resilient and Manchester and Pennine resilience.

We have not met our performance for per capita consumption, with an increase in consumption of 1.7 per cent compared to a target reduction of 1.3 per cent. We have seen household demand increase across the industry this year as a result of the COVID-19 pandemic. We have been focusing efforts on a strategy aimed at increasing meter penetration, supported by a communications campaign to encourage customers to moderate their usage around the home and in the garden.

We have outperformed our target on unplanned outages through a number of improvements in both approach and behaviours leading to more effective management of outages in addition to a shift to more planned work.

We failed to achieve our year one target on reducing areas experiencing poor pressure. This was driven by high seasonal demand and increased demand associated with COVID-19.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
B01 – Leakage	1.9	Outperformance payment	0.686
B02 – Mains repair	107.7	Outperformance payment	1.610
B03 – Reducing interruptions to water supply	00:04:48	Outperformance payment	1.591
B04 – Unplanned outage	1.88	–	0.000
B05 – Per capita consumption	1.7	Underperformance payment	-1.742[2]
B06 – Drought risk resilience	0.0	Reputational	–
B07 – Reducing areas of low water pressure	1.113	Underperformance payment	-0.121
B08 – Water service resilience[1]	106	–	–
B09 – Manchester and Pennine resilience	Achieved	–	–
B10 – Keeping reservoirs resilient[1]	0.00000	–	–
B11 – Thirlmere transfer into West Cumbria (AMP7)	99	–	–
You have a reliable water supply now and in the future net position	9/11 achieved		£2.024m

(1) Performance commitments with no outputs to be delivered in year one.

(2) PCC is moving to an 'end of period' incentive arrangement.

B01

Leakage

Performance commitment description

This is a measure common to all water companies based on the percentage reduction in water lost to leakage compared to our 447.1 Ml/d baseline. The measure is calculated based on three year averages and the baseline is the three year average of the leakage performance reported in 2017/18, 2018/19 and 2019/20. Leakage performance is based on Ofwat's new methodology. In 2020/21 the leakage performance will be calculated using the average performance from 2018/19, 2019/20 and 2020/21.

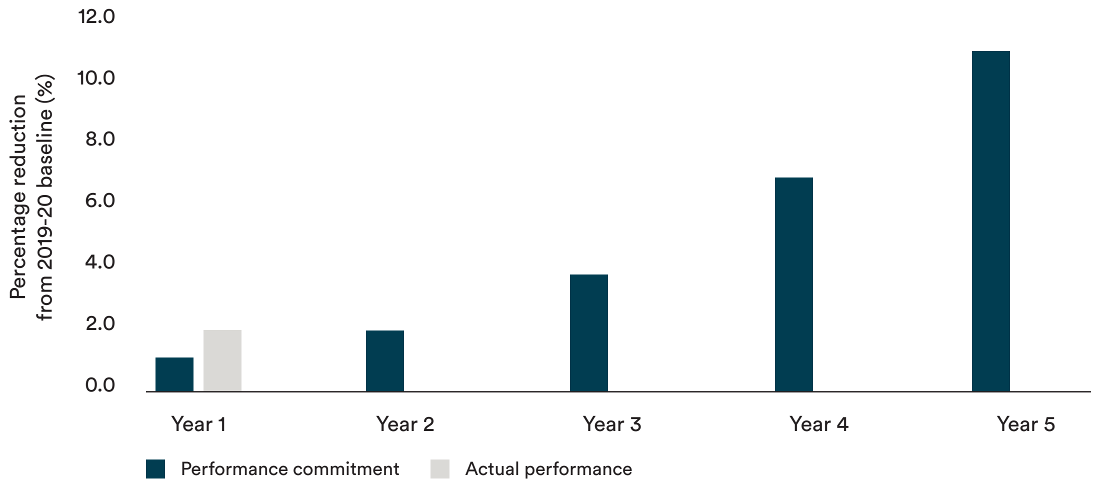
Performance summary

We have outperformed our leakage target for the 15th year running and with annual leakage at 424.7 Ml/d and a three year average leakage of 438.8 Ml/d the amount of water lost from our network is at the lowest ever level reported in the North West. Two freeze-thaw events in early 2021 caused an increase in leakage of approximately 40 Ml/d through January 2021 and approximately 50 Ml/d through February 2021. The impact of the freeze/thaw events was mitigated by significant leakage reduction through the spring/summer period. Leakage reduction has featured strongly amongst the new ideas trialled in our Innovation Lab, including the UK's first water sniffer dogs plus an AI tool called FIDO that helps engineers to analyse vast amounts of data to spot leaks more quickly. We have recruited around 20 per cent additional leakage detection resources, further supported this year by our first intake of apprentices on a bespoke two year technical training scheme, mitigating the risk of a national shortage in leakage technicians.

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. Our performance in year one means we earn an outperformance payment of £0.686 million. We expect to build on the good performance of year one delivering further reductions in leakage. Although the performance commitments for future years are challenging we are on track to meet a leakage reduction of 15 per cent by year five with a delivery plan that continues to make best use of available technologies and is flexible to ensure that we can embrace the heightened level of innovation in this area.

Actual performance for the 'leakage' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.8%	1.9%	Pass

B02

Mains repair

Performance commitment description

This is a measure common to all water companies reported as the number of physical repairs completed on mains per 1,000km of total length of mains. The total length of mains includes all pipes conveying treated water except communication pipes or supply pipes.

Performance summary

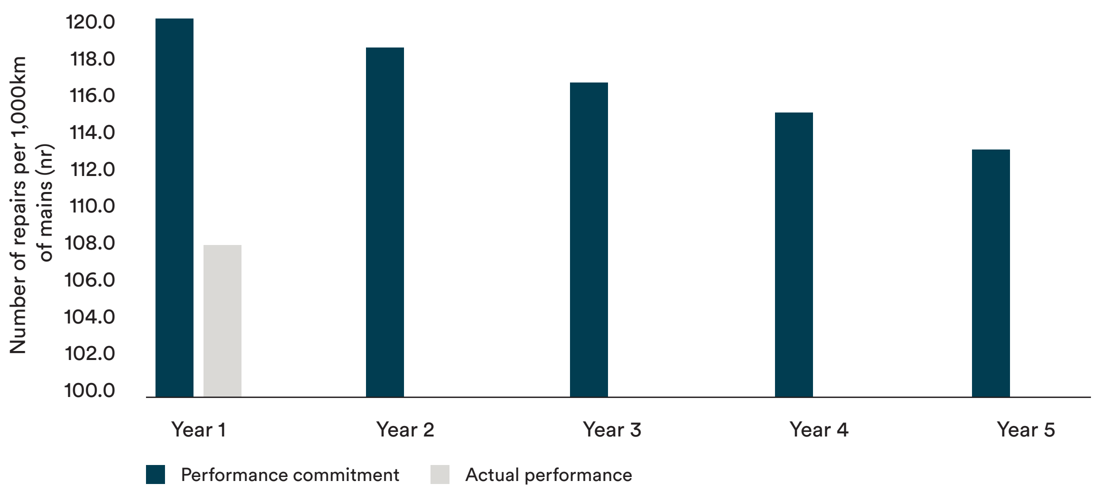
Performance has improved compared with last year and we have outperformed our performance commitment for year one. During May and June we experienced more mains repairs than for the same period the previous year due to a period of prolonged dry weather combined with an increase in domestic demand on our supply system as a result of the COVID-19 pandemic. We also experienced an increase in the number of mains repairs during January and February compared with the same period the previous year due to extreme cold temperatures across the region. According to the Meteorological Office January 2021 was the coldest January for ten years. To mitigate the impact of these events there was an increase in leakage initiatives such as detection and repair work to support the resilience of our network and to meet the increase in demand.

Our AI managed event recognition system aids continuous proactive detection and recognition of events so we can monitor the operation of assets and take steps to optimise them.

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. Our performance in year one means that we have earned an outperformance payment of £1.610 million.

Actual performance for the 'mains repair' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	119.9	107.7	Pass

B03

Reducing interruptions to your water supply

Performance commitment description

This is a measure which is common to all water companies and an evolution of our AMP6 measure for 'average minutes lost'. An interruption is classed as a water supply with pressure that is lower than three meters in the adjacent water main lasting for more than three hours. This measure incentivises the successful delivery of an improved water supply interruption performance.

Performance summary

Performance has improved significantly and we achieved our best ever performance in water supply interruptions in year one. Our approach of minimising disruption to water supplies through our focus on 3Rs – respond, restore and repair has matured reducing the duration of the average water supply interruption.

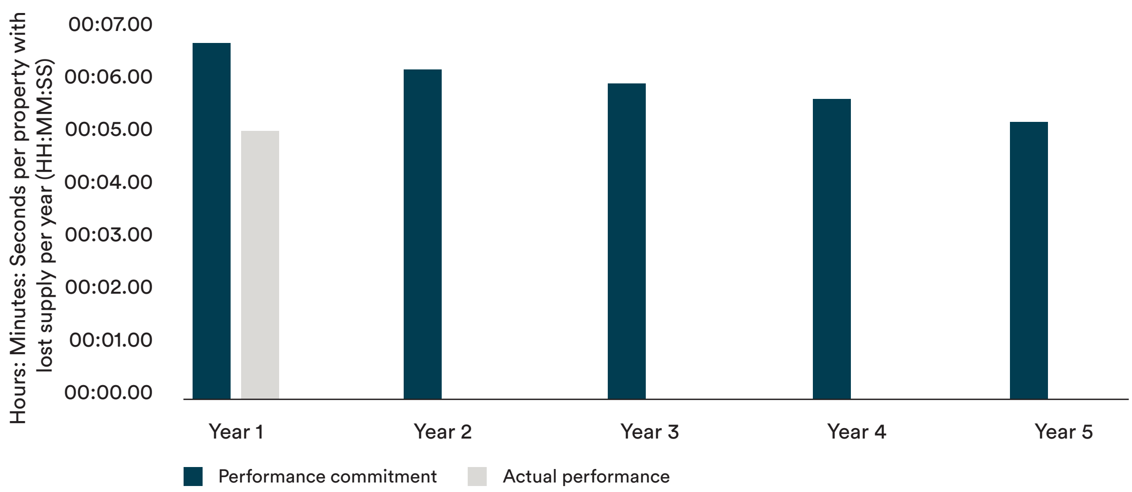
Improvements are also being driven by our operational systems thinking approach, with the operational, customer and Integrated Control Centre (ICC) teams operating as a cohesive team. This approach is based on high quality situational awareness – ensuring that live granular data is marshalled within the ICC and available to the centre and field teams, so that issues are identified quickly. This enables a quick response to restore and repair supply interruptions.

At the end of AMP6 we invested in innovative equipment increasing the number of repairs we can carry out on live water mains without interrupting customers supplies. An example of how our new approach can reduce the impact on customers' supplies is a mains burst in Liverpool that could have left 30,000 customers without water. The potential impact could have resulted in 00:03:17 customer minutes lost being added to our overall performance. We were able to avoid interrupting customer supplies utilising a new innovative hydraulic valve drilling kit, which we procured with flying start investment in AMP6. The valve allows operatives to work on a live pressurised main so we were better able to minimise disruption whilst repairs were being carried out.

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. Based on our year one performance we have earned an outperformance payment of £1.591 million. We expect to see a further improvement in performance earning a net outperformance payment over the AMP.

Actual performance for the 'reducing interruptions to your water supply' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	00:06:30	00:04:48	Pass

B04

Unplanned outage

Performance commitment description

This is a measure common to all water companies reflecting the asset health of water abstraction and water treatment activities. Activity is calculated at a site level and summed over the reporting year to give a total unplanned outage figure. This measure records the total unplanned outage in megalitres per day, normalised based on the overall company peak week production capacity and reported as a percentage. The outage duration is recorded to the nearest whole working day. Planned outages are not included in this measure.

Performance summary

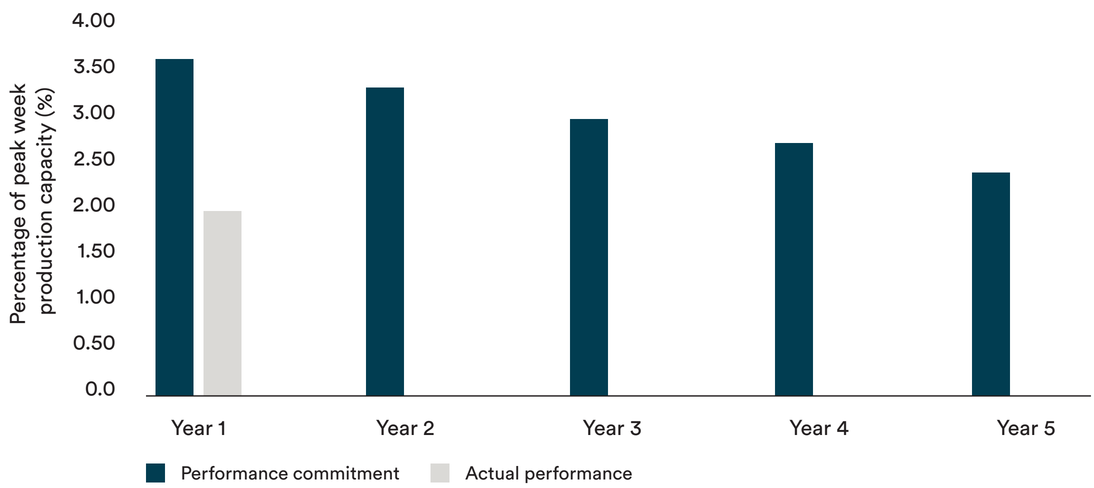
We have outperformed the year one target with performance of 1.88 per cent against a target of 3.56 per cent. This is due to strong engagement with and from our operations teams, and success in developing and rolling out new methods of undertaking an outage. We have sought to prioritise interventions before assets fail, minimise outage duration, and reinstate assets in shorter timeframes. We also undertake root cause failure analysis of outages and further develop operational best practice.

We have successfully established the Unplanned Outage Steering Group to focus on managing performance, engage with key stakeholders and provide internal & external ODI reporting. For the remainder of the AMP targets become tougher and we will continue to further support specific activities to evaluate, engage and take action on outages and communicate with key stakeholders to sustain a strong performance.

Financial implications

This performance commitment is subject to outcome delivery incentives for underperformance only. This year we meet our performance commitment and therefore no underperformance payments have been incurred.

Actual performance for the 'unplanned outage' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	3.56%	1.88%	Pass

B05

Per capita consumption

Performance commitment description

This is a common industry measure recording the average volume of water used per person per day. This performance commitment is intended to incentivise us to help customers reduce their water consumption. The benefit of reduced per capita consumption (PCC) is to improve long term water resources supply/demand balance and to reduce the need for water abstraction. Performance is measured as a reduction from the baseline position set in 2019/20 and is based on three year averages.

Performance summary

Across the sector performance in year one has been impacted by COVID-19 lockdown measures which has driven up household consumption, with more customers working at home and holidaying in the UK as well as impacts from increased hygiene and cleaning requirements. We have engaged with other water companies and regulators, via collaborative projects being led by consultants such as Frontier and Artesia, with the aim of more fully understanding the scale of the impact that COVID-19 is having across the water sector, and the North West in particular. The latest evidence indicates that we have seen household demand increase across the industry this year of between 10–20 per cent.

In response to this increased water consumption we have markedly increased efforts promoting water efficient behaviours. We have increased efforts to increase meter penetration, supported by a communications campaign to encourage customers to moderate their usage around the home and in the garden.

In the current COVID-19 economic climate encouraging customers to take up a water meters is challenging, but we believe the introduction of our new Lowest Bill Guarantee can encourage those most likely to benefit from a meter to make the switch. Lowest Bill Guarantee provides security and certainty of charges for the consumers whilst transitioning to a meter. By linking the Lowest Bill Guarantee with our overall water efficiency programme, such as home efficiency checks at the point of installation, we can maximise affordability benefits, achieve demand reduction and deliver a great customer experience. Targeting the guarantee at those segments of customers which would be financial winners through converting to a meter underpinned our strategy in 2020/21. This will soon be supported by a proactive enhanced metering programme, designed to achieve metering scale in a tighter timeframe. This programme of work will consist of proactive targeted external meter installations and temporary dual billing – embedding the lowest bill guarantee for an introductory period.

Meter data analysis has enabled high consumers to be identified across our region and target direct communications, with the aim of 'nudging' customers to adopt more efficient water use behaviours. In addition to the direct communication, for those customers with high consumption, we have also developed a water efficiency home audit programme which is currently in progress. There is a rolling weekly programme of direct email campaigns to individual metered customer segments, using insights derived from our segmentation model (provided by CACI) and informed from our most recent consumer research, including our ethnographic water diary insight. For meters that have AMR capabilities we have conducted data analysis to identify those customers who may have a leak on their property. The audits provide water efficiency advice, fit devices and also identify, and where applicable, fix leaks.

Our broader water efficiency communications strategy builds scale and momentum to create awareness and appreciation of the true value of water and drives behaviour change by giving customers the knowledge, tools and motivation to make water saving worthwhile. For metered customers, this means increasing consumer understanding of the value of water and how being water efficient can save money. For unmetered customers, this means bringing them up to the same level of understanding, by unpacking the story of how being more water efficient benefits the environment, and encouraging them to install a meter. This approach has been fully informed by the research we have done during COVID-19 lockdowns and recent dry weather. Using robust research techniques we have been able to identify with greater confidence which intervention techniques are able to drive the greatest level of demand reduction benefit, and focus future communications in these areas.

B05

Throughout this year we have also engaged in a number of partnership development efforts. United Utilities is part of an industry group linked into the Water UK and Waterwise strategic communications programme and is actively supporting the activation of the 'Water's Worth Saving' campaigns on a national basis. We promote lowest bill guarantee and water saving help and information in regular articles in relevant consumer magazines, such as our partnership with 'All together Now', a publication aimed at vulnerable groups. United Utilities is a sponsor of the launch of the new RHS flagship Bridgewater Garden at Salford, which has recently opened and which provides a huge opportunity to discuss and promote water saving opportunities with visitors.

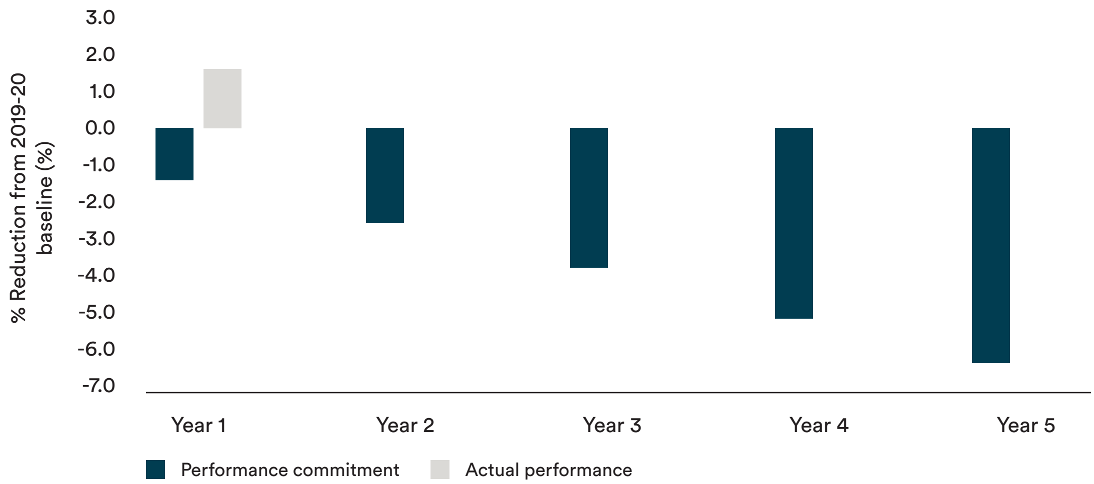
We have continued our water efficiency communications to create awareness and appreciation of the value of water with continued sponsorship of the local ITV weather bulletins. This provides opportunities to place messages around both water efficiency and our leakage detection supplemented by on-going regional press, radio and digital campaigns.

Financial implications

In our FD, performance payments for this measure were intended to be on an in year basis. However due to the potential impacts that COVID-19 has had on increased household usage Ofwat has advised that final decisions on incentive payments will be delayed until towards the end of AMP period. As a result PCC is moving to an 'end of period' incentive arrangement.

The unadjusted incentive payment for our per capita consumption performance in 2020/21 would be an accrued underperformance payment of £1.742 million.

Actual performance for the 'per capita consumption' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1.3 (reduction)	1.7	Fail

B06

Drought risk resilience

Performance commitment description

This is a measure common to all water companies of the percentage of customers at risk of experiencing severe supply restrictions in a 1 in 200 year drought. The population is considered to be at risk if the supply-demand balance calculation in each water resource zone for the 1 in 200 year drought event results in a shortfall. This will occur when the modelled deployable output minus outage allowance (available supply) is less than the dry year demand plus base year target headroom (demand plus uncertainty). This measure does not carry a financial incentive.

Performance summary

We have met our performance commitment for year one. The percentage of customers at risk of experiencing severe supply restriction in a 1 in 200 year drought is zero.

This common performance measure is linked to the schemes planned in the 2019 Water Resource Management Plan (WRMP19), and the risk of severe restrictions during the period 2020–45. For year one the reported risk of 0 per cent is based on our estimate that the risk of severe restrictions faced by customers is much less than 1 in 200 years (i.e. much less than a 0.5 per cent annual chance). This estimate is based on sophisticated in-depth analysis outlined in our WRMP19 submission.

Financial implications

This is a reputational performance commitment with no associated financial incentive. We expect to maintain performance and meet our performance commitments through the AMP.

Actual performance for the 'drought risk resilience' performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.0	0.0	Pass

B07

Reducing areas of low water pressure

Performance commitment description

This performance commitment is an asset health measure tracking the number of properties receiving water pressure below the guaranteed standard. This level of service is defined as a flow of nine litres per minute at a pressure of ten metres head on the customer's side of the main stop tap. Performance is measured on 31 March in the reporting year.

Performance summary

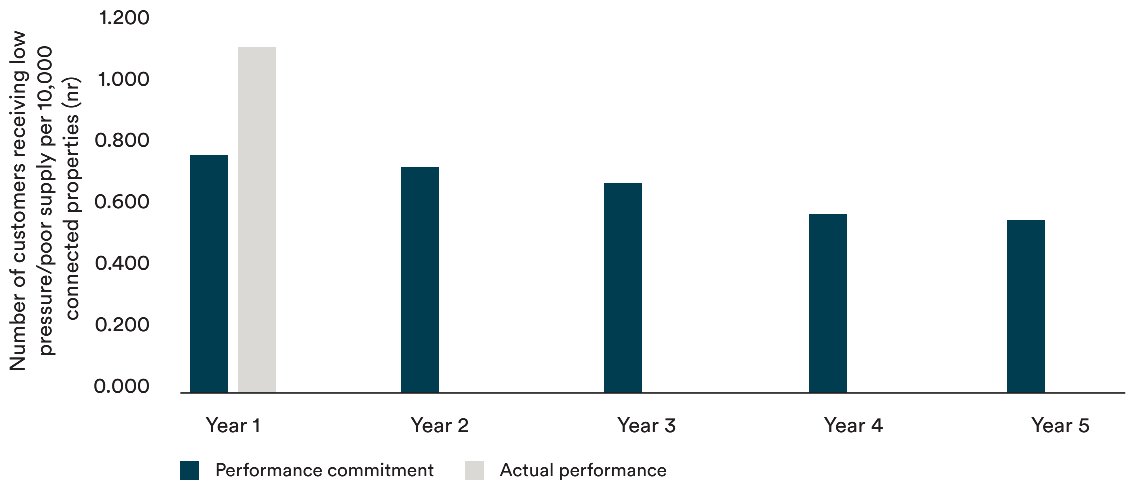
The number of properties on the low pressure register below reference level at start of year equated to 248 properties. At year-end the number of properties below the reference level out turned at 379, outside of the target. This resulted in performance of 1.113 missing the year one target of 0.760.

A number of properties (277) on the Wirral were added to the low pressure register due to poor pressure caused by high seasonal demand combined with increased demand associated with the COVID-19 pandemic and a poor condition main restricting flows. A potential solution has been identified through modelling and is in development. We were unable to deliver this solution by the end of year one however, we are on track to deliver the solution and remove these properties from the register during year two. More broadly we have a programme in place to identify viable solutions, to remove as many properties as practical from the low pressure register.

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. We have not met our performance commitment in year one. This means we incur an underperformance payment of £0.121 million.

Actual performance for the 'reducing areas of low water pressure' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.760	1.113	Fail

B08

Water service resilience

Performance commitment description

This is a measure defined by us to track the reduction in the risk to customers of major water supply interruptions or water quality issues caused by failures of trunk mains or water treatment works. This will be measured as the reduction in annual risk of customer service days lost. To set our target we have assessed the probability of failure at key water treatment works (WTWs)and trunk mains, the potential duration before service is restored and the number of customers at risk of service failure. Our targeted reduction in risk takes into account work planned until 2025. An assessment of risk will be carried out annually and subject to independent audit.

Performance summary

The water service resilience baseline risk assessment is based upon the 28 WTWs that serve demand that can't be met from alternative supplies on a sustainable basis. For water mains the risk assessment is based on:

- The number of customers who could not be supplied by alternative routes if a trunk mains fails;
- The likely duration of repair; and
- The probability of the trunk main failing.

The water service resilience baseline risk assessment includes 361 critical trunk mains identified with more than two customer service days lost/yr risk.

The performance commitment was to deliver reductions in risk from year two of AMP7. We have outperformed in year one delivering two projects at WTWs early reducing the number of customer water supply service days at risk per year by 106. The change in risk position has been subject to independent audit and this is set out in the audit report published in Appendix 1.

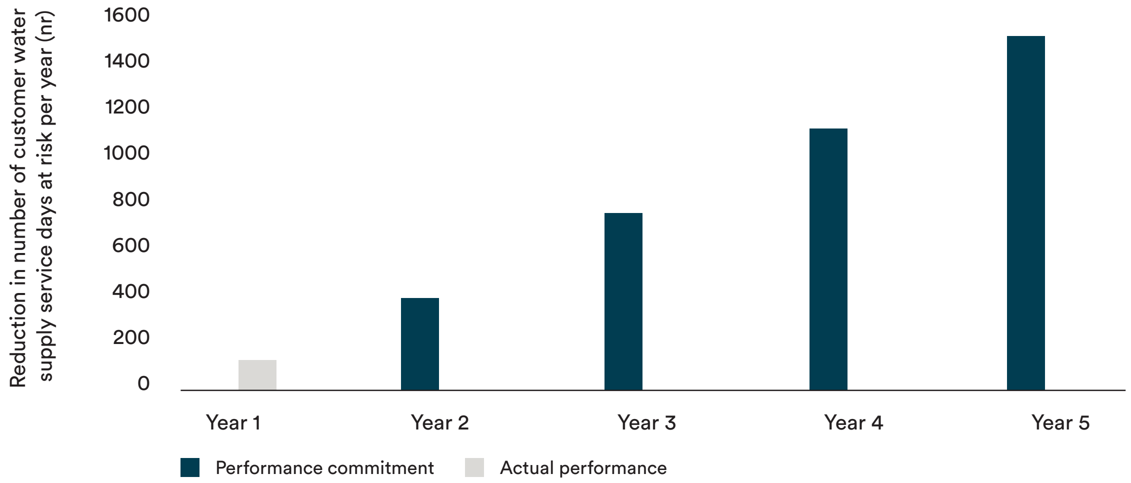
We have delivered the following projects:

- Mitchells WTW (33 csd/yr)
- Ridgaling WTW (73 csd/yr)

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. However, this year the outperformance cap is set at zero. Therefore no outperformance payment can be earned for year one. Year one performance contributes to the delivery for the AMP as the risk is cumulative. Early delivery therefore helps to reduce the risk of failure to meet future targets.

Actual performance for the 'water service resilience' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	106	Pass

B09

Manchester and Pennine resilience

Performance commitment description

This is a measure defined by us which tracks our progress in implementing the Direct Procurement for Customers (DPC) process to appoint a competitively appointed provider (CAP) to design, build, finance and maintain the solution identified for the Haweswater Aqueduct Resilience Programme (HARP) previously known as the Manchester and Pennines resilience scheme. Progress is measured against the satisfactory delivery of three key DPC control points. These are the Strategic Outline Case, the Outline Business Case and the Full Business Case. These need to be successfully delivered to allow the scheme to progress to the point where a CAP can be appointed. The underperformance payment is capped at £5.740 million.

Performance summary

The Haweswater Aqueduct Resilience Programme will be a pathfinder scheme for the DPC process. This process is both novel and untested in the water sector, and the HARP scheme itself is complex and sizeable. The scheme has been impacted by the ongoing COVID-19 pandemic in addition to the challenge of developing the detailed framework to support this procurement model. Despite these challenges we have successfully passed through the required number of control points in year one, avoiding an underperformance payment through delivery of our Strategic Outline Case.

We remain committed to advancing HARP through DPC and continue to work toward the submission of our Outline Business Case at Control Point E and Final Business Case at Control Point F. Dialogue is ongoing with Ofwat to advance the procurement process.

Financial implications

This performance commitment is subject to outcome delivery incentives for underperformance and will be reconciled at the end of the AMP when our cumulative performance will be compared against our targets. If we do not deliver the three control points required throughout AMP7 we will be subject to an underperformance payment. We have achieved our target in year one in delivering the strategic outline case.

Actual performance for the 'Manchester and Pennine resilience' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1 (Strategic Outline Case)	Achieved	Pass

B10

Keeping reservoirs resilient

Performance commitment description

This measure assesses the reduction in risk delivered by our planned risk reduction activities at dams, reducing the risk of individual dam failure to a tolerable level as defined by the Health and Safety Executive. A tolerable risk will have an annual probability below 1 in 10,000 or 1 in 1,000,000 depending upon the population at risk; the probability should be as low as reasonably practicable. Proactive risk reduction is achieved through our portfolio risk assessment methodology, which assesses the probability of failure at dams on an ongoing basis.

We prioritise and deliver work to lower the risk of failure at dams, lowering the probability of their failure until the dam is no longer in either the Health and Safety Executive's 'unacceptable individual risk' or 'unacceptable societal risk' category. Beyond this we seek to reduce the probability of risk to a level as low as reasonably practicable.

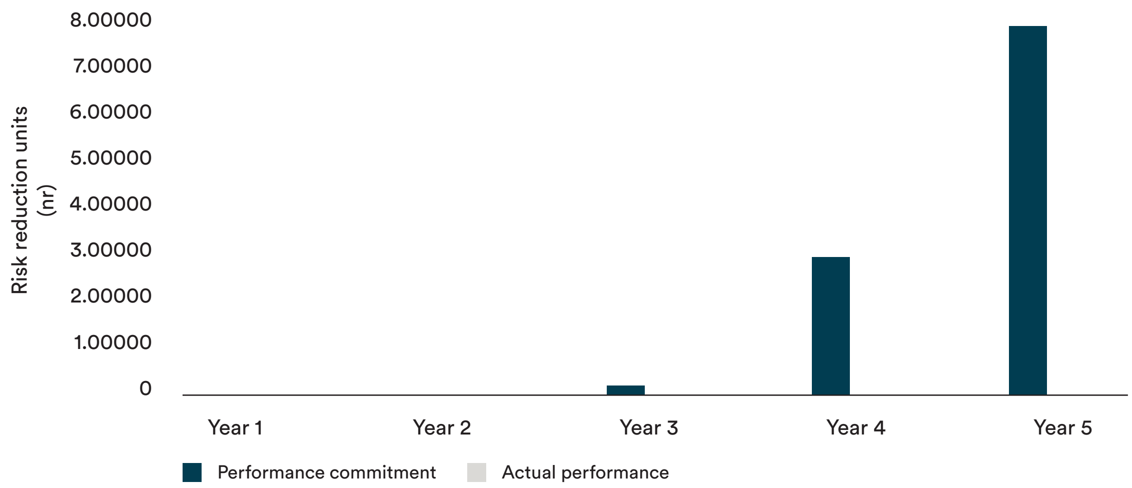
Performance summary

The performance commitment for the first two years of AMP7 is to maintain the same base level of risk and this has been achieved in year one.

Financial implications

This performance commitment has an outcome delivery incentives for both underperformance and outperformance. This performance commitment will be reconciled at the end of the AMP rather than in-period. At the end of the AMP our cumulative performance will be compared against our targets along with any associated outperformance or underperformance payment. We are on track to meet our performance commitment for the AMP7 period.

Actual performance for the 'keeping reservoirs resilient' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.00000	0.00000	Pass

B11

Thirlmere transfer into West Cumbria (AMP7)

Performance commitment description

This measure is a continuation of our AMP6 performance commitment tracking the completion of the Thirlmere transfer project in West Cumbria. The aim of the project is to secure a long-term water supply for the West Cumbria area, whilst continuing to meet our environmental obligations. Our target is to deliver this demanding project by 2022. The ODI will see us gain a financial reward if we manage to outperform the already stretching delivery targets for the project, or incur penalties if we fail to hit our deadlines. Progress will be measured as a percentage of the earned value of the project, with a value of 100 indicating that the project has been completed. This measure also has an underperformance collar, set at 99 per cent.

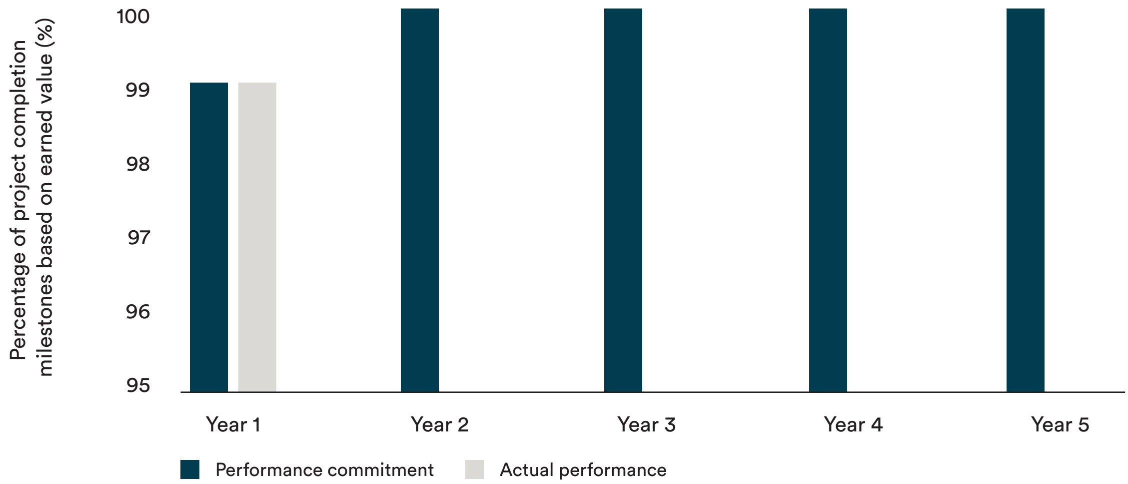
Performance summary

The project finished AMP6 ahead of schedule with the target for year one achieved in year five of AMP6. Progress in AMP7 has been impacted by COVID-19 restrictions, with availability of contractors and restricted working practices causing delays. Measures have been implemented to mitigate further delays as far as possible and we expect to deliver the remaining two outputs which make up the final stage of this project on schedule in year two.

Financial implications

This performance commitment has outcome delivery incentives for both underperformance and outperformance. The project is 99 per cent complete with no outputs claimed this year and so no payments are due for year one.

Actual performance for the 'Thirlmere transfer into West Cumbria (AMP7)' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	99%	99%	Pass

The natural environment is protected and improved in the way we deliver our services

Our customers, stakeholders and regulators expect us to improve the quality of the environment. We will deliver a programme of environmental improvements on our overflows and wastewater treatment works. Where possible, we will do this in a more sustainable way by recognising the value of natural capital. We will effectively operate and maintain our assets so that we can mitigate the impact of external factors such as climate change, population growth and changing customer behaviours and will reduce our abstraction from sensitive sites during periods of low flow.

How have we done?

We have successfully passed seven out of the nine performance commitments which support this outcome, and generated a net outperformance payment of £5.417 million.

In year one, our pollution performance was 141 category 1–3 incidents (18.10 incidents per 10,000km of sewer). This is our best ever performance and represents a 31 per cent reduction in incidents compared to the previous year. This performance includes zero category 1–2 events which are regarded as the most serious in terms of environmental impact.

Under better air quality, we delivered a project to convert the Combined Heat and Power (CHP) engines at our two largest CHP facilities to low Nitrogen Oxide (NOx) emission operation. These engine modifications, along with the continued proactive maintenance of our CHP fleet, has resulted in a reduction in the total amount of NOx emitted per GWh of generation and an improvement in performance.

Our abstraction incentive mechanism (AIM) measures how well we manage water extraction at two of our environmentally sensitive sites. In year one we did not extract from the Old Water site and extracted less water from the Lake Ennerdale site compared to the baseline period. This was due to an increase in compensation extraction from the South Egremont boreholes and resulted in an overall outperformance position.

We achieved 99.75 per cent treatment works compliance, with one treatment works in breach of its discharge consent. Although we have not achieved our 100 per cent target, this equates to our best ever performance under this metric and represents a major achievement for the company.

Despite a year of positive performance, we incurred a single non-conformance incident of our biosolids management process. This small non-compliance meant that we have not met our 100 per cent Recycling Biosolids performance commitment. Following the incident we completed a detailed post incident review (PIR) and have now put measures in place to prevent a repeat event. We forecast a return to 100 per cent compliance over the remainder of the AMP.

Four of the nine performance commitments (improving the water environment, improving river water quality, protecting the environment from growth and development and enhancing natural capital value for customers) are based on the delivery of named schemes. No schemes under any of these measures were scheduled for delivery in year one of the AMP, hence the subsequent performance output is zero and the performance commitment achieved. All schemes expected to be completed later in the AMP are currently forecast to be on track against our delivery plan.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
C01 – Pollution incidents	18.10	Outperformance payment	4.864
C02 – Treatment works compliance	99.75	In deadband	0.000
C03 – Abstraction incentive mechanism	-695.9	Outperformance payment	0.251
C04 – Improving the water environment(1)	0	–	–
C05 – Improving river water quality(1)	0	–	–
C06 – Protecting the environment from growth and development(1)	0	–	–
C08 – Enhancing natural capital value for customers(1)	0.000	–	–
C09 – Recycling biosolids	99.87	Underperformance payment	-0.021
C10 – Better air quality	1.30	Outperformance payment	0.323
The natural environment is protected and improved in the way we deliver our service net position	7/9 achieved		£5.417m

(1) Performance commitments with no outputs to be delivered in year one.

C01

Pollution incidents

Performance commitment description

This is an industry common measure which tracks the number of category 1, 2 and 3 pollution incidents recorded in a calendar year per 10,000km of sewerage network. The methodology is consistent with the Environment Agency's Environmental Performance Assessment (EPA) Methodology.

This measure is an evolution of our historic AMP6 performance metrics. It includes incidents from transferred assets, those recorded through the installation of event duration monitors (EDM) and consented discharges.

Performance summary

This measure utilises a calendar year assessment. In 2020 our performance was 141 category 1–3 incidents. When this performance is normalised by sewer length this equates to an outturn of 18.10 incidents per 10,000km. This is our best ever performance and represents a 31 per cent reduction in incidents compared to 2019. This performance includes zero category 1–2 events which are regarded as the most serious in terms of environmental impact.

On the equivalent EPA assessment we also achieved a 'green' classification, which is a status we have achieved in six of the last seven years.

Our positive performance in this metric is attributed to the implementation of a number of strategic initiatives and targeted approaches, covering topics such as culture, systems thinking, training and maintenance. This has also culminated in the production of an overarching pollution incident reduction plan (PIRP). A copy of this plan can be found on our website:

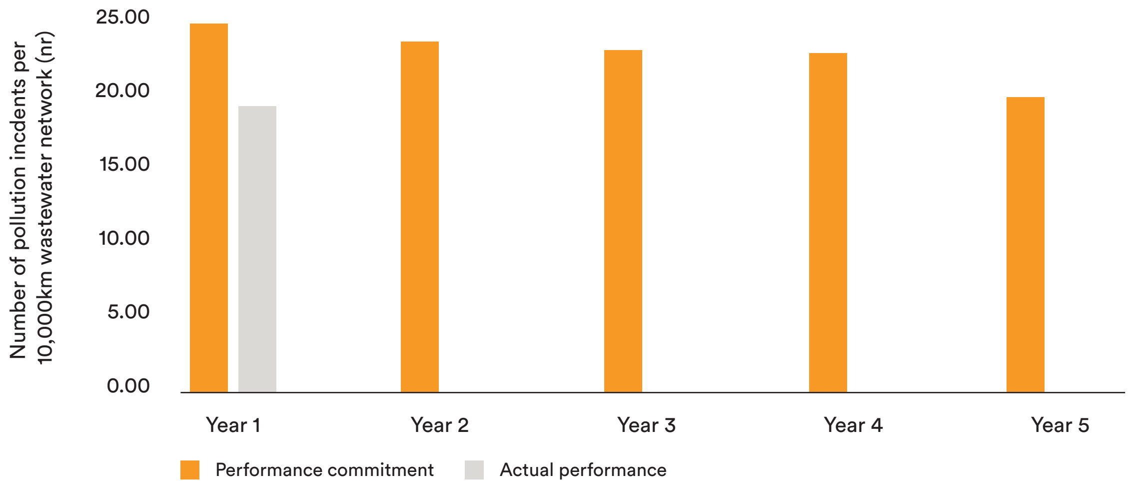
www.unitedutilities.com/corporate/responsibility/environment/Reducing-pollution/

Published in September 2020, this plan is sub-categorised into several key focus areas and is tracked against anticipated completion dates in order to help us to continue to reduce overall pollution incidents in future years. We have also created a new dedicated regulatory improvement manager role to manage the progression and success of each element of the plan.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an outperformance payment of £4.864 million. We anticipate that our positive performance in this measure will continue over the remainder of the AMP and forecast overall outperformance reward over this period.

Actual performance for the 'pollution' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	24.50	18.10	Pass

C02

Treatment works compliance

Performance commitment description

This is an industry common measure which assesses the percentage of water and wastewater treatment works that are compliant with their discharge permits on a calendar year basis. The measure definition is the same as that used by the Environment Agency (EA) in its annual Environmental Performance Assessment (EPA). We have set the performance commitment at 100 per cent compliance, which is equivalent to zero failing works. The deadband level of 99 per cent compliance is the equivalent of four failing works, which we have only achieved once in the past ten years. 99.0 per cent compliance is the level required for 'green' status when assessed against the EPA.

Performance summary

This measure utilises a calendar year assessment. In 2020 our performance was 99.75 per cent compliance, which equates to one treatment works in breach of its discharge consent. This is our best ever performance under this metric and represents a major achievement for the company.

On the equivalent EPA assessment we have only ever generated an 'amber' classification, so this is our first year where it will be 'green'. This year also denotes a significant improvement from the 2019 performance, when six failing works were reported in the EPA.

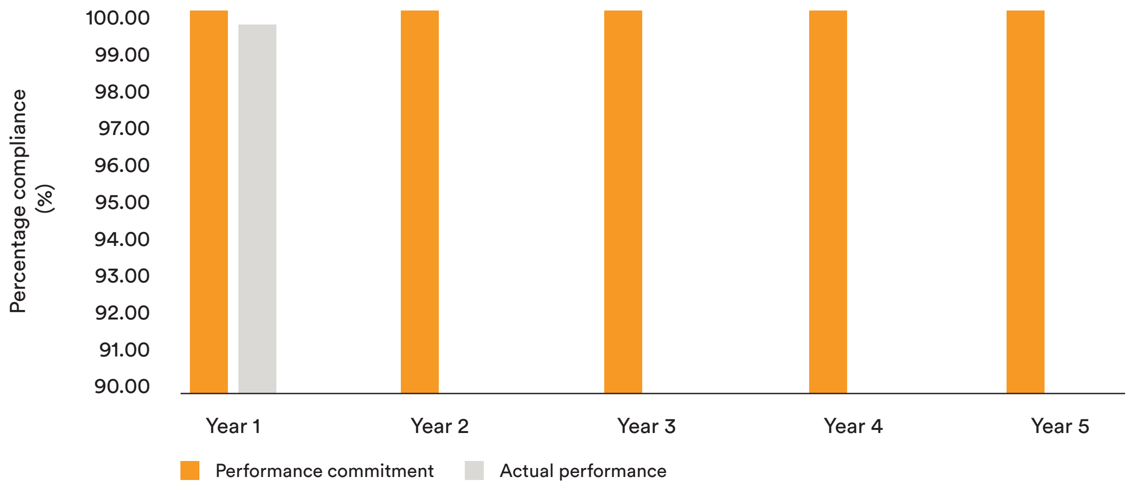
This improvement is a direct result of sustained operational best practice, a full understanding of our changing and tighter permit conditions and continued improvements in the availability and use of data to support good decision making. An overall improvement plan has been developed for discharge compliance for AMP7 and intensive care plans are in place for high risk works to ensure compliance is maintained.

The single works to have failed this year was Huntington water treatment works. This failure was due to a manganese absolute limit breach in September 2020. We submitted a challenge to the Environment Agency to justify an exemption, on the grounds that the result was not reflective of the performance of the company's assets or discharge performance. Whilst the EA agreed in principle with our findings, the resultant failure still stood. No further manganese exceedances have occurred since.

Financial implications

This performance commitment has an underperformance only outcome delivery incentive. This year, no underperformance payments have been incurred as a result of the actual performance being above the deadband.

Actual performance for the 'treatment works compliance' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	100.00%	99.75%	Fail

C03

Abstraction incentive mechanism

Performance commitment description

This is an industry common measure which assesses how well we manage abstraction at environmentally sensitive sites. For each abstraction site covered by the abstraction incentive mechanism (AIM) there is a trigger which identifies when the downstream river flows are running low. Once the trigger is reached, we seek to reduce the level of abstraction at the site and therefore minimise our environmental impact. The AIM flow trigger is site-specific and is set based on the historic river flow record. For AMP7 we have two AIM sites: Old Water on the River Gelt and Ennerdale. Ennerdale will be removed from AIM when its abstraction licence is revoked (expected in 2022) and an alternative supply of water from Thirlmere reservoir is in place to supply West Cumbria. A decrease in the volume abstracted – as measured in M/l – signifies an improvement in performance.

Performance summary

We have two sites covered by AIM in year one. These are Old Water and Ennerdale. The target for both AIM sites for each year of AMP7 is 0 Ml AIM performance. The spring of 2020/21 was particularly dry with average rainfall significantly lower than average during March, April and May 2020 resulting in low river flows. River flows at Old Water did not hit the AIM river flow trigger resulting in a 0 M/l AIM performance for that site. At Ennerdale river flows dropped and hit the AIM river flow trigger but during this period we increased abstraction from South Egremont boreholes enabling us to abstract less water from Ennerdale compared to the historic baseline period. A negative AIM performance (e.g. -695.9 M/l) means we abstracted less water from Lake Ennerdale compared to the baseline period, resulting in an outperformance against target.

We proactively monitor river flows at the AIM sites and seek to reduce abstraction at times of low river flow. However, alternative abstraction options are very limited. The alternative supply for Old Water is New Water however, New Water has a prescribed flow requirement and so at times of low river flow, abstraction is limited at this site as well. The alternative source for Ennerdale is the South Egremont boreholes. However, these must be operated in accordance with the Section 20 conjunctive use agreement with the EA.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an outperformance payment of £0.251 million.

We anticipate that we will meet our performance commitments over the remainder of the AMP and forecast an overall outperformance reward over this period.

Actual performance for the ‘abstraction incentive mechanism’ performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.0 M/l	-695.9 M/l	Pass

C04

Improving the water environment

Performance commitment description

This measure protects customers from late delivery of our environmental improvement programme through incentives. Prior to the start of the business planning period we will agree the programme of work with the Environment Agency and this is published through its Water Industry National Environment Programme (WINEP). The scope of this performance commitment will be limited to schemes under the FBG (fisheries, biodiversity and groundwater), WR (water resources) and WQ (water quality) functions on the WINEP. We will assess the number of days each scheme is delivered early or late and the cumulative view of this will be reported annually.

There are provisionally 69 identified schemes in the performance commitment. Within the 69 schemes there are 16 catchment schemes and it will be possible for these schemes to be partially delivered with certain elements being completed and other elements incomplete. In the case of partial delivery of a catchment scheme the number of days late will be calculated as the number of days that the incomplete elements are late by the proportion of overall scheme benefits. There may be instances where it is necessary to follow the change process with the Environment Agency during the five year period and adjust the programme of work. Agreed changes with the Environment Agency as defined by the sign off of an amendment form will update and re-baseline the schemes to be delivered in the programme.

Performance summary

Each scheme specified under this performance commitment has a specific regulatory delivery date, as outlined in the WINEP. There are no schemes with a regulatory delivery date in year one of the AMP. All schemes expected to be completed later in the AMP are currently forecast to be on track against our delivery plan.

Financial implications

This performance commitment has an underperformance only outcome delivery incentive. This year, no underperformance payments have been incurred as a result of both the performance commitment and actual performance being zero.

Actual performance for the ‘improving the water environment’ performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass

C05

Improving river water quality

Performance commitment description

This measure focuses on the delivery of wastewater network plus schemes that have an Environment Agency (EA) primary or secondary water quality improvement driver. We have focused this measure on Water Framework Directive (WFD) as this work should deliver measurable environmental improvements whereas the statutory programme is more likely to just maintain a stable level of river or bathing water quality. This measure will be reported as the net position in number of days early or late across the region versus the target. In order to obtain the aggregate performance position we calculate the net position in number of days early or late that schemes have been delivered by catchment. This will be assessed annually. There may be instances where it is necessary to follow the change process with the EA during the five year period and adjust the programme of work. Agreed changes with the EA as defined by the sign off of an amendment form will update and re-baseline the schemes to be delivered in the programme.

Performance summary

There are provisionally 96 WFD schemes covered by this performance commitment. Each scheme has a specific regulatory delivery date, as outlined in the water industry national environment programme (WINEP). These 96 schemes are then grouped into 16 catchments. The performance assessment to determine the number of days early or late for each catchment is only undertaken when the last scheme in a catchment is delivered. As there are no schemes with a regulatory delivery date in year one of the AMP, no catchment assessments can be undertaken, and the subsequent performance output in terms of net days early and late is currently zero. All schemes expected to be completed later in the AMP are currently forecast to be on track against our delivery plan.

Financial implications

This performance commitment has an underperformance only outcome delivery incentive. This year no underperformance payments have been incurred as both the performance commitment and actual performance are zero.

Actual performance for the ‘improving river water quality’ performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass

C06

Protecting the environment from growth and development

Performance commitment description

This is a bespoke measure that reports the total additional population equivalent that will be served as a result of investment to increase wastewater treatment works capacity or remove/redirect flows away from areas with a shortfall in wastewater treatment capacity thus protecting the environment from decline. The measure reflects the level of protection we are providing at wastewater treatment works and will be measured as a cumulative total for each year, commencing in 2021/22. The scope and location for individual projects is flexible to enable us to accommodate changes in forecast development. The performance commitment is defined by the additional population equivalent at wastewater treatment works that are at risk from new development or growth. The baseline population equivalent is that from which the design is developed for each works.

Performance summary

The performance commitment for this metric was defined through a proposal of delivering 21 projects over the AMP and the agreed delivery dates for these projects were outlined to be in either year two or year five of the AMP.

As none of these were schemes planned for delivery in year one of the AMP, the subsequent performance output in terms of additional population equivalent accommodated to protect the wastewater treatment works is determined as zero. All schemes expected to be completed later in the AMP are currently forecast to be on track against our delivery plan.

Financial implications

This performance commitment is subject to an end of AMP reconciliation. This means it is the overall position at the end of the AMP that determines the subsequent financial position. Therefore, there are no financial incentives due in year one.

Actual performance for the 'protecting the environment from growth and development' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass

C08

Enhancing natural capital for customers

Performance commitment description

This performance commitment incentivises us to use catchment systems thinking to deliver water quality improvements through natural capital approaches and assets. This will measure the added natural capital value delivered through a scheme focusing on the six Ecosystem Services (ESS) valued by customers: water quality, climate mitigation, flooding, biodiversity, amenity and recreation and health and wellbeing. This is any value delivered beyond that associated with a conventional engineering led approach. We calculate the added value of these benefits using the B£ST Natural Capital Accounting methodology quantifying a monetary value for the services enhanced. This is assured independently by Vivid Economics.

Our target is based on delivery of 21 statutory requirements as set out in the Environment Agency's Water Industry National Environment Programme (WINEP).

Performance summary

This performance commitment is a new metric for this AMP and is based on the proposed project delivery over the AMP. As there were none of these schemes planned or accelerated for delivery in year one of the AMP the subsequent performance output in terms of enhancing natural capital is zero.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. It is subject to in-period reconciliation. As there are no schemes due for delivery in year one of the AMP, then the subsequent performance output is zero. As a result of this there are no underperformance or outperformance incentives applied.

Actual performance for the 'enhancing natural capital value for customers' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.000	0.000	Pass

C09

Recycling biosolids

Performance commitment description

This is a bespoke measure that assesses the successful use and disposal of treated material containing sewage sludge, known as biosolids. All biosolids will be compliant with regulatory requirements that apply to each end use in line with the water industry and Environment Agency agreed definition of satisfactory sludge use and disposal. As a further requirement, biosolids that are recycled to agriculture must also conform to the Biosolids Assurance Scheme (a voluntary scheme under the governance of Assured Biosolids Ltd). The scheme incorporates best practice guidance and is independently audited. The total quantity of non compliant biosolids is divided by the total quantity of sludge which required treatment and disposal and subtracted from 100 per cent.

Performance summary

This measure utilises a calendar year assessment. In 2020, we produced 198,897 tonnes dry solids (tds) of biosolids. This volume of biosolids was then treated and successfully recycled to either agriculture or restoration outlets. Unfortunately, despite a year of positive performance, we incurred a single non-conformance incident of our biosolids management process at Leigh wastewater treatment works.

The small amount of non-compliant biosolids from Leigh WwTW (110 tds), was added to an existing field stockpile and then spread onto farmland. This resulted in the whole stockpile being classed as non-compliant, and generated a resultant unsatisfactory volume of 261 tds.

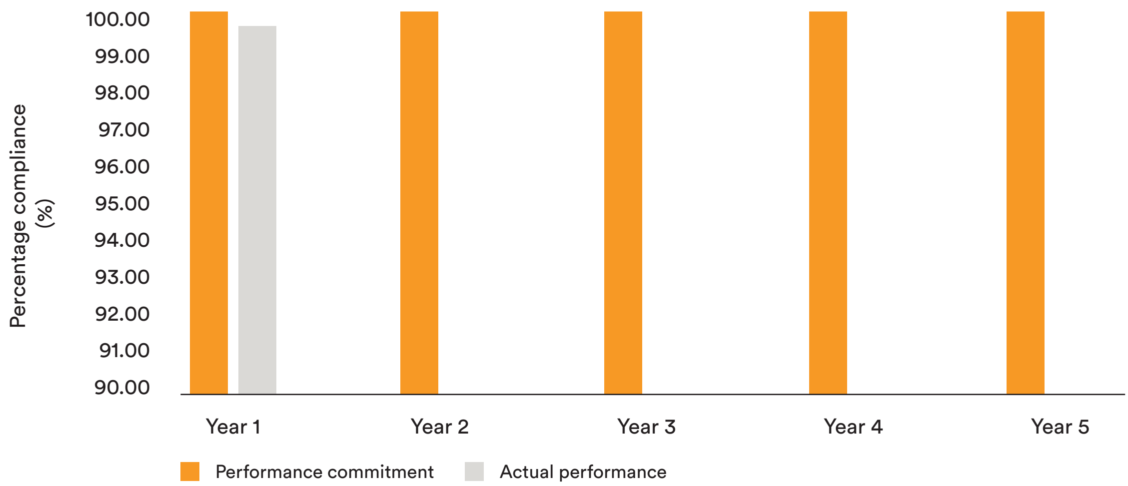
This non-compliance meant that we have not met our performance commitment this year, and generated a percentage of satisfactory sludge disposal and Biosolids Assurance Scheme conformance of 99.87 per cent.

Following the non-conformance at Leigh we completed a detailed post incident review (PIR), and have now put measures in place to strengthen sludge analysis, reporting and staff training to avoid a repeat failure.

Financial implications

This year we incurred an underperformance payment of £0.021 million. We anticipate a return to 100 per cent compliance over the remainder of the AMP and forecast an overall outperformance reward over this period.

Actual performance for the ‘recycling biosolids’ performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	100.00%	99.87%	Fail

C10

Better air quality

Performance commitment description

This is a bespoke measure that aligns to customers ambition for us to improve air quality. It is focused on reducing the Nitrogen Oxide (NOx) emissions per unit of renewable electricity generated from bioresources. Sewage sludge from wastewater treatment is treated through digestion processes to a standard suitable for use in agriculture. This process also produces biogas which is burned to generate renewable energy in combined heat and power engines. When the fuel is burned, waste gases including NOx are emitted. The measure includes emissions from combined heat and power engines and sewage sludge incineration. If biogas is supplied to the national gas grid, the electricity that could have been generated by burning it is included in the measure.

Performance summary

Our two largest Combined Heat and Power (CHP) facilities at Manchester and Liverpool have been at the forefront of an improvement programme this year to roll out cleaner engine technology. This technology reduces the amount of NOx in the combustion gas being emitted from our engines by 50 per cent per cubic metre of gas produced (from 500mg down to 250mg NOx per m3), thereby reducing the tonnes of NOx emissions per GWh of electricity generation. We installed this cleaner technology on both the engines at Liverpool and one of the five engines at Manchester, with the aim to complete the remaining engines at Manchester next year and review any further opportunities on other sites. We have also continued to operate and maintain our CHP fleet at other sites, with a focus on lowering NOx emission levels where possible.

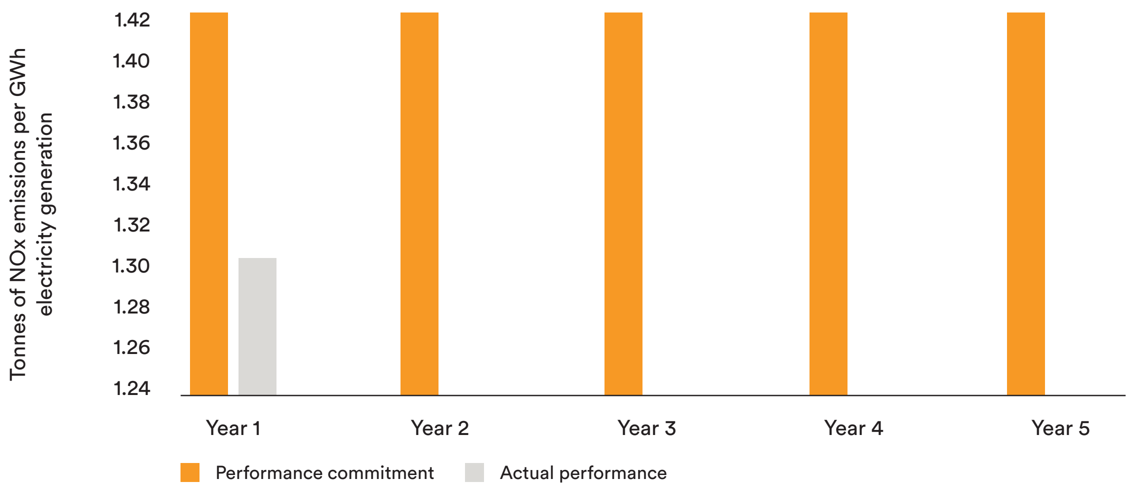
We have maximised the quantity of biogas injected into the national gas grid from our facility in Manchester and also not incinerated any sludge. All of these activities enabled us to increase our renewable energy generation whilst minimising the impact of emissions on air quality.

The measure uses a three year rolling average and the trend shows an increase renewable energy generation whilst total NOx emissions remain constant. This represents an improvement in performance in the NOx emitted per GWh of renewable electricity generated performance commitment unit. We calculate that as a result of our actions, we have avoided over 5 tonnes of NOx emissions this year, compared to how we operated in 2019–20 (the end of AMP6).

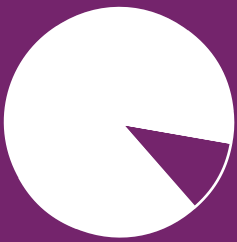
Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an outperformance payment of £0.323 million. We anticipate that our positive performance in this measure will continue over the remainder of the AMP and forecast an overall outperformance reward over this period.

Actual performance for the 'better air quality' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1.42	1.30	Pass



You're highly satisfied with our service and find it easy to do business with us

We are committed to delivering the best possible service for customers. We will seek to offer customers the services that they want and value. We will actively promote support for customers in vulnerable circumstances. We will provide assurance that the quality of support for customers in vulnerable circumstances is of a leading standard by achieving and maintaining certification under a British Standards Institution accreditation for inclusive service provision.

How have we done?

We have made five commitments about customer satisfaction and being easy to do business with. We have achieved or are on track with delivering, all five performance commitments in year one, and generated a net outperformance payment of £3.597 million.

We are really pleased that this year we achieved accreditation from the British Standards Institution ('BSI') following their assessment of the quality of our priority services. We continued to increase the numbers of customer that we have registered for our priority services. We now have over 128,000 customers registered.

We have performed well in C-MeX which is the measure used across the water industry to assess customer service and experience. We now have ten ways that customers can make contact with us including traditional contact methods such as phone or post as well as email, social media and live chat. In year one we have seen an increase in the number of complaints. Many of these have been related to dry weather, the impact of storms and high consumption. We have achieved 5th place out of 17 water companies.

D-MeX is the measure of service and experience that we provide to developers (e.g. housebuilders). We have achieved 5th place out of 17 water companies.

We have achieved our target for street works performance ensuring we have maintained high standards in the quality and standard of our road works and that roadwork sites and reinstatements are completed to a high standard.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
D01 – Customer experience (C-MeX)	83.59	Outperformance payment	2.077
D02 – Developer experience (D-MeX)	88.44	Outperformance payment	1.520
D03 – Priority services for customers in vulnerable circumstances	4.07	Reputational	–
D04 – Improving street works performance	10.56	Reputational	–
D05 – Priority Services – BSI accreditation	Achieved	Reputational	–
You're highly satisfied with our service and find it easy to do business with us net position	5/5 achieved		£3.597m

D01

Customer experience (C-MeX)

Performance commitment description

This common measure across the sector is designed to incentivise companies to improve the experience they provide to residential customers and should help to increase residential customer satisfaction, by improving both the overall customer experience and companies' handling of customer contacts. Each company receives a C-MeX score based on the results from two surveys:

- The customer service survey – a customer satisfaction survey of a sample of residential customers who have contacted their company which asks them how satisfied they are with how the company has handled their issue; and
- The customer experience survey – a customer satisfaction survey of a randomly selected sample of a company's overall residential customer base which asks them how satisfied they are with their company.

Incentive payments are calculated on the points of variance of UU's score from the industry leader and industry median.

Performance summary

Year one performance shows a positive start to the AMP and the first year of C-MeX. At the end of year one we are ranked 5th out of 17 companies, achieving an outperformance payment of £2.077 million for C-MeX performance. Our written customer complaints performance for the year has fallen below our targets.

Complaints from customers related to a range of service issues such as water quality (taste, smell or appearance) and water pressure issues for the water service and flooding and odour issues for the wastewater service. We believe that COVID-19 has also played a significant part in driving increased customer contacts. We have seen an increase in customers querying measured bills following increased consumption over the last year, customers seeking help with affordability following drops in income and queries about the impact on credit scores of non payment.

Customers also provided positive feedback when they felt our service had been good. We have received over 16,000 complimentary feedback messages from our customers through the WOW awards scheme in response to requests for customer feedback.

Customers can contact us using ten different channels. As well as more traditional contact channels such as phone, post, automated telephony and in person visit to one of our main contact centre sites, we also offer five online channels for customers to contact us. These include:

- Email – incoming contact via email;
- Social media such as Facebook and Twitter;
- Webform via our website;
- Live chat; and
- App – where the App provides a direct means of contacting the company, rather than only signposting other contact channels.

Financial implications

We achieved an overall score of 83.59 placing us 5th out of 17 companies. This performance commitment has both underperformance and outperformance outcome delivery incentives. Our performance this year generates an outperformance payment of £2.077 million.

Actual performance for the 'customer experience (C-MeX)' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	n/a	83.59	Pass

D02

Developer experience (D-MeX)

Performance commitment description

D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services customers. These customers include small and large property developers, self-lay providers, new appointees and some residential customers that have new mains connections installed. Each company receives a D-MeX score based on two components:

- A qualitative component – a score summarising the performance of the company in a satisfaction survey of developer services customers; and
- A quantitative component – a score summarising the performance of the company across selected Water UK Developer Services performance data metrics.

Incentive payments are calculated based on the points of variance of UU's score from the industry leader and the industry median.

Performance summary

We have performed well in year one of the AMP. Quantitative performance measures how well we perform against the common industry metrics. We came 1st out of 17 companies achieving an average over the year of 99.79 per cent. The qualitative component involves a satisfaction survey of developer services customers. We came 6th out of 17 companies achieving a score of 77.09. When averaged our resulting performance was 5th out of 17 companies with an overall score of 88.44.

This improving performance reflects the transformation programme we have delivered within our Developer Services team which continues to deliver tangible and much improved results, benefiting all developers who are building in the North West.

We have made a number of improvements to our service offering. Specifically, we have begun to review and simplify our processes to give a better customer journey. This work will continue through year two of AMP7 as we make improvements and embed changes. We have invested in greater training and development of our team and also segmented the team to allow focus on the specific delivery of services depending on the developer type (e.g.; home owners/builders, SLPs or large developers). We have co-located with our delivery partners to minimise hand offs and potential for delays in response times.

Due to COVID-19, we had to postpone our flagship 'Developer Day' where we invite developers to talk to us about their needs and the services we offer. We have continued with technical forums (for both water and wastewater disciplines), a charges panel and two other virtual events during lockdown regarding how business was affected and offering support to developers and their supply chain during that time.

Financial implications

We achieved an overall score of 88.44 placing us 5th in the industry. This performance commitment has both underperformance and outperformance outcome delivery incentives. This is based on the variance from the median performing company. Our performance this year generates a reward of 4.02 per cent of our 2020/21 developer services revenue resulting in an outperformance payment of £1.520 million.

Actual performance for the 'developer experience (D-MeX)' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	n/a	88.44	Pass

D03

Priority services for customers in vulnerable circumstances

Performance commitment description

This common performance commitment is designed to ensure a minimum standard across all companies for the number of households registered on the Priority Service Register (PSR) and for PSR data checking.

This performance commitment helps to increase the number of customers in vulnerable circumstances that receive the most appropriate service to their needs. It also helps ensure that companies are incentivised to keep the register up to date.

This performance commitment consists of the following criteria with targets for each area:

- The PSR reach: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's PSR;
- Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period; and
- Actual contact: percentage of distinct households on the PSR that the company has actually contacted over a two-year period.

To achieve compliance with this performance commitment, targets for reach, attempted contacts and actual contacts should all be achieved.

Performance summary

We have performed well across all three criteria achieving the year one targets and therefore passing this performance commitment. We have continued to promote our PSR services despite the impacts of COVID-19 meaning our usual promotional face to face meetings and events have taken place via different means (over the phone, via webinars, conference calls and online virtual events). The services continue to be offered to customers through our telephony teams. We have continued to share PSR data with Electricity North West (ENW). At the end of year one we have 128,831 households registered.

We've made a number of changes to our systems to prompt our agents and call handlers to undertake the verification process and drive this activity proactively. Further changes have allowed us to handle increase contacts following proactive campaigns as well as allowing us to capture reactive verifications following contact by customers.

Below is a table of customers registered for the various activities. As a household can register for more than one service the numbers of services provided is greater than the number of PSR customer registered. All PSR customers are routinely provided with support during supply interruptions.

Financial implications

We have met all targets related to this performance commitment for year one. This is a reputational performance commitment with no associated financial incentive.

Service	Number of customers
PSR households receiving support with Communication	8,551
PSR households receiving support with Mobility and Access restrictions	41,851
PSR households receiving support with Supply Interruptions	128,831
PSR households receiving support with Security	24,587
PSR households receiving support with Other Needs	7,291

Actual performance for the 'priority services for customers in vulnerable circumstances' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	4.00	4.07	Pass

D04

Improving street works performance

Performance commitment description

This performance commitment measures the safety, quality and compliance of our street works activities in the public highway against the standard set out in the New Roads and Street Works Act (NRSWA) 1991. It seeks to drive improvements in the quality of our company's activities in the public highway from roadworks and traffic management setup through to the quality of our reinstatements. Compliance with the Act is made by our ISO accredited street works compliance team performing assessments on in-progress roadworks as well as reviewing the quality of reinstatements. The performance commitment definition is based on the number of instances of non compliance.

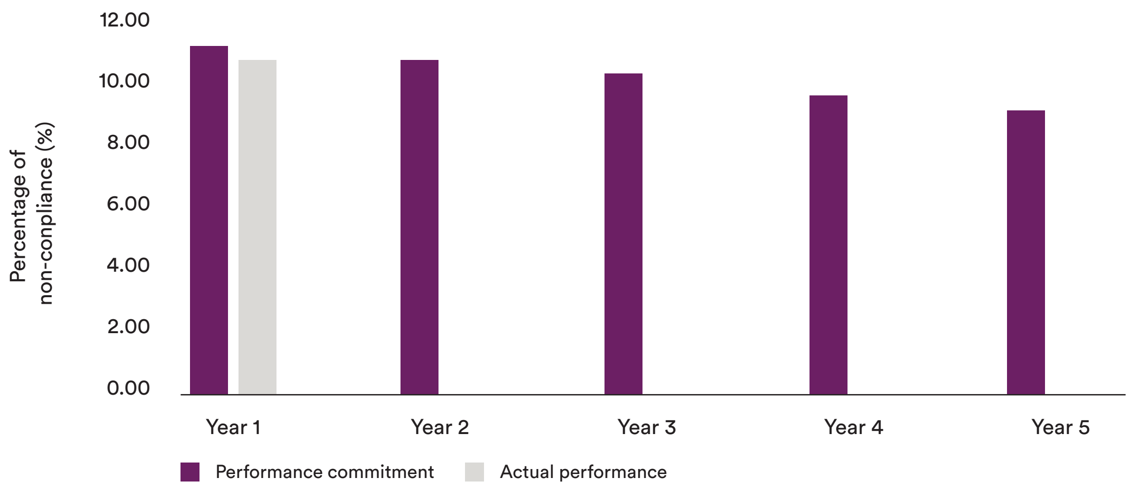
Performance summary

Our year one target was to have less than 11 per cent non compliance in our assessments. Having made over 19,000 assessments we have ended the year with 10.56 per cent non compliance which is better than our target. Assessments are made by our compliance team covering our contractor street works activity across the entire region. Performance is measured on a monthly basis which allows us to see trends and problematic areas quickly and put in place improvement measures with our contract partners. Performance in this area helps avoid additional costs such as having to complete rework for unsatisfactory reinstatements. Completing street works quickly and to a high standard also reduces the impact on our customers in the North West.

Financial implications

We have met all targets and have passed this performance commitment. This is a reputational performance commitment with no associated financial incentive.

Actual performance for the 'improving street works performance' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	11.00%	10.56%	Pass

D05

Priority services – BSI accreditation

Performance commitment description

This performance commitment measures whether United Utilities support for customers in vulnerable circumstances is meeting British Standards Institution (BSI) standards for inclusive service provision. We meet this level of performance by achieving and maintaining BSI accreditation. This ensures that we are providing an independently assured fair, flexible service and transparent service that can be used by all customers equally, regardless of their health, age or personal circumstances.

Performance summary

We achieved accreditation to the standard in March 2020 and maintained the accreditation during year one of the AMP with an annual review in March 2021. As our target is to achieve the standard by the end of year one we have indicated performance as achieved. The standard reaches across the organisation and the assessment process looks at how we demonstrate our commitment to customer inclusion within the following areas:

- Our senior leaders
- Priority services
- Billing
- Income
- Service delivery
- Network enquiries
- Network field teams
- Training
- Communications
- Sustainability
- Legal
- Plus, our external partners

Financial implications

We have met all targets and have passed this performance commitment. This is a reputational performance commitment with no associated financial incentive.

Actual performance for the 'priority services – BSI accreditation' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	Achieved	Achieved	Pass

We will improve the way we work to keep bills down and improve services

We aim to keep future bills down for customers by helping more people to pay, and seeking to ensure that all those receiving our services are being billed. We will continue to support customers who have affordability issues by ensuring that they are on the most suitable tariff and payment plan for their circumstances and employing other non-financial assistance schemes.

How have we done?

We have successfully passed eight out of the eight performance commitments that support this outcome, and generated a net outperformance payment of £7.823 million. In year one, we continue to lead the water industry in affordability and vulnerability assistance with a wide range of support schemes for customers. Using data and analytics we have been able to target campaigns towards those customer segments most at financial risk, promoting the support available and encouraging customers to contact us if they were struggling to pay their bill. There are currently around 200,000 customers benefiting from affordability support, representing around 6 per cent of our household customer base.

We strive to improve our customer data in order to ensure that all those who use our services are correctly billed, which in turn ensures fairer bills for everyone. We have a number of performance commitments that support this. Our performance on voids has achieved its target this year, whilst we have outperformed our internal targets on gap sites for both household and non-households. We have also gained benefit from our non-household vacancy incentives scheme, which incentivises retailers to identify occupied non-household premises that are showing as vacant and should therefore be billed.

We have achieved our year one target for our Systems Thinking reputational performance commitment. This capability will deliver significant future benefits for customers across many areas of service. For example, the advancements in both proactive and reactive customer responses, with machine analytics, machine learning and robotics will deliver quicker, better and cheaper responses to customer service disruption. This will allow us to be more resilient and minimise service disruption and will also improve our capability in response and recovery. Systems thinking recognises that our business is not a collection of independent components which deliver discrete services to customers. Instead, the business is managed and operated as a single end-to-end system. The dependencies and interactions between these sub-components, both internal and external, are better understood and used to unlock the long-term opportunities for step change in benefits for customers, both in terms of better service and lower cost. Systems thinking is a long-term strategy, requiring substantial investment in business change.

Our performance on the direct procurement measure for Manchester and Pennines resilience is in line with targets in year one but faces complex challenges over the remainder of the period in order to meet the regulatory date for contract award. We remain in dialogue with Ofwat over this.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
E01 – Number of customers lifted out of water poverty	71,057	Outperformance payment	2.542
E03 – Non household vacancy incentive scheme	7,940	Outperformance payment	1.080
E04 – Gap sites (wholesale)	949	Outperformance payment	0.290
E05 – Gap sites (retail)	6,349	Outperformance payment	0.083
E06 – Systems thinking capability	1	Reputational	–
E07 – Successful delivery of direct procurement of Manchester & Pennine resilience	On track	–	–
E09 – Customers say that we offer value for money	78	Reputational	–
E10 – Retail voids	6.01	Outperformance payment	3.828
We will improve the way we work to keep bills down and improve services net position	8/8 achieved		£7.823m

E01

Number of customers lifted out of water poverty

Performance commitment description

This measure commits us to providing additional support to customers in water poverty, primarily through the effective promotion of discounted social and support tariffs. In addition, it ensures support is effectively targeted at those most in need by only recognising this support where it acts to lift a customer out of water poverty which we define as spending more than 3 per cent of income on their water bill. We are targeting 66,500 customers being lifted out of water poverty by 2024/25. This represents a 45 per cent increase on support levels in 2017/18 and a 20 per cent improvement in the number of customers being supported out of water poverty via our social tariffs compared to forecast 2019/20 levels of support.

Performance summary

Actual performance for this commitment in 2020/21 was 71,057 customers lifted out of water poverty. This consisted of customers benefiting from our Help to Pay (25,078) and Back on Track tariff (45,979).

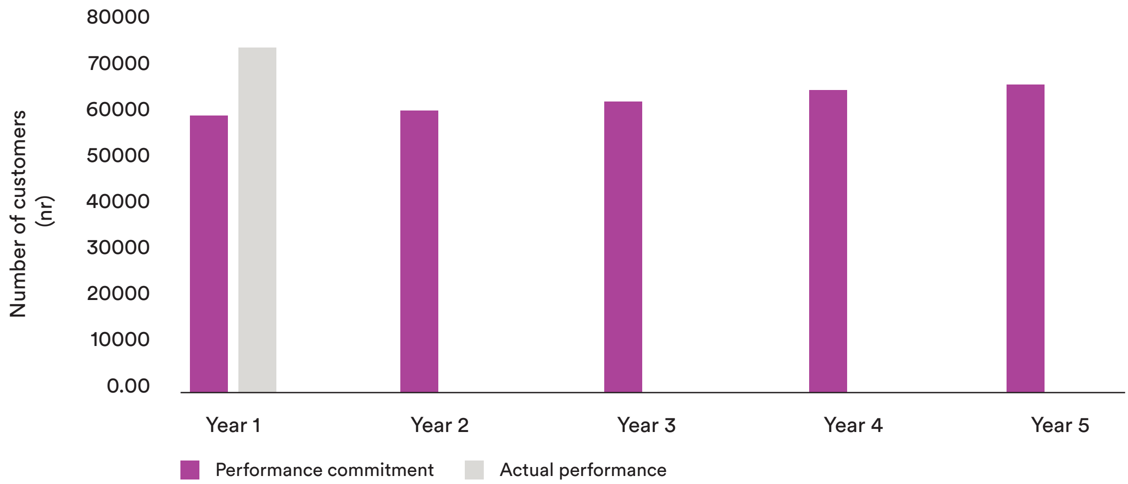
We are a leader in the water industry in affordability and vulnerability assistance, with a wide range of support schemes for customers, many of which are firsts for the industry. Using advanced data and analytic capabilities we have been able to target campaigns to the customer segments at greatest financial risk, promoting the support available and encouraging customers to contact us if they were struggling to pay their bill. There are currently c.200,000 customers benefiting from United Utilities' affordability support, representing around six per cent of our household customer base. We have directly engaged with customers using a variety of digital media channels, postcards, doorstep visits and indirectly promoting our schemes on our website and in various social media campaigns. We have also worked alongside strategic trusted partners and Money Advice agencies who promote the support available to their clients.

We continually innovate to improve our ways of working. For example, in response to the COVID-19 pandemic we worked with regulators and customers to introduce an extended interim social tariff, increasing the number of customers we could place on discounted charges. In March we were the first water company to begin data sharing with the DWP leveraging the new provisions under the Digital Economy Act to assist people living in water poverty. The new data share arrangement allows us to identify customers in receipt of benefits enabling us to offer support to those customers who need our help the most. This data is particularly beneficial for identifying customers who are struggling to pay who are typically hard to engage with. It also gives us the ability to undertake a benefit check at point of re-application, meaning eligible customers can automatically continue to benefit from lower bill support. Working with our Credit Reference Agency partner Equifax, we're continually looking for new technology that can further enhance our affordability processes. We're proud to be the first water company in the UK to roll out an Open Banking solution for social tariff applications, modernising our income verification and streamlining customer applications for reduced-rate social tariffs.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance or underperformance. We have exceeded the target and the outperformance cap for year one resulting in an outperformance payment of £2.542 million. We anticipate that our positive performance will continue over the remainder of the AMP.

Actual performance for the 'number of customers lifted out of water poverty' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	57,600	71,057	Pass

E03

Non household vacancy incentive scheme

Performance commitment description

This measure incentivises business retailers who work in our region to identify occupied properties that are showing as 'vacant' within the Central Market Operator System and register them as 'occupied'. For charges to be correct it is essential that the occupancy status of each property is marked correctly within the market i.e. whether the property is 'occupied' or 'vacant'. We recognise the importance of ensuring that all customers are billed appropriately and therefore we have introduced a financial incentive. The incentive payments will provide for costs of administering the incentive and payments to retailers, while still providing a net benefit to customers from the additional revenue gained from billing previously unbilled properties.

Performance summary

This is the first year we have introduced the non-household vacancy incentive scheme. During the year we recognised 7,940 vacancy resolutions by retailers. Our performance level across the AMP is expected to reduce year-on-year as the backlog of vacant properties in the market reduces.

The impact of COVID-19 meant that vacancy incentive applications were delayed as the scheme was suspended as a result of site visit restrictions. Despite this delay, our planned performance has been exceeded.

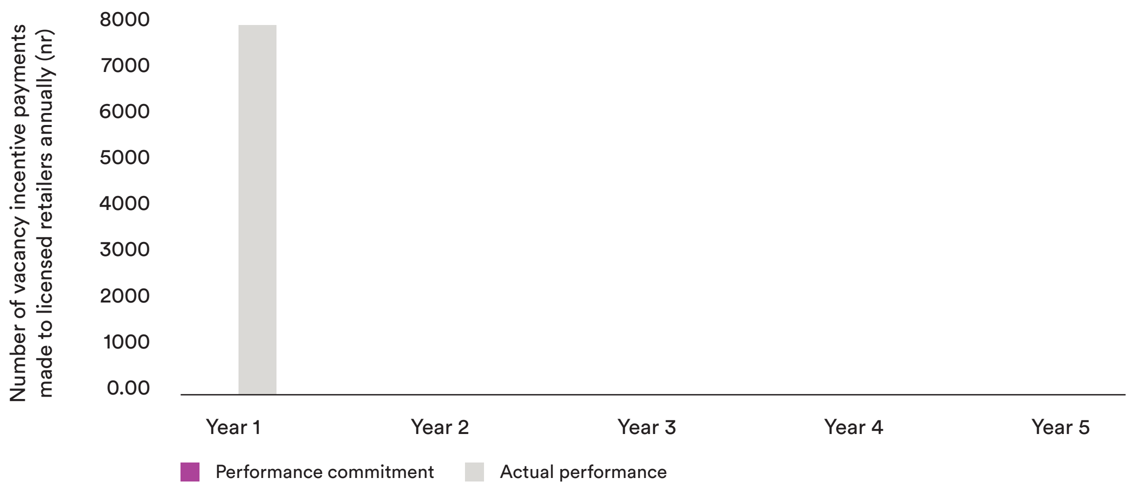
Part of MOSL's guidance at the time was to ensure that premises which were impacted by temporary closure due to the pandemic should be made vacant with a 'COVID-19' reference included. We interrogated the transaction data and therefore all premises which were made vacant due to the lockdown restrictions were excluded from the incentive scheme as part of our application validation process, based on reference label.

The impact of COVID-19 meant that vacancy incentive applications were delayed as the scheme was suspended as a result of site visit restrictions. Despite this delay, our planned performance has been exceeded.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance only. It has an incentive rate of £136 per unit. In year one we achieved 7,940 resulting in a total outperformance payment of £1.080 million. We anticipate that our positive performance will continue over the remainder of the AMP.

Actual performance for the 'non household vacancy inventive scheme performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	7,940	Pass

E04

Gap sites (wholesale)

Performance commitment description

This measure is designed to encourage retailers to identify non-household properties where water and/or wastewater services are being used, but where the property is not being billed ('gap sites'). Identifying these sites will bring in more revenue from those customers, so keeping down bills for customers overall. The measure will facilitate incentive payments to retailers who identify customers who are not being billed or are only being partially billed. The performance commitment records the number of incentive payments made by UUW to business retailers who identify non-household premises using water or wastewater services which are not registered within the Central Market Operator System 'CMOS'. The CMOS system records all business customers and connects wholesalers and retailers in the market.

Performance summary

This is the first year we have introduced gap sites (wholesale) scheme. Gap site applications have been delayed due to COVID-19 site visit restrictions. During the year we recognised the identification of 949 gap sites. Our performance level across the AMP is expected to remain stable year-on-year.

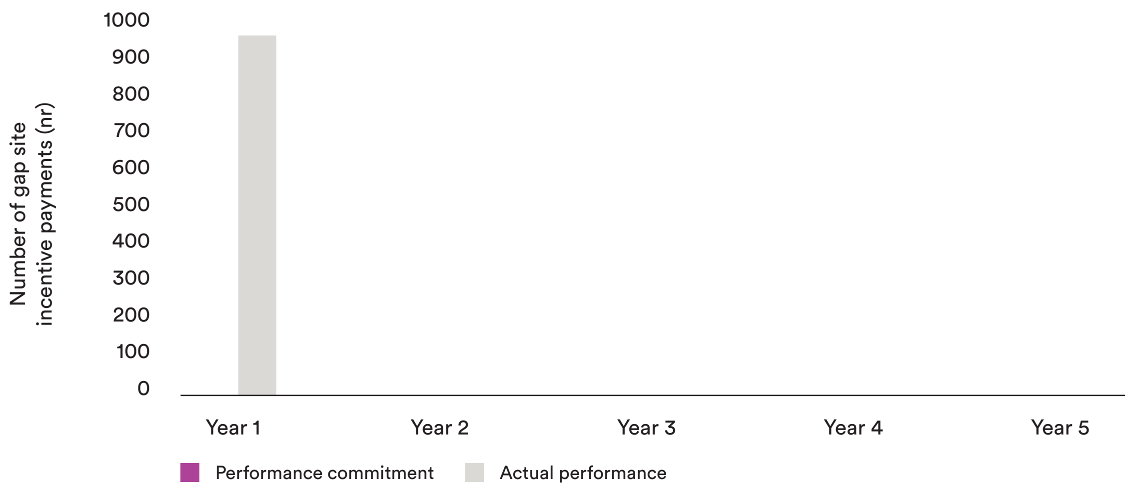
Formal targets are not set in advance for this performance commitment; performance reflects the number of sites identified in any period.

As retailers identify potential gap sites to us we check and verify this information to make sure each is a valid gap site. Once confirmed we report this in the CMOS system as completed against this performance commitment. Our reported performance therefore reflects the number of additional sites registered in the market. Incentive payments to business retailers are made following receipt of their invoice.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance. It has an incentive rate of £306 per unit. In year one we achieved 949 gap site resolutions, resulting in a total outperformance payment of £0.290 million. We anticipate that our positive performance will continue over the remainder of the AMP.

Actual performance for the 'gap sites (wholesale)' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	949	Pass

E05

Gap sites (retail)

Performance commitment description

This performance commitment measures the number of domestic connected properties in our area which we identify as not being billed for water and/or wastewater services each year and add to our billing system. We have a duty to ensure that we have all connected properties in the region recorded on our billing system. This is an important part of ensuring we are billing all occupied properties. Identifying and billing occupied properties will result in a fairer distribution of water charges across all users. This measure has been designed to provide a cost recovery mechanism so that we carry out activities to maintain and enhance data quality for all the properties we serve.

Performance summary

This is the first year we have introduced gap sites (retail) scheme. During the year we recognised the identification of 6,349 gap sites in total. Our performance level across the AMP is expected to remain stable year-on-year.

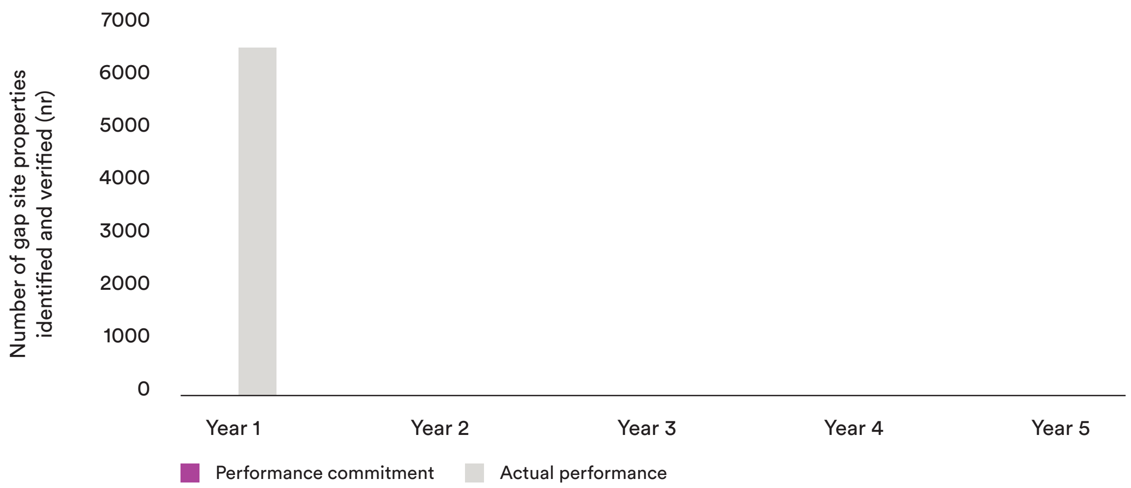
Formal targets are not set in advance for this performance commitment; performance reflects the number of sites identified in any period.

We have performed well in year one of AMP7. Our performance has been driven by an increased focus on the performance commitment alongside internal process improvements that are now in place to more easily identify gap sites and process these, working closely alongside our developer services team.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance. It has an incentive rate of £13 per unit. In year one we achieved 6,349 in total resulting in an outperformance payment of £0.083 million. We anticipate that our positive performance will continue over the remainder of the AMP.

Actual performance for the 'gap sites (retail)' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	6,349	Pass

E06

Systems thinking capability

Performance commitment description

Systems thinking involves learning about the interaction of the individual components of a system, understanding the system as a whole and using this to identify patterns and predict performance. For a water and wastewater company, this means rather than operating an asset or treatment works in isolation, we use data from telemetry on our assets, along with knowledge about the wider environment in which we work and digital advances such as artificial intelligence to understand the broader systems perspective, predict where issues may arise and make decisions. Techniques such as machine learning are enabling us to automate some of these decision making processes.

This performance commitment measures delivery of our corporate strategy to embed a systems thinking approach through innovations and improvements in capabilities such as production planning, operational monitoring & control and asset lifecycle management.

The methodology for assessing capability maturity has been developed with external leaders in systems thinking and has been assured and benchmarked against companies outside the water sector.

Performance summary

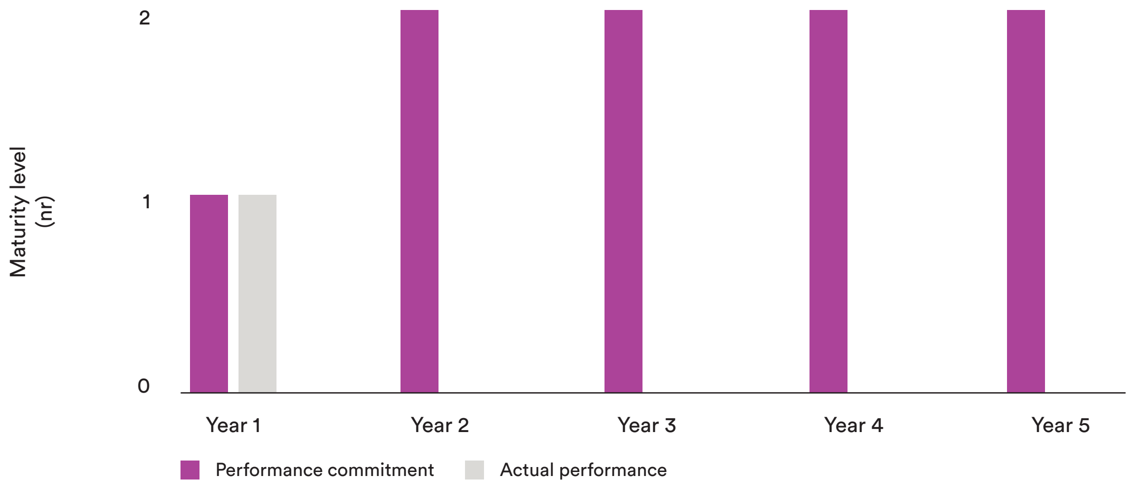
This measure is based upon an assessment of a suite of capabilities, undertaken by external experts Accenture. In February 2020, prior to year one, we were baselined at maturity level one and aim to reach level two by the end of the AMP7 period. Following the latest assurance review completed in February 2021, there have been significant advances made by each capability across the 44 capability assessment questions. Each capability has a documented level two roadmap which details activities, projects of work, pilots and other initiatives that support maturity development through to level two in line with the financial year targets.

These roadmaps consider (as appropriate) the recommendations and feedback made within the Accenture assurance report to deliver maturity development. Each capability has a milestone plan that will track delivery of activities, projects of work, pilots and other initiatives that support maturity development through to level two in line with the financial year targets. These milestone plans are reviewed on a weekly basis to ensure adherence to the timescales. Internal tracking of the maturity levels is in place for each capability and reported through a monthly Transformation Board.

Financial implications

This measure is reputational only and has no associated financial incentives.

Actual performance for the 'systems thinking capability' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1	1	Pass

E07

Successful delivery of direct procurement of Manchester and Pennine resilience

Performance commitment description

The Haweswater Aqueduct Resilience Programme (HARP) scheme will represent one of the largest infrastructure projects in the UK, improving resilience of water supplies to customers in Manchester, Cumbria and Lancashire. This measure focuses on advancement of the HARP scheme via the Direct Procurement for Customers (DPC) process in a way which demonstrates value for money to customers whilst also providing an example for the industry and building capability for DPC activities across the sector. Achievement will be assessed following the appointment of a competitively appointed provider (CAP) to design, build, finance and maintain the scheme at such time the contract between United Utilities and the CAP has been signed and its terms are fully effective. The performance commitment is set so that if a contract is awarded before the 1 May 2023 meeting Ofwat's qualifying criteria we will receive an outperformance payment of £5.740 million.

Performance summary

The Haweswater Aqueduct Resilience Programme will be a pathfinder scheme for the DPC process. This process is both novel and untested in the water sector, and the HARP scheme itself is complex and sizeable. The scheme has been impacted by the ongoing COVID-19 pandemic in addition to the challenge of developing the detailed framework to support this procurement model. Despite these challenges, we have successfully passed through the required number of control points in year one.

We remain committed to advancing HARP through DPC and continue to work toward the submission of our Outline Business Case at Control Point E and Final Business Case at Control Point F. Dialogue is ongoing with Ofwat to advance the procurement process.

Financial implications

This performance commitment is subject to an outcome delivery incentive for outperformance. Only the deliverables due in year four are subject to an outperformance payment. Therefore, no financial incentives apply to year one.

Actual performance for the 'successful delivery of direct procurement of Manchester and Pennine resilience' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	In progress	On track	Pass

E09

Customers say that we offer value for money

Performance commitment description

Assessing customers' views on the overall value for money provided by UU water and wastewater services is an important factor in understanding drivers of legitimacy with customers. Alongside other measures of household customer service, such as C-MeX, a value for money measure can give insight into customers' perception of UU service levels and corresponding bills. Value for Money performance is assessed based on the results of customer surveys asking United Utilities household customers; "How satisfied are you with value for money of water and sewerage services in your area?"

Performance summary

We have achieved a score of 78 per cent against a target of 71 per cent in year one, having implemented a coordinated and visible engagement plan. Communication is critical if we are to maintain a high value for money rating as this helps to improve customer understanding of what we do.

Since the start of the pandemic we have undertaken extensive promotion of our support schemes for customers who have been financially affected by COVID-19 restrictions, both on social media and direct to customers. This has included our Payment Break scheme, Trust Fund and our revised Back on Track scheme which now offers financial support for customers who have been furloughed or made redundant due to COVID-19. We also continue to promote our Help to Pay scheme to our customers who receive Pension Support.

Alongside this, we also undertake a series of campaigns throughout the year to raise awareness of a range of initiatives including stop the block messages, water efficiency, winterwise, leakage, promoting our app and My Account services alongside other activities. These campaigns help to engage customers in the services that we provide, illustrating a wide range of initiatives which will be of interest to our customers.

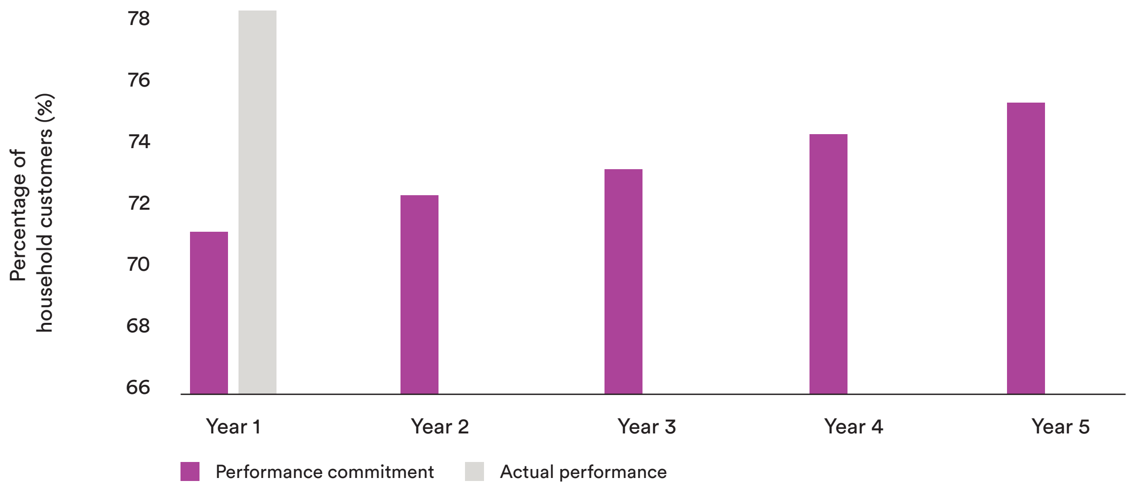
We continue to look at best practice in customer insight using all aspects of research from business as usual activities and input from our online customer panels. We know that targeted and specific messages, with timely and relevant information is the best approach to engaging customers. All our communication campaigns aim to engage customers throughout the North West, helping them become more aware of what we do as a business so they have a better understanding of what their bill pays for.

Our customer rating is taken from the annual Consumer Council for Water (CCW) report 'Water Matters'. The CCW research is undertaken in the form of an annual telephone survey conducted across a representative sample of household water bill-payers in England and Wales. The purpose of this is to measure and track customers' views in respect of a range of services supplied to them by their water and sewerage service provider(s).

Financial implications

This performance commitment is a reputational based incentive and there are no financial incentives associated with either underperformance or outperformance.

Actual performance for the 'customers say that we offer value for money' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	71%	78%	Pass

E10

Retail voids

Performance commitment description

This measures the number of household properties classified as void as a percentage of the total number of household properties served by the company. The proportion of void properties will be measured as an average over the year.

This performance commitment is designed to incentivise the company to reduce the number of household void properties. The reduction in void properties, which are occupied but not billed, will lead to fairer charges between customers and lower bills for customers already being billed.

Performance summary

The baseline figure of void properties in April 2020 was 225,000 or c.7 per cent of United Utilities' property base. This was 0.3 percentage points higher than the performance commitment of 6.7 per cent.

Performance against this commitment throughout the year is assessed on the rolling average percentage of void properties across 12 months. This presented a significant operational challenge, as to achieve outperformance would require a significant reduction of voids over the 12 months of the financial year.

Over the year we have achieved a 92,000 net reduction in void properties. This means at year-end only 6.01 per cent of household properties were recorded as void, achieving our performance target in the year.

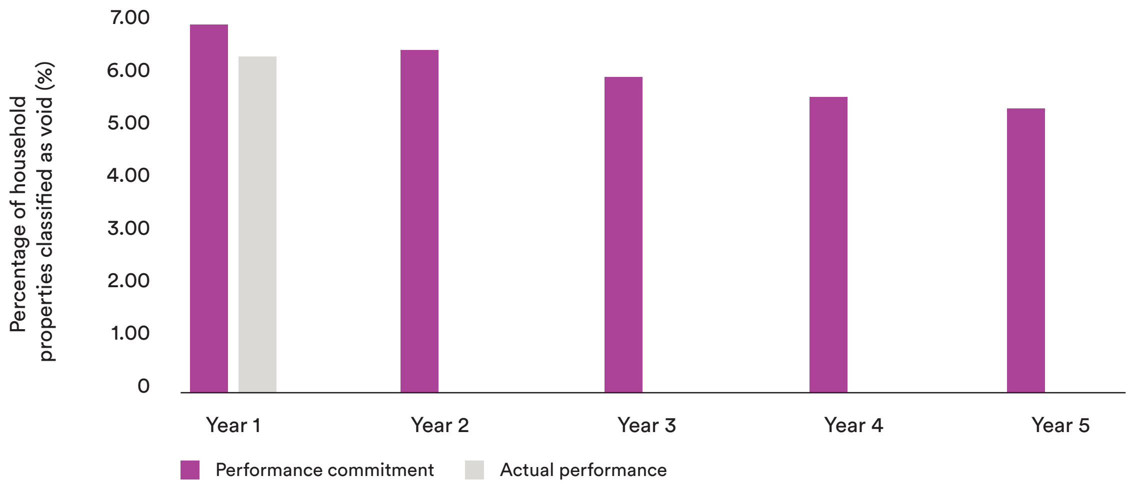
A number of systems and processes were developed to manage our void process:

- Working with a third party provider, a portal was developed that allowed information on our full void property base to be refreshed on a monthly basis, allowing updated information to be reviewed and scored for confidence. This, coupled with a refreshed and re-branded suite of customer communication options, enabled us to reach many households who we had previously been unable to engage with;
- A further process was developed to provide sale alerts on void properties. This enabled earlier identification of new occupants and ensured that communications could be sent to named occupiers, ensuring a better engagement rate, and ultimately led to more occupants being moved in quicker; and
- Void app – in the latter half of the year a new United Utilities app was developed. This enabled field and office based employees to identify and submit feedback on void properties that they came across as part of their normal duties to the Property Management team, who were then able to contact and successfully move in occupants of properties where indications of occupancy were observed. The combination of these initiatives enabled the significant reduction in void properties.

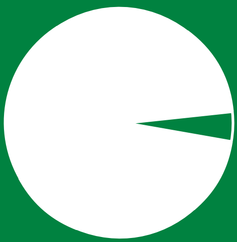
Financial implications

We have exceeded the target and the outperformance cap resulting in an outperformance payment of £3.828 million.

Actual performance for the 'retail voids' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	6.70%	6.01%	Pass



Collect and recycle wastewater

Customers rightly prioritise the removal of wastewater as a discrete service which should not interfere with their day-to-day lives. Operational issues such as blockages are the principle cause of incidents of surcharging drainage systems, which can lead to flooding and pollution incidents. There is strong customer and stakeholder support for reducing both flooding and pollution incidents which we will achieve through innovative technologies and planned programmes to proactively manage our risks.

How have we done?

We passed one of the two performance commitments which support this outcome, but failed to meet the other. This resulted in a net underperformance payment of -£2.363 million.

We recorded a total of 1,156 sewer collapses, which when normalised by 1,000km of sewer length, equates to a performance level of 14.61. This is better than our performance commitment of 15.51 per 1,000km of sewer. This positive performance is a result of our 'flying start' investment, the proactive approach we have embedded through our operating model and increased technical verification of each individual incident.

For sewer blockages, we recorded 22,352 incidents. This performance is largely consistent with the numbers we have reported over the last five years, but is above our performance commitment of 20,664 incidents. Whilst blockages from our existing assets have reduced over the long term, since 2013, the proportion of blockages from transferred assets has continued to increase.

For both measures, we continue to develop and implement a wide variety of schemes and initiatives to improve our performance.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
F01 – Sewer collapses	14.61	–	–
F02 – Sewer blockages	22,352	Underperformance payment	-2.363
Collect and recycle wastewater net position	1/2 achieved		-£2.363m

F01

Sewer collapses

Performance commitment description

This common performance commitment measures the number of sewer collapses per 1,000km of sewer. This measure seeks to reflect failure due to structural weakness in our assets which cause an impact on service to customers or the environment. The measure discounts proactively identified collapses, collapses caused by third party damage, manhole damage and internal backdrops. Displaced joints, cracked or fractured pipes, open joints, intruding connections, minor pipe breaks and hard blockages do not reflect significant structural failure hence are also excluded from the measure.

Performance summary

In year one, we recorded a total of 1,156 sewer collapses, which when normalised by 1,000 km of sewer length, equates to a performance level of 14.61. This is below our performance commitment of 15.51 per 1,000 km of sewer.

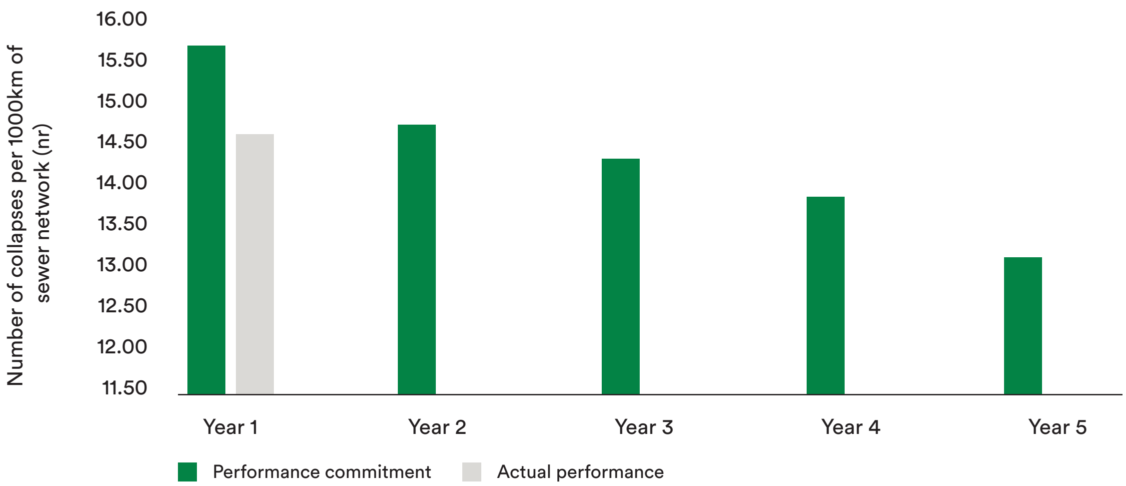
At the end of AMP6 we focussed additional investment into the wastewater network, under an initiative known as ‘flying start’. This investment, coupled with our improved operating model, has helped us to proactively prevent some collapse events from occurring and limited the number of repeat collapse incidents. We have also enhanced our incident guidance for our operational teams and have put robust processes in place to ensure each incident is separately verified by our drainage engineers so as to better record and understand asset performance.

Over the longer term, we continue to develop and implement a wide variety of schemes and initiatives to improve our performance in this area. These include the promotion of less disruptive ‘no-dig’ techniques for repairing sewers. This is currently a significant area of innovation for United Utilities and will reduce the number of reportable collapses in future years. We are also investing in our Dynamic Network Management (DNM) model, which through an innovative use of monitors will allow us to understand where there is deviation from the standard operation of the network. This means we are able to identify potential collapses before they become too serious. This proactive resolution means that issues can be resolved before customers experience service disruption.

Financial implications

This performance commitment has an underperformance only outcome delivery incentive. This year, no underperformance payments have been incurred because actual performance was better than the performance commitment.

Actual performance for the ‘sewer collapses’ performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	15.51	14.61	Pass

F02

Sewer blockages

Performance commitment description*

This is a bespoke measure adopted from Ofwat's asset health list. Sewer blockages in AMP6 were a sub-measure of our network performance index but are now a standalone measure in AMP7. A blockage is defined as an obstruction in the sewer that has been reported and cleared. Blockages resulting from third party interference are included. This measure does not include proactively cleaned silt or other blockages that are removed which are not reported to us by customers or stakeholders and have no customer impact. We also do not include recorded incidents conforming to section 111 of the Water Industry Act 1991 related to repeated and deliberate abuse of the sewer which causes restrictions on its use.

Performance summary

Our blockages performance of 22,352 incidents is largely consistent with the numbers we have reported over the last five years but it is above our performance commitment of 20,664 incidents.

Whilst blockages from our existing assets have reduced over the long term, the proportion of blockages from transferred assets has continued to increase. There are a number of potential reasons for this. These include improved incident information capture, a historic focus on the existing network and potentially more awareness of United Utilities' responsibilities for transferred assets.

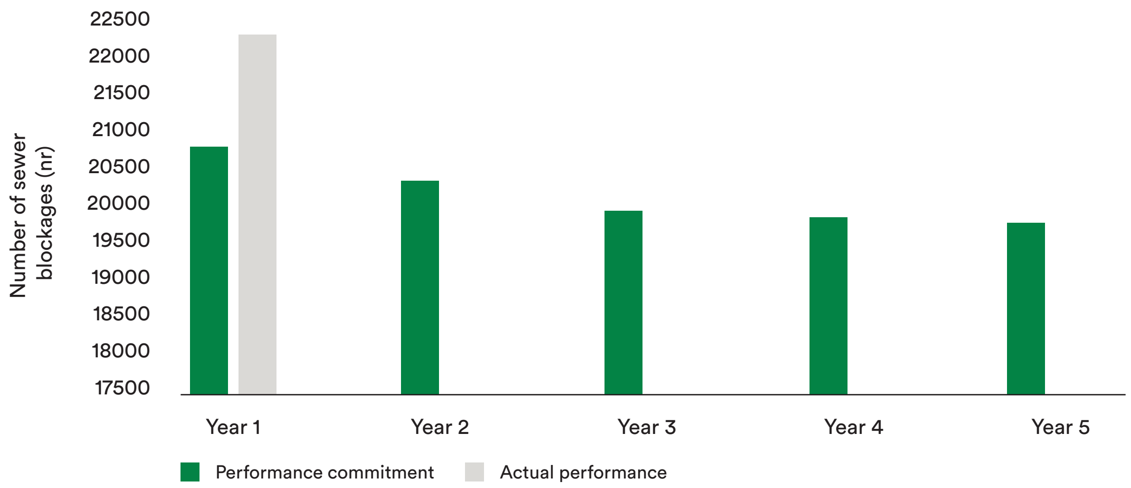
Historically UU's pre-existing assets benefited from a programme of maintenance that has kept them in better condition, whilst transferred assets were in varying degrees of asset condition when transferred to us from private ownership in 2011. Transferred assets are of smaller diameter than existing assets, meaning that they tend to be more prone to blockages, particularly during times of stress due to increased load, demand or customer misuse. These stresses have undoubtedly been exacerbated during the COVID-19 pandemic period, leading to an uplift in incidents.

We continue to develop and implement a wide variety of schemes and initiatives to improve our performance. These include increased customer engagement, dedicated blockage teams, the development of a regional blockage plan, 'flying start' investment, targeting fats, oils and grease discharges and investing in our Dynamic Network Management (DNM) model.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an underperformance payment of £2.363 million. We forecast that our performance in this measure will improve over the remainder of the AMP. We forecast that our performance in this measure will improve over the remainder of the AMP.

Actual performance for the 'sewer blockages' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	20,664	22,352	Fail

* Text updated on 03/11/2021

The risk of sewer flooding for homes and businesses is reduced

Sewer flooding is one of the worst service failures that customers can experience and we understand the significant long term impact flooding can have on customers in the North West. Customers want us to reduce flooding incidents that occur and our long term aspiration is to eliminate internal flooding incidents.

How have we done?

We have successfully passed four out of the six performance commitments which support this outcome, and generated a net outperformance payment of £3.621 million.

For both internal and external flooding, our underlying flooding other causes (FOC) performance has improved this year and we have recorded our lowest ever figures since the adoption of transferred assets. However, hydraulic and severe weather flooding during three specific storm events contributed to a notable uplift in the overall number of incidents. For internal flooding, we recorded a total of 1,521 internal flooding incidents (4.47 per 10,000 connections). This is above our performance commitment of 572 incidents (1.68 per 10,000 connections). Whilst it is disappointing not to achieve the performance commitment, this level of performance is in line with the two AMP strategy we described in our 2019 Price Review submission. For external flooding, we recorded a total of 6,849 incidents against our performance commitment of 6,845. Under both metrics, we continue to develop and implement a wide variety of schemes and initiatives to improve our performance.

With regard to raising customer awareness to reduce the risk of sewer flooding, we have experienced positive performance this year due to our continued promotion of impactful messaging to customers, such as our 'stop the block' campaign. We ended the year with 29.3 per cent customer awareness score, which is 4.1 per cent over our baseline and 2.1 per cent above the performance commitment.

For our risk of sewer flooding in a storm metric, we have seen the percentage of population at risk of hydraulic internal sewer flooding in a 1-in-50 year storm decrease to 13.42 per cent. This performance is 2.0 per cent better than our performance commitment level of 15.44 per cent. This decrease is driven by investment in our modelling capability to better assess local risks.

Under our two hydraulic flood risk resilience measures we have completed a range of projects this year. These include major capital schemes, smaller hydraulic projects and cellar disconnections. These projects contribute to a reduction in the overall hydraulic risk score, which means that in real terms fewer customers will experience flooding at their properties as a result of hydraulic inadequacy. In both instances this has led to the generation of an outperformance payment.

Performance Commitment	Actual Performance Year one	Impact	Value (£m)
G01 – Risk of sewer flooding in a storm	13.42	Reputational	–
G02 – Internal flooding incidents	4.47	Underperformance payment	-7.224
G03 – External flooding incidents	6,849	Underperformance payment	-0.026
G04 – Customer awareness of the risk of flooding	4.1	Outperformance payment	0.181
G05 – Hydraulic internal flood risk resilience	41.84	Outperformance payment	7.553
G06 – Hydraulic external flood risk resilience	179.84	Outperformance payment	3.137
The risk of sewer flooding for homes and businesses is reduced net position	4/6 achieved		£ 3.621m

G01

Risk of sewer flooding in a storm

Performance commitment summary

This is a common industry measure to understand the percentage of the population at risk of internal flooding resulting from hydraulic sewer flooding in a 1 in 50 year storm, based on modelled predictions. We use 2D models to calculate performance. A property is considered affected if modelled flooding from a manhole or gully reaches the actual property building. An occupancy rate is then applied to the affected property to determine the population equivalent. This measure is not incentivised through outperformance or underperformance payments and so is a reputational only measure. A reduction in the percentage of population at risk signifies an improvement in performance.

Performance summary

This year we have seen the percentage of population at risk of hydraulic internal sewer flooding in a 1-in-50 year storm decrease to 13.42 per cent. This performance is 2.0 per cent better than our performance commitment level of 15.44 per cent.

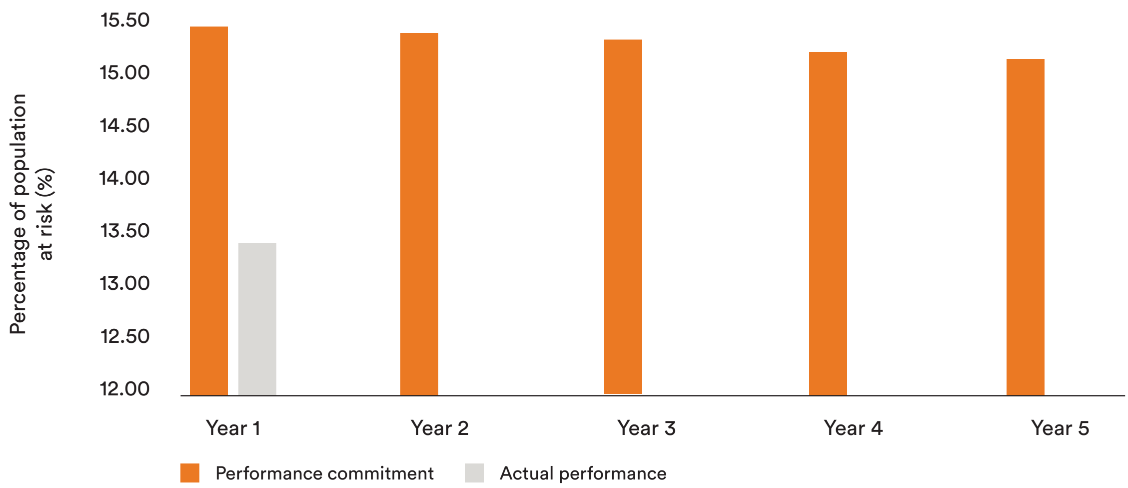
We have invested this year in our modelling capability to improve our understanding of the population at risk. This has allowed us to assess the risks more accurately in several regional areas.

In addition to this, all our wastewater hydraulic models have now been updated as part of the 2020 model maintenance update activity. This update ensured the data utilised in the assessment of performance against this performance commitment was as accurate and complete as possible.

Financial implications

This performance commitment is only subject to a reputational based incentive, and there are no financial implications associated with either underperformance or outperformance.

Actual performance for the 'risk of sewer flooding in a storm' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	15.44%	13.42%	Pass

G02

Internal flooding incidents

Performance commitment description

This common performance commitment measures the number of internal flooding incidents per 10,000 connections per year. Internal flooding is defined as flooding which enters a building or passes below a suspended floor. In this context, buildings are defined as those normally used for residential, public, community, commercial, business or industrial purposes. Severe weather incidents are included in this measure. Performance improvements are shown by reductions in the number of incidents. As a common measure the reporting methodology is consistent with the industry definition at any given time of reporting. Damp patches caused by seepage through walls or floors, or those due to surface water run off which has not originated from a public sewer but which inundates the wastewater network, are excluded from the measure.

Performance summary

In year one, we recorded a total of 1,521 internal flooding incidents, which when normalised by 10,000 connections, equating to a performance level of 4.47. This is above our performance commitment of 1.68 per 10,000 connections (or 572 incidents).

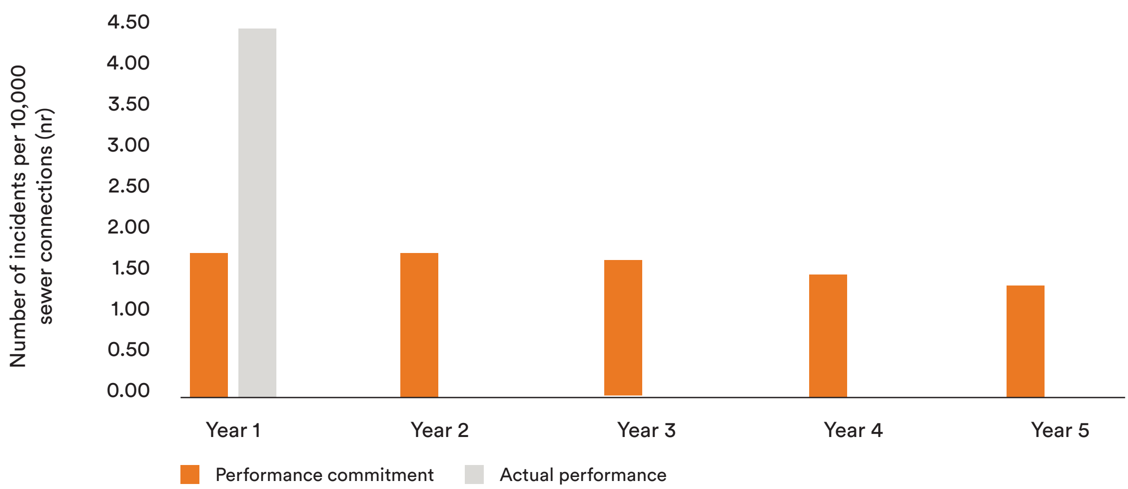
Whilst it is disappointing not to achieve the performance commitment, this level of performance is in line with the two AMP strategy we have described in our 2019 Price Review submission. The aim of this strategy is to be industry upper quartile by the end of AMP8, with a projected year one performance level of 1,560 incidents. The rationale behind this approach was that, given our poor relative position at the end of AMP6, an upper quartile performance level would be too challenging to achieve in a single AMP. Our underlying flooding other cause (FOC) performance has improved this year, and we have recorded our lowest ever figure since the adoption of transferred assets. However, hydraulic and severe weather flooding during three specific storm events have contributed to a notable uplift in the overall number of incidents. These three events were significant summer storms in June and August 2020, and storm Christophe in January 2021. In terms of detrimental impact, it was the 2020 events that had the largest influence on our performance. 40 per cent of our incidents this year relate to extreme rain occurring on six days in 2020 meaning that 40 per cent of the flooding incidents occurred in just 2 per cent of the year. In one example, the average rainfall for Urmston in Trafford is typically 65mm for the entire month of June, whilst the same location received 84mm on just the single day of 15 June 2020.

We continue to develop and implement a wide variety of schemes and initiatives to improve our internal flooding performance. These include increased customer engagement, enhanced incident targeting, increased mitigation and protection of properties, management of surface water and development, increased monitoring of the sewer network and dedicated blockage teams to respond to incidents faster. We are also instigating our Dynamic Network Management (DNM) model, which through an innovative use of monitors will allow us to understand where there is deviation from the standard operation of the network.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an underperformance payment of £7.224 million. We forecast that our performance in this measure will improve over the remainder of the AMP.

Actual performance for the ‘internal flooding incidents’ performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1.68	4.47	Fail

G03

External flooding incidents

Performance commitment description

This bespoke performance commitment was selected from Ofwat's list of asset health metrics and measures the number of external flooding incidents. An external flooding incident is defined as flooding within the curtilage of a building normally used for residential, public, community or business purposes. It includes any buildings in those curtilages which do not comply with the definition for internal flooding. Performance improvements are shown by reductions in the number of incidents. The measure discounts flooding that does not affect the curtilage of a property (e.g. roads and fields). Damp patches caused by seepage through walls or floors or those due to surface water run off which has not originated from a public sewer but which inundates the wastewater network are also excluded from the measure.

Performance summary

In year one, we recorded a total of 6,849 external flooding incidents against our performance commitment of 6,845.

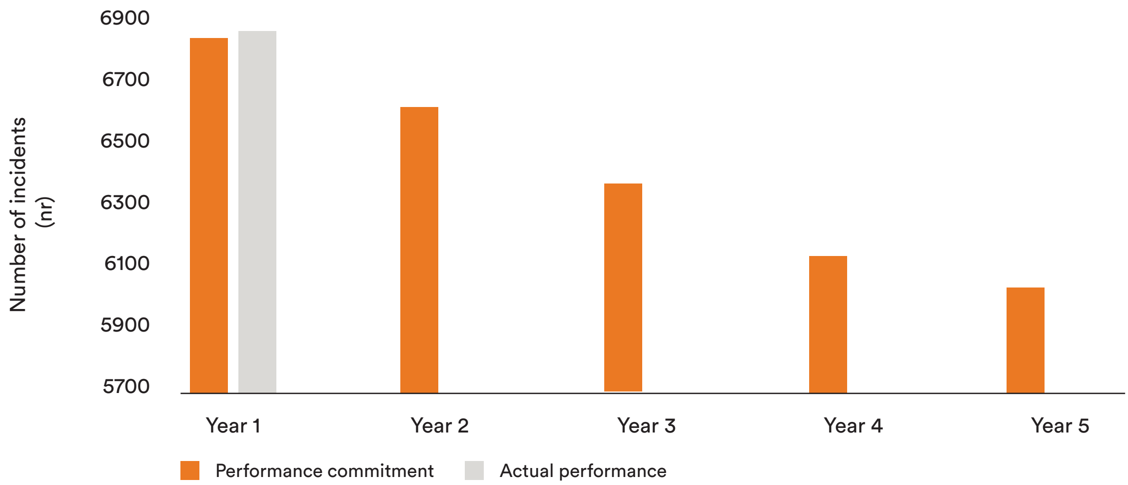
Our underlying flooding other causes (FOC) performance has improved this year and we have recorded our lowest ever figure since the adoption of transferred assets. However, hydraulic and severe weather flooding during three specific storm events (June and August 2020, and January 2021) have contributed to a notable uplift in the overall number of incidents. Some 498 of our incidents occurred during severe weather events, with 83 per cent of these incidents occurring in two short periods (15–18 June and 11–12 August). Like a similar occasion in the summer of 2017, this event centred on Manchester, which due to its location, network type and topography is vulnerable to experiencing large numbers of hydraulic flooding incidents during a severe storm event.

We continue to develop and implement a wide variety of schemes and initiatives to improve our external flooding performance. These include increased customer engagement, enhanced incident targeting, increased mitigation and protection of properties, management of surface water and development, increased monitoring of the sewer network and dedicated blockage teams to respond to incidents faster. We are also investing in our Dynamic Network Management (DNM) model, which through an innovative use of monitors will allow us to understand where there is deviation from the standard operation of the network.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an underperformance payment of £0.026 million. We forecast that our performance in this measure will improve over the remainder of the AMP.

Actual performance for the 'external flooding incidents' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	6,845	6,849	Fail

G04

Customer awareness of the risk of flooding

Performance commitment description

This bespoke measure assesses delivery of a change in customer awareness and aims to change behaviour with regard to the items that should not be flushed down the toilet or poured down the drain. We measure performance against a baseline of 25.2 per cent set in 2019/20.

Awareness is scored using three questions.

- Have you seen or heard any information about what you should not flush?
- Have you seen or heard any information about what you should not pour?
- Do you recall seeing the following advertising . . . (examples provided at time of survey)?

Performance through the period 2020 to 2025 is tracked by engaging with an independent customer research organisation to conduct the survey annually to track changes in customer awareness. Performance improvements are shown by an increase in the awareness measured from the baseline.

Performance summary

We ended the year with 29.3 per cent awareness, which is 4.1 per cent over our baseline and 2.1 per cent over the performance commitment. We have continued to promote the messages and understanding to increase awareness for this measure.

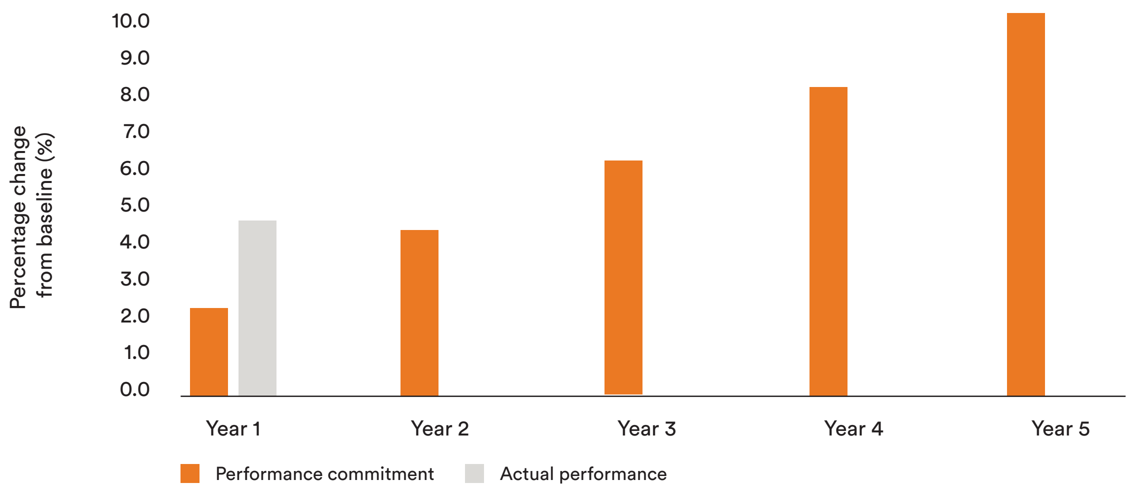
- We created a new impactful, direct style of communications for a 'Stop the Block' campaign replacing less recognisable messaging of 'Think Before You Flush' and 'Think Before You Pour'.
- We held a four week campaign comprising of:
  - Radio advertisements – focusing on wet wipes and fat, oil and grease. These have been aired across the North West alongside press adverts in 18 newspapers;
  - Social media campaign highlighting the issues of wipes and fats, oils and grease; and
  - Digital advertising on YouTube, Google Display Network and electronic screens on UU vehicles.

During the year, COVID-19 restrictions have impacted some of our community engagement activities but we undertook additional media campaigns to maintain our messaging. We plan to restart the delivery of our community engagement programme this summer with the 'Fatberg on tour' programme (COVID-19 restrictions permitting).

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an outperformance payment of £0.181 million. We anticipate that our positive performance on this measure will continue over the remainder of the AMP and forecast an overall outperformance payment over this period.

Actual performance for the 'customer awareness of the risk of flooding' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	2.0%	4.1%	Pass

G05

Hydraulic internal flood risk resilience

Performance commitment description

The aim of this bespoke measure is to reduce the flood risk to customers from internal hydraulic flooding and particularly those who are impacted by repeat incidents. It will measure the modelled flooding incident reduction at known flooding properties following the construction of permanent solutions that will improve the resilience of the drainage system serving the customers in the North West. Performance improvements are shown by reductions in the number of modelled incidents.

Interventions to provide or free up additional hydraulic capacity include: sewer upsizing, online or offline storage, flow transfer, surface water removal including green infrastructure solutions and physical disconnection from a surcharging sewer.

Performance summary

The original baseline level of modelled risk at the end of AMP6 was calculated as 61.04. Since then, additional risk has been added to the underlying position, as further properties that are subject to repeat hydraulic flooding are identified. These additional properties are known as 'arisals'. These arisals increased the risk by a score of 5.79 to an overall position of 66.83.

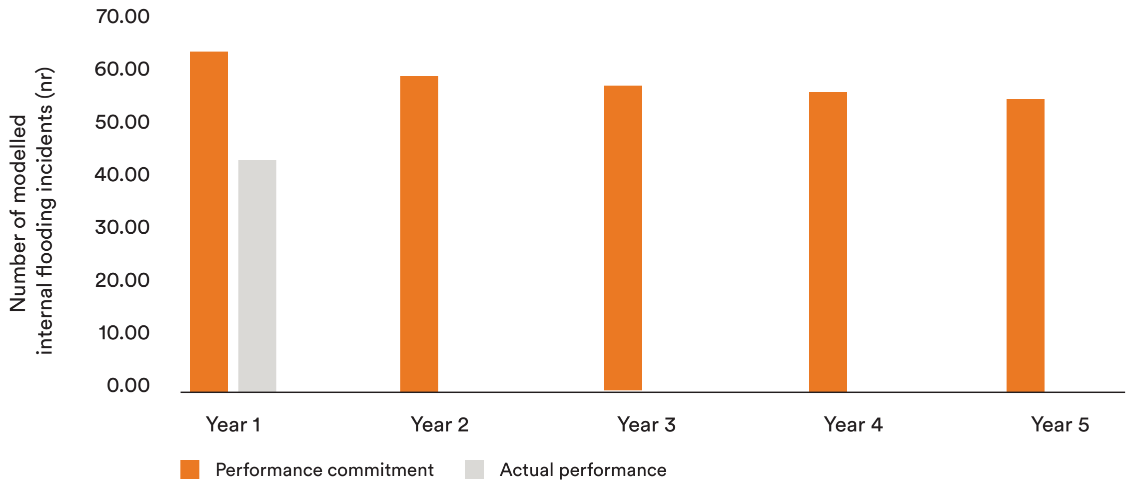
However, to combat that increased risk, a range of projects that positively impact 73 customer properties have been completed. These include major capital schemes, smaller hydraulic projects and cellar disconnections. These projects reduce the risk score by a total of 24.98, taking it down from 66.83 to 41.84. When compared against our performance commitment, this level of risk reduction means that in real terms fewer customers will experience internal flooding at their properties as a result of hydraulic inadequacy.

We are now actively developing further projects for delivery in year two to provide further benefit to customers under this measure.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an outperformance payment of £7.553 million. We anticipate that our positive performance on this measure will continue over the remainder of the AMP and forecast an overall outperformance payment over this period.

Actual performance for the 'hydraulic internal flood risk resilience' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	60.04	41.84	Pass

G06

Hydraulic external flood risk resilience

Performance commitment description

The aim of this bespoke measure is to reduce the flood risk to customers from external hydraulic flooding, particularly those who are impacted by repeat incidents. It measures modelled flooding incident reduction at known flooding properties following the construction of permanent solutions that will improve the resilience of the drainage system serving customers in the North West. Performance improvements are shown by reductions in the number of modelled incidents.

Interventions to provide or free up additional hydraulic capacity include: sewer upsizing, online or offline storage, flow transfer, surface water removal including green infrastructure solutions and physical disconnection from a surcharging sewer.

Performance summary

The original baseline level of modelled risk at the end of AMP6 was calculated as 276.06. Since then, additional risk has been added to the underlying position, as further properties that are subject to repeat hydraulic flooding are identified. These additional properties are known as 'arisals'. These arisals increased the risk by a score of 15.40 to an overall position of 291.46.

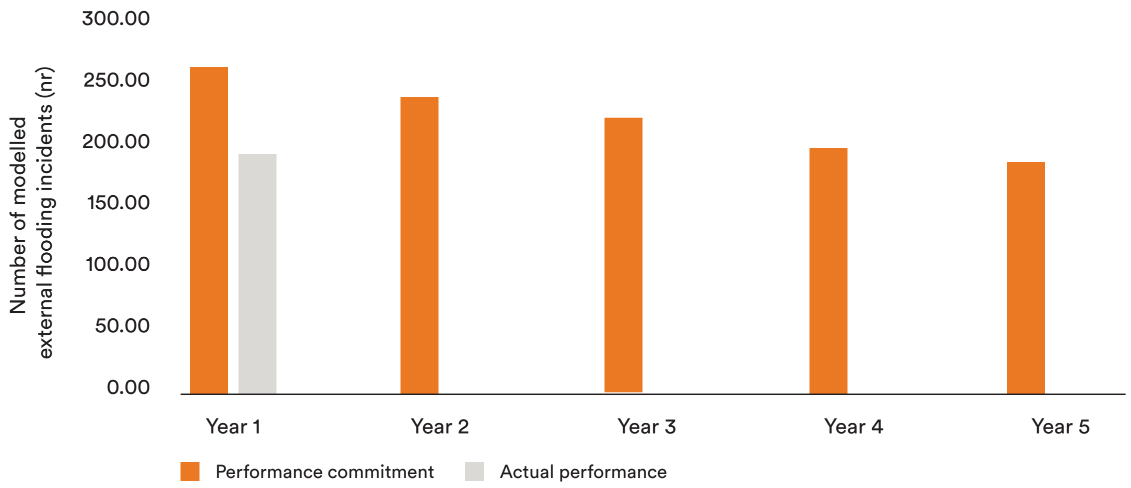
However, to combat that increased risk, a range of projects that positively impact 27 customer properties have been completed. These include major capital schemes, smaller hydraulic projects and cellar disconnections. These projects reduce the risk score by a total of 111.61, taking it down from 291.46 to 179.84. When compared against our performance commitment, this level of risk reduction means that in real terms fewer customers will experience external flooding at their properties as a result of hydraulic inadequacy.

We are now actively developing further projects for delivery in year two to provide further benefit to customers under this measure.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. This year we generated an outperformance payment of £3.137 million. We anticipate that our positive performance on this measure will continue over the remainder of the AMP and forecast an overall outperformance payment over this period.

Actual performance for the 'hydraulic external flood' performance commitment – lower is better

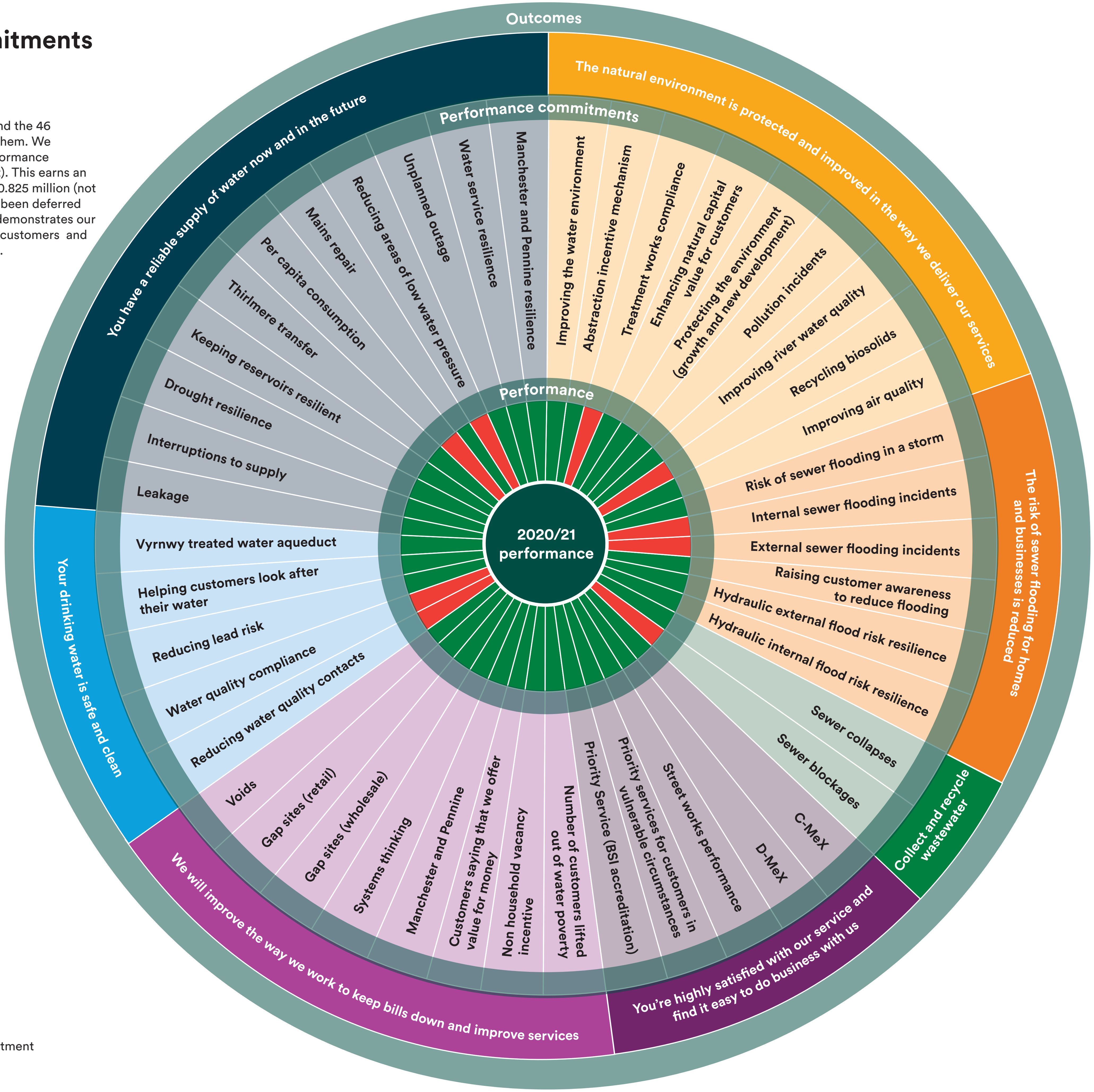


AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	254.53	179.84	Pass

Delivering our commitments

Year one performance

This diagram shows our seven outcomes and the 46 performance commitments that underpin them. We have met or outperformed 37 of these performance commitments in year one (over 80 per cent). This earns an overall net outperformance payment of £20.825 million (not including for the impact of PCC which has been deferred until the AMP7). This strong performance demonstrates our commitment to delivering what matters to customers and communities, both now and into the future.



Key:

- Performance commitment not met
- Met or exceeded performance commitment

Reconciliation models

For each price control period, Ofwat provides a series of reconciliation models to act as a regulatory tool to ensure accountability regarding companies' performance compared to its final determination across the different price controls and to ensure improving performance for customers.

The outputs from these models then inform the adjustments required to allowed revenue for each price control across the 2020–2025 period. The PR19 reconciliation mechanisms for AMP7 are used to cover the following:

- In-period revenue adjustments;
- End-of-period revenue adjustments and;
- RCV adjustments applied prior to the start of the next control period.

In year one of AMP7, as seen in the above graphic, we have met or outperformed against over 80 per cent of our performance commitments. Many of these performance commitments have a financial incentive attached. These will be reconciled at the end of each year (in-period) or at the end of the AMP (end-of-period). This reconciliation will then inform if an in-period or end-of-period adjustment is required:

In-period adjustment – For most of our performance commitments the outperformance and underperformance payments that we generate as a result of our performance will be added up at the end of each financial year. If we are in an overall outperformance position there will be a corresponding increase to customer bills in the following financial year. If we are in an overall underperformance position, customer bills will be reduced in the following financial year. The level of these adjustments are reviewed and the company can propose to amend the profile if this would provide a more acceptable bill trajectory for customers.

End-of-period adjustment – For a small number of our performance commitments, we will measure and report our performance across the full five years of AMP7 and calculate if we have beat or failed our targets. Any underperformance and outperformance payments generated from these performance commitments will be adjusted in customer bills in the last year of AMP7 and the first year of AMP8.

In order to calculate the net incentive and the impact this would have upon United Utilities' allowed revenue per price control, the in-period revenue adjustment series of models are used. These models require inputs from other sources such as the APR tables or from other revenue adjustment models.

In regards to our submission for an in-period determination, we have submitted the following models to support this process: the ODI performance reconciliation model; C-MeX reconciliation model; D-MeX reconciliation model and; the in-period adjustment reconciliation model.

ODI Performance Reconciliation Model

We input our actual performance per performance commitment for year one into the ODI performance reconciliation model. This model then assesses whether our performance is above or below the performance commitment level (and/or deadband where applicable) and applies the relevant outperformance or underperformance incentive rate attached to that performance commitment.

The ODI calculation for the majority of these performance commitments follows the standard format (as seen below)

(A – B) * C

Where A is actual performance, B is the performance commitment level and C is the incentive rate.

The outperformance or underperformance payment calculated for each performance commitment is then allocated to the relevant price control (as per the Outcomes Performance Commitment Appendix from the final determination, which can be found here: www.ofwat.gov.uk/publication/pr19-final-determinations-united-utilities-outcomes-performance-commitment-appendix/). Some outperformance and underperformance payments are calculated by a non-standard approach to the ODI calculation. Please see Appendix 3 for more information.

A copy of this model has been submitted to Ofwat for review for an in-period adjustment.

C-MeX Reconciliation Model

United Utilities scored 5th in the C-MeX table for water companies so is therefore eligible for a standard outperformance payment. The incentive rate is calculated as:

(UU's C-MeX score – median)* (6 per cent/(top C-MeX score of all companies in the reporting year – median)

This is then multiplied by United Utilities' allowed revenue for the Residential Retail price control in the 2020/21 period to calculate the overall ODI.

The outperformance payment for United Utilities' C-MeX performance for the 2020–21 reporting period is £2.077 million.

D-MeX Reconciliation Model

United Utilities scored 5th in the D-MeX table for water companies so is therefore eligible for a standard outperformance payment. The incentive rate is calculated as:

(UU's D-MeX score – median)* (6 per cent/(top D-MeX score of all companies in the reporting year – median)

This is then multiplied by United Utilities' actual Developer Services revenue for both Water Network Plus and Wastewater Network Plus price controls in the 2020/21 period to calculate the overall ODI.

The outperformance payment for United Utilities' D-MeX performance for the 2020/21 reporting period is £1.520 million.

After these reconciliation models are completed, the net incentive calculated is a £19.083 million outperformance payment in 2017/18 prices. However, in line with Ofwat guidance we have deferred the £1.742 million underperformance payment related to the PCC performance commitment (for more details, please read page 47). Once this is taken into account, the total net incentive due to United Utilities for the 2020/21 reporting period is £20.825 million in 2017/18 prices.

In-period Adjustments Reconciliation Model

This model adjusts allowed revenue which United Utilities can recover over the remainder of the AMP in order to reflect the net ODI outperformance awarded to United Utilities for the 2020/21 period. This is done by a series of calculations for each price control that will adjust revenue for the 2022/23 reporting period. The net ODI for each price control undergoes inflation and tax adjustments and is added to total allowed revenue (in outturn prices). The output of this model is that each price control has a revised allowed revenue in the form of: 1) adjusted K factors* for Water Resources, Water Network Plus and Wastewater Network Plus and; 2) revised unadjusted revenue for the Residential Retail and Bioresources price controls that takes into account the net ODI outperformance in 2020/21.

A copy of this model has been submitted to Ofwat.

* K Factors represent the change in allowed revenue from the previous charging year. For more information, please see our FD which can be found at www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-United-Utilities-Water-final-determination-.pdf

Revenue Forecasting Incentive Model

The model applies an additional revenue adjustment to take into account any revenue under or over-recovery within the 2020/21 period for the Water Resources, Water Network Plus and Wastewater Network Plus price controls. The model also applies a financial penalty if the difference between actual and allowed revenues is greater than 2 per cent.

The model calculates an adjusted allowed revenue to recover in the following charging year (2022/23) by combining the allowed revenue set at the start of the AMP with the revised K factors (from the in-period adjustment model). The model then subsequently adjusts allowed revenue, accounting for the blind year adjustment (which can be found here: www.ofwat.gov.uk/wp-content/uploads/2020/09/PR19-blind-year-adjustments-model_UUW_BYRun1.xlsm) and the over- or under-recovery of revenue, both of which include a financing adjustment and inflation adjustment. This will then result in an adjusted allowed revenue to recover in 2022/23.

Bioresources Revenue Reconciliation Model

The model uses the revised unadjusted revenue from the in-period adjustment model and then undergoes two further reconciliations and adjustments: 1) To modify the revenue control for the year based upon the difference between actual and forecast sludge production and; 2) To adjust for any under or over-recovery of revenue in the period, which includes an inflation adjustment. This results in an adjusted allowed revenue to recover in 2022/23.

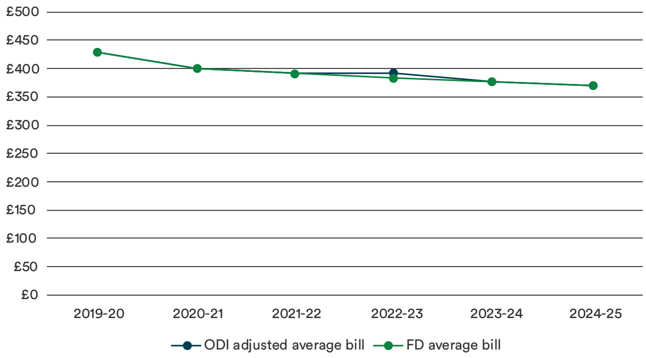
Additionally, there is a forecasting incentive penalty calculated and applied at the end of AMP7 if the difference between actual and forecasted sludge production across the AMP is greater than 6 per cent.

Bill impact

In year one of AMP7 our performance has generated underperformance payments of £13.394 million and outperformance payments of £32.477 million. As the underperformance payment for PCC has been deferred until the end of AMP7, a net outperformance payment of £20.825 million is due in respect of the 2020/21 reporting year. This adjustment is expected to impact household customer bills in 2022/23.

Based on 2021/22 customer characteristics, we anticipate that this net ODI outperformance payment will result in an increase of £7.67 on average (around 2 per cent) to household customer bills. We have considered this increase in the context of the general profile of bills during AMP7. As per the final determination, average household bills were set to gradually fall in real terms (i.e. excluding inflation) over 2020–25, aiming to provide customers with as much stability as possible in what they actually pay in nominal terms (i.e. including inflation). The chart below shows the bill profile as per the final determination (FD) with an additional line showing the impact of the ODI outperformance payment on the bill.

AMP7 FD average bills including 2020/21 net ODI outperformance payment (2017–18 CPIH deflated)



This means that the total impact on bills from ODI outperformance payments is relatively small, and in particular would not trigger the need for any handling strategies as regards the 5 per cent bill increase figure set out in Ofwat's charges scheme rules. There will be an additional bill reduction in 2022/23 due to over-recovery of revenues in 2020/21 (as calculated by the Revenue Forecasting Incentive model), which will offset the in-period ODI bill impact.

When considering the customer bill impact of these ODI outperformance payments we are also mindful of future, AMP8 (relative) bill increases due to Green Recovery investment and customer sharing of any AMP7 totex overspend. These items would be expected to impact bills in AMP8, rather than in AMP7, and the profile of bills for AMP8 will be subject to further consideration as part of the PR24 process. We consider that there is no compelling reason to believe that it would be preferable to defer bill adjustments in relation to 2020/21 ODI net outperformance payments.

We offer customers who are struggling to pay their bill a comprehensive range of support. More information on the support we offer can be found within the Executive Summary section on page 15 and within the Performance section, page 70. Extensive information on the support schemes available can also be found on our website:

www.unitedutilities.com/my-account/your-bill/difficulty-paying-your-bill/how-we-can-help/

We therefore propose that the net ODI outperformance payment in relation to 2020/21 performance should be applied to customer bills in 2022/23, in line with the standard approach to recovery of outperformance payments. This is subject to Ofwat's confirmation of the adjustment in November 2021. The board will approve publication of indicative and final charges in September and December 2021. Although no specific handling strategies are anticipated to be required in relation to the recovery of net ODI outperformance payments, as part of the charges approval process, the impact and incidence effects of charges and bills across different customer groups will be considered.

1.2 Greenhouse gas emissions

Introduction

This section provides our reported information about greenhouse gas (GHG) performance. These are being included in the APR for the first time and on a voluntary basis.

Greenhouse gas emissions

We have, for many years, measured and openly reported GHG accounts and performance disclosures that follow global best practice frameworks and standards. Our approach and policy ensures demonstrable rigour and integrity. For example, we:

- Annually disclose our GHG emissions in our United Utilities Group Annual Report and Financial Statements and have done so since 2006.
- Adhere to global accounting standards and frameworks. We align to the 2015 GHG Protocol Corporate Accounting and Reporting Standard and the 2019 UK Government Environmental Reporting Guidelines, including the requirements for Streamlined Energy and Carbon Reporting (SECR). We comply with the international carbon reporting standard ISO 14064, Part 1.
- Use third party verification. We are assured by the Carbon Reduce programme, previously known as Certified Emissions Measurement and Reduction Scheme (CEMARS). We hold Platinum status as we have demonstrated reductions over ten years.
- Use the water industry's Carbon Accounting Workbook (CAW), which is regularly updated with global best practice.
- Are committed to the science based approach and apply the Science Based Target initiative (SBTi) 'Criteria and Recommendations' guidance to our policies and accounting standards. We have recently set scope 3 targets that are currently being validated by the SBTi. Following this work, from next year we will expand the scope 3 categories that we report on.

Our emissions footprint is calculated by converting the main greenhouse gases into a carbon dioxide equivalent (tCO2e). Emissions are categorised as direct, indirect or avoided emissions.

- Direct emissions, or scope 1, are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.
- Indirect emissions, known as scope 2 and 3 emissions, result from operational activities we do not own or control, but which we can influence to varying degrees. These include emissions produced as a consequence of electricity we purchase to power our activities (scope 2) and other indirect emissions such as those from the products and services we buy (scope 3).
- We also avoid emissions by purchasing and exporting renewable energy.

As different companies will be using different and evolving methodology combinations/emission factors the annual figures should not be used to compare between companies.

Climate related disclosures

United Utilities is an early adopter of the guidance published by the Task Force on Climate-Related Financial Disclosures (TCFD), including a comprehensive TCFD section in the United Utilities Group Annual Report and Financial Statements each year. Corporate Citizenship, a leading sustainability consultancy, assured our disclosure accords with the recommendations included in the guidance.

CDP is a global disclosure system for environmental reporting. Our CDP climate change rating improved from B to A- in 2020, demonstrating leadership-level reporting and disclosure. We are one of only two companies in the UK water sector achieving leadership level.

The Sustainability Reporting Performance report by EcoAct measures how businesses are acting and reporting on climate related sustainability. We have been ranked in the top 20 FTSE 100 list, improving from 17th to 11th position in 2020, and are the highest ranking water company.

Operational GHG emissions

The GHG emissions from our operations for the financial year 2020/21 are presented in the table below. Emissions have been estimated using the water industry CAW. We have used the latest version (v15), which incorporates the UK Government GHG conversion factors for company reporting.

These figures differ from those published in the United Utilities Group 2020/21 Annual Report and Financial Statements because here we focus only on the emissions from the regulated business. The figures in grey are calculated totals using values in the rows below.

1.2 Greenhouse gas emissions

Operational GHG – emissions reporting

(i)Scope 1 emissions	Water (tCO_2e)	Wastewater (tCO_2e)
Direct emissions from burning of fossil fuels (including CHP generated onsite)	**5,005**	**11,198**
Process and fugitive emissions	**3**	**98,566**
Transport: Company owned or leased vehicles	**8,317**	**8,317**
Total scope 1 emissions (including refrigerants)	131,406	
Total scope 1 emissions by GHG type – CO2	**32,407**	
Total scope 1 emissions by GHG type – CH4	**56,530**	
Total scope 1 emissions by GHG type – N2O	**42,438**	
(ii)Scope 2 emissions		
Purchased electricity – generation – **Location based**	**67,662**	**80,061**
Purchased electricity – generation – **Market based**	**2,446**	**5,997**
Purchased heat	**0**	**0**
Electric vehicles	**0**	**0**
Removal of electricity used to charge electric vehicles at site	**0**	**0**
(iii)Scope 3 emissions		
Business travel on public transport and private vehicles used for company business	**493**	**493**
Outsourced activities (if not included in Scope 1 or 2) Energy and other	**1,724**	**1,724**
Purchased electricity – transmission and distribution – **location based**	**5,819**	**6,885**
Purchased electricity – transmission and distribution – **market based**	**5,819**	**6,885**
Purchased heat – transmission and distribution	**0**	**0**
Total scope 3 emissions – **location based**	17,138	
Total scope 3 emissions – **market based**	17,138	
Total scope 3 emissions by GHG type – CO2	**16,974**	
Total scope 3 emissions by GHG type – CH4	**42**	
Total scope 3 emissions by GHG type – N2O	**121**	
(iv) Scope 1 2 and 3 totals		
Gross operational emissions (Scope 1, 2 and 3) – by area (water and/or wastewater) – **Location based**	89,023	207,244
Gross operational emissions (Scope 1, 2 and 3) – overall total – **Location based**	296,267	
Gross operational emissions (Scope 1, 2 and 3) – by area (water and/or wastewater) – **Market based**	23,807	133,180
Gross operational emissions (Scope 1, 2 and 3) – overall total – **Market based**	156,987	

Net annual operational GHG emissions		
(i) Emissions reductions/accounting		
Exported renewables (generated onsite and exported)	**-1,013**	**-3,170**
Exported biomethane (generated onsite and exported)	**0**	**-9,725**
Green Tariff electricity purchased (location based)	**-64,458**	**-72,206**
Net operational emissions (Scope 1, 2 and 3) – by area (water and/or wastewater) – **Location based**	23,551	122,143
Net operational emissions (Scope 1, 2 and 3) – overall total – **Location based**	145,695	
Net operational emissions (Scope 1, 2 and 3) – by area (water and/or wastewater) – **Market based**	22,793	120,285
Net operational emissions (Scope 1, 2 and 3) – overall total – **Market based**	143,078	

Annual operational GHG intensity ratio values	$kgCO_2e/Ml$
Annual Operational GHG emissions per Ml of treated water	**119**
Operational GHG emissions per Ml of sewage treated (Flow to Full Treatment)	**154**
Operational GHG emissions per Ml of sewage treated (water distribution input)	**152**

Changes from sample table 2 in the Ofwat information notice (April 2021)

(1) Total GHG emissions (including breakdown by gas) presented as total.
(2) Energy related emissions should be reported for both location-based and market-based methods to ensure clear alignment with the GHG Protocol and to allow transparency in purchase and generation of renewable electricity.
(3) The intensity ratios that enable the most meaningful comparison and insight on a water company's carbon performance are the existing ratios for emissions per mega litre of water supplied and wastewater treated. These are already well used across the water industry as part of our long history of collaboration towards a standard reporting method. We present here the ratio values calculated in the CAW (lines 16–18). We have not reported here the emissions ratios by turn over or revenue to avoid confusion and misunderstanding in regulatory reporting because they will not be consistent or comparable across different company structures in the water industry.

1.2 Greenhouse gas emissions

Operational GHG – SWOT analysis

The SWOT analysis below (strengths, weakness, opportunities and threats) aims to share good practice, highlight challenges and identify barriers and innovation for further exploration.

Strengths

Accounting and reporting

- 20 years of experience in carbon accounting, using global best practice, independently verified, and openly reported.
- Early adopter of the guidance from the TCFD in the United Utilities Group Annual Report and Financial Statements.
- Using the science based approach to independently verify our carbon trajectory delivers our fair share towards the global climate goal.

Performance and plans

- Operational emissions have reduced by over 70 per cent since 2010.
- Bold science-based commitments are in place across scope 1, 2 and 3 emissions, with growing societal and customer support.
- Substantial programmes are delivering carbon reduction and other benefits. For example: investment in renewable energy; green fleet programmes; and mature catchment management programmes including peatland restoration and woodland planting.

Weaknesses

Accounting and reporting

- Global understanding of some important sources of emissions is immature, for example treatment processes, land and chemicals. In these areas, this means lower confidence or inability to reflect the impact of changes in current accounting tools. We are collaborating to help improve this.

Performance and plans

- Traditional approaches are often carbon intensive and hard to move away from, requiring concerted effort by all actors to deliver the required pace and scale of change.
- Many financially and technically viable options have been implemented, making action harder over time. However, the financial, technological and policy landscape is evolving rapidly.
- While we have plans and momentum towards our commitments, we don't yet know all the answers and many factors continue to change requiring an agile approach.

Opportunities

Accounting and reporting

- SECR supports a richer understanding of how electricity is sourced and incorporates use of other fuels.
- As research projects improve weaker areas of understanding, the CAW can be updated to more accurately reflect the carbon impact of operational practices.
- Multi-capital approaches, incorporating GHG in natural capital, inform decision making to mitigate risk and maximise value, for example helping demonstrate the case for behavioural and nature based solutions that address issues at source.

Performance and plans

- Repeated external evidence shows a focus on carbon also supports sector priorities for innovation, efficiency and other environmental benefits.
- Climate change offers a new opportunity to collaborate with customers, suppliers and others to deliver multiple benefits.
- As a large land owner, there is great potential to deliver high quality carbon storage along with multiple other benefits. For example, we are committed to planting another million trees and recently helped establish two tree nurseries to address national shortages following the surge in tree planting activity.

Threats

Accounting and reporting

- Immature areas of understanding are likely to mean some emissions are currently under or over-estimated. Changes will require careful explanation and management as knowledge improves over time.
- Poor scientific understanding in some areas can also makes it harder to take improvement action with confidence.

Performance and plans

- There are many upward pressures on GHG emissions, including requirements to continue improving the water environment, population growth, and the need to adapt to climate change. Careful consideration is needed to ensure holistic, sustainable approaches and maximum overall benefits.
- It can be challenging to secure the upfront funding required.
- Future carbon taxes could be substantial.
- The stability of peatlands is threatened by the changing climate and these huge stores of emissions could be released, also threatening water quality. Healthy peatlands are best able to resist these pressures.

1.2 Greenhouse gas emissions

Scope 3 GHG emissions

We are expanding our understanding and action across our whole carbon footprint, looking beyond the traditional focus on operational emissions (scope 1 and 2) that are most in our control to also consider how we can best play our part in the emissions in our supply and value chains (known as scope 3 emissions). We have varying degrees of control and influence in different types of scope 3 emissions, with a priority on those associated with maintaining and enhancing water and wastewater infrastructure – the largest area of our scope 3.

In line with the section above, we outline our position using a SWOT analysis.

Strengths

- Comprehensive scope 3 inventory produced.
- Two scope 3 targets have been set, to engage our asset delivery and maintenance framework partners and secure absolute emissions reduction in the wider supply chain.
- Focus and resources on innovation to help towards the necessary transformation.
- Clear separation of annual emission reporting (past) and influencing future developments (future).
- Use of established frameworks and best practice including the GHG Protocol and SBTi.

Weakness

- Approximately 80 per cent of our scope 3 emissions inventory are estimated using a spend based methodology which is less accurate. This will be improved over time by working with our supply chain.

Opportunities

- Opportunity to assess carbon and multi capital dependencies and impacts in project appraisal to support goals for efficiency, innovation and to grow cost benefit and public value.
- Early consideration of whole life value in project lifecycles can open up opportunities for significant emissions reductions.
- Consideration for whole life carbon in decision making supports the transition from traditional capital intensive approaches to behavioural and nature based solutions, which in turn deliver multiple benefits.
- Testing and delivering innovative lower carbon approaches will help forward the transition to a low carbon industry.

Threats

- Pressures are driving growth in scope 3 emissions, for example with legal and regulatory requirements currently focused on protecting the water environment without sufficient consideration for atmospheric emissions and whole life value. Effectively valuing carbon in water sector planning processes will support decision making that delivers best overall outcomes for customers and society.
- There is relative immaturity, globally, in understanding of, and approaches to, scope 3 emissions. Accounting approaches are evolving as organisations expand their attention to these areas. Currently, this can lead to inconsistency in approaches across organisations and sectors. We use latest global best practice to support alignment and rigour.

The approach to wider GHG emissions at United Utilities is twofold:

- Comprehensive scope 3 emissions reporting (as described above) and
- Using quantified whole life emissions into solution development and investment planning

Whole life emissions include those from construction, periodic maintenance/renewal and operation over a defined lifetime of an asset, for example from cradle to grave. The GHG emissions of the build and future operation of assets should be factored into the decision making when planning investments and interventions, such as those in Price Review business plans. It is in this context that management frameworks such as PAS2080 or the Royal Institute for Chartered Surveyors (RICS) Whole Life Carbon assessment for the built environment, can play a part.

1.3 COVID-19

The UK continues to experience unprecedented systemic disruption as a result of the COVID-19 pandemic. As an essential service provider, United Utilities has committed to the safety and wellbeing of our employees to enable them to continue to provide water and wastewater services for our customers. In order to continue to provide these services we are managing a number of changing parameters as well as planning for future scenarios to mitigate the risk to service failure. The United Utilities team has addressed these challenges and delivered it's best ever operational performance – testimony to the business transformation achieved in recent years and the intense preparation put in place for AMP7.

Steps taken included planning for reduced staff availability, staff redeployment, increased customer demand and other external resilience issues. The experience we gained from each of the lockdown periods has provided us with the insight needed to continue to operate in a safe manner. We do, however, continue to review any activities we needed to deprioritise and those we needed to temporarily halt to ensure we can safely provide services to our customers. We have developed this approach as a company and have shared this with stakeholders including customers and regulators in order to be transparent about a number of choices we need to take in order to deliver our objectives. It is inevitable however, that when some tasks are deprioritised there is an impact on delivery against performance targets.

Our customer facing teams have worked hard to help customers struggling financially as a consequence of COVID-19. During the year, COVID-19 restrictions have impacted some of our community engagement activities. but this has been compensated for by additional media campaigns to maintain our messaging. We plan to re-start the delivery of our community engagement programme in mid-July with the “Fatberg on tour” programme (restrictions permitting).

Our underlying cash collection performance remains robust, as a result of our continued focus on improved data quality, business processes and systems to ensure we are able to accurately pursue payment in an efficient and timely manner. The last year has been incredibly challenging for many in our region and we are helping those customers with clear affordability issues with the sector's widest range of support schemes.

Recognising affordability has been even more important, we took swift proactive action and were the first water company to secure support and regulatory approval for an extension to the scale and scope of our social tariff, allowing us to support a broader range of customers whose income has been affected by COVID-19, with the addition of a further social tariff providing £15 million per annum of support. We currently have around 200,000 customers benefitting from affordability support representing around 6 per cent of our household customer base. The £71 million financial support we have committed to providing over AMP7 is the largest of any water company, and we have accelerated payments this year to provide much needed assistance to households struggling as a result of the economic impact of the pandemic. We promoted the new scheme directly to customers, via partner organisations and the Hardship Hub, to increase overall awareness.

We were also able to support business customers via their retailers, through deferral of full collection of wholesale charges, during the lockdown periods, reflecting their change in usage.

A further effect of the pandemic has been the delaying of a number of preparatory activities which relate to our WINEP projects. These delays includes construction issues, access to materials, changes in ways of working and the impacts of significant delays of planning committee decisions. Whilst this has not had a material effect in year one of the AMP, it will require increased effort over the remaining years in order to recover our position as we look to recover those activities that have been delayed. At this stage we are confident that we will deliver on our WINEP performance.

The number of sewer blockages has undoubtedly been exacerbated by the pandemic and the increase in both homeworking and use of hygiene related products such as wet-wipes. This effect is more acute on transferred assets, which are of smaller diameter than existing assets, which means that they tend to be more prone to blockages, particularly during times of stress due to increased load, demand or customer misuse.

COVID-19 lockdowns led to an increase in people working from home and the close of many non-essential businesses which change the flow and loads received for treatment at our wastewater treatment works, predominantly in commuter towns or those areas where trade effluent from factories and businesses would normally represent a significant proportion of the wastewater. This resulted in both significant cost and effort to ensure our treatment works remain compliant and we were pleased to report not-withstanding these significant challenges that our treatment works compliance was our highest ever level of performance and represents a major achievement for the company.

Increased demand as a result of the pandemic and change in behaviours has also had a significant impact. Across the sector performance in year one has been impacted by lockdown measures which has driven up household consumption, with more customers working at home and holidaying in the UK as well as impacts from increased hygiene and cleaning requirements. We have engaged with other water companies and regulators, via collaborative projects being led by consultants such as Frontier and Artesia, with the aim of more fully understanding the scale of the impact that COVID-19 is having across the water sector, and the North West in particular. The latest evidence indicates that we have seen household demand increase across the industry this year of between 10–20 per cent.

Although we are on track to meet the Thirlmere to West Cumbria performance commitment construction has been delayed by approximately three months due to availability of contractors and safe working practices on site.

The pandemic has also affected one of our key strategic programmes, the Haweswater Aqueduct Resilience Programme (HARP). This programme aims to deliver via Ofwat's Direct Procurement for Customers (DPC) framework and requires various preparatory activities to be undertaken prior to a competitive tender for a replacement solution. A number of innovative mitigations have been deployed to reduce the impacts of COVID-19 on the programme, such as our change of approach to public consultations, where digital exhibits were created to allow members of the public to engage in the planning consultations. There are, however, a number of activities that were impacted by the pandemic and the change to ways of working, (e.g. ground investigations, planning and contract development), which have caused some delays and increased supplier costs.

The combination of COVID-19 and one of the driest and sunniest springs on record created an exceptional increase in demand for water in many areas of the country. Throughout the period UU had sufficient raw water supplies, water production capacity and water network capacity in order to meet demand.

Whilst we were able to maintain supplies throughout this period of increased water demand by customers, our performance commitment relating to water pressure was affected. A small number of properties in the Wirral area were added to the low water pressure register due to seasonal demand combined with significant increased demand associated with the behavioural changes enforced as a result of the pandemic, and a poor condition main which restricted flows whoich we were not able to resolve during the year. A further impact was on our sampling programmes during 2020, with more samples being taken from upstream assets, which has meant each infringement is likely to have a higher compliance risk index score.

Whilst restrictions remain, we continue to work with auditors and assurance experts to deliver the fullest possible assurance in line with our framework. We have worked with assurance providers to ensure remote ways of working can continue to be used effectively. In particular we have worked with the Technical Auditor to deliver our plan for the assurance of 2020/21 data. This has been carried out through remote audits, desktop sharing and remote file sharing to ensure that the quality of the reviews were maximised.

1.4 Wholesale totex

Background: totex allowances and incentive mechanism

The PR19 FD set total expenditure (totex) assumptions for the 2020–25 period across UUW's four wholesale price controls. If the company overspends or underspends compared to the FD assumptions then incentives are applied which determine the sharing of the additional spending or additional saving between customers and the company. Overspend and underspend allocated to customers are reflected in future bills. Overspend and underspend allocated to the company must be borne by investors. The incentives are different for three different categories of spend.

- **Totex subject to standard sharing rates** – This comprises the majority of totex. UUW's sharing rate was set at an equal 50/50 share between customers and the company for both overspend and underspend. This is with the exception of the bioresources price control, which has no standard customer sharing (i.e. 0 per cent customer share, 100 per cent company share for both overspend and underspend).
- **Rates and abstraction licence fees.** Companies can only exercise limited control over these costs and so the cost variance to the company's PR19 cost allowance will be subject to a 75 (customer share):25 (company share) sharing rate.
- **Totex not subject to cost sharing** – Some spend is set to have zero customer sharing through the cost reconciliation model. This includes spend:
  - where it would not be appropriate to share costs with customers e.g. disallowable costs such as fines or customer compensation payments;
  - that is subject to different funding/sharing mechanisms e.g. strategic water resources development schemes, innovation fund; or
  - that has been set outside of price control e.g. non-s185 diversion costs and income

FD allowed totex by price control April 2020 to March 2025

Customer share category	Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Totex subject to standard sharing	220	1,734	2,341	328	4,623
Rates and abstraction licence fees	166	225	99	29	519
Totex not subject to cost sharing	44	134	3	–	181
Total totex	**430**	**2,093**	**2,443**	**357**	**5,323**

The next price review process in 2024 (PR24) will reconcile how our actual expenditure compared against these PR19 assumptions for each category of spend. With the exception of totex not subject to cost sharing – which is out of scope for customer sharing – variances against the initial assumptions will be accounted for through a cost reconciliation mechanism. This mechanism will split out the reported totex over/underspend per category, with the resulting customer share element being recovered through a mixture of opening adjustment to AMP8 RCV and through AMP8 revenues (RCV/revenue split consistent PR19 assumptions on PAYG).

Comparison of 2020/21 actual totex to FD assumed totex

APR Pro forma tables 4D and 4E (see Section 2.5) are the key tables which set out the build-up of our 2020/21 totex expenditure within the four wholesale price controls. Variance analysis of 2020/21 costs compared to prior year can be found within UUW's accounting methodology statement available at:

unitedutilities.com/globalassets/documents/pdf/rr21-accounting-methodology-statement.

The expenditure within these tables is then summarised within Pro forma table 2B (see Section 2.3)

APR Pro forma table 4C (see Section 2.5) consolidates the total totex expenditure from table 2B per price control and then breaks this out into the three customer sharing categories of spend described above. These amounts are then compared to the allowed totex in the PR19 final determination (inflated to out-turn prices).

Variance between allowed totex and actual totex from Tables 4C (out-turn)

During 2020/21, including £25 million of transitional spend carried over from 2019/20, we incurred £1.301 billion of totex (table 4B) which was significantly higher than assumed in the PR19 FD (£1,067 million). As explained in the executive summary on page 17 this was largely as a result of the accelerated AMP7 spend plus the impact of the first year of our additional discretionary investment and, consistent with presentation in APR table 4C, this has been analysed below per customer sharing category.

1.4 Wholesale totex

Totex subject to standard sharing

Totex subject to standard sharing (All 50% company : 50% customer except Bioresources – 100% company: 0% customer)	Totex by price control 2020/21 Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Allowed totex subject to standard sharing	39.0	387.7	431.6	71.2	**929.5**
Actual totex subject to standard sharing	34.5	505.8	560.7	64.3	**1,165.4**
Variance total	-4.5	118.1	129.1	-6.8	**235.9**
Variance due to timing	-4.6	113.1	102.0	-7.0	**203.5**
Variance due to efficiency	0.1	5.0	27.1	0.1	**32.3**

Total reported overspend of £235.9 million is split between changes due to timing and changes due to efficiency.

Variance due to timing

We have chosen to accelerate just over £200 million of our AMP7 investment programme to enable us to deliver benefits sooner– including improved customer service, outcome delivery incentive performance and efficiencies – and to boost the regional economy as we emerge from the worst effects of COVID-19 pandemic. This accelerated spend has all been categorized as timing within table 4C as this year's reported overspend will be offset by equivalent reductions in totex spend in the later years of this AMP, with no resultant over/underspend when considered across the across the AMP as a whole. As can be seen in the table, the accelerated expenditure is principally in the water network and wastewater network price controls. Note that, as described below, this also includes initial spend of c.£0.9 million in relation to the additional Bolton WINEP scheme for which there will be a corresponding uplift to the FD allowed totex later in the AMP.

Variance due to efficiency

In addition to the accelerated spend, we also announced our intention to increase our AMP7 totex plan by a further £300 million in relation to confirmed extensions to our environmental programme, spend to save opportunities and the acceleration of our digital transformation. More details are set out below.

- **Dynamic network management (DNM) c.£100 million** –a ground breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to facilitate proactive management of our wastewater network. This new digital capability is expected to improve service to customers and improve future performance in reducing internal flooding.
- **Spend-to-save c.£60 million** – spend on additional projects including hydraulic flooding, lead risk and water service resilience, where additional spend is expected drive further improvements in customer service with resultant improvements in performance.
- **Vyrnwy aqueduct c.£60 million** – The requirement for Vyrnwy treated water aqueduct scheme was not set at the time of the final determination and thus not included in our FD allowed totex. However, following a DWI enforcement order issued in September 2020, we are subsequently going ahead with this scheme which will improve the quality and aesthetics of the water supply via a programme of cleaning and relining. This is also expected to be reflected in outperformance payments earned on reducing discolouration from the Vyrnwy treated water aqueduct performance commitment which measures the length of aqueduct cleaned or relined.
- **Bolton WINEP c.£80 million** – Bolton wastewater enhancement scheme was not yet approved by the EA at the time of the final determination and thus not included in FD allowed totex. However, this scheme has subsequently been approved with a resultant increase in our projected AMP7 totex. Unlike the other additional investment projects this will be fully remunerated under the WINEP mechanism with an uplift to March 2025 RCV and FD allowed totex (across the later years of this AMP). As such, the small initial spend incurred to date is classified as timing, not efficiency (as noted above).

For the purposes of this assessment we have categorised the changes in scope re: DNM, spend-to-save and Vyrnwy all as efficiency (since for these projects spend will ultimately result in an increase in totex vs. FD allowance) and this totalled £32.3 million in 2020/21, split by £10.5 million DNM, £21.5 million spend-to-save and £0.3 million Vyrnwy. The majority of this spend (£27.1 million) was concentrated in wastewater network plus where all DNM spend and the most of the spend-to-save costs were incurred.

Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector. Thanks to the strong performance we delivered in AMP6, we started AMP7 at the target totex run rate. As such, on a like-for-like basis, and therefore excluding the additional scope, we are expecting to be able to meet the substantial cost challenge that we had been set at PR19 and to deliver the AMP7 scope of work within our final determination totex allowance. Alongside this, we have outperformed on our outcome delivery incentives for 2020/21 (see section 1.1).

1.4 Wholesale totex

Rate and abstraction licence fees

Rates and abstraction licence fees (25% company: 75% customer)	Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
	Totex by price control 2020/21				
Allowed rates and abstraction licence fees	34.7	47.1	20.7	6.1	**108.6**
Actual rates and abstraction licence fees	34.6	47.2	18.5	5.8	**106.1**
Variance	-0.1	0.1	-2.2	-0.3	**-2.5**

Actual totex costs of £106.1 million are marginally below FD allowed costs of £108.6 million, with business rates of £88.7 million being c.£2.7 million below FD allowance (of which £2.3 million within wastewater network price control) partly offset by abstraction charges of £17.4 million being £0.2 million higher then the FD allowance.

Totex not subject to cost sharing

Totex not subject to cost sharing (100% company: 0% customer)	Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
	Totex by price control 2020/21				
Allowed totex not subject to cost sharing	3.5	25.6	0.7	0.0	**29.8**
Actual totex not subject to cost sharing	3.7	22.3	3.3	0.0	**29.3**
Variance	0.2	-3.3	2.6	0.0	**-0.5**

Overall totex not subject to cost sharing of £29.3 million was broadly in line with the FD allowance of £29.8 million. The main components of this are set out below

- Accrual offsetting the revenues collected for the Innovation in Water Challenge scheme – actual spend of £6.2 million compares to zero FD allowed totex. This does not represent genuine company underperformance since it was separately funded directly through customer revenues rather than through the totex allowance (and in 2020/21 costs in the year equalled revenue collected). As such, the impact of the reported totex overspend is stripped out of reported RORE/financial flows;
- Non-price control grants and contributions – net costs, inclusive of income offset, of £18.2 million was £6.7 million below FD allowance, driven by lower connections activity. The majority of this impact is in the water network plus price control where the income offset is recorded;
- Strategic water resource development schemes costs of (£2.4 million) – slightly below FD allowance of £3.5 million;
- Third party costs (£1.9 million) – slightly above FD allowance of £1.4 million; and
- Disallowable costs – comprising compensation, fines, investigation payments totalling £0.5 million (vs zero FD allowance). This is split out between compensation claims in relation to Guaranteed standards of service (GSS) totalling £2.0 million, offset by a net £1.5 million credit on fines and investigation costs driven by the release of prior year provisions.

Impact of expenditure on the RCV

APR Pro forma table 4C sets out the 2020/21 RCV determined at the PR19 FD and shows the implied revisions to this position as a result of the impact of totex over or underspend.

The RCV will be fully reassessed as part of the PR24 process with the value presented in table 4C being referred to as a 'shadow RCV'. As reported in table 4C the projected shadow RCV is £11,729 million. However, there is an error in the APR table template as the calculation incorrectly apportions the company share of totex overspend to RCV rather than the customer share. This is an issue Ofwat has acknowledged and are proposing to correct in the APR tables for 2021/22 reporting. Correcting for this, the shadow RCV is marginally higher at £11,731 million.

Financial measure £m	Water resources	Water network plus	Wastewater network plus	Bioresources	Total RCV
4C.27 Projected 'shadow' RCV	619.3	3545.1	7111.5	452.8	11728.7
Corrected projected 'shadow' RCV	619.2	3546.3	7109.7	456.0	11731.1

As the below table shows, the shadow RCV of £11,731 million is £50 million higher than the RCV determined at the FD. This is as a result of the net totex overspend described in the comparison of 2020/21 actual totex to FD assumed totex section above, with a resultant £31 million uplift in wastewater network plus and a £20 million uplift in water network plus. The water resources and bioresources price control RCV's were both broadly in line with their respective FD RCVs.

Financial measure £m	Water resources	Water network plus	Wastewater network plus	Bioresources	Total RCV
Ofwat RCV	619.6	3526.6	7079.0	456.0	11681.3
Corrected Projected 'shadow' RCV	619.2	3546.2	7109.7	455.9	11731.1
Increase/(Decrease) in RCV	-0.4	19.6	30.7	-0.1	49.8

1.5 Wholesale revenue

APR pro forma table 2I, (see section 2.3) sets out the actual build-up of the wholesale revenue for 2020/21 by price control. **Table 2M** then compares this with the level of revenue assumed in the FD.

The total revenue set by the wholesale price controls for recovery in 2020/21 was £1,700.5 million. This was made up of £1,693.1 million wholesale revenue, plus £7.4 million in grants and contributions. The level of income recovered in the year was £11.7 million higher than the £1,688.8 million assumed in the PR19 FD, with a £19.2 million increase in revenues partly offset by a £7.6 million reduction in grants and contributions income collected.

The £19.2 million increase in revenues comprised the following main components:

- £(46.7) million reduction due to lower non-household consumption and periods of temporary vacancy driven by the COVID-19 pandemic and related lockdown period; more than offset by;
- £46.8 million increase due to increased household consumption with more time spent at home by households and also impacted by the hot, dry weather in spring 2020;
- £15.0 million increase due to billing of premises previously marked as void following our strong focus on identifying void properties, including the roll-out of our new void app;
- £1.5 million due to fewer free meter option conversions; and
- £2.6 million other variances – including movements in NHH settlement relating to prior years (as estimation updated with actual meter reads) and income previously classified as non-price control.

The £7.6 million reduction in grants and contributions income collected was a result of lower connection volumes than forecast in the year as well as an increased uptake of incentives for sustainable developments.

The net in-year £11.7 million revenue imbalance will be deducted from 2022/23 allowed revenues under the RFI revenue adjustment mechanism for water resources, water network plus and wastewater network plus. The bioresource revenue adjustment is subject to a separate mechanism.

1.6 Retail expenditure and revenues

Household retail

Background

The household retail price control is designed to allow companies to recover sufficient revenue from household customers to fund the efficient costs of serving retail customers. This allowance is sometimes referred to as the allowed 'cost to serve'.

For companies whose historic and forecast costs were above industry upper quartile, allowed costs were set to projected upper quartile levels to reduce allowed costs to levels that Ofwat judged to be efficient.

Cost allowances considered the impact of a range of retail cost drivers, such as levels of metering, household credit defaults, average water bill size, and regional levels of deprivation.

Separate annual revenue allowances and costs to serve per customer were defined in the PR19 FD for household retail services. Total revenue allowances were determined by multiplying underlying cost to serve allowances by the assumed customer numbers and applying a margin defined as part of the price review.

The cost to serve incentive mechanism has three main principles;

- Initial cost to serve allowances per customer are fixed and do not increase year-on-year to reflect inflation;
- The allowances fund all retail operating costs, including depreciation on new capital expenditure. Expenditure for demand side water efficiency and customer side leak repairs is also included where the activity is not for wholesale purposes; and
- Any over or underspend against the cost to serve allowed is paid for or retained wholly by the company and will not affect future customer bills.

2020/21 performance

We recognise and have acted on the challenge set by the PR19 determination. We have continued to challenge underlying service costs. However operating costs were higher than expected during the year due to the impact of COVID-19 on the retail operation. Additional costs were incurred and included additional telephony charges associated with new homeworking solution, the cost of additional resource to manage the loss of productivity associated with homeworking and additional resource required to mitigate against a deterioration in cash collection as many customers were faced with increased levels of financial uncertainty.

Additional document production costs were incurred as communications regarding availability of financial support were increased whilst water efficiency communications were increased during the dry weather periods in the year when household consumption was at its highest.

During the year we also billed additional properties that were previously identified as void. Using credit reference and land registry data we were able to identify properties for which the occupant could be identified. This was targeted as part of an AMP7 ODI commitment to reduce our void proportion of billable properties to 4.58 per cent by the end of FY21. At 31 March 2021, void properties had been reduced to 4.0 per cent of billable properties compared to 6.9 per cent at 31 March 2020.

Improving operating costs and efficiency

We have continued to refine our capabilities in a number of areas to reduce our underlying operating costs during the year. These include

- Continuing to challenge overheads;
- Seeking to improve underlying operational performance, acknowledging the challenges of increased homeworking;
- Proactively informing customers of known issues and their resolution, to reduce inbound customer contacts;
- Increased digital penetration; and
- Benefits achieved through redesigning of bills and customer literature, directly referencing the impacts of COVID-19.

Improving debt management

UUW has a higher bad debt cost than the majority of the industry. Deprivation levels are the principal driver of our higher than average bad debt with the North West having a substantially higher proportion of customers impacted by welfare reform and claiming universal credit. These challenges are to some degree recognised and reflected in setting the allowed retail costs through the price review process.

Our continued improved capabilities this year has been encouraging but bad debt will remain a challenge in our region where there are significant numbers of communities which are subject to high levels of deprivation. As a result, this will be an area of continued focus as we drive for further improvement. The impacts of COVID-19 have been particularly pronounced in this area.

Recognising this challenge, debt and cash collection remained a priority for us throughout 2020/21. In 2014/15 household bad debt costs were running at 6.3 per cent of regulated revenue. Since this time, we have maintained a clear focus on improving our bad debt and cash collection performance. This has included the establishment of a number of new initiatives, such as our 'better billing' initiative and has involved working with Credit Reference Agencies to identify which customers are likely to be in a financially challenging situation and which customers are able to pay their water bill but need further encouragement and engagement in order to prompt them to do so. At the end of 2020/21, household bad debt costs had reduced to 3.6 per cent of regulated revenue.

Our bad debt performance has also benefited from the sustained improvement in our cash collection performance since 2015/16 which has resulted in a cleaner debt book. We continue to focus on more dynamic targeting of debt collection activities, and have invested in testing and improving our innovative data led collections strategies.

Through increased use of financial assistance schemes to support those customers that can't pay and a more robust approach to those customers that won't pay, underlying household bad debt performance for 2020/21 reduced to 3.2 per cent of regulated revenue from 3.4 per cent in 2019/20, demonstrating sustained improvement. However, the reported household bad debt charges remains elevated, reflecting the impact of COVID-19 pandemic on expected credit loss.

1.6 Retail expenditure and revenues

The penetration and conversion of customers onto affordability solutions does impact in year revenues, but it is a key factor in reducing the amount of bad debt that we are carrying and in supporting our drive to continue to reduce our cost to serve. As COVID-19 restrictions resulted in many customers experiencing financial difficulty or uncertainty, we were quick to introduce an interim extension to our social tariff, in order to help more customers than ever before to access support. Additional bad debt costs were incurred as a result of increased measured sales during the year due to higher levels of consumption during a period when many of our customers were based at home. Collection was impacted by the timing of Direct Debit reassessments made to ensure that customers pay for increased consumption.

There were also a number of customers whose ability to pay their water bill had apparently been affected by COVID-19 as we observed lower recovery rates against customers whose bill had not increased due to high consumption. There are a number of things that could have driven this including uncertainty of future employment driving some customers to delay when they pay their bill, reduced use of County Court Judgements and enforcement activity in the current year in recognition of the sensitivity of using such techniques during a national pandemic while some customers were unable to use preferred over the counter methods of payment due to closure of these facilities during national lockdowns.

Revenue

APR pro forma table 2F (see Section 2.3) shows that total household retail revenue in 2020/21 was £91.2 million. This figure is £12 million lower than in 2019/20 and £17.9 million less than the revenue, including margin, assumed in the PR19 FD, which was £109.1 million. The reduction in revenue is due to the impact of reduced revenue allowances, and our social and support tariffs. This was offset by *c.*£4.5 million of increased retail revenue from higher consumption from metered customers.

Actual customer numbers, at 3.09 million, were *c.*40,000 higher than assumed in the PR19 FD. This was mainly due to a reduction in void properties and new connections across the region.

Operating profit

APR pro forma table 2A (see Section 2.3) shows the operating profit for UUW's price controls. For the household retail price control operating profit before recharges in 2020/21 (retail revenues minus operating costs) was £(12.7) million loss. This is lower than the profit assumed in the FD, mainly due to increased support for customers on social and support tariff and a £5 million COVID-19 expected credit loss. Pro forma table 2A also reports operating profit after recharges. This value, £(16.6) million loss, is lower than operating profit because recharges to household retail were £3.9 million higher than recharges from household retail.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2. Regulatory Accounts for the 12 months ended 31 March 2021

2.1 Introduction

The Regulatory Accounts have been prepared in accordance with the requirements of Regulatory Accounting Guidelines (RAGs) 1.09, 2.08, 3.12, 4.09 and 5.07 issued by the Water Services Regulation Authority (WSRA or Ofwat). These are separate from the statutory financial statements which have been prepared under the basis of International Financial Reporting Standards as adopted by the UK.

Statement of directors' responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F 'Regulatory Accounting Statements' of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat:

- Condition F also requires the directors to keep appropriate accounting records, which are consistent with guidelines published by Ofwat.

The directors of the company hereby confirm that the company has kept appropriate accounting records, which comply with the guidelines published by Ofwat.

Condition P 'Regulatory ring fence' of United Utilities Water Limited's (UUW's) Licence requires directors to submit a 'Ring-fencing certificate' to Ofwat no later than the date on which the Company is required to deliver a copy of each set of regulatory accounting statements prepared under Condition F.

The Ring-fencing certificate requires directors to confirm that, in their opinion;

a) The company has sufficient financial resources and facilities to enable it to carry out the Regulatory Activities, for at least the twelve month period following the date on which the certificate is submitted.

b) The company will have available sufficient management resources and systems of planning and internal control to enable it to carry out the Regulatory Activities, for at least twelve months.

c) The company has available to it sufficient rights and resources other than financial resources, as required by paragraph P14 of the company's instrument of appointment.

d) All contracts entered into between United Utilities Water Limited and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to United Utilities Water Limited, to ensure that it is able to carry out the Regulated Activities.

The directors have issued a 'Ring-Fencing certificate' under Condition P30 of the Licence – see pages 164 to 165.

Condition P also requires directors to:

a) Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities.

The directors hereby confirm that there were no changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities, during the year ended 31 March 2021.

b) Ensure every transaction between the Appointed Business and any Associated Company is at arm's length, so that neither the Appointed Business nor the Associated Company gives a cross-subsidy to the other

This has been confirmed within 'Information in respect of transactions with any other business or activity of the appointee or any associated company' on pages 151 to 153.

The above responsibilities are additional to those already set out in the United Utilities Water Limited statutory financial statements.

The contract of appointment with the auditor satisfies the requirements of RAG 3.12 (section 2.15), namely 'that the auditor will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of its reports, as Ofwat may reasonably require'.

Regulatory accounts

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he or she is aware, there is no relevant information of which the company's auditor is unaware; and
2. he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the board and signed on its behalf by:

Philip Az

Phil Aspin
Chief Financial Officer
29 June 2021

2.2 Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and United Utilities Water Limited ("the Company")

Opinion

We have audited the sections of/tables within Company's Annual Performance Report for the year ended 31 March 2021 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of tangible fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions for wholesale (table 2E), the residential retail revenues (table 2F), the non-household water revenues by tariff type (table 2G – not required as per RAG 4.09), the non-household wastewater revenues by tariff type (table 2H – not required as per RAG 4.09), the revenue analysis (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3I) and the additional regulatory information in tables 4A to 4R, 5A to 5B, 6A to 6D, 7A to 7E, 8A to 8D and 9A.

In our opinion, United Utilities Water Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.12, RAG 4.09 and RAG 5.07) and the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.12, appendix 2), set out on pages 129 to 134.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.12, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of international accounting standards in conformity with the requirements of the Companies Act 2006 ("IAS"). Financial information other than that prepared on the basis of IAS does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 111 to 128 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

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Conclusions relating to going concern

The directors have prepared the Regulatory Accounting Statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Regulatory Accounting Statements ("the going concern period").
We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics related to the possible failure of the Haweswater water system resulting in a one-off totex impact.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.

Our procedures included:

- **Assessing key assumptions in the forecasts**: critically assessing assumptions in base case and downside scenarios relevant to liquidity and covenant metrics such as inflation rate growth compared to market forecasts, forecast bonus payments compared to historical bonus payments and forecast dividend payments compared to Group dividend policy. This included assessing whether downside scenarios applied assumptions which are mutually consistent, using our assessment of the possible range of each key assumption and our knowledge of inter-dependencies;

- **Funding assessment:** considering the availability of existing debt arrangements and committed loan facilities, including testing compliance with covenants and expected maturity dates;

- **Historical accuracy of managements forecasts:** comparing historical budgets to actual results to assess the directors' track record of budgeting accurately;

- **Evaluating directors' intent:** evaluating the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including assessment of mitigating actions within their control;

- **Assessing the completeness and accuracy of the matters covered in the going concern disclosure:** considering whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate; or

- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 104 the directors are responsible for the preparation of the Annual Performance Report in accordance with the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.12, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/audit committee/risk committee minutes.
- Considering remuneration incentive schemes and performance targets for directors including Long Term Plan awards.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as revenue recognition and provisions for household customer debt, capitalisation of costs relating to the capital programme and valuation of retirement benefit obligations.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue or treasury posted to unexpected or unrelated accounts.
- Assessing significant accounting estimates for bias.

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Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Ofwat, Environment Agency, Drinking Water Inspectorate, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.
In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report, except for the following:

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, the Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note on page 129 and its accounting methodology statement. We are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under ISAs (UK).

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the Company.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2021 on which we reported on 26 May 2021, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Ian Griffiths
For and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
29 June 2021

Regulatory accounts

2.3 Pro forma tables subject to audit opinion

Section 1 Regulatory financial reporting

Additional commentary on the Section 1 pro forma tables is provided on pages 135-142.

Keys to cells

- Input cell
- Calculation cell
- Copy cell

Pro forma 1A Income statement

Financial performance for the 12 months ended 31 March 2021

Line description	Units	DPs	Statutory	Adjustments			Total appointed activities	RAG 4 reference
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Revenue	£m	3	1797.583	-1.185	9.508	-10.693	1786.890	1A.1
Operating costs	£m	3	-1195.906	3.006	-8.537	11.543	-1184.363	1A.2
Other operating income	£m	3	0.000	-8.374	0.000	-8.374	-8.374	1A.3
Operating profit	£m	3	601.676	-6.553	0.971	-7.524	594.153	1A.4
Other income	£m	3	0.000	21.546	2.604	18.943	18.943	1A.5
Interest income	£m	3	18.619	-13.400	0.000	-13.400	5.219	1A.6
Interest expense	£m	3	-185.876	-30.387	0.000	-30.387	-216.263	1A.7
Other interest expense	£m	3	0.000	13.400	0.000	13.400	13.400	1A.8
Profit before tax and fair value movements	£m	3	434.420	-15.394	3.575	-18.968	415.451	1A.9
Fair value gains/(losses) on financial instruments	£m	3	71.285	0.000	0.000	0.000	71.285	1A.10
Profit before tax	£m	3	505.705	-15.394	3.575	-18.968	486.736	1A.11
UK Corporation tax	£m	3	-78.200	0.000	-0.679	0.679	-77.521	1A.12
Deferred tax	£m	3	-17.400	2.925	0.000	2.925	-14.475	1A.13
Profit for the year	£m	3	410.105	-12.469	2.895	-15.364	394.740	1A.14
Dividends	£m	3	0.000	0.000	0.000	0.000	0.000	1A.15
Tax analysis								
Current year	£m	3	78.100	0.000	0.679	-0.679	77.421	1A.16
Adjustments in respect of prior years	£m	3	0.100	0.000	0.000	0.000	0.100	1A.17
UK Corporation tax	£m	3	78.200	0.000	0.679	-0.679	77.521	1A.18
Analysis of non-appointed revenue								
Imported sludge	£m	3			0.000			1A.19
Tankered waste	£m	3			5.285			1A.20
Other non-appointed revenue	£m	3			4.223			1A.21
Revenue	£m	3			9.508			1A.22

Pro forma 1B Statement of comprehensive income

Financial performance for the 12 months ended 31 March 2021

Line description	Units	DPs	Statutory	Adjustments			Total appointed activities	RAG 4 reference
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year	£m	3	410.105	-12.469	2.895	-15.364	394.740	1B.1
Actuarial gains/(losses) on post-employment plans	£m	3	-62.257	0.000	0.000	0.000	-62.257	1B.2
Other comprehensive income	£m	3	-18.200	0.000	0.000	0.000	-18.200	1B.3
Total Comprehensive income for the year	£m	3	329.647	-12.469	2.895	-15.364	314.283	1B.4

Regulatory accounts

Pro forma 1C Statement of financial position

Financial performance for the 12 months ended 31 March 2021

Line description	Units	DPs	Statutory	Adjustments			Total appointed activities	RAG 4 reference
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Non-current assets								
Fixed assets	£m	3	11732.325	-230.886	2.904	-233.790	11498.535	1C.1
Intangible assets	£m	3	181.054	-4.579	2.572	-7.151	173.903	1C.2
Investments - loans to group companies	£m	3	0.000	0.000	0.000	0.000	0.000	1C.3
Investments - other	£m	3	0.142	0.000	0.000	0.000	0.142	1C.4
Financial instruments	£m	3	410.280	0.000	0.000	0.000	410.280	1C.5
Retirement benefit assets	£m	3	531.018	0.000	0.000	0.000	531.018	1C.6
Total	£m	3	12854.819	-235.465	5.475	-240.940	12613.879	1C.7
Current assets								
Inventories	£m	3	15.974	0.000	0.000	0.000	15.974	1C.8
Trade & other receivables	£m	3	224.826	24.361	1.012	23.350	248.176	1C.9
Financial instruments	£m	3	14.385	0.000	0.000	0.000	14.385	1C.10
Cash & cash equivalents	£m	3	648.588	0.000	0.000	0.000	648.588	1C.11
Total	£m	3	903.773	24.361	1.012	23.350	927.123	1C.12
Current liabilities								
Trade & other payables	£m	3	-318.323	5.254	-2.913	8.167	-310.157	1C.13
Capex creditor	£m	3	0.000	0.000	0.000	0.000	0.000	1C.14
Borrowings	£m	3	-717.083	10.090	0.000	10.090	-706.993	1C.15
Financial instruments	£m	3	-6.884	0.000	0.000	0.000	-6.884	1C.16
Current tax liabilities	£m	3	-20.728	0.000	-0.679	0.679	-20.048	1C.17
Provisions	£m	3	-11.062	-15.344	0.000	-15.344	-26.405	1C.18
Total	£m	3	-1074.079	0.000	-3.592	3.592	-1070.487	1C.19
Net Current assets/(liabilities)	£m	3	-170.305	24.361	-2.580	26.941	-143.364	1C.20
Non-current liabilities								
Trade & other payables	£m	3	-796.691	780.447	0.000	780.447	-16.244	1C.21
Borrowings	£m	3	-7998.370	0.000	0.000	0.000	-7998.370	1C.22
Financial instruments	£m	3	-107.845	0.000	0.000	0.000	-107.845	1C.23
Retirement benefit obligations	£m	3	0.000	0.000	0.000	0.000	0.000	1C.24
Provisions	£m	3	0.000	0.000	0.000	0.000	0.000	1C.25
Deferred income - G&C's	£m	3	0.000	-302.581	0.000	-302.581	-302.581	1C.26
Deferred income - adopted assets	£m	3	0.000	-477.866	0.000	-477.866	-477.866	1C.27
Preference share capital	£m	3	0.000	0.000	0.000	0.000	0.000	1C.28
Deferred tax	£m	3	-1384.639	36.506	0.000	36.506	-1348.133	1C.29
Total	£m	3	-10287.545	36.506	0.000	36.506	-10251.039	1C.30
Net assets	£m	3	2396.969	-174.598	2.895	-177.493	2219.476	1C.31
Equity								
Called up share capital	£m	3	-230.000	0.000	0.000	0.000	-230.000	1C.32
Retained earnings & other reserves	£m	3	-2166.969	174.598	-2.895	177.493	-1989.476	1C.33
Total Equity	£m	3	-2396.969	174.598	-2.895	177.493	-2219.476	1C.34

Regulatory accounts

Pro forma 1D Statement of cash flows

Financial performance for the 12 months ended 31 March 2021

Line description	Units	DPs	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities	RAG 4 reference
Operating activities								
Operating profit	£m	3	601.676	-6.553	0.971	-7.524	594.153	1D.1
Other income	£m	3	0.000	6.534	2.604	3.931	3.931	1D.2
Depreciation	£m	3	419.347	-6.761	0.753	-7.514	411.833	1D.3
Amortisation - G&C's	£m	3	-15.012	15.012	0.000	15.012	0.000	1D.4
Changes in working capital	£m	3	114.506	-8.233	-2.396	-5.837	108.669	1D.5
Pension contributions	£m	3	-0.775	0.000	0.000	0.000	-0.775	1D.6
Movement in provisions	£m	3	-5.269	0.000	0.000	0.000	-5.269	1D.7
Profit on sale of fixed assets	£m	3	8.374	0.000	0.000	0.000	8.374	1D.8
Cash generated from operations	£m	3	1122.848	0.000	1.932	-1.932	1120.916	1D.9
Net interest paid	£m	3	-136.174	0.000	0.000	0.000	-136.174	1D.10
Tax paid	£m	3	-45.725	0.000	-0.179	0.179	-45.545	1D.11
Net cash generated from operating activities	£m	3	940.949	0.000	1.752	-1.752	939.197	1D.12
Investing activities								
Capital expenditure	£m	3	-638.074	0.000	-1.752	1.752	-636.321	1D.13
Grants & Contributions	£m	3	4.986	0.000	0.000	0.000	4.986	1D.14
Disposal of fixed assets	£m	3	0.000	0.000	0.000	0.000	0.000	1D.15
Other	£m	3	0.000	0.000	0.000	0.000	0.000	1D.16
Net cash used in investing activities	£m	3	-633.088	0.000	-1.752	1.752	-631.336	1D.17
Net cash generated before financing activities	£m	3	307.861	0.000	0.000	0.000	307.861	1D.18
Cashflows from financing activities								
Equity dividends paid	£m	3	0.000	0.000	0.000	0.000	0.000	1D.19
Net loans received	£m	3	-157.033	0.000	0.000	0.000	-157.033	1D.20
Cash inflow from equity financing	£m	3	0.000	0.000	0.000	0.000	0.000	1D.21
Net cash generated from financing activities	£m	3	-157.033	0.000	0.000	0.000	-157.033	1D.22
Increase (decrease) in net cash	£m	3	150.828	0.000	0.000	0.000	150.828	1D.23

Pro forma 1E Net debt analysis (appointed activities)

Net debt analysis at 31 March 2021

Line description	Units	DPs	Fixed rate	Floating rate	Index linked RPI	Index linked CPI/CPIH	Total	RAG 4 reference
Interest rate risk profile								
Borrowings (excluding preference shares)	£m	3	3834.347	377.402	3186.239	878.932	8276.920	1E.1
Preference share capital	£m	3					0.000	1E.2
Total borrowings	£m	3					8276.920	1E.3
Cash	£m	3					-2.386	1E.4
Short term deposits	£m	3					-646.202	1E.5
Net Debt	£m	3					7628.331	1E.6
Gearing								
Gearing	%	3					65.304%	1E.7
Adjusted Gearing	%	3					65.680%	1E.8
Interest								
Full year equivalent nominal interest cost	£m	3	84.374	0.620	83.341	2.052	170.387	1E.9
Full year equivalent cash interest payment	£m	3	84.374	0.620	38.953	-5.887	118.059	1E.10
Indicative interest rates								
Indicative weighted average nominal interest rate	%	3	2.584%	n/a	2.795%	0.189%	2.061%	1E.11
Indicative weighted average cash interest rate	%	3	2.584%	n/a	1.306%	-0.543%	1.428%	1E.12
Time to maturity								
Weighted average years to maturity	nr	3	10.770	n/a	19.565	12.915	13.839	1E.13

Pro forma 1F Financial flows for the 12 months ended 31 March 2021 (2017/18 financial year average CPIH)

Financial flows analysis for the 12 months ended 31 March 2021

Line description	12 months ended 31 March 2021						RAG 4 reference
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	
Units	%			£m			
DPs	3			3			
Return on regulatory equity							
Return on regulatory equity	3.91%	3.30%	3.91%	175.020	147.816	147.816	1F.1
Regulatory equity	4475.92	4475.922	3780.23				1F.2
Financing							
Gearing		0.61%	0.29%		10.856	10.856	1F.3
Gearing benfits sharing		0.00%	0.00%		0.000	0.000	1F.4
Variance in corporation tax		-0.45%	-0.53%		-20.062	-20.062	1F.5
Group relief		0.00%	0.00%		0.000	0.000	1F.6
Cost of debt		0.30%	0.51%		13.518	19.145	1F.7
Hedging instruments		0.86%	1.01%		38.358	38.358	1F.8
Return on regulatory equity including Financing adjustments	3.91%	4.62%	5.19%	175.020	190.485	196.112	1F.9
Operational Performance							
Totex out / (under) performance		-0.19%	-0.22%		-8.497	-8.497	1F.10
ODI out / (under) performance		0.35%	0.41%		15.486	15.486	1F.11
C-Mex out / (under) performance		0.00%	0.00%		0.000	0.000	1F.12
D-Mex out / (under) performance		0.00%	0.00%		0.000	0.000	1F.13
Retail out / (under) performance		-0.30%	-0.36%		-13.606	-13.606	1F.14
Other exceptional items		0.03%	0.03%		1.266	1.266	1F.15
Operational performance total		-0.12%	-0.14%		-5.351	-5.351	1F.16
RoRE	3.91%	4.50%	5.05%	175.020	185.134	190.761	1F.17
Actual performance adjustment 2015-20	0.12%	0.12%	0.14%	5.345	5.345	5.345	1F.18
Total earnings	4.03%	4.62%	5.19%	180.365	190.479	196.107	1F.19
RCV growth from inflation	1.01%	1.01%	1.01%	45.336	45.336	38.290	1F.20
Voluntary sharing arrangements	0.00%	-0.22%	-0.26%	0.000	-9.985	- 9.985	1F.21
Total shareholder return	5.04%	5.41%	5.94%	225.701	225.830	224.411	1F.22
Dividends							
Gross Dividend	3.00%	0.00%	0.00%	134.278	0.000	0.000	1F.23
Interest Received on Intercompany loans	0.00%	0.00%	0.00%	0.000	0.000	0.000	1F.24
Retained Value	2.04%	5.41%	5.94%	91.424	225.830	224.411	1F.25

Regulatory accounts

Section 2 Price review and other segmental reporting

Additional commentary on the Section 2 pro forma tables is provided on pages 143-144.

Keys to cells

(yellow)	Input cell
(blue)	Calculation cell
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Pro forma 2A Segmental income statement

For the 12 months ended 31 March 2021

Line description	Units	DPs	Retail Household	Retail non-household	Water resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Revenue - price control	£m	3	91.156	0.000	109.322	645.935	838.454	99.397	1784.264	2A.1
Revenue - non price control	£m	3	0.000	0.000	0.751	1.682	0.179	0.013	2.625	2A.2
Operating expenditure - excluding PU recharge impact	£m	3	-98.286	0.000					-98.286	2A.3
PU opex recharge	£m	3	-3.882	0.000					-3.882	2A.4
Operating expenditure - including PU recharge impact	£m	3	-102.168	0.000	-61.531	-315.295	-257.743	-39.674	-776.412	2A.5
Depreciation - tangible fixed assets	£m	3	-0.988	0.000	-9.526	-123.024	-194.012	-44.594	-372.144	2A.6
Amortisation - intangible fixed assets	£m	3	-4.575	0.000	-0.101	-8.914	-25.471	-0.628	-39.689	2A.7
PU recharge impact	£m	3	0.000	0.000	-0.630	-12.744	21.104	-3.848	3.882	2A.8
Depreciation &amortisation - including PU recharge impact	£m	3	-5.563	0.000	-10.257	-144.682	-198.379	-49.070	-407.951	2A.9
Other operating income	£m	3	0.000	0.000	0.422	-2.326	-4.387	-2.083	-8.374	2A.10
Operating profit	£m	3	-16.574	0.000	38.706	185.314	378.124	8.582	594.153	2A.11
Surface water drainage rebates										
Surface water drainage rebates	£m	3							0.297	2A.12

Pro forma 2B Totex analysis - wholesale

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Base operating expenditure								
Power	£m	3	5.276	31.736	56.693	-7.021	86.684	2B.1
Income treated as negative expenditure	£m	3	-0.049	-0.345	-0.014	-10.450	-10.859	2B.2
Abstraction charges/ discharge consents	£m	3	17.159	0.263	7.489	0.058	24.969	2B.3
Bulk Supply/Bulk discharge	£m	3	0.123	0.182	0.000	0.000	0.305	2B.4
Renewals expensed in year (Infrastructure)	£m	3	7.888	95.159	53.286	2.814	159.148	2B.5
Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	2B.6
Other operating expenditure	£m	3	13.128	131.585	116.453	48.425	309.591	2B.7
Local authority and Cumulo rates	£m	3	17.484	46.912	18.480	5.827	88.703	2B.8
Total base operating expenditure	£m	3	61.010	305.491	252.388	39.652	658.541	2B.9
Other operating expenditure								
Enhancement operating expenditure	£m	3	0.255	5.996	5.118	0.000	11.369	2B.10
Developer services operating expenditure	£m	3	0.000	2.315	0.097	0.000	2.411	2B.11
Total operating expenditure excluding third party services	£m	3	61.264	313.802	257.602	39.652	672.321	2B.12
Third party services	£m	3	0.267	1.493	0.141	0.022	1.923	2B.13
Total operating expenditure	£m	3	61.531	315.295	257.743	39.674	674.245	2B.14
Grants and contributions								
Grants and contributions - operating expenditure	£m	3	0.000	2.665	0.302	0.000	2.967	2B.15
Capital expenditure								
Base capital expenditure	£m	3	5.799	129.588	138.507	29.808	303.702	2B.16
Enhancement capital expenditure	£m	3	5.505	94.527	178.479	0.720	279.231	2B.17
Developer services capital expenditure	£m	3	0.000	19.616	6.653	0.000	26.269	2B.18
Total gross capital expenditure (excluding third party)	£m	3	11.304	243.731	323.639	30.528	609.202	2B.19
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	2B.20
Total gross capital expenditure	£m	3	11.304	243.731	323.639	30.528	609.202	2B.21
Grants and contributions								
Grants and contributions - capital expenditure	£m	3	0.000	-3.436	7.945	0.000	4.509	2B.22
Net totex	£m	3	72.835	559.798	573.135	70.202	1275.971	2B.23
Cash expenditure								
Pension deficit recovery payments	£m	3	0.000	0.000	0.000	0.000	0.000	2B.24
Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	2B.25
Totex including cash items	£m	3	72.835	559.798	573.135	70.202	1275.971	2B.26

Pro forma 2C Cost analysis - retail

For the 12 months ended 31 March 2021

Line description	Units	DPs	Household - total	Non-household - total	Total	RAG 4 reference
Operating expenditure						
Customer services	£m	3	21.225	0.000	21.225	2C.1
Debt management	£m	3	12.714	0.000	12.714	2C.2
Doubtful debts	£m	3	47.525	0.000	47.525	2C.3
Meter reading	£m	3	3.416	0.000	3.416	2C.4
Services to developers	£m	3		0.000	0.000	2C.5
Other operating expenditure	£m	3	13.406	0.000	13.406	2C.6
Local authority and Cumulo rates	£m	3	0.000	0.000	0.000	2C.7
Total operating expenditure excluding third party services	£m	3	98.286	0.000	98.286	2C.8
Depreciation						
Depreciation on tangible fixed assets existing at 31 March 2015	£m	3	0.000	0.000	0.000	2C.9
Depreciation on tangible fixed assets acquired after 1 April 2015	£m	3	0.988	0.000	0.988	2C.10
Amortisation on intangible fixed assets existing at 31 March 2015	£m	3	0.365	0.000	0.365	2C.11
Amortisation on intangible fixed assets acquired after 1 April 2015	£m	3	4.210	0.000	4.210	2C.12
Recharges						
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	£m	3	0.791	0.000	0.791	2C.13
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	£m	3	0.016	0.000	0.016	2C.14
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	£m	3	3.208	0.000	3.208	2C.15
Income from wholesale assets acquired after 1 April 2015 principally used by retail	£m	3	0.101	0.000	0.101	2C.16
Net recharges costs	£m	3	3.882	0.000	3.882	2C.17
Total retail costs excluding third party and pension deficit repair costs	£m	3	107.730	0.000	107.730	2C.18
Third party services operating expenditure	£m	3	0	0	0.000	2C.19
Pension deficit repair costs	£m	3	0	0	0.000	2C.20
Total retail costs including third party and pension deficit repair costs	£m	3	107.730	0.000	107.730	2C.21
Debt written off						
Debt written off	£m	3	36.993	0.000	36.993	2C.22
Capital expenditure						
Capital expenditure	£m	3	12.267	0.000	12.267	2C.23
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale						
Demand-side water efficiency - gross expenditure	£m	3	1.348			2C.24
Demand-side water efficiency - expenditure funded by wholesale	£m	3	0.934			2C.25
Demand-side water efficiency - net retail expenditure	£m	3	0.414			2C.26
Customer-side leak repairs - gross expenditure	£m	3	2.370			2C.27
Customer-side leak repairs - expenditure funded by wholesale	£m	3	2.370			2C.28
Customer-side leak repairs - net retail expenditure	£m	3	0.000			2C.29

Pro forma 2D Historic cost analysis of tangible fixed assets

For the 12 months ended 31 March 2021

Line description	Units	DPs	Retail Household	Retail non-household	Water resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Cost										
At 1 April 2020	£m	3	48.011	0.000	281.049	5639.092	8563.372	1108.123	15639.647	2D.1
Disposals	£m	3	-1.733	0.000	-3.637	-59.197	-133.513	-15.424	-213.504	2D.2
Additions	£m	3	5.619	0.000	11.069	241.073	301.681	30.515	589.957	2D.3
Adjustments	£m	3	-0.993	0.000	9.650	-16.220	-3.010	8.169	-2.404	2D.4
Assets adopted at nil cost	£m	3	0.000	0.000	0.000	18.736	36.303	0.000	55.039	2D.5
At 31 March 2021	£m	3	50.905	0.000	298.131	5823.484	8764.833	1131.383	16068.736	2D.6
Depreciation										
At 1 April 2020	£m	3	-45.069	0.000	-109.181	-1491.879	-2206.956	-549.718	-4402.803	2D.7
Disposals	£m	3	1.733	0.000	3.443	56.890	128.671	13.107	203.844	2D.8
Adjustments	£m	3	0.840	0.000	-0.185	-1.817	2.067	-0.003	0.902	2D.9
Charge for year	£m	3	-0.988	0.000	-9.526	-123.024	-194.012	-44.594	-372.144	2D.10
At 31 March 2021	£m	3	-43.484	0.000	-115.449	-1559.830	-2270.230	-581.208	-4570.201	2D.11
Net book amount at 31 March 2021	£m	3	7.421	0.000	182.682	4263.654	6494.603	550.175	11498.535	2D.12
Net book amount at 1 April 2020	£m	3	2.943	0.000	171.868	4147.213	6356.416	558.405	11236.845	2D.13
Depreciation charge for year										
Principal services	£m	3	-0.988	0.000	-9.367	-122.192	-194.012	-44.594	-371.153	2D.14
Third party services	£m	3	0.000	0.000	-0.159	-0.832	0.000	0.000	-0.991	2D.15
Total	£m	3	-0.988	0.000	-9.526	-123.024	-194.012	-44.594	-372.144	2D.16

The net book value includes £1510.818m in respect of assets in the course of construction.

Pro forma 2E Analysis of grants and contributions - water resources, water network+ and wastewater network+

For the 12 months ended 31 March 2021

Line description	Units	DPs	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total	RAG 4 reference
Grants and contributions - water resources							
Diversions - s185	£m	3	0.000	0.000	0.000	0.000	2E.1
Other contributions (price control)	£m	3	0.000	0.000	0.000	0.000	2E.2
Price control grants and contributions	£m	3	0.000	0.000	0.000	0.000	2E.3
Diversions - NRSWA	£m	3	0.000	0.000	0.000	0.000	2E.4
Diversions - other non-price control	£m	3	0.000	0.000	0.000	0.000	2E.5
Other contributions (non-price control)	£m	3	0.000	0.000	0.000	0.000	2E.6
Total	£m	3	0.000	0.000	0.000	0.000	2E.7
Value of adopted assets	£m	3	0.000	0.000		0.000	2E.8
Grants and contributions - water network+							
Connection charges	£m	3	0.241	5.730	0.000	5.970	2E.9
Infrastructure charge receipts	£m	3	0.000	5.673	0.000	5.673	2E.10
Requisitioned mains	£m	3	0.000	3.978	0.000	3.978	2E.11
Diversions - s185	£m	3	2.422	0.000	0.000	2.422	2E.12
Other contributions (price control)	£m	3	0.000	0.000	0.000	0.000	2E.13
Price control grants and contributions before deduction of income offset	£m	3	2.663	15.380	0.000	18.043	2E.14
Income offset	£m	3	0.000	18.846	0.000	18.846	2E.15
Price control grants and contributions after deduction of income offset	£m	3	2.663	-3.465	0.000	-0.803	2E.16
Diversions - NRSWA	£m	3	-0.304	0.000	0.000	-0.304	2E.17
Diversions - other non-price control	£m	3	0.306	0.000	0.000	0.306	2E.18
Other contributions (non-price control)	£m	3	0.000	0.030	0.000	0.030	2E.19
Total	£m	3	2.665	-3.436	0.000	-0.771	2E.20
Value of adopted assets	£m	3	0.000	18.736		18.736	2E.21
Grants and contributions - wastewater network+							
Receipts for on-site work	£m	3	0.000	0.000	0.000	0.000	2E.22
Infrastructure charge receipts	£m	3	0.000	5.962	0.000	5.962	2E.23
Diversions - s185	£m	3	0.253	0.000	0.000	0.253	2E.24
Other contributions (price control)	£m	3	0.000	1.963	0.000	1.963	2E.25
Price control grants and contributions before deduction of income offset	£m	3	0.253	7.925	0.000	8.178	2E.26
Income offset	£m	3	0.000	0.000	0.000	0.000	2E.27
Price control grants and contributions after deduction of income offset	£m	3	0.253	7.925	0.000	8.178	2E.28
Diversions - NRSWA	£m	3	-0.243	0.000	0.000	-0.243	2E.29
Diversions - other non-price control	£m	3	0.292	0.000	0.000	0.292	2E.30
Other Contributions (non-price control)	£m	3	0.000	0.020	0.000	0.020	2E.31
Total	£m	3	0.302	7.945	0.000	8.247	2E.32
Value of adopted assets	£m	3	0.000	36.303		36.303	2E.33

Line description	Units	DPs	Water resources	Water network+	Wastewater network+	Total	
Movements in capitalised grants and contributions							
b/f	£m	3	1.335	180.678	128.608	310.620	2E.34
Capitalised in year	£m	3	0.000	-3.436	7.945	4.509	2E.35
Amortisation (in income statement)	£m	3	-0.064	-3.529	-2.763	-6.356	2E.36
c/f	£m	3	1.271	173.713	133.790	308.773	2E.37

Pro forma 2F Residential retail

For the 12 months ended 31 March 2021

Line description	Revenue	Number of customers	Average residential revenues	RAG 4 reference
Units	£m	000s	£	
DPs	3	3	3	
Residential revenue				
Wholesale charges	1221.730			2F.1
Retail revenue	91.156			2F.2
Total residential revenue	1312.886			2F.3
Retail revenue				
Revenue Recovered ("RR")	91.156			2F.4
Revenue sacrifice	10.454			2F.5
Actual revenue (net)	101.610			2F.6
Customer information				
Actual customers ("AC")		3086.173		2F.7
Reforecast customers		3069.120		2F.8
Adjustment				
Allowed revenue ("R")	109.095			2F.9
Net adjustment	7.485			2F.10
Other residential information				
Average residential retail revenue per customer			32.924	2F.11

Pro forma 2G & 2H Non-household water & wastewater – revenues by tariff type

As per RAG 4.09, Tables 2G & 2H should only be completed by Welsh companies. Please refer to Table 2I page 123 for the corresponding wholesale revenue.

Pro forma 2I Revenue analysis

For the 12 months ended 31 March 2021

Line description	Units	DPs	Household	Non- household	Total	Water resources	Water network+	Total	RAG 4 reference
Wholesale charge - water									
Unmeasured	£m	3	326.320	2.820	329.140	47.646	281.495	329.140	2I.1
Measured	£m	3	251.113	170.770	421.883	58.747	363.136	421.883	2I.2
Third party revenue	£m	3	0.000	4.234	4.234	2.930	1.304	4.234	2I.3
Total wholesale water revenue	£m	3	577.433	177.824	755.257	109.322	645.935	755.257	2I.4

Line description	Units	DPs	Household	Non- household	Total	Wastewater network+	Bioresources	Total	RAG 4 reference
Wholesale charge - wastewater									
Unmeasured - foul charges	£m	3	219.052	2.115	221.167	174.155	47.012	221.167	2I.5
Unmeasured - surface water charges	£m	3	101.708	1.364	103.072	103.026	0.046	103.072	2I.6
Unmeasured - highway drainage charges	£m	3	43.748	0.607	44.356	44.332	0.024	44.356	2I.7
Measured - foul charges	£m	3	152.094	105.724	257.819	205.631	52.188	257.819	2I.8
Measured - surface water charges	£m	3	88.408	115.125	203.533	203.456	0.077	203.533	2I.9
Measured - highway drainage charges	£m	3	39.286	68.487	107.773	107.724	0.049	107.773	2I.10
Third party revenue	£m	3	0.000	0.131	0.131	0.131	0.000	0.131	2I.11
Total wholesale wastewater revenue	£m	3	644.297	293.554	937.851	838.454	99.397	937.851	2I.12
Wholesale charge - Additional Control									
Unmeasured	£m	3	0.000	0.000	0.000				2I.13
Measured	£m	3	0.000	0.000	0.000				2I.14
Total wholesale additional control revenue	£m	3	0.000	0.000	0.000				2I.15
Wholesale Total	£m	3	1221.730	471.378	1693.108				2I.16
Retail revenue									
Unmeasured	£m	3	42.246	0.000	42.246				2I.17
Measured	£m	3	48.910	0.000	48.910				2I.18
Other third party revenue	£m	3	0.000	0.000	0.000				2I.19
Retail Total	£m	3	91.156	0.000	91.156				2I.20
Third party revenue - non-price control									
Bulk supplies - water	£m	3			0.660				2I.21
Bulk supplies - wastewater	£m	3			0.193				2I.22
Other third party revenue	£m	3			1.609				2I.23
Principal services - non-price control									
Other appointed revenue	£m	3			0.164				2I.24
Total appointed revenue	£m	3			1786.890				2I.25

Pro forma 2J Infrastructure network reinforcement costs

For the 12 months ended 31 March 2021

Line description	Units	DPs	Network reinforcement capex	On site / site specific capex (memo only)	RAG 4 reference
Wholesale water network+ (treated water distribution)					
Distribution and trunk mains	£m	3	2.435	1.112	2J.1
Pumping and storage facilities	£m	3	0.000	0.000	2J.2
Other	£m	3	0.000	0.000	2J.3
Total	£m	3	2.435	1.112	2J.4
Wholesale wastewater network+ (sewage collection)					
Foul and combined systems	£m	3	1.449	0.000	2J.5
Surface water only systems	£m	3	2.239	0.000	2J.6
Pumping and storage facilities	£m	3	0.000	0.000	2J.7
Other	£m	3	0.000	0.000	2J.8
Total	£m	3	3.688	0.000	2J.9

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Pro forma 2K Infrastructure charges reconciliation

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water	Wastewater	Total	RAG 4 reference
Impact of infrastructure charge discounts						
Infrastructure charges	£m	3	5.673	5.962	11.635	2K.1
Discounts applied to infrastructure charges	£m	3	0.000	0.000	0.000	2K.2
Gross Infrastructure charges	£m	3	5.673	5.962	11.635	2K.3
Comparison of revenue and costs						
Variance brought forward	£m	3	6.062	8.738	14.801	2K.4
Revenue	£m	3	5.673	5.962	11.635	2K.5
Costs	£m	3	-2.435	-3.688	-6.123	2K.6
Variance carried forward	£m	3	9.300	11.012	20.312	2K.7

Pro forma 2L Analysis of land sales

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water resources	Water Network+	Wastewater Network+	Total	RAG 4 reference
Proceeds from disposals of protected land	£m	3	2.192	0.029	0.429	2.651	2L.1

Pro forma 2M Revenue reconciliation - wholesale

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water resources	Water network+	Wastewater network+	Bioresources	Total	RAG 4 reference
Revenue recognised								
Wholesale revenue governed by price control	£m	3	109.322	645.935	838.454	99.397	1693.108	2M.1
Grants & contributions (price control)	£m	3	0.000	-0.803	8.178		7.375	2M.2
Total revenue governed by wholesale price control	£m	3	109.322	645.133	846.632	99.397	1700.484	2M.3
Calculation of the revenue cap								
Allowed wholesale revenue before adjustments (or modified by CMA)	£m	3	108.734	639.241	826.726	99.168	1673.869	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	£m	3	0.000	4.616	10.348	0.000	14.964	2M.5
Revenue adjustment	£m	3	0.000	0.000	0.000	0.000	0.000	2M.6
Other adjustments	£m	3	0.000	0.000	0.000	0.000	0.000	2M.7
Revenue cap	£m	3	108.734	643.857	837.074	99.168	1688.833	2M.8
Calculation of the revenue imbalance								
Revenue cap	£m	3	108.734	643.857	837.074	99.168	1688.833	2M.9
Revenue Recovered	£m	3	109.322	645.133	846.632	99.397	1700.484	2M.10
Revenue imbalance	£m	3	-0.588	-1.276	-9.558	-0.229	-11.650	2M.11

Pro forma 2N Residential retail – social tariffs

For the 12 months ended 31 March 2021

Line description	Revenue	Number of customers	Average amount per customer	RAG 4 reference
Units	£m	000s	£	
DPs	3	3	3	
Number of residential customers on social tariffs				
Residential water only social tariffs		0.294		2N.1
Residential wastewater only social tariffs		0.041		2N.2
Residential dual service social tariffs		136.564		2N.3
Number of residential customers not on social tariffs				
Residential water only no social tariffs		73.394		2N.4
Residential wastewater only no social tariffs		78.023		2N.5
Residential dual service no social tariffs		2797.856		2N.6
Social tariff discount				
Average discount per water only social tariffs customer			97.763	2N.7
Average discount per wastewater only social tariffs customer			42.742	2N.8
Average discount per dual service social tariffs customer			192.180	2N.9
Social tariff cross-subsidy - residential customers				
Total customer funded cross-subsidies for water only social tariffs customers	0.017			2N.10
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.001			2N.11
Total customer funded cross-subsidies for dual service social tariffs customers	15.804			2N.12
Average customer funded cross-subsidy per water only social tariffs customer			0.227	2N.13
Average customer funded cross-subsidy per wastewater only social tariffs customer			0.012	2N.14
Average customer funded cross-subsidy per dual service social tariffs customer			5.386	2N.15
Social tariff cross-subsidy - company				
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	0.012			2N.16
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	0.001			2N.17
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	10.441			2N.18
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			40.929	2N.19
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			19.539	2N.20
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			76.456	2N.21
Social tariff support - willingness to pay				
Level of support for social tariff customers reflected in business plan			1.958	2N.22
Maximum contribution to social tariffs supported by customer engagement			6.958	2N.23

Regulatory accounts

Pro forma 2O Historic cost analysis of intangible fixed assets

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water Resources	Water Network+	Wastewater Network+	Bioresources	Retail Residential	Retail non-household	Total	RAG 4 reference
Cost										
At 1 April 2020	£m	3	0.383	68.030	268.944	6.004	83.122	0.000	426.482	2O.1
Disposals	£m	3	0.000	-7.429	-33.024	-0.509	-10.040	0.000	-51.002	2O.2
Additions	£m	3	0.235	2.658	21.957	0.013	6.647	0.000	31.511	2O.3
Adjustments	£m	3	0.196	0.412	0.668	0.000	1.123	0.000	2.399	2O.4
Assets adopted at nil cost	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2O.5
At 31 March 2021	£m	3	0.814	63.671	258.546	5.508	80.852	0.000	409.391	2O.6
Amortisation										
At 1 April 2020	£m	3	-0.286	-34.899	-152.035	-3.034	-55.521	0.000	-245.775	2O.7
Disposals	£m	3	0.000	7.302	33.024	0.509	10.040	0.000	50.874	2O.8
Adjustments	£m	3	0.032	-0.985	0.859	0.097	-0.902	0.000	-0.898	2O.9
Charge for year	£m	3	-0.101	-8.914	-25.471	-0.628	-4.575	0.000	-39.689	2O.10
At 31 March 2021	£m	3	-0.355	-37.496	-143.623	-3.056	-50.958	0.000	-235.488	2O.11
Net book amount at 31 March 2021	£m	3	0.458	26.175	114.922	2.452	29.894	0.000	173.903	2O.12
Net book amount at 1 April 2020	£m	3	0.097	33.131	116.909	2.970	27.601	0.000	180.707	2O.13
Amortisation for year										
Principal services	£m	3	-0.101	-8.914	-25.471	-0.628	-4.575	0.000	-39.689	2O.14
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2O.15
Total	£m	3	-0.101	-8.914	-25.471	-0.628	-4.575	0.000	-39.689	2O.16

The net book value includes £15.117m in respect of assets in the course of construction.

2.4 Accounting policies

For the 12 months ended 31 March 2021

The Regulatory Accounts have been prepared in accordance with IFRS, except for deviations required by Ofwat. Areas of deviation include revenue recognition, capitalisation of interest, grants and contributions and adopted assets. Details of all significant accounting policies applied under IFRS are detailed in the United Utilities Water Limited statutory accounts. In addition, the RAGs require certain presentational differences within the income statement and statement of financial position between the statutory and the regulatory accounts.

The financial statements have been prepared on the going concern basis as the directors have a reasonable expectation that the company has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting the directors have reviewed the resources available to the company in the form of cash and committed facilities as well as consideration of the company's capital adequacy, along with a baseline plan that incorporates the expected impacts of COVID-19. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe but reasonable downside scenarios in order to assess the company's ability to operate within the amount and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; lower CPIH inflation; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

Consequently, the directors are satisfied that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and that the severe but reasonable downside scenarios considered indicate that the company will be able to operate within the amount and terms (including relevant covenants) of existing facilities. The financial statements have therefore been prepared on a going concern basis.

Individual lines within the regulatory tables are rounded to 2 or 3 decimal places, as specified by Ofwat, therefore there may be instances where the total line within a table is not equal to the sum of the values presented.

Capitalisation policy

The company recognises property, plant and equipment (PPE) expenditure on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity and/or resilience of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them.

For non-infrastructure assets, expenditure that is directly attributable to the acquisition of the items of PPE and intangible assets is capitalised. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The only exception to IFRS, as required by RAG 1.09 'Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime', is that the company does not capitalise interest in the Regulatory Accounts. The company applies a minimum capital limit per project of £500, any expenditure below this limit is expensed.

Price control segments policy

The accounts have been drawn up in accordance with RAG 2.08 'Guideline for classification of costs across the price controls'. Following our formal exit of the non-household market in 2016, we continue to exclude Tables 2G and 2H from the regulatory accounts which previously provided breakdowns of our non-household revenues by tariff type.

As noted in our Accounting Policies note to the UUW statutory accounts, management capitalises time and resources incurred by the company's support functions on capital programmes. In accordance with RAG 1.09 our historic cost accounting statements are in line with IFRS, except for deviations as specifically required by Ofwat (see 'Differences between statutory and RAG definitions' on pages 135 to 136. As such, any attribution or allocation of support costs between price controls is performed on the net cost balance after capitalisation. This approach is consistent with prior years and with our price review submission.

All notable methodology changes from the prior year, as well as details of cost allocations used per cost line, can be found in our 2020/21 accounting methodology statement, published on our website alongside the APR.

Regulatory accounts

Allocation of costs to principal services

Direct costs are charged to the sub-service areas to which they are attributable, as defined in RAG 4.09. Business activities and indirect costs are allocated on an activity basis using quantitative measures such as full time equivalent employee numbers and other methods reflecting consumption of service.

Appointed and non-appointed activities

The company has used the guidance in RAG 4.09 Appendix 1 in determining which of its activities are appointed or non-appointed. In summary, the appointed business is defined as the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The non-appointed business encompasses those activities for which the company is not a monopoly supplier or those activities which involve the optional use of an asset owned by the appointed business.

Revenue recognition policy

Revenue represents the income receivable in the ordinary course of business from the regulated activities of the business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

Where an invoice has been raised for services not provided in the year this will not be recognised within the current year's revenue, and any payment received against that invoice will be recognised within creditors.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within revenue.

Charging policy

Water and sewerage charges fall into the following three categories:

- Charges which are payable in full;
- Charges which are payable in part; and
- Not chargeable (void properties).

The circumstances in which each of the above applies are set out below.

Charges payable in full

Water (and sewerage) charges are payable in full in the following circumstances:

Unmeasured household supply – when premises benefit from a supply of water, until notice is given by the customer that the supply should be disconnected

Measured household supply – premises with a measured water supply are charged until either:

- The customer leaves the premises having given an up to date meter reading; or
- The customer requests that the supply is disconnected.

Non-household supply – charges are applied to each and every connected supply point where a service is received, except where the water supply to the premises is permanently disconnected or the premises is vacant.

This includes premises where renovation, redecoration or building work is being undertaken.

Exceptions to this, where water (and sewerage) charges are not payable, include:

- Where the occupier is a sole occupier in a care home for three months or more;
- Where the occupier is a sole occupier in long-term hospitalisation for three months or more;
- Where the occupier is a sole occupier in prison for three months or more; or
- In the event of the death of a sole occupier.

Charges payable in part

The following charges are only payable in certain circumstances:

Metered standing charges
Payable on metered properties without evidence of consumption which remain connected.

Surface water drainage and highway drainage charges
Payable where there is evidence of consumption for metered premises or an unmeasured water supply has been temporarily disconnected.

Not chargeable

Properties which are identified as vacant are not chargeable for water (and sewerage) and therefore no bill is raised and no revenue recognised in respect of these properties.

Definition and treatment of properties

Occupied properties
The occupier is any person in actual occupation of premises, or any person who:

- Owns the premises; or
- Has sufficient control over premises to put him under a duty of care towards lawful visitors; or
- Maintains premises for occupation (including multiple occupation) with shared facilities or as holiday or household accommodation for short term occupation (whether let wholly or in part), usually less than 12 months.

No bills are raised in the name of “the occupier”.

The property management process is followed to identify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all of the following:

- Physical inspection;
- Mailings;
- Customer contacts;
- Searches using third party electronic data;
- Meter readings for metered properties;
- Land registry checks.

When a new customer is identified, they may be required to provide documentary evidence to establish the date that they became responsible for water (and sewerage) charges at the property. This is normally the date at which they moved into the property. The new customer will be charged from the date at which they became responsible for water (and sewerage) charges of the premises.

For non-household customers, the Wholesale Settlement team use Central Market Operating System (CMOS) meter read data to identify vacant Supply Point Identifications (SPIDs) with consumption. Where consumption exists, we will engage with the relevant retailer, and follow the market process to ensure the SPID is recorded correctly as either vacant, or occupied in the market.

Unoccupied properties
A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and there is no consumption on the meter;
- The company has been informed that the customer has left the property; and not expected to be reoccupied immediately;
- It has been disconnected following a customer request;
- The property management process has not identified an occupier; or
- The company has been informed that for three months or more, the customer is in a care home, in long-term hospitalisation, or in prison.

If the property management process confirms that the property is unoccupied, the property will be declared void and the supply may be turned off.

New properties
All new properties are metered. Until the new occupier has been identified, the property is treated as unoccupied and is not billed.

Measured income accrual

The household measured income accrual is an estimation of the amount of mains water and sewerage charges unbilled at the year end. The accrual is estimated using a defined methodology based on weighted average water consumption by tariff which is calculated based on historical information. The measured income accrual is recognised within turnover.

An estimation of the non-household mains water and sewerage charges unbilled at the year-end is calculated and a measured income accrual recognised within turnover. The accrual is estimated using a defined methodology based on historical water consumption of individual customers or based on meter size where individual consumption is not available for use.

There has been no change to the methodology in calculating the measured income accrual since the prior year. Whilst household consumption has significantly increased as many customers have been based at home during periods of national lockdown, the vast majority of customers had received two meter reads and the impact of their increased consumption recognised in the accrual.

A retrospective review of the 2019/20 measured income accrual and the amounts actually billed during 2020/21 which would be expected to align to the accrual was performed and there was no material difference.

For the non-household income accrual, due to the impact of COVID-19, an additional review of the latest consumption information was undertaken, considering the vacancy status of all premises during the estimated period and the number and timing of meter reads received.

The methodology applied assessed the overall volumetric charge expected and compared this against the volumetric revenue estimated in CMOS for the period of estimation, increasing the revenue estimated in CMOS by £13.9m.

Bad debt policy

Household

Bad debt is written off when all economically viable efforts to recover outstanding amounts have been fully exhausted or, alternatively, when the write-off of such amounts forms part of customer rehabilitation processes (subject to acceptance criteria and customer “matching” payments). The company’s bad debt write-off policy has remained unchanged and has been consistently applied in the current year compared with the previous year.

The household bad debt provision is charged to operating costs to reflect the company’s assessment of the risk of non-recoverability of debtors. Household has continued to consistently apply its provisioning model last updated in 2014/15 to calculate the bad debt provision. The provision model applies expected recovery rates to debts outstanding at the end of the accounting period. The overall expected recovery rate takes into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt of greater age. Bad debt provisioning rates are reviewed annually to ensure they continue to reflect the latest collection performance data from the company’s billing system. All debt greater than 3 years old is fully provided for.

The actual level of debt collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

The household bad debt provision policy has remained unchanged and has been consistently applied in the current year. The bad debt provision has increased by £8.8m from 31 March 2020 to 31 March 2021 and the net household trade debtor balance has remained consistent with the level reported in the previous year. The increase in bad debt provision is a result of higher gross receivables which can be attributed to a number of factors. During the year ending 31st March 2021 we have seen an increase in consumption across our measured customer base. There is a lag in collection across those who pay by direct debit as the collection amount is reassessed. During the year we have also billed up a number of properties that were previously identified as void. These properties are currently in the early stages of collections and recovery is expected post 31st March 2021. The ability of some customers to pay their water bill has also been affected by COVID-19 and the longer term uncertainty created by the pandemic has been considered in our assessment of future cash collection and sufficiency of our bad debt provision.

Non-Household

In light of the increased exposure to bad debt, we have performed an assessment of lifetime expected credit losses across the non-household retailer customer base that considers an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions as required by IFRS 9.

Taking all of this into account, the total expected credit loss associated with non-household retailers was £1.3 million.

Dividend policy

UUW’s dividend policy for the 2020-25 (AMP7) regulatory period has been set as follows:

- A base dividend return of 4% (nominal) on the actual equity portion of the Shadow Regulatory Capital Value (RCV);
- The profit after tax in relation to the non-appointed activities of UUW; and
- An amount no greater than demonstrable outperformance versus the final determination

This policy is also subject to a number of additional considerations which were committed to by the UUW Board in our business plan submissions for the PR19 price review. These considerations act to ensure that dividend payments are made subject to consideration of a broad range of stakeholders who have interests in the performance of the company. This approach seeks to ensure that payment of the dividend takes into account consideration of business performance, performance for customers and performance for employees.

Financial assistance schemes

We committed that over AMP7 the company would fund £71m dedicated to supporting customers in need of financial support and that dividend payments would not be made if they meant such funding would be put at risk.

Gearing safeguards

In the event that the company adopted a high level of gearing then we committed to sharing the financial benefits of a high level of gearing with customers, before consideration of any dividend payment. The sharing of financial benefits would commence once gearing exceeded 70%.

We also committed that if gearing exceeded 70% then the level of base dividend might be restricted in order to help lower gearing and that, if a base dividend were paid, then the Board would explain its plan to restore gearing below the 70% threshold.

We also said that if gearing fell below 60% then the base dividend distribution may be increased to the greater of 100% of profit after tax or 100% of nominal allowed equity returns in order to efficiently manage the gearing position.

Sharing of outperformance

We have committed that where the distribution of outperformance through dividends exceed 7% of the equity portion of the RCV that amounts in excess of this threshold – which is measured on an average AMP-to-date basis - would be matched with a benefit sharing payment to customers through our "Community Share" scheme. This could then facilitate bill reductions, additional targeted financial assistance or other initiatives to support the resilience of communities in the North West, depending on customer preferences.

This sharing of outperformance is additional to any reinvestment of outperformance or other benefit sharing that might be undertaken during AMP7 through normal regulatory mechanisms or on the same voluntary basis as was taken by the company in AMP5 and AMP6. It provides an upfront guarantee that when dividend distributions reflecting outperformance are much higher than anticipated in the business plan that customers and other stakeholders will share in the benefits alongside investors.

Impact on financial resilience of UUW

Before payment of any dividend, the Board committed to considering whether the dividend payments would cause significant harm to the company's financial resilience and the potential impact such distributions may have on customers and employees. This included consideration of the company's pension deficit – were it to have one – which would for these purposes be considered as debt.

Delivery of statutory obligations

The Board has committed that it would not pay outperformance dividends in circumstances where the company was known to be in material breach of statutory obligations.

Delivery of performance targets

The Board has committed that it would not pay outperformance dividends in excess of the equivalent of 7% of the equity portion of RCV where the company was materially failing to meet its performance targets, unless the dividend was accompanied by investment aimed at improving that position.

Exceptional and unforeseen circumstances

In truly exceptional and unforeseen circumstances, it was noted that the Board may have to deviate from these principles – for example to meet changing statutory requirements or during unexpected and exceptional events. The Board committed that if it were to do so, it would explain its reasoning to customers and other stakeholders so that the company could be judged on the extent to which it sought to meet these commitments and the reasons why a deviation was justified.

Transparency

We also committed to providing increased transparency through our APR about the dividends paid and how these relate to our dividend policy. This is in addition to the existing statutory and regulatory requirements that we already disclose.

We committed to explain how dividend payments have been determined and how these relate to our performance. We committed to provide an explanation of how the allowed equity return relates to that achieved under the actual company structure and how the dividend policy relates to the actual equity returns during the AMP.

We also committed to provide transparency of how payments from the Community Share have contributed towards the resilience of communities in the North West.

Decision on the UUW 2020/21 base dividend

The UUW board has a clear view that financial resilience must be retained as a priority - this being outlined above as one of the key considerations for 2020-25 dividends – and therefore always adopts a prudent approach to near term dividend payments.

As reported in last year's Annual Performance Report, in the context of current events at the start of the COVID-19 pandemic and with future uncertainty at the time, the UUW board reviewed its approach to the base dividends for 2020/21. It determined that there would be no dividend payments made by UUW during the 2020/21 financial year, which resulted in c£150m of cash being retained within the company. This demonstrated the application of the checks and balances outlined in the 2020-25 dividend policy above, prior to the distribution of any base dividends.

The deferral of the 2020/21 base dividend payment is being kept under review by the UUW Board, with a view to reinstating the dividend later in the AMP7 period at such time as there is more certainty in relation to the prevailing economic conditions following the pandemic, and the financial position has become more clear.

2.5 Additional unaudited regulatory information

Differences between statutory and RAG definitions

Revenue recognition

The following differences exist between the revenue recognition policies in the statutory accounts and in the regulatory accounts:

- IFRS15 has been applied to the statutory accounts and requires revenue to be recognised only when it is probable that economic benefits associated with the transactions will flow to the company. The regulatory accounts, however, require revenue to be recognised in full unless properties have been confirmed as being void; and
- Income from energy generation, exported energy, renewable obligation certificates (ROC) and ROC bonuses are treated as revenue in the statutory accounts but as negative operating expenditure in the regulatory accounts.

Capitalisation of borrowing costs

For statutory reporting, interest costs under IAS23 are capitalised and subsequently depreciated, whereas interest is charged immediately as an expense in the regulatory accounts.

Grants and contributions

All grants & contributions (G&Cs) recognised in the income statement under IFRS have been reclassified as other income in the regulatory accounts. More specifically this comprises the following two main reclassifications:

- Diversion income from revenue to other income
- The amortisation of capitalised grants and contributions from revenue and operating costs to other income.

Adopted Assets

Under IFRS15, we recognise adopted assets from customers or developers on the balance sheet and amortise the income over the life of the asset through revenue. The amortisation of this income has been reclassified from revenue to other income in the regulatory accounts.

Direct procurement for customers

In accordance with RAG 1.09, lease accounting under IFRS16 associated with assets procured through a direct procurement for customer (DPC) process are to be excluded from the regulatory accounts. For 2020/21 no assets were leased to United Utilities by a competitively appointed provider (CAP).

As part of the Haweswater Aqueduct Resilience Programme (DPC project) UUW made advance purchases of land supporting this project totalling £1.752m in 2020/21. UUW will be reimbursed for these items by the CAP (once appointed) and this will ultimately be funded by customers through the unitary charge mechanism. As such, in order to ensure this spend is not inadvertently also captured within appointee totex, which feeds the cost sharing mechanism, it was agreed with Ofwat that this spend would be classified as non-appointed within the regulatory accounts. This has been reported as non-appointed in tables 1C and 1D.

The differences within the Income statement, in Table 1A and the Statement of financial position, Table1C have been summarised below on page 136.

Regulatory accounts

Differences between statutory and RAG definitions (continued)

Table 1A - Income statement

Differences between statutory & RAG definitions 2020/21	Revenue Recognition £m	G&C's Diversion Income £m	Amortisation of G&C's £m	Adopted Assets £m	Income from energy & export £m	Reclass of ROC income to opex £m	Capitalisation of borrowing costs £m	Reclass from opex to other income * £m	Reclass of pension interest to other interest expense £m	Other £m	Total £m
Revenue	27.053	(2.726)	(5.918)	(8.656)	(3.843)	(6.855)				(0.240)	**(1.185)**
Operating costs	(18.821)		(0.438)		4.004	6.855	6.761	(3.729)		8.374	**3.006**
Other operating income										(8.374)	**(8.374)**
Operating Profit	**8.232**	**(2.726)**	**(6.356)**	**(8.656)**	**0.161**	**(0.000)**	**6.761**	**(3.729)**	**(0.000)**	**(0.240)**	**(6.553)**
Other income		2.726	6.356	8.656	(0.161)			3.729		0.240	**21.546**
Interest income									(13.400)		**(13.400)**
Interest expense							(30.387)				**(30.387)**
Other interest expense									13.400		**13.400**
Profit before tax (Table 1A line 11)	**8.232**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**(23.626)**	**0.000**	**0.000**	**(0.000)**	**(15.394)**

*Other income in the statutory accounts is included within operating costs, this is disclosed separately in the regulatory accounts.

Table 1C - Statement of financial position

Differences between statutory & RAG definitions 2020/21	Revenue Recognition £m	Capitalisation of borrowing costs £m	Deferred tax adjustment £m	Other £m	Total £m
Total non-current assets		(234.761)		(0.704)	**(235.465)**
Total current assets	24.157			0.204	**24.361**
Total current liabilities					**0.000**
Total non-current liabilities			36.506		**36.506**
Net Assets (Table 1C line 31)	**24.157**	**(234.761)**	**36.506**	**(0.500)**	**(174.598)**

Additional Table Narrative

Table 1A – Income Statement

COVID-19 Impact

The table below highlights the impact to operating costs in 2019/20 and 2020/21, and to which price control the costs are allocated within the section 2 tables.

Operating cost impact		Retail Household £m	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Bio-resources £m	Total £m
2019/20	Operating costs excl. doubtful debts	-	0.091	1.176	1.030	0.208	**2.505**
	Doubtful debts	19.937	-	-	-	-	**19.937**
	2019/20 Operating cost impact	**19.937**	**0.091**	**1.176**	**1.030**	**0.208**	**22.442**
2020/21	Operating costs excl. doubtful debts	3.500	0.303	1.369	2.313	0.600	**8.085**
	Doubtful debts	4.976	-	-	-	-	**4.976**
	2020/21 Operating cost impact	**8.476**	**0.303**	**1.369**	**2.313**	**0.600**	**13.061**

Included within operating costs attributable to COVID-19 for 2020/21 is the impact of an increase in power price (reduction in demand driving commodity cost increases), health and safety PPE (including cleaning labour and materials) and chemical stock contingency measures (due to change in population demographics with shift away from cities to commuter sites). There was also higher staff retention in some business areas in year to ensure a key skills base was maintained to adapt to the changing environment throughout lockdown, and to provide cover for employees who were shielding or self-isolating. An increased cost of doubtful debts was recognised to reflect the higher risk of future non-payment of household customer bills.

Analysis of Interest Expense

The interest expense (line 1A.7) and other interest expense (line 1A.8) incurred by the appointed business is broken down into the following components:

Interest component 2020/21 £m	1A.7 £m	1A.8 £m
Interest charged on external borrowings	206.901	-
Interest payable on intra-group borrowings	5.895	-
Amortisation of debt premiums and discounts	(0.669)	-
Interest payable on leases under IFRS 16	1.718	-
Interest on net pension scheme assets	-	(13.400)
Other financing costs	2.418	-
Interest and other interest expense	**216.263**	**(13.400)**

Table 1C - Statement of financial position

Consistent with 2019/20 reporting, we have continued to report capex creditors (line 14) within current liabilities in Table 1C as zero, and have included a capital accruals liability within trade & other payables (line 13) of £65.387m. This capital accrual represents work-in-progress not yet invoiced for 2020/21. We believe this classification is better aligned to the line definitions in RAG 4.09.

Included within the non-appointed column of Table 1C is a double entry for £1.752m between fixed assets and trade and other payables in relation to advance purchases of land for the Haweswater Aqueduct Resilience Programme DPC project.

Table 1E - Net debt analysis

All figures in the table have been calculated by reference to 'RAG 4.09 - Guideline for the table definitions in the annual performance report'.

Net debt excludes fair value accounting adjustments which do not impact on the principal sum outstanding on the debt. The interest rate risk profile does not take account of the impact on interest of derivative instruments.
Adjusted gearing represents the consolidated net debt of United Utilities Water as a proportion of the company's RCV (per the Final determination, in outturn prices), calculated based on the methodology published by Moody's Investor Services.

This is the gearing measure most commonly used by management and is a key ratio used by Moody's Investor Services in determining the credit rating of the company.

Indicative weighted average interest rates are based on the effective interest rates as at the balance sheet date, which includes the impact of derivative instruments but excludes those with a forward start date, weighted by the notional principal amount.

Due to the nature of the company's interest rate hedging policy, it has some forward starting interest rate swaps which are not included in the indicative weighted average interest rates as they are not effective at the balance sheet date. As a result the indicative weighted average interest rates are only representative of our economic cost of borrowing as at the balance sheet date and are not representative of our economic cost of borrowing over the duration of the fixed interest rate hedge.

The indicative weighted average nominal/cash interest rates (lines 11/12) for floating interest rate debt are unrepresentative of the cost of these borrowings and as such, consistent with prior year reporting, these have not been disclosed in the tables. We hedge most of our floating interest rate exposure through 'floating to fixed' interest rate swaps which results in a very low net floating interest rate exposure. As a consequence the interest cost ends up as a small interest expense once we strip out the fixed margin on the debt, due to the basis and timing differences on the floating rate legs of the debt and derivative contracts. The calculated rate was 0.07% as at 31 March 2021 based on a £0.6m net interest payable on £936.1m of net floating rate debt (after the impact of swaps).

Weighted average years to maturity takes account of all applicable contractual commitments, which includes derivative instruments with a forward start date, weighted by notional amount and duration.
The calculation of the weighted average years to maturity on floating rate borrowings provides an unrepresentative figure and as such, consistent with prior year reporting, has not been be disclosed in the tables. Typically we raise debt in fixed rate form, swap it to floating rate for the duration of the debt instrument and then swap it back to fixed rate on a 10 year reducing balance basis. This hedged position makes it difficult to calculate the weighted average duration in a meaningful way.

Annual RPI increase of 1.5 per cent at March 2021 has been applied.
Annual CPI increase of 0.7 per cent at March 2021 has been applied.

Following the adoption of IFRS 16, lease liabilities of £57.1m have been included within fixed rate borrowings. The inclusion of lease liabilities into borrowings has resulted in an increased average time to maturity as a great proportion of the group's leases are very long dated (many high value leases have c.150 year’s term), if leases had not been included the weighted average would have been 8.1.

Borrowings Reconciliation

The below table shows the reconciliation from borrowings within Table 1C to borrowings in Table 1E.

	2020/21 £m	Notes
Borrowings – current	(706.993)	Table 1C Line 15
Borrowings – non current	(7,998.370)	Table 1C Line 22
Borrowings (Table 1C)	**(8,705.363)**	IFRS measurement basis
Remove fair value movements	403.240	
Remove bond discount	22.657	
Remove interest accrued on FVO debt	2.546	
Borrowings (Table 1E)	**(8,276.920)**	Table 1E Line 1 Notional value basis

Analysis of Debt

The table below shows the reconciliation between Table 1E 'Net debt analysis' and 4B 'Analysis of debt'.

	Total borrowings £m	Indicative weighted average nominal interest %	Nominal interest cost £m	Indicative weighted average cash interest %
Table 1E	**8,276.920**	**2.061%**	**170.387**	**1.428%**
Book overdrafts	(10.087)	-	-	0.000%
Committed Facilities	-	0.026%	2.175	0.027%
Table 4B	**8,266.833**	**2.087%**	**172.562**	**1.455%**

Table 1E includes book overdrafts within borrowings - these form part of cash and cash equivalents figure and do not impact our cost of debt, as they represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.

Table 4B includes the cost revolving credit facilities. Table 1E does not disclose these facilities as they are not drawn down at year-end and have nil impact on the total borrowings at March 2021. Disclosing these facilities in table 4B increases the weighted average nominal and cash interest rates by 0.03%.

Table 1F - Financial flows and Return on Regulatory Equity (RORE)
Introduction

Table 1F presents financial flows for 2020/21. The figures are presented both as a percentage of notional regulatory equity and as a percentage of actual regulatory equity. The table also shows the £ million equivalents and these values are all presented in 2017/18 prices. Table 1F presents the in year and cumulative average over the 2020-2025 period and, given 2020/21 is year one, the cumulative average is equal to the in year results.

The following narrative focuses on both the actual return % on the actual regulatory equity - being most aligned to actual shareholder returns, and on the notional regulatory equity - being the basis of the Ofwat defined RORE metric per table 4H. There will be differences as actual equity is different from Ofwat's assumed regulatory equity of 40% (or assumed gearing of 60%). Since UUW's actual average gearing for 2020/21 (66.51%) is higher than Ofwat's assumed notional gearing (60.0%), the actual return percentage on each sub-measure will be slightly higher than the notional return.

Line 1 – Return on regulatory equity – 2020/21 Actual equity: 3.91%; Notional equity: 3.30%

The base case return on regulatory equity assumed in the PR19 (Price Review) final determination (FD) was 3.91%. In accordance with Ofwat line definitions, on a notional equity basis this base return is split over line 1 (3.30%) and line 3 (0.61%).

Line 3 – Gearing – 2020/21 Actual equity: +0.29%; Notional equity: +0.61%

This line represents the impact on the base case return (i.e. line 1 above) due to a company's actual gearing structure. As mentioned in the introduction above, UUW's average actual gearing of 66.51% has been slightly higher than Ofwat's assumed notional gearing of 60.0% for 2020/21. Since Ofwat's allowed cost of debt (2.42% real) is less than the allowed cost of equity (as per line 1), this results in an increase in actual return compared to notional (the impact on a notional basis is effectively zero once 0.61% is added back to the base case return in line 1 above).

The average gearing has been calculated using the opening and closing balances for the reporting period.

Line 4 – Gearing benefits sharing – 2020/21 Actual equity: nil; Notional equity: nil

Under the gearing outperformance sharing mechanism, this line reduces the return where a company has gearing of more than 74% for 2020/21. Since UUW's actual average gearing for 2020/21 was well below this threshold at 66.51%, there is no impact from this mechanism.

Line 5 – Variance in corporation tax – 2020/21 Actual equity: -0.53%; Notional equity: -0.45%

This line compares the amount allowed for corporation tax in the PR19 FD to a tax charge calculated as per the table below, in accordance with the line definition:

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	2020/21 Actuals £m
Corporation Tax as per PR19 FD (17/18 prices)	**48.9**
Appointed profit before tax and fair value movements (out-turn)	415.5
Tax payable at standard rate of corporation tax (out-turn) (19%)	78.9
Plus or minus accelerated or deferred capital allowances (out-turn)	-6.8
Plus or minus prior year adjustments (out-turn)	0.1
Adjusted tax payable (out-turn)	**72.2**
Adjusted tax payable (17/18 prices)	**69.0**
Variance (17/18 prices)	**-20.1**
% of actual regulatory equity	**-0.53%**
% of notional regulatory equity	**-0.45%**

Overall, this shows a tax underperformance of -0.53% on an actual basis, or -0.45% on a notional basis, for 2020/21. The main contributors to tax underperformance have been a higher rate of corporation tax than assumed at the PR19 FD (19% compared to the assumption of 17%) - which is recoverable under the AMP7 tax reconciliation mechanism, and the actual interest charge being lower than the notional amount assumed in the price limit calculations. This has been partially offset by outperformance driven by higher capital allowances received (with UUW's accelerated capital programme).

Line 6 – Group relief – 2020/21 Actual equity: nil; Notional equity: nil

Whilst UUW has utilised losses surrendered from other group companies during the year, it has been charged for these at the value of the group relief. As such, there is no financial benefit to this and thus, in line with the RAG definition, this is reported as nil.

Line 7 – Cost of debt – 2020/21 Actual equity: +0.51%; Notional equity: +0.30%

The actual real interest paid used to calculate overall financing outperformance (i.e. sum of lines 7 and 8) has been calculated using UUW's net interest expense plus interest paid/received on swaps. As the table below shows, this is then divided by actual net debt to derive a net interest rate. This rate is then compared to Ofwat's allowed cost of debt (2.42% CPIH real) plus average CPIH in the year to derive a debt outperformance number (shown as 'c') in the table below. This is then multiplied by UUW's actual gearing positon to derive a cost of debt outperformance number, also presented as a % of actual regulatory or notional equity. This has been calculated as 1.52% of actual equity, or 1.16% of notional equity, for 2020/21.

	2020/21 Actuals Actual equity £m	2020/21 Actuals Notional equity £m
a) Net interest paid including derivatives (£m)	200.0	200.0
b) Average Net Debt (£m)	7,759.41	7,759.41
Net interest rate (%)	2.46%	2.46%
Average CPIH (%)	0.80%	0.80%
Allowed cost of debt (% CPIH real)	2.42%	2.42%
c) Debt outperformance (%) (applying Fisher equation)	**0.77%**	**0.77%**
d) x Average RCV (£m 17/18 prices)	11,191.8	11,191.8
e) x Average actual gearing rate (%)	66.51%	60.00%
Cost of debt outperformance (£m 17/18 prices)	**57.5**	**51.9**
Cost of debt outperformance (% of regulatory equity)	**1.52%**	**1.16%**
Split by:		
Net interest excluding swaps (Line 7)	**0.51%**	**0.30%**
Interest of swaps (Line 8)	**1.01%**	**0.86%**

Financing outperformance is mainly attributable to the embedded cost of debt UUW has locked in at lower rates than Ofwat's PR19 FD assumed cost of debt. Ofwat's assumed cost of debt was based on a water industry average and under the regulatory model companies with below average debt can expect to outperform on financing. In addition, our leading treasury management helped us secure a low cost of debt on our new issuances totalling £880m in the year. This included a c£300m issuance under our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials, issued at a UK corporate record low coupon rate at this maturity of 0.875%.

UUW's debt predominantly comprises a mix of index-linked debt (RPI and CPI/CPIH linked) and fixed rate debt. UUW's RPI index-linked debt is locked-in at an average real rate of 1.3%, and CPI/CPIH at -0.5%, locking in outperformance vs. the allowed cost of debt of 2.42%. Inclusive of all hedging derivatives, UUW's fixed rate debt is locked-in at a rate of 2.6% nominal. The level of outperformance fluctuates depending on out-turn CPIH, with outperformance higher in years of higher CPIH. However, even with average CPIH running relatively low at c0.8% over the year, this debt has still generated financing outperformance.

The total outperformance relating to hedging instruments (see line 8 below) is deducted from total cost of debt outperformance to derive a cost of debt outperformance excluding swaps of 1.01% of actual equity, and 0.86% of notional equity, for 2020/21, as reported on line 8.

Line 8 – Hedging instruments – 2020/21 Actual equity: +1.01%; Notional equity: +0.86%

This line shows the impact on financing outperformance of our interest rate and cross-currency swap derivatives. Since market interest rates have, on average, reduced from the time of issuance to market rates at the reporting date, our overall swaps are in a net asset position (as can be seen in Table 1C) and have generated net cash inflows for the year 2020/21.

Line 10 – Totex out / (under) performance – 2020/21 Actual equity: -0.22%; Notional equity: -0.19%

This line shows totex out/(under) performance versus the amount allowed in the PR19 FD, adjusted for timing differences, and presented net of the customer sharing ratio. This line also removes the impact of the innovation fund cost accrual (c£6.2m) which wasn't within allowed PR19 totex, being separately funded through customer revenues and thus not representing genuine underperformance.

Whilst we have incurred more wholesale totex across the year than was assumed in the FD, this has been impacted by the c£200m acceleration of AMP7 spend in the period which has been adjusted for in this metric. Our current plans indicate that we should be able to deliver our AMP7 FD programme of work at the allowed level of expenditure across the 5-year regulatory period. In addition, we incurred additional totex totalling £32m on spend to save opportunities and the acceleration of our digital transformation (re: £300m AMP7 discretionary investment plan). This additional spend has been included in reported RORE, although the upside ODI benefits will not be reflected until future years. This resultant overspend has been partly offset by outperformance on costs not subject to customer sharing of £6.7m (excluding the innovation fund accrual of £6.2m) driven by lower mains expenditure and developer connections activity.

Reported totex overspend within RORE, excluding timing differences due to the acceleration of the AMP7 capital program but including additional scope projects, net of the customer share (main sharing ratios: 50% water resources, 50% water network+, 50% wastewater network+ and 0% bioresources) was -0.22% of actual equity, and -0.19% of notional equity.

Line 11 – ODI out / (under) performance – 2020/21 Actual equity: +0.41%; Notional equity: +0.35%

This line shows the actual out/(under) performance of Outcome Delivery Incentives (ODIs) accrued in the year. In 2020/21 we delivered another strong performance against customer ODIs resulting in a net reward of c£15.5m.

The net reward of c£15.5m includes a penalty of c£1.7m in relation to per capita consumption (PCC) performance. Given the impact of COVID-19 on household consumption, Ofwat do not expect to make an in-period adjustment for performance on PCC. However, Ofwat have advised that all companies continue to report against the performance commitment set out in the PR19 FD, including the impact this has on RORE, which may, or may not, crystallise.

Line 12 – C-Mex out / (under) performance – 2020/21 Actual equity: nil; Notional equity: nil

Under PR19, the Service Incentive Mechanism (SIM) was replaced with two new common performance commitments to incentivise companies to provide an excellent experience for residential customers (C-Mex) and developer services customers (D-Mex). This line shows the C-Mex out/(under) performance.

We have out-performed our peers on C-Mex and so expect to receive a reward of £2.1m based on our strong 2020/21 performance. However, the final C-Mex position is confirmed by Ofwat following the publication of companies APRs and is thus reported in the APR one year in arrears and so our final C-Mex reward for 2020/21 will be included within 2021/22 RORE. With 2020/21 being the first year of C-Mex, the reported value for 2020/21 is nil.

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Line 13 – D-Mex out / (under) performance – 2020/21 Actual equity: nil; Notional equity: nil

This line shows the D-Mex out/(under) performance. We have out-performed our peers on D-Mex expect to receive a reward of £1.5m based on our strong 2020/21 performance. As with C-Mex, Ofwat publish the values to be reported in the APR in arrears, and as such the reported value for 2020/21 is nil.

Line 14 – Retail out / (under) performance – 2020/21 Actual equity: -0.36%; Notional equity: -0.30%

Line 14 represents the difference between PR19 FD allowed retail costs for household customers and actual costs incurred. Overall, costs incurred in household retail have been slightly higher than the FD allowance predominantly due to costs incurred adapting to the effects of COVID-19.

Line 15 – Other exceptional items – 2020/21 Actual equity: +0.03%; Notional equity: +0.03%

This line is defined as exceptional items that are outside normal operating activities. In accordance with the line definition, the 2020/21 return relates to proceeds from land sales of £2.7m net of the customer share and deflated to 17/18 prices (50% water resources, 50% water network+, 50% wastewater network+ and 0% bioresources).

Line 17 – RORE – 2020/21 Actual equity: 5.05%; Notional equity: 4.50%

This line represents the return on regulatory equity after the base case return assumed in the PR19 FD has been adjusted for all items highlighted above.

On a notional equity basis, at 4.50%, this is the key RORE metric disclosed within Table 4H Financial Metrics. Adjusting for the tax impact that will be recovered through the tax sharing mechanism and assuming nil over/under totex spend on an underlying basis (consistent with 5-year view on a like-for-like basis), underlying RORE is higher at 4.8%. This underlying RORE of 4.8% provides a more representative view of actual business performance during the year.

On an actual equity basis, reported RORE at 5.05% is most aligned to actual shareholders return.

Line 18 – Actual performance adjustment 2015-20 – 2020/21 Actual equity: +0.14%; Notional equity: +0.12%

Per the line definition, this represents out/(under) performance adjustments in relation to the 2015-20 regulatory period. The £ adjustment is published by Ofwat, and the value is divided by regulatory equity to derive the % impact on shareholder returns.

Line 19 – Total earnings – 2020/21 Actual equity: 5.19%; Notional equity: 4.62%

Total earnings represents the sum of the lines 17 and 18 and represents the actual real return.

Line 20 – RCV growth from inflation – 2020/21 Actual equity: +1.01%; Notional equity: +1.01%

This line shows the inflationary uplift to RCV for the period, representing a blended RPI/CPIH basis, as published by Ofwat.

Line 21 – Voluntary sharing arrangements – 2020/21 Actual equity: -0.26%; Notional equity: -0.22%

This line shows the amount of revenue forgone by the company to fund social tariff discounts for retail customers, as reported in table 2N, deflated to 17/18 prices. The company has a range of support schemes intended help customers keep out of debt which reduces the actual retail revenue compared to the allowed retail revenue, as reported in Table 2F Residential Retail.

Line 22 – Total shareholder return – 2020/21 Actual equity: 5.94%; Notional equity: 5.41%

This line adds average inflation in the year (line 20) and the voluntary sharing arrangements in year (line 21) to the total real earnings (line 19) to represent the actual nominal return.

Lines 23 and 24 – Net dividend 2020/21 Actual equity: nil; Notional equity: nil

This is the net of gross dividends and interest received on intercompany loans. There were no gross appointed dividends for 2020/21, as reported in Table 1A.

Line 25 – Retained value – 2020/21 Actual equity: 5.94%; Notional equity: 5.41%

This line shows the nominal return (line 22) less the gross dividends paid (line 23) and interest received on intercompany loans (line 24) to represent the value retained in the business post-dividend.

Table 2C – Operating cost analysis retail

Variance analysis of retail costs compared to the prior year can be found in our 2020/21 accounting methodology statement, published on our website alongside the APR. www.unitedutilities.com/globalassets/documents/pdf/rr21-accounting-methodology-statement

Tables 2D and 2O - Historic cost analysis of tangible fixed assets and Historic cost analysis of intangible fixed assets

Lines 4 and 9 of Tables 2D and 2O 'Adjustments' includes reclassifications of assets between price controls and transfers between tangible and intangible assets. These reclassifications across price controls have mainly occurred due to data cleanse activities performed in the year to ensure assets are correctly allocated per RAG 4.09.

In previous years, transfers between tangible and intangible assets have been included within the additions and depreciation lines, this year, these have been included in the adjustments lines. This revised approach is more aligned to where you would naturally expect transfers to be reported in this table.

Table 2E - Analysis of 'grants and contributions' - water resources, water network+ and wastewater network+

The increase in Line 2E.21 (water, value of adopted assets) is mainly due to the change in accounting treatment of self-laid water mains in AMP7. Prior to 1 April 2020, an asset payment was made to the developer for self-laid mains which was included in capital expenditure. Post 1 April 2020, an income offset is paid when connections are made which is reflected in capital income rather than capital expenditure. The asset is adopted at nil cost and therefore, as required by IFRS15, these assets are assigned a fair value on adoption.

In 2020/21 there has been a commercial settlement on one of our large NRSWA diversion schemes (impacting water and wastewater assets), which reduced the costs that had been recognised in prior financial years. As a result of the scheme value reducing, the associated income to be recovered from the customer also reduced causing a debit to income in 2020/21, leading to overall negative NRSWA income values.

Table 2K - Infrastructure charges reconciliation

The purpose of table 2K is to reconcile the infrastructure charges with the infrastructure network reinforcement costs over a five year rolling period. This is to ensure that the money we receive from developers due to the impact of new connections increasing the demand on our existing water mains and sewers, is spent accordingly.

Our infrastructure charges are set to be reflective of the service we provide, therefore we have differing level of charges to reflect the demand placed on our network.

For example there is a lower rate infrastructure charge applicable for developments in relation to water efficient homes or where properties are built with no surface water connection to the existing public sewer. Where developers implement these sustainable developments it places less demand on our network which reduces our spend on infrastructure network reinforcement. Likewise, where developers do not adopt the sustainable solutions it places greater demand on our network, which means we have to spend more on infrastructure network reinforcement. The overall aim being that our developer charges recover our expected infrastructure network reinforcement costs and hence there is nil totex impact.

This ensures that existing customers are not funding infrastructure network reinforcement due to new developments. Table 2K is expected to show the performance over a five-year rolling period. At the end of the third year the cumulative position is shown in the table below:

Comparison of revenue and costs	Water £m	Wastewater £m	2020/21 Total £m
Variance brought forward	6.062	8.738	14.800
Revenue (net of discounts applied)	5.673	5.962	11.635
Costs	(2.435)	(3.688)	(6.123)
Variance carried forward	**9.300**	**11.012**	**20.312**

The variance between cost and revenue for Water is £9.300m and £11.012m for Wastewater. This is due to:

- £10.8m higher revenue due to higher than expected volumes of properties connected (£5.5m higher in water and £5.3m higher in wastewater), c19,200 more properties were connected in the last three years than forecast, driven by some significant apartment developments in and around major cities
- £9.5m lower infrastructure network reinforcement spend compared with forecast due to the timing of scheme's being delivered (£3.8m lower in water and £5.7m lower in wastewater)

Although we are currently in a surplus position; mainly due to higher connections volumes than previously forecast, we have significant Network Reinforcement expenditure planned for later in the AMP which we expect to address this balance.

Table 2N – Residential Retail – Social Tariffs

As reported in table 2N, there were approximately 137,000 customers that received a discounted fixed price bill under a social tariff during the year. In total these customers received a £26.3m discount to their underlying full price bill, of which £10.5m was funded by the company and £15.8m was funded by other residential customers.

During the year, we received approval to extend our Back on Track support tariff to include a social tariff element which enabled us to extend the scope of the scheme to support customers impacted by COVID-19. The additional customer funding of £5 per customer enabled approximately 74,000 additional customers to benefit from the tariff over and above our committed PR19 growth plans.

Other Forms of Assistance

A further 22,000 customers received in year support through our payment matching scheme. The scheme is an arrears clearance scheme funded through write-off and is a cost to the company through the bad debt charge as opposed to revenue sacrifice.

United Utilities plc also made £3.5m of donations to the United Utilities Trust Fund. The trust fund provides financial assistance to financially vulnerable customers in the form of a grant which can be used to repay debts including but not restricted to any water debt arrears.

Tax strategy

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- Only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law; do not engage in marketed, aggressive or abusive tax avoidance;
- do not engage in marketed, aggressive or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes and always seek to declare profits in the place where their economic substance arises;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer ("CFO") has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the Head of Tax. The Head of Tax has day-to-day responsibility for managing the company's tax affairs and engages regularly with key stakeholders from around the company in ensuring that tax risk is proactively managed. Where appropriate, he will also engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the company's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the company and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The company is committed to actively engaging with relevant authorities in order to actively manage any such risk.

In any given year, the company's effective cash tax rate on underlying profits may fluctuate from the standard UK rate mainly due to the available tax deductions on capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

Under the regulatory framework the company operates within, the majority of any benefit from reduced tax payments will typically not be retained by the company but will pass to customers; reducing their bills. For 2020/21, the impact of tax deductions on capital investment alone reduced average household bills by around £20.

United Utilities Water Limited operates solely in the UK and its customers are based here and all of the company's profits are taxable in the UK.

Every year, the company pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2020/21 of around £256m are set out below:

- Business rates – £91m
- Corporation tax - £46m
- Employment taxes: company - £24m
- Employment taxes: employees - £54m
- Environmental taxes and other duties - £10m
- Regulatory services fees (e.g. water extraction charges) - £31m

The above tax policy disclosure meets the company's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2021.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders

Regulatory accounts

Recognising the company's on-going commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to have retained the Fair Tax Mark independent certification for a second year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

Current tax reconciliation

	2020/21 £m
Profit on appointed ordinary activities before tax and fair value movements as per Table 1A line 9	**415.5**
Multiplied at the standard rate of corporation tax of 19%	78.9
Capital allowances in excess of depreciation	(6.8)
Adjustment in respect of prior years	0.1
Net non-deductible expenses	1.7
Pension deductions	(2.7)
Fair value movements	5.7
Other timing differences	(2.1)
Current tax included in equity	2.7
Appointed current tax charge per Table 1A line 12	**77.5**

Details of factors affecting future tax charges:
The headline rate of corporation tax is due to increase from 19% to 25%, effective from 2023/24.

For the 2 years to 31 March 2023, enhanced capital allowance rates will apply to spend on plant and machinery ("P&M) assets:

a) The rate will increase from 18% to 130% for standard life P&M
b) The rate will effectively increase from 6% to 50% (100% FYA on 50% of additions) for long life P&M

The capital allowance changes include a restriction such that the new enhanced rates do not apply to any expenditure in relation to contracts entered into prior to 3 March 2021. Given the nature of our capital programme together with the related contractual arrangements, this represents a material reduction to the potential benefit available.

Reconciliation of significant variations between the appointed current tax charge or credit reported in line 1A.12 to the total current tax charge allowed in price limits

	2020/21 £m	Commentary
Current tax charge allowed in price limits	**51.2**	
Adjustment in respect of prior years	0.1	The adjustments in respect of prior years relates to agreement of prior years' UK tax matters.
Pension deductions	(1.6)	The tax impact of the increase in pension deductions compared to the figures in the FD.
Net increase in profit before tax and depreciation	30.8	The tax impact of the increase in profit before tax and depreciation compared to the figures per the FD, including the actual interest charge which is lower than the notional amount assumed in the FD.
Fair value movements	(3.1)	Non-taxable interest, currency and inflation swaps.
Increase in capital allowances/other	(8.7)	The increase in capital allowances is mainly due to increased capital expenditure.
Increase in tax rate from 17% to 19%	6.1	Impact of the corporation tax rate change
Current tax included in equity	2.7	
Appointed current tax charge per Table 1A line 12	**77.5**	

In PR19 Ofwat introduced a tax reconciliation mechanism to reflect legislative changes to either the headline corporation tax rate or to the capital allowances rates available on capital expenditure, recognising that these matters were outside of managements control:

- To do this, Ofwat will rerun the PR19 financial model using the totex allowances, PAYG and RCV run-off rates (set out in the final determination).
- The resulting difference to the tax allowed at PR19 is then added/deducted to PR24 revenue requirements.
- In order to ensure that the incentive for companies to manage their liabilities in the most efficient manner is retained, this reconciliation will purely affect the agreed FD scope and profile, not the actual performance of the company.
- Accordingly, this reconciliation will mitigate some of the above additional tax that has been incurred in 2020-21 as a result of the increase to corporation tax from 17% to 19% but only on the FD scope and profile, not the actual performance of the company.

Regulatory accounts

Long term viability statement

The directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of UUW's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the seven year period to March 2028.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change. The long-term planning detailed on page 40 of the UUW statutory accounts assesses the company's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the company's strategic planning process, and is key to achieving the company's aim of providing the best service to customers at the lowest sustainable price and in a responsible manner over the longer term, underpinning our business model set out on pages 23 to 43 of the UUW statutory accounts.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the company. Specifically, risks associated with the possible ongoing impact of the COVID-19 pandemic and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the company's assessment. An overview of our risk management approach that supports the company's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 66 to 97 of the UUW statutory accounts. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

The viability assessment is performed on a standalone basis in relation to UUW. UUW is part of the United Utilities group.[(1)] The regulated activities of UUW represent 98% of the total assets of the United Utilities group as a whole, which taken together with the financial resources and interests of the regulated business being robustly ring-fenced, means there is minimal risk from the non-regulated activities.

Within the context of this long-term planning and management of risks, the company's principal business operates within five year regulatory price control cycles. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. This results in the board concluding a recurring period of seven years to be an appropriate period over which to perform a robust assessment of the company's long-term viability.

Viability assessment: resilience of the company

The viability assessment is based upon the company's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- **UUW's current liquidity position** – with £1.1 billion of available liquidity at March 2021 providing a significant buffer to absorb short-term cash flow impacts;
- **The company's robust capital solvency and credit rating positions** – with a debt to regulatory capital value (RCV) ratio of 65 per cent, a robust pension position and current credit ratings of A3/BBB+/A- with Moody's, S&P and Fitch respectively, this provides considerable headroom supporting access to medium-term liquidity where required;
- The company's expected performance, underpinned by its historical track-record; and
- **The current regulatory framework within which the company operates** – which provides a high degree of cashflow certainty over the regulatory period and the broader regulatory protections outlined below.

The company has a proven track-record of being able to raise new finance in most market conditions, and expects to continue to do so into the future. This is despite the company no longer having access to future EIB funding following the UK's exit from the EU.

From a regulatory perspective, the company benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

[1] United Utilities Group PLC and its subsidiary undertakings

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the company's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the company's viability based on the resilience of the company and its ability to absorb a number of 'severe but reasonable' scenarios, derived from the principal risks facing the company, as set out on pages 83 to 97of the UUW statutory accounts. The baseline plan against which the viability assessment has been performed incorporates the estimated ongoing impact COVID-19 based on experience to date. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of company's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the company's TCFD disclosures on pages 63 to 83 of the UUW statutory accounts; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; longer term economic impacts resulting from COVID-19, including unemployment and corporate failures affecting debt collection and lower inflation affecting revenues, financing costs and RCV; and the potential for a restriction to the availability of financing resulting from a capital markets crisis. The UK's withdrawal from the EU and the ending of the transition period has not had a material adverse operational or financial impact on the company to date, and is not considered to represent a significant risk to the company's ongoing viability.

The scenarios considered are underpinned by the company's established risk management processes, taking into account those risks with a greater than 10% (1 in 10) cumulative likelihood of occurrence. The risks associated with COVID-19 are reflected within the baseline position, with further potential downside risks (most notably in relation to bad debt and low inflation) covered by the individual scenarios modelled, and collectively within a combined scenario.

Based on these risks, the following six largest impacting scenarios were identified and applied as downside stress scenarios to UUW's baseline plan:

Scenario modelled	Link to risk factors	Example mitigations (none required)
Scenario 1: Totex £400m one-off impact in 2021/22	Broadly representing the largest 'severe but reasonable' risk which is a critical asset failure, all assumed to be operating costs	• Issuing new finance • Equity injection from parent • Closing out derivative asset positions
Scenario 2: Totex underperformance of 10% (c£120m) per annum for 2021/22-2027/28	Representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but reasonable' risks (including environmental, cyber security and network failure risks)	• Reduction in discretionary totex spend • Restriction of dividends • Capital programme deferral • Issuing new finance
Scenario 3: CPIH inflation of 1.0% below baseline plan for 2021/22-2027/28	Consistent with quantum of inflation impacts modelled within top 10 severe but reasonable risks 'Financial outperformance'	• Reduction in discretionary totex spend • Restriction of dividends • Equity injection from parent
Scenario 4: An increase in bad debt of £15m per annum across AMP7	Aligned to internal risk factor on debt collection. Slightly higher than the level of improvement in household statutory bad debt in AMP6	• Reduction in discretionary totex spend
Scenario 5: Additional ODI penalty of 1.0% RORE (c£50m) per annum	Assumes mid-point of UUW's baseline and FD P90 ODI position	• Reduction in discretionary totex spend • Restriction of dividends
Scenario 6: Combined scenario – 50% of scenarios 2-5	50% of scenarios 2-5	• Reduction in discretionary totex spend • Restriction of dividends • Capital programme deferral • Issuing new finance

The above scenarios reflect our company specific risks and risk mitigation strategies whilst having consideration to the 'common scenarios' prescribed by Ofwat for PR19.

The assessment has considered the impact of these scenarios on the company's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the company's ability to absorb the impact of all severe but reasonable scenarios modelled, without the need to rely on the key mitigating actions detailed below.

The most extreme of the severe but reasonable scenarios modelled, without any mitigating action, resulted in: UUW comfortably retaining investment grade credit ratings; liquidity of > 1 year; and no projected breaches of financial debt covenants.

As part of the assessment, reverse stress testing of two extreme theoretical scenarios focusing on totex overspend and persisting low inflation have been performed to understand the extent to which the company could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but reasonable' scenarios before the company's long-term viability would be at risk.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the company, the effectiveness of which are underpinned by the strength of the company's capital solvency position.

As well as the protections that exist from the regulatory environment within which UUW operates, a number of actions are available to mitigate more severe scenarios, which include: the raising of new finance, including hybrid debt; capital programme deferral; reduction in other discretionary totex spend; the closeout of derivative asset positions; the restriction of dividend payments; and access to additional equity.

These mitigations could cover a number of different extreme scenarios. For example, to mitigate against a large one-off impact (such as in scenario 2 – £400m one-off totex impact), liquidity could be quickly enhanced by issuing new finance, accessing additional equity or closing out derivative asset positions. Where longer-term persisting impacts were expected (such as in scenario 2 – recurring totex overspend, scenario 5 - ODI underperformance or scenario 3 - persisting low CPIH inflation) mitigations such as the restriction of dividend payments or a reduction in discretionary totex spend are viable alternative options. A mapping of some of the key mitigations which could apply to each scenario have been presented in the table on the previous page. However, it should be stressed that no specific mitigating action are required under any of the six scenarios modelled above.

Governance

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the company's external auditor, KPMG, as part of their normal audit procedures.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph in the accounting policies on page 129.

Information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of their knowledge, the directors of the company declare that all appropriate transactions with associated companies have been disclosed and material transactions with associated companies are at arm's length and no cross-subsidy has occurred. The materiality level of transactions used for reporting is 0.5 per cent of turnover.

Borrowings and loans

The following loans from associated companies existed at 31 March 2021:

	£m	Interest rate	Repayment date
United Utilities PLC: overdraft facility	21.851	0.175%+LIBOR	On demand
United Utilities PLC: £588.0 million loan	345.000	0.175%+LIBOR	Amortising until August 2023
United Utilities Water Finance PLC: GBP Notes 2.0% 2025	465.287	2.000%	February 2025
United Utilities Water Finance PLC: GBP 0.013% RPI Bond 2025	28.722	0.013%+RPI	April 2025
United Utilities Water Finance PLC: HKD Notes 2.867% 2026	31.951	2.867%	January 2026
United Utilities Water Finance PLC: HKD Notes 2.92% 2026	74.073	2.920%	February 2026
United Utilities Water Finance PLC: EUR Notes 1.129% 2027	46.624	1.129%	April 2027
United Utilities Water Finance PLC: HKD Notes 2.37% 2027	81.912	2.370%	October 2027
United Utilities PLC: $400.0 million bond	373.582	6.875%	August 2028
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2028	23.741	0.010% +RPI	September 2028
United Utilities Water Finance PLC: GBP Notes 0.875% 2029	295.844	0.875%	October 2029
United Utilities Water Finance PLC: GBP 0.178% RPI Bond 2030	40.194	0.178%+RPI	April 2030
United Utilities Water Finance PLC: EUR Notes 2.058% 2030	28.570	2.058%	October 2030
United Utilities Water Finance PLC: GBP Notes 2.625% 2031	440.501	2.625%	February 2031
United Utilities Water Finance PLC: HKD Notes 2.900% 2031	56.430	2.900%	June 2031
United Utilities Water Finance PLC: EUR Notes 1.641% 2031	27.357	1.641%	June 2031
United Utilities Water Finance PLC: USD Notes 1.474% 2031	22.660	1.474%	August 2031
United Utilities Water Finance PLC: GBP 0.245% CPI Bond 2031	21.516	0.245% +CPI	December 2031
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2031	44.550	0.010% +RPI	December 2031
United Utilities Water Finance PLC: EUR Notes 1.707% 2032	27.032	1.707%	October 2032
United Utilities Water Finance PLC: EUR Notes 1.653% 2032	24.678	1.653%	December 2032
United Utilities Water Finance PLC: EUR Notes 1.70% 2033	28.999	1.700%	January 2033
United Utilities Water Finance PLC: GBP Notes 2.0% 2033	344.120	2.000%	July 2033
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2036	32.969	0.010% +RPI	September 2036
United Utilities Water Finance PLC: GBP 0.379% CPI Bond 2036	21.498	0.379% +CPI	December 2036
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2036	34.190	0.010% +RPI	December 2036
United Utilities Water Finance PLC: GBP 0.093% CPI Bond 2037	64.117	0.093% +CPI	February 2037
United Utilities Water Finance PLC: GBP Notes 1.75% 2038	248.060	1.750%	February 2038
United Utilities Water Finance PLC: GBP 0.010% CPI Bond 2040	145.618	0.010% +CPI	July 2040
United Utilities Water Finance PLC: GBP Notes 1.875% 2042	295.274	1.875%	June 2042
United Utilities Water Finance PLC: GBP 0.359% CPI Bond 2048	33.775	0.359% +CPI	October 2048
United Utilities Water Finance PLC: GBP 0.387% CPI Bond 2057	34.496	0.387% +CPI	October 2057

The £130.0m 7.0 per cent redeemable preference shares were redeemed by the company on 30 September 2020, resulting in a reduction in retained earnings and the creation of a capital redemption reserve. A bonus issue of ordinary shares was subsequently made, with £130.0m of ordinary share capital allotted to the company's immediate parent as fully paid, resulting in the elimination of this capital redemption reserve.

Loans to associated companies at 31 March 2021

There were no loans to associated companies as at 31 March 2021.

During 2020/21 the £40.0m intercompany loan facility with United Utilities PLC was repaid and the £100.0m revolving credit facility with Water Plus was transferred from United Utilities Water to United Utilities PLC.

Dividends paid to associated undertakings

During 2020/21 there were no dividends paid to the parent company (2020: £513.2 million). See the dividend policy note on pages 132 to 134 for details of UUW's 2020-25 dividend policy and how the UUW board acted with utmost prudence to maintain financial resilience during the COVID-19 pandemic and elected to pay no dividends during the year.

Guarantees by the appointee

A financing subsidiary of United Utilities Water Limited (UUW), United Utilities Water Finance PLC (UUWF), was set up in 2014/15 to issue new listed debt on behalf of UUW, following UUW's re-registration as a private limited company. Debt instruments issued by UUWF (as listed in borrowing and loans above) have been guaranteed by UUW.

Transfer of assets by or to the appointee

There were no transfers of assets or liabilities by or to the company in 2020/21.

Services supplied to the company by associated companies in 2020/21

Nature of transaction	Company	Turnover of associate £m	Terms of supply	Total value of goods, work or services 2020/21 £m
Employment costs	UU PLC	-	Recharge of costs	17.811
Share-based payments recharge	UU Group PLC	-	Recharge of costs	3.485
Purchase of energy	UU Renewable Energy	7.503	Contract price	4.775
				26.071

Services supplied by the company to associated companies in 2020/21

Nature of transaction	Company	Turnover of associate £m	Terms of supply	Total value of goods, work or services 2020/21 £m
Employment costs and travel costs	UU Property Services	6.764	Recharge of costs	0.447
Employment costs and travel costs	UU PLC	-	Recharge of costs	0.216
Employment costs and travel costs	UU International Ltd	0.929	Recharge of costs	0.359
Employment costs and travel costs	UU Total Solutions	0.006	Recharge of costs	0.002
Employment costs and travel costs	UU Renewable Energy	7.503	Recharge of costs	1.122
Early removal of solar array to facilitate capital programme	UU Renewable Energy	7.503	Termination payment in line with agreement	-2.690
Wholesale water/wastewater charges	Water Plus Ltd	411.305	Contract price	361.846
Wholesale water/wastewater charges	Water Plus Select Ltd	311.282	Contract price	0.129
Programme and TSA charges	Water Plus Ltd	411.305	Recharge of costs	0.022
Central services including IT	UU Property Services	6.764	Recharge of costs	0.092
Wastewater treatment services	UUW Ltd (non-appointed)	5.285	Contract price	0.080
Property searches	UUW Ltd (non-appointed)	3.559	Contract price	0.027
				361.652

Corporation tax group relief received/surrendered by the regulated business in 2020/21

The regulated business did not receive or surrender any corporation tax group relief in 2020/21.

Services supplied by the non-appointed business in 2020/21

Service	Basis of recharge made by the appointed business	Value of recharge made by the appointed business 2020/21 £m
Treatment of imported sludge	Nil	Nil
Treatment of tankered waste	The appointed business recharges the non-appointed business for treating tankered waste at wastewater treatment works. The recharge is calculated using the Mogden formula based on tankered waste volumes and as per RAG 2.08 (2.21) the income is recorded as negative expenditure, reducing appointed operating expenditure.	2.628
Other	The appointed business recharges the non-appointed business for the use of operating systems consumed directly in the performance of non-appointed activities. This is calculated based on the frequency and proportion of system use.	1.654

Statement of directors’ remuneration and standards of performance

All directors of United Utilities Water Limited (UUW) are also directors of UUG. Further remuneration details including the policy can be found in the annual report and accounts of UUG.

For the purposes of this disclosure, the company’s directors can be split into two categories:

- executive directors of UUW; and
- non-executive directors of UUW.

During the year ended 31 March 2021, the directors have received remuneration linked to levels of performance against service standards in connection with activities subject to price regulation.

Overview of remuneration policy

The remuneration policy applying to the directors was approved by UUG shareholders at the AGM on 26 July 2019. The policy took effect from the date of approval and is intended to apply until the 2022 UUG AGM. No significant changes are proposed to the operation of the policy for 2021/22.

The company’s remuneration arrangements are designed to promote the long-term success of the company. The company does not pay more than is necessary for this purpose. The UUG remuneration committee (committee) recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

The committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the company’s strategy, and if the strategy is delivered within an acceptable level of risk, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

The committee understands that listening to the views of the company’s key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long-term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged.

Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out annually and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements. The committee takes into account the general base salary increase and remuneration arrangements, including pension provision, for the wider employee population when determining remuneration policy for the executive directors. Processes are in place for the committee to review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the ‘employee voice’.

Element: purpose and link to strategy	Operation	Opportunity 2020/21	Performance measures
Base Salary			
To attract and retain executives of the experience and quality required to deliver the company's strategy.	Reviewed annually. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce. Significant increases only awarded infrequently, for example where there has been a material increase in: • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • The pay market for directly comparable companies (for example, companies of a similar size and complexity).	Steve Mogford: 1 April 2020 – 31 March 2021: £736,440. Salary was not increased in 2020. Russ Houlden: (Russ stepped down from the Board on 24 July and left the company on 31 July 2020) 1 April 2020 – 31 July 2020: £138,720. Phil Aspin: (appointed to the Board on 24 July 2020) 24 July 2020 - 31 March 2021: £275,269. Salary on appointment was set at £400,000 Salaries for Steve Mogford and Russ Houlden reflect a voluntary reduction of 20 per cent of salary for three months which was donated to charity.	None.
Benefits			
To provide market competitive benefits to help recruit and retain high calibre executives.	Provision of benefits such as health benefits, car or car allowance, relocation assistance, life assurance, group income protection, opportunity to join the ShareBuy scheme, travel and communication costs.	See table on executive directors' remuneration 2020/21 on page 159.	None.
Pension			
To provide a level of benefits that allow for personal retirement planning.	Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; or • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	Aligned to the approach available to the wider workforce, currently: • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (i.e. up to 12 per cent of base salary for 2020/21);or • a combination of both such that the cost to the company is broadly the same. For executive directors appointed to the role before 26 July 2019 a cash allowance of 22 per cent of salary is payable. This applies only to Steve Mogford.	None.

Element: purpose and link to strategy	Operation	Opportunity 2020/21	Performance measures
Annual Bonus			
To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy. Deferral of part bonus into shares aligns the interests of executive directors and shareholders.	All: • 50 per cent paid as cash. • 50 per cent deferred into company shares under the deferred bonus plan (DBP) for three years. • DBP shares accrue dividend equivalents. • Not pensionable. • Recovery and withholding provisions apply.	Maximum 130 per cent of salary	Payments predominantly based on financial and operational performance. Targets and weightings set by reference to the company's financial and operating plans. Bonus outcomes are subject to the committee being satisfied that the company's performance on the measures is consistent with underlying business performance and individual contributions. The committee will exercise discretion on bonus outcomes if it deems necessary. 100 per cent of maximum bonus potential for stretch performance; up to 50 per cent of maximum for target performance; and up to 25 per cent of maximum for threshold performance. No payout for below-threshold performance. Detail is set out in table 2020/21 annual bonus on page 159.
Long Term Plan			
To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.	Awards under the Long Term Plan (LTP) are rights to receive company shares, subject to certain performance conditions. Each award is measured over at least a three-year performance period. An additional holding period applies after the end of the three- year performance period so that the total vesting and holding period is at least five years. Vested shares accrue dividend equivalents. Shares under the LTP are subject to recovery and withholding provisions in certain negative circumstances, including: material misstatement of audited financial results; an error in the calculation; or gross misconduct. Additionally, withholding provisions can apply in cases of serious reputational damage; serious failure of risk management; or other circumstances that the committee may determine.	The normal maximum award level will be up to 130 per cent of salary per annum. The overall policy limit is 200 per cent of salary. It is not anticipated that awards above the normal level will be made to current executive directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders.	The two performance conditions are Return on Regulated Equity and a basket of customer measures. The weighting of each of these two components is 50 per cent. Any vesting is subject to the delivery of the dividend policy during the respective performance period, and the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. The committee will exercise discretion on LTP outcomes if it deems it necessary. The committee retains discretion to set alternative performance measures for future awards but will consult with major shareholders before making any changes to the currently applied measures. 100 per cent of awards vest for stretch performance; and up to 25% of awards vest for threshold performance. No awards vest for below-threshold performance.

Non-executive director's fees and benefits	Operation	Opportunity 2020/21	Performance measures
To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.	The remuneration policy for the non-executive directors (with the exception of the Chairman) is set by a separate committee of the board. The policy for the Chairman is determined by the remuneration committee (of which the Chairman is not a member). Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September. Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board subcommittees, and to the senior independent non-executive director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload. No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes. The company repays any reasonable expenses that a non-executive director incurs in carrying out their duties as a director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate.	Fees were not increased in 2020/21. The value of benefits may vary from year to year according to the cost to the company.	Non-executive directors are not eligible to participate in any performance-related arrangements.

Non-executive directors

As outlined in the annual report and accounts of UUG, the non-executive Chairman and non-executive directors do not participate in the company's incentive arrangements (i.e. annual bonus or share schemes) and were paid no remuneration linked to water service standards.

Why the standards of performance impacting incentives are set and how they are assessed

Our remuneration approach is aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all of our stakeholders.
Through the annual bonus and long-term incentive schemes, the executive directors receive remuneration linked to the achievement of performance measures which relate to water service standards in order to provide an incentive for them to deliver improvements in those standards.

The following table provides a summary of how our incentive framework in 2020/21 aligns with our business strategy and the results that it delivers. Many of the performance measures are key performance indicators (KPIs) for the regulatory period 2020–25 and a significant weighting of the incentive measures are linked to stretching delivery for customers.

Regulatory accounts

	Alignment to strategy	Link to strategic themes	Alignment to purpose reflecting views of different stakeholders
Annual bonus			
Underlying operating profit	Key measure of shareholder value.		
Customer service in year • C-MeX ranking • Written complaints	Delivering the best service to customers is a strategic objective. Ofwat can apply financial incentives or penalties depending on our customer service performance.		
Maintaining and enhancing services for customers • Outcome delivery incentive (ODI) composite • Time, cost and quality of the capital programme (TCQi)	Delivering the best service to customers is a strategic objective. There is a direct financial impact on the company of Ofwat incentives and penalties for delivery/non-delivery of customer promises. Keeping tight control of our capital programmes ensures we can provide a reliable service to our customers at the lowest sustainable cost.		
Compulsory deferral of bonus	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.		
Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	Outperformance will result in an increase to RoRE which should translate into higher returns for investors through share price performance.		
Customer basket of measures	This is fundamental to delivering our vision of becoming the best UK water and wastewater company. This measure has a direct financial impact on the company as Ofwat can apply financial incentives or penalties depending on our customer service performance.		
Additional holding period (at least two-years)	Ensures continued alignment with shareholder interests and provides an additional period over which withholding can be applied.		
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests.		

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

Communities · Customers · Employees

Environment · Investors · Suppliers

In determining the outcome of the incentive schemes, standards of performance are assessed by the committee to ascertain whether targets have been achieved. In addition, the committee also considers relevant reports from Ofwat in assessing the achievement of standards of performance.

The data required to report on the delivery of our performance commitments and other commitments has been developed to be a subset of our routine and often long standing operational and management information that is directly used to support and direct key business activities. We have also established a centralised reporting function, which has accountability for both assuring the quality of the data and for providing a central source of management information which can be used by many areas of the business.

Executive directors’ remuneration 2020/21

	Base salary £’000	Benefits £’000	Cash allowance in lieu of pension £’000	Bonus (1) £’000	Long-term incentives (2) £’000	2020/21 Total £’000
Steve Mogford	736	30	171	824	1,179	2,940
Russ Houlden(3)	139	8	36	174	579	936
Phil Aspin(4)	275	13	33	293	89	703

(1) Bonuses have been calculated using contractual salary. 50 per cent of each executive director’s bonus was be deferred into shares for three years under the Deferred Bonus Plan (DBP)

(2) See page 160 for further detail on the long-term incentives

(3) Salary, benefits, pension and annual bonus figures for Russ Houlden reflect part-year earnings and are for the period from 1 April 2020 to 31 July 2020 when his employment ended. He stepped down from the board on 24 July 2020.

(4) Salary, benefits, pension and annual bonus figures for Phil Aspin reflect part-year earnings and are for the period from 24 July 2020, when he was first appointed to the board. A bonus of around £53,000 was earned by Phil Aspin in respect of the period 1 April 2020 to 23 July 2020 prior to him joining the board. This is not included in the table.

A recharge of £221,000 during the year ended 31 March 2021 (2020: £274,000) was charged to other companies in the United Utilities group in relation to the provision of executive director services (£168,000 (2020: £219,000)) and non-executive director services (£53,000 (2020: £55,000).

2020/21 annual bonus

The performance measures, targets and outcomes in respect of the executive directors’ annual bonus for the year ended 31 March 2021 are set out below. Bonuses are earned by reference to performance in the financial year and paid in June following the end of the financial year. Fifty per cent of any bonus is deferred into shares under the Deferred Bonus Plan. These awards vest after three years and are subject to withholding provisions.

Measure	Max. %	Threshold (25% vesting)	Intermediate (50% vesting)	Stretch (100% vesting)	Actual	Actual %
Underlying operating profit(1)	25.0%	£643.0m	£729.2m	£791.0m	£763.0m	19.3%
Customer service in year:						
C-Mex ranking out of the 17 water companies	10.0%	8th position	6th position	4th position	5th position	7.5%
Written complaints	10.0%	14.63	14.49	14.36	16.51	0%
Maintaining and enhancing services for customers:						
Outcome delivery incentive (ODI) composite	35.0%	(£25.3m)	(£14.3m)	£0m	£18.7m(3)	35.0%
Time, cost and quality of capital programme (TCQi)(2)	20.0%	80%	87.5%	95.0%	95.3%	20.0%
Total:						
Actual award (% of maximum)						**81.8%**
Maximum award (% of base salary)						**130%**
Actual award (% of salary)						**106.3%**
				Steve Mogford	**Russ Houlden**	**Phil Aspin**
Total £’000				**824**	**174**	**293**

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

(3) ODI composite bonus measure of £18.7m excludes PCC ODI penalty of £1.7m but includes projected D-Mex reward of £1.5m (vs £15.5m ODIs reported within financial flows)

For each of these bonus measures there was a threshold level of performance which triggered a partial payment of bonus with a sliding scale providing for achievement of up to 100 per cent of the relevant element of bonus.

Long-term incentives

2018 Long Term Plan (LTP) awards vesting in relation to 2020/21

The 2018 LTP awards were granted in June 2018 and performance was measured over the three-year period from 1 April 2018 to 31 March 2021. As they were executive directors when the awards were granted in 2018 the awards for Steve Mogford and Russ Houlden will normally vest in April 2023, following an additional two-year holding period. The unvested shares will remain subject to withholding provisions during this two-year holding period. Phil Aspin was not an executive director when his award was granted and so in line with the remuneration policy this historic award will vest once the final outcome is confirmed in late summer 2021. Under the shareholding guidelines he will be required to hold the vesting shares.

The performance measures for the 2018 LTP awards, and the achievement against those measures are summarised below:

Performance measure	Weighting	Threshold (25% vesting)	Intermediate (50% vesting)	Stretch (100% vesting)	Actual	Estimated % achievement
Relative Total Shareholder Return (TSR). TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies)	33.3%	Median TSR	Straight-line between threshold and stretch	Median TSR x 1.15	48.0	33.3% out of 33.3% (Actual)
Sustainable dividends. Average underlying dividend cover over the part of the performance period up to the end of the regulatory period **Underpin:** Dividend growth of at least RPI in each of the years 2018/19 and 2019/20	33.3%	1.18	1.27	1.36	1.35	31.3% out of 33.3% (Actual)
Customer service excellence. Ranking for the year ended 31 March 2021 out of the 11 water and wastewater using a combined customer service measure comprising C-MeX performance and customer complaints	33.3%	Median rank (6th position)	Straight-line between threshold and stretch	Upper quartile rank (3rd position)	5th position	25.0% out of 33.3% (Estimated)
Overall underpin: Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance		✓ Assumed met. The committee will make a final assessment of the company's performance once the outcome of the customer service excellence measure is known.				
Estimated vesting						**89.6%**

Details of the number of 2018 LTP award shares vesting and the value of those vesting shares are as follows:

Director	Number of shares vesting 2018 LTP(1)	Value of shares vesting 2018 LTP(2)
Steve Mogford	129,065	1,179
Russ Houlden	63,437	579
Phil Aspin	9,753	89

(1) The 2018 Long Term Plan (LTP) awards were granted in June 2018. The performance period started on 1 April 2018 and ended on 31 March 2021. The number and value of the vested 2018 LTP awards in the table above is estimated pending the final outcome of the customer service excellence measure, expected to be published in late summer 2021. Awards granted for Steve Mogford and Russ Houlden will normally vest in April 2023, following an additional two-year holding period. The awards accrue dividend equivalents.

(2) The value of the 2018 LTP awards has been calculated by multiplying the number of shares vesting by the average share price over the three month period 1 January 2021 to 31 March 2021 (913.3 pence per share)

2020 LTP awards granted during 2020/21

As part of the directors' remuneration policy review during 2018/19 the committee consulted with shareholders on changing the structure of the LTP such that the 2020 and future awards would be based on two equally weighted components: Return on Regulated Equity (RORE) and a customer basket of measures. Shareholders approved the new policy at the 2019 AGM.

Whilst LTP awards are normally granted in June each year, due to the uncertainties posed by the COVID-19 pandemic and particular concerns at the time about the possible extent of the disruption caused, the committee delayed the 2020 LTP award grants until November to allow more time to settle the targets.

Stretching targets were set for the RORE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance. When determining the measures that should form the customer basket component of the awards the committee took in to account feedback received from customer research and focus groups (as to which areas of service and performance they considered the highest priority) and the performance commitments agreed with Ofwat in the final determination for the regulatory period, thereby ensuring that the measures selected reflected the views and priorities of key stakeholders. The committee is pleased that alongside focusing on areas of performance that will have meaningful and tangible outcomes for customers, the measures chosen reflect its commitment to recognising evolving expectations in regard to environmental, social and governance matters.

Details about the 2020 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2020 to 31 March 2023. The table on page 158 summarises how these performance measures are linked to our business strategy.

Performance measured	Targets[1] Threshold (25% vesting)	Stretch (100% vesting)	Weighting
Return on Regulated Equity (RORE)			
Company RORE	Equal to the average of Ofwat's allowed RORE over the three financial years of the performance period	1.0% (or more) above the average of Ofwat's allowed RORE over the three financial years of the performance period	50.0%
Customer basket of measures[2]			
C-MeX ranking out of all the other water and wastewater companies[3]	Ranked 9th	Ranked 6th or better	5.0%
Water poverty[3]	62,100 customers have been lifted out of water poverty	83,000 (or more) customers have been lifted out of water poverty	5.0%
Priority services[3]	N/A	5.5% or more of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents[3]	A combined total of 1,161 sewer flooding incidents per 10,000km of our wastewater network	A combined total of less than or equal to 990 sewer flooding incidents per 10,000km of our wastewater network	5.0%
Pollution incidents[4]	23.00 pollution incidents per 10,000km of our wastewater network	≤21.54 pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance[4]	97.9% compliance	≥99.0% compliance	5.0%
Water quality contacts[4]	14.7 customer contacts per 10,000 customers	≤13.8 customer contacts per 10,000 customers	5.0%
Leakage[3]	A three-year average of 101.6 megalitres of leakage per 10,000km of our water network per day	A three-year average of less than or equal to 97.6 megalitres of leakage per 10,000km of our water network per day	5.0%
Compliance risk index (CRI) [4]	CRI score of 3.27	CRI score of ≤2.00	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	3* rating	4* rating	**5.0%**
Overall underpin Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.			

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance

(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination

(3) Outcome based on performance in respect of the year ending 2023 as published in our own and/or the other water companies' Annual Performance Reports for 2022/23

(4) Outcome based on performance in respect of the calendar year 2022 as published in our own and/or the other water companies' Annual Performance Reports for 2022/23

(5) Outcome based on performance in respect of the calendar year 2022 as published in the Environment Agency's published report in 2023

Directors' remuneration 2021/22

Directors' remuneration is expected to operate in a broadly similar way for 2021/22 as for 2020/21.

The performance measures used in the incentive schemes during 2021/22 will remain aligned directly with the business plan, with a material weighting on measures that are linked to delivery for customers. Further details about the measures used and the stretching targets set will be provided in next year's report.

Annual bonus in respect of the financial year commencing 1 April 2021

The maximum bonus opportunity for the year commencing 1 April 2021 will remain unchanged at 130 per cent of base salary.

The annual bonus will operate in broadly the same way as that for 2020/21, except the written complaints measure will be based on the number of complaints per 10,000 customers as reported by the Consumer Council for Water.

Measure	Max. %	Threshold (25% vesting)	Intermediate (50% vesting)	Stretch (100% vesting)
Underlying operating profit(1)	25.0%	Commercially sensitive		
Customer service in year:				
C-Mex ranking out of the 17 water companies	10.0%	8th position	6th position	4th position
Written complaints per 10,000 customers	10.0%	20.50	20.25	20.00
Maintaining and enhancing services for customers:				
Outcome delivery incentive (ODI) composite	35.0%	Commercially sensitive		
Time, cost and quality of capital programme (TCQi)(2)	20.0%	85.0%	90.0%	95.0%

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

2021 LTP awards with a performance period ending 31 March 2024

Awards are expected to be made in late June 2021 and the award level for executive directors will remain unchanged at 130 per cent of base salary.

Stretching targets will be set for the RORE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance.

In respect of the customer basket, the committee will again finalise the selection of measures in consideration of customer priorities and performance commitments agreed by Ofwat in the final determination for the regulatory period.

Regulatory accounts

RING-FENCING CERTIFICATE (RFC) UNDER PARAGRAPH P30 OF CONDITION P OF THE COMPANY'S INSTRUMENT OF APPOINTMENT

In the opinion of the Board of United Utilities Water:

(1) United Utilities Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the next twelve months;
(2) United Utilities Water Limited will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the twelve months;
(3) United Utilities Water Limited has available to it sufficient rights and resources other than financial resources, as required by paragraph P14 of the company's instrument of appointment; and
(4) all contracts entered into between United Utilities Water Limited and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to United Utilities Water Limited, to ensure that it is able to carry out the Regulated Activities;

STATEMENT UNDER PARAGRAPH P33 OF CONDITION P OF THE INSTRUMENT OF APPOINTMENTS

In providing this opinion under paragraph P30 of the Licence, the Directors have considered many factors, which fully incorporate the 28 factors listed by Ofwat in Information Notice IN20/01 as the minimum factors to consider. The list of factors considered, include, but is not limited to:

Financial resources and facilities	• UUW's financial position at 31 March 2021 as represented by the statutory and regulatory accounts • UUW's IFRS pension surplus of £531m, fully-funded on a low dependency basis • UUW's projected cash flows as represented by the business plan, budget and treasury funding plan, which incorporates the expected impacts of COVID-19 based on experience to date • UUW's expected performance against the 2020-25 Final Determination, underpinned by its historical track-record • UUW's current liquidity position with £1,124m of available liquidity at March 2021 • UUW's capital solvency position with a net debt to RCV gearing ratio of 65% as at March 2021. • UUW's robust credit rating position with unsecured senior debt ratings of Moody's A3; S&P BBB+ and Fitch A-, with all ratings on stable outlook • UUW's compliance with its financial covenants • UUW's long-term viability statement of seven years, included within the 2020/21 APR
Management resources	• Organisational capability reviews, forming basis of broad recruitment plans, ensure the right supply of management skills, experience, qualifications and capabilities to respond to the needs of the business • High employee engagement, evidenced by scores regularly above the UK norm and this year significantly above UKHP norm, supporting employee retention and wellbeing • Succession plan maintained for all executive directors and team, including outline timescales • Training and personal development programmes exist for all employees, enabling the development or maintenance of skills appropriate for their role • Board appointments and succession planning overseen by Nomination Committee (100% non-executive directors), applying board diversity policy to ensure balance of experience, skills and perspectives • Equality and diversity policy and action plan supports our intention of providing equality for all our employees in a diverse working environment • The strategy of the company set by the board, including the company's approach to business planning, risk management and the development of policies including health and safety • Non-executive directors considered to be independent when assessed against Provision 10 of the 2018 UK Corporate Governance Code and in accordance with the relevant Board Leadership, Transparency and Governance (BLTG) objectives and provisions • The chairman was independent on appointment when assessed against Provision 10 and in accordance with the relevant BLTG objectives and provisions
Systems of planning and internal control	• Established risk management framework including the governance and reporting structure • Biannual board review of the principal risk and uncertainties facing the business and mitigating controls • Board supported by the Group Audit and Risk Board (GARB) which review and monitor compliance with governance processes, risk management and the internal control framework • UUG Audit Committee approves annual audit plan of work, underpinned by five-year strategic plan, with findings reported back to them • Business continuity system aligned to International standards best practice, with plans addressing loss of buildings, people, systems and key services and updated to reflect our enhanced ability to support remote working for office staff • Policies to prevent unethical behaviours including an anti-fraud policy, anti-bribery and corruption policy, whistleblowing policy and security policy, supported by an independently provided, confidential, whistleblowing hotline

	• Dedicated employee voice panel sponsored by Non Exec Director Alison Golligher enabling the Board to have a close and regular check in with employees and a clear temperature check of the employee voice. • Published assurance framework used to support assurance statements supporting key regulatory submissions. • Compliance working group actively maintains a log of key obligations that are referred to within the risk and compliance statement, with each obligations linked policy having a senior named owner
Rights and resources other than financial resources	• Clear purpose to provide great water and more for the North West • Clear vision to be the best UK water and wastewater company • Underpinned by our core values of being customer focused; innovative and trustworthy; and our strategic themes of delivering the best service to customers at the lowest sustainable cost in a responsible manner • Committed to a long term strategy, embracing systems thinking in how we run our service • Monitoring and control technology systems cover real-time monitoring of our water and wastewater systems, ensuring continuing operations • Key policies encouraging an integrated and consistent approach, including policies on Risk Management, Asset Management and the Environment • Well-established approach to water production planning with real-time central tracking of site production capacities and water demand forecasting • Comprehensive asset maintenance plans, developed on a risk basis with high criticality assets receiving additional preventative maintenance activities • Operational insurance policies protect against material financial loss on insurable risks, supplemented by appropriate levels of self-insurance ensuring ongoing focus on internal-risk management
Contracting	• Major contracts, typically 5+ years, completed with financial robust organisations which have been thoroughly tested through our procurement processes, with flexibility to use alternative suppliers to ensure continuous service • In line with UUW's transfer pricing policy, all intercompany trading relationships must have a contract in place with defined Service Level Agreements (SLAs) • Transactions between the appointee and any associated company are completed at arm's length in accordance with UUW's transfer pricing policy and Licence Condition P19 • The APR includes a list of all transactions between the appointee and associated companies in line with RAG 3.12 • No guarantees or cross-default obligations have been given without Ofwat's written consent
Material issues or circumstances	• Our centralised planning capabilities, use of Systems Thinking, risk assessment, quality assurance and flexible digital systems have enabled us to maintain a resilient service throughout the Covid-19 pandemic – with the key aim of maintaining water supplies and wastewater services whilst protecting the safety of our employees • The pandemic has accelerated our digital strategy and forever changed our ways of working and our dynamic approach and extensive forward planning ensures we are well positioned to tackle future challenges as they emerge

In addition to taking all of the above into account, in accordance with Condition P35 the company's instrument of appointment, UUW engaged with KPMG to examine the RFC in conjunction with the completion of their audit of the Regulatory Accounting Statements within the Company's regulatory accounts for the year ended 31 March 2021. KPMG presented a report to the UUW board stating whether they were aware of any inconsistencies between the RFC and their findings arising from their audit or any information they obtained in the course of their work as the company's auditors. A copy of KPMG's RFC report is included in appendix 1 on page 196.

This is certificate was approved by the board and signed on its behalf by:

Phil Aspin
Chief Financial Officer
29 June 21

Please see appendix 2 for a certified copy of an extract of the minutes of the UUW board meeting on 29 June 2021 recording the board approval of the Condition P certificate and delegating authority for any UUW director to sign the Condition P certificate on behalf of UUW.

Regulatory accounts

Pro forma tables not subject to KPMG audit opinion

This section of the UUW Annual Performance Report provides a copy of the pro-forma tables in sections 3, 4 and 9 that Ofwat require all companies to publish, that have not been subject to financial audit opinion. The information within these tables has been subject to detailed governance and assurance by either KPMG or Jacobs (our non-financial auditor), with the nature and findings of the assurance being set out in Appendix 1 Assurance summary and findings.

Section 3 - Performance summary	
Pro forma 3A	Outcome performance - water performance commitments (financial) (some redacted information)
Pro forma 3B	Outcome performance - wastewater performance commitments (financial) (some redacted information)
Pro forma 3C	Customer measure of experience (C-MeX) table
Pro forma 3D	Developer services measure of experience (D-MeX) table
Pro forma 3E	Outcome performance - Non financial performance commitments
Pro forma 3F	Underlying calculations for common performance commitments – water and retail
Pro forma 3G	Underlying calculations for common performance commitments – wastewater
Pro forma 3H	Summary information on outcome delivery incentive payments
Pro forma 3H	Supplementary outcomes information
Section 4 and 9: Additional unaudited regulatory information	
Pro forma 4A	Water bulk supply information
Pro forma 4B	Analysis of debt
Pro forma 4C	Impact of price control performance to date on RCV
Pro forma 4D	Totex analysis – water resources and water network+
Pro forma 4E	Totex analysis – wastewater network+ and bioresources
Pro forma 4F	Major project expenditure for wholesale water by purpose
Pro forma 4G	Major project expenditure for wholesale wastewater by purpose
Pro forma 4H	Financial metrics
Pro forma 4I	Financial derivatives
Pro forma 4J	Base expenditure analysis – water resources and water network+
Pro forma 4K	Base expenditure analysis –wastewater network+ and bioresources
Pro forma 4L	Enhancement expenditure - water resources and water network+
Pro forma 4M	Enhancement expenditure - wastewater network+ and bioresources
Pro forma 4N	Developer services expenditure – water resources and water network+
Pro forma 4O	Developer services expenditure – wastewater network+ and bioresources
Pro forma 4P	Expenditure on non-price control diversions
Pro forma 4Q	Developer services - New connections, properties and mains
Pro forma 4R	Connected properties, customers and population
Pro forma 9A	Innovation competition

Keys to cells

- Input cell
- Calculation cell
- Copy cell

Commentary is also provided for tables 3A-H, 4L, 4M, 4Q, 4R in addition to tables 5-8 within the supporting commentary section which is published on our website www.unitedutilities.com/globalassets/documents/pdf/apr-tables-commentary-2021

Section 3 – Performance Summary

Pro forma 3A Outcome performance - water performance commitments (financial)

Line description	Unique reference	Unit	Decimal places	Performance level - actual: Previous reporting year	Performance level - actual: Current reporting year	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m	RAG 4 reference
Common PCs - Water (Financial)									
Water quality compliance (CRI)	PR19UUW_A01-CF	number	2	3.24	2.58	No	-0.653	[redacted]	3A.1
Water supply interruptions	PR19UUW_B03-WN	hh:mm:ss		00:10:11	00:04:48	Yes	1.591	[redacted]	3A.2
Leakage	PR19UUW_B01-WN	%	1	0.0	1.9	Yes	0.686	[redacted]	3A.3
[For use by NES and SSC only]								[redacted]	3A.3
Per capita consumption	PR19UUW_B05-WN	%	1	0.0	-1.7	No	-1.742	[redacted]	3A.4
[For use by SSC only]								[redacted]	3A.4
Mains repairs	PR19UUW_B02-WN	number	1	117.4	107.7	Yes	1.610	[redacted]	3A.5
Unplanned outage	PR19UUW_B04-CF	%	2	3.53	1.88	Yes	0.000	[redacted]	3A.6
Bespoke PCs - Water and Retail (Financial)									
Reducing water quality contacts due to taste, smell and appearance	PR19UUW_A02-WN	nr	1	18.5	17.7	No	-1.246	[redacted]	3A.7
Number of properties with lead risk reduced	PR19UUW_A03-WN	nr		N/A	0	Yes	0.000	[redacted]	3A.8
Helping customers look after water in their home	PR19UUW_A04-WN	%	1	0.0	13.8	Yes	0.861	[redacted]	3A.9
Reducing discolouration from the Vyrnwy treated water aqueduct	PR19UUW_A05-WN	nr	2	N/A	0.00	Yes	0.000	[redacted]	3A.10
Reducing areas of low water pressure	PR19UUW_B07-WN	nr	3	0.734	1.113	No	-0.121	[redacted]	3A.11
Water service resilience	PR19UUW_B08-WN	nr		N/A	106	Yes	0.000	[redacted]	3A.12
Manchester and Pennine resilience	PR19UUW_B09-DP	control		N/A	1	Yes	0.000	[redacted]	3A.13
Keeping reservoirs resilient	PR19UUW_B10-WR	risk	5	N/A	0.00000	Yes	0.000	[redacted]	3A.14
Thirlmere transfer into West Cumbria (AMP7)	PR19UUW_B11-WN	%		99	99	Yes	0.000	[redacted]	3A.15
Abstraction incentive mechanism	PR19UUW_C03-WR	Ml	1	N/A	-695.9	Yes	0.251	[redacted]	3A.16
Improving the water environment	PR19UUW_C04-WR	nr		N/A	0	Yes	0.000	[redacted]	3A.17
Number of customers lifted out of water poverty	PR19UUW_E01-HH	nr		N/A	71,057	Yes	2.542	[redacted]	3A.18
Voids	PR19UUW_E10-HH	%	2	N/A	6.01	Yes	3.828	[redacted]	3A.19
Non-household vacancy incentive scheme	PR19UUW_E03-CF	nr		N/A	7,940	Yes	1.080	[redacted]	3A.20
Gap sites (Wholesale)	PR19UUW_E04-CF	nr		N/A	949	Yes	0.290	[redacted]	3A.21
Gap sites (Retail)	PR19UUW_E05-HH	nr		N/A	6,349	Yes	0.083	[redacted]	3A.22
Successful delivery of direct procurement of Manchester and Pennine resilience	PR19UUW_E07-DP	nr		N/A	N/A	-	0.000	[redacted]	3A.23
Financial water performance commitments achieved		%				82			3A.27
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%				80			3A.28

Sensitive information relating to end of AMP7 underperformance and outperformance payments has been redacted for public publication.

Pro forma 3B Outcome performance - wastewater performance commitments (financial)

Line description	Unique reference	Unit	Decimal places	Performance level - actual		PCL met?	Outperformance or underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment	RAG 4 reference
				Previous reporting year	Current reporting year		£m	£m	
Common PCs - Wastewater (Financial)									
Internal sewer flooding	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	2	4.35	4.47	No	-7.224	[redacted]	3B.1
Pollution incidents	PR19UUW_C01-WWN	Pollution incidents per 10,000 km of sewer length	2	26.31	18.10	Yes	4.864	[redacted]	3B.2
Sewer collapses	PR19UUW_F01-WWN	Number of sewer collapses per 1,000 km of all sewers	2	20.95	14.61	Yes	0.000	[redacted]	3B.3
Treatment works compliance	PR19UUW_C02-CF	%	2	98.48	99.75	No	0.000	[redacted]	3B.4
Bespoke PCs - Wastewater (Financial)									
Improving river water quality	PR19UUW_C05-WWN	nr		N/A	0	Yes	0.000	[redacted]	3B.5
Protecting the environment from the impact of growth and new development	PR19UUW_C06-WWN	nr		N/A	0	Yes	0.000	[redacted]	3B.6
Enhancing natural capital value for customers	PR19UUW_C08-CF	£m	3	N/A	0.000	Yes	0.000	[redacted]	3B.7
Recycling biosolids	PR19UUW_C09-BR	%	2	100.00	99.87	No	-0.021	[redacted]	3B.8
Better air quality	PR19UUW_C10-BR	nr	2	1.34	1.30	Yes	0.323	[redacted]	3B.9
Sewer blockages	PR19UUW_F02-WWN	nr		21,831	22,352	No	-2.363	[redacted]	3B.10
External flooding Incidents	PR19UUW_G03-WWN	nr		6,188	6,849	No	-0.026	[redacted]	3B.11
Raising customer awareness to reduce the risk of flooding	PR19UUW_G04-WWN	%	1	N/A	4.1	Yes	0.181	[redacted]	3B.12
Hydraulic internal flood risk resilience	PR19UUW_G05-WWN	nr	2	66.46	41.84	Yes	7.553	[redacted]	3B.13
Hydraulic external flood risk resilience	PR19UUW_G06-WWN	nr	2	287.29	179.84	Yes	3.137	[redacted]	3B.14
Financial wastewater performance commitments achieved		%				64			3B.19

Sensitive information relating to end of AMP7 underperformance and outperformance payments has been redacted for public publication.

Regulatory accounts

Pro forma 3C Customer measure of experience (C-MeX) table

Item	Unit	Value	RAG 4 reference
Annual customer satisfaction score for the customer service survey	Number	82.13	3C.1
Annual customer satisfaction score for the customer experience survey	Number	85.05	3C.2
Annual C-MeX score	Number	83.59	3C.3
Annual net promoter score	Number	41.00	3C.4
Total household complaints	Number	39342	3C.5
Total connected household properties	Number	3,299,363	3C.6
Total household complaints per 10,000 connections	Number	119.241	3C.7
Confirmation of communication channels offered	TRUE or FALSE	TRUE	3C.8

Pro forma 3D Developer services measure of experience (D-MeX) table

Item	Unit	Value	RAG 4 reference
Qualitative component annual results	Number	77.09	3D.1
Quantitative component annual results	Number	99.79	3D.2
D-MeX score	Number	88.44	3D.3
Developer services revenue (water)	£m	23.716	3D.4
Developer services revenue (wastewater)	£m	14.140	3D.5

Additional table detailing United Utilities performance against Water UK performance metrics can be found at
www.unitedutilities.com/globalassets/documents/pdf/performance-summary-tables-2021

Pro forma 3E Outcome performance - Non financial performance commitments

Line description	Unique reference	Unit	Decimal places	Performance level - actual		PCL met?	RAG 4 reference
				Previous reporting year	Current reporting year		
Common							
Risk of severe restrictions in a drought	PR19UUW_B06-CF	%	1	0.0	0.0	Yes	3E.1
Priority services for customers in vulnerable circumstances - PSR reach	PR19UUW_D03-HH	%	1	N/A	4.1	Yes	3E.2
Priority services for customers in vulnerable circumstances - Attempted contacts	PR19UUW_D03-HH	%	1	N/A	47.6	Yes	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	PR19UUW_D03-HH	%	1	N/A	33.9	Yes	3E.4
Risk of sewer flooding in a storm	PR19UUW_G01-WWN	%	2	14.88	13.42	Yes	3E.5
Bespoke PCs							
Street works performance	PR19UUW_D04-CF	%	2	N/A	10.56	Yes	3E.6
Priority Services- BSI accreditation	PR19UUW_D05-HH	text		N/A	Achieved	Yes	3E.7
Systems thinking capability	PR19UUW_E06-CF	nr		N/A	1	Yes	3E.8
Customers say that we offer value for money	PR19UUW_E09-HH	%		58	78	Yes	3E.9
Non-financial performance commitments achieved		%				100	3E.29

Pro forma 3F Underlying calculations for common performance commitments – water and retail

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-tables-2021

Pro forma 3G Underlying calculations for common performance commitments – wastewater

Line description	Unique reference	Unit	Standardising data indicator	Standardising data numerical value	Performance level - actual current reporting year	Calculated performance level	RAG 4 reference
Performance commitments set in standardised units							
Internal sewer flooding - customer proactively reported	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	3,405.23	1,039	3.05	3G.1
Internal sewer flooding - company reactively identified (ie neighbouring properties)	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	3,405.23	482	1.42	3G.2
Internal sewer flooding	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	3,405.23	1,521	4.47	3G.3
Pollution incidents	PR19UUW_C01-WWN	Pollution incidents per 10,000 km of sewer length	Sewer length in km	77,914.00	141	18.10	3G.4
Sewer collapses	PR19UUW_F01-WWN	Number of sewer collapses per 1,000 km of all sewers	Sewer length in km	79,127.00	1,156	14.61	3G.5

Pro forma 3H Summary information on outcome delivery incentive payments

Line description	Initial calculation of performance payments (excluding CMEX and DMEX)	RAG 4 reference
	£m (2017-18 prices)	
Initial calculation of in period revenue adjustment by price control		
Water resources	0.19	3H.1
Water network plus	1.74	3H.2
Wastewater network plus	6.81	3H.3
Bioresources (sludge)	0.30	3H.4
Residential retail	6.45	3H.5
Business retail	0.00	3H.6
Dummy control	0.00	3H.7
Initial calculation of end of period revenue adjustment by price control		
Water resources	0.00	3H.8
Water network plus	0.00	3H.9
Wastewater network plus	0.00	3H.10
Bioresources (sludge)	0.00	3H.11
Residential retail	0.00	3H.12
Business retail	0.00	3H.13
Dummy control	0.00	3H.14
Initial calculation of end of period RCV adjustment by price control		
Water resources	0.00	3H.15
Water network plus	0.00	3H.16
Wastewater network plus	0.00	3H.17
Bioresources (sludge)	0.00	3H.18
Residential retail	0.00	3H.19
Business retail	0.00	3H.20
Dummy control	0.00	3H.21

Pro forma 3I Supplementary outcomes information

Line description	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG 4 reference
Unplanned or planned outage				
Planned outage	3,399.18	299.86	8.82%	3I.1

	4	5	6	7	8	9	
Line description	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk	
Risk of severe restrictions in drought							
Risk of severe restrictions in drought	1,998.00	102.90	1,758.00	99.00	7,293,490.00	0.00	3I.2

	10	11	12	13	14	15	16	17	18	19	
Line description	Total pe served	Total pe in excluded catchments	Percentage of total pe in excluded catchments	Total pe Option 1a	Percentage of total pe Option 1a	Total pe Option 1b	Percentage of total pe Option 1b	Vulnerability risk grade			
								Low	Medium	High	
								Percentage of total population served			
Risk of sewer flooding in a storm											
Risk of sewer flooding in a storm	7,667,935.00	106,614.00	1.39%	0.00	0.00%	7,561,321.00	98.61%	86.58%	7.57%	5.85%	3I.3

	20	
Line description	Number of patch repairs or relining undertaken on sewer and not included in reported sewer collapses.	
Sewer collapses		
Sewer collapses	85	3I.4

Section 4 Additional regulatory information

Pro forma 4A Water bulk supply information

For the 12 months ended 31 March 2021

Line description	Volume	Operating costs	Revenue	RAG 4 reference
Units	Ml	£m	£m	
DPs	3	3	3	
Bulk supply exports				
Heronbridge	4144.330	0.246	0.463	4A.1
Media City	114.350	0.087	0.166	4A.2
Liverpool International Business Park	9.418	0.009	0.083	4A.3
Hayfield Road	0.000	0.000	-0.034	4A.4
Vyrnwy	9.537	0.009	-0.020	4A.5
Raeygarth, Brampton	0.685	0.001	0.002	4A.6
Congleton Edge	0.455	0.000	0.000	4A.7
No.1 Old Trafford	0.000	0.000	0.000	4A.8
Sitch Lane	0.000	0.000	0.000	4A.9
Llanforda	0.000	0.000	0.000	4A.10
Total bulk supply exports	4278.775	0.352	0.660	4A.11
Bulk supply imports				
Alston	219.036	0.305		4A.12
Farndon	0.983	0.000		4A.13
Oven Hill Road	1.237	0.000		4A.14
Roe Park	0.075	0.000		4A.15
Bulk supply 5	0.000	0.000		4A.16
Bulk supply 6	0.000	0.000		4A.17
Bulk supply 7	0.000	0.000		4A.18
Bulk supply 8	0.000	0.000		4A.19
Bulk supply 9	0.000	0.000		4A.20
Bulk supply 10	0.000	0.000		4A.21
Total bulk supply imports	221.331	0.305		4A.22

Pro forma 4B Analysis of debt

For the 12 months ended 31 March 2021

Omitted from inclusion within Regulatory Accounts due to size in adherence with RAG 3.12 Section 2.7. The table is submitted to Ofwat separately, and published on the company website www.unitedutilities.com/globalassets/documents/pdf/apr-tables-2021

Pro forma 4C Impact of price control performance to date on RCV

For the 12 months ended 31 March 2021

Line description	Units	DPs	12 months ended 31 March 2021				RAG 4 reference
			Water resources	Water network plus	Wastewater network plus	Bioresources	
Totex (net of business rates, abstraction licence fees and grants and contributions)							
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	38.973	387.723	431.611	71.191	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	35.531	490.291	550.891	64.353	4C.2
Transition expenditure	£m	3	0.000	15.423	9.422	0.000	4C.3
Disallowable costs	£m	3	1.018	-0.049	-0.428	0.006	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	34.512	505.763	560.741	64.347	4C.5
Variance	£m	3	-4.461	118.039	129.130	-6.844	4C.6
Variance due to timing of expenditure	£m	3	-4.600	113.096	101.986	-6.959	4C.7
Variance due to efficiency	£m	3	0.140	4.943	27.144	0.115	4C.8
Customer cost sharing rate	£m	3	50.00%	50.00%	50.00%	0.00%	4C.9
Customer share of totex over/underspend	£m	3	-2.230	59.020	64.565	0.000	4C.10
Company share of totex over/underspend	£m	3	-2.230	59.020	64.565	-6.844	4C.11
Totex - business rates and abstraction licence fees							
Final determination allowed totex - business rates and abstraction licence fees	£m	3	34.724	47.071	20.743	6.077	4C.12
Actual totex - business rates and abstraction licence fees	£m	3	34.644	47.175	18.480	5.827	4C.13
Variance - business rates and abstraction licence fees	£m	3	-0.080	0.104	-2.263	-0.250	4C.14
Customer cost sharing rate - business rates and abstraction licence fees	£m	3	75.00%	75.00%	75.00%	75.00%	4C.15
Customer share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.060	0.078	-1.697	-0.188	4C.16
Company share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.020	0.026	-0.566	-0.063	4C.17
Totex not subject to cost sharing							
Final determination allowed totex - not subject to cost sharing	£m	3	3.469	25.594	0.751	0.000	4C.18
Actual totex - not subject to cost sharing	£m	3	3.679	22.283	3.336	0.028	4C.19
Variance - 100% company allocation	£m	3	0.210	-3.311	2.585	0.028	4C.20
Total company share of totex over/under spend	£m	3	-2.040	55.734	66.585	-6.879	4C.21
RCV							
Total company share of totex over/under spend	£m	3	-2.040	55.734	66.585	-6.879	4C.22
PAYG rate	£m	3	83.02%	66.84%	51.27%	53.09%	4C.23
RCV element of totex over/underspend	£m	3	-0.346	18.479	32.448	-3.227	4C.24
Adjustment for ODI outperformance payment or underperformance payment	£m	3					4C.25
RCV determined at FD at 31 March	£m	3					4C.26
Projected 'shadow' RCV	£m	3					4C.27

Pro forma 4C Impact of price control performance to date on RCV

For the price control period to date

Line description	Units	DPs	Price control period to date				RAG 4 reference
			Water resources	Water network plus	Wastewater network plus	Bioresources	
Totex (net of business rates, abstraction licence fees and grants and contributions)							
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	38.973	387.723	431.611	71.191	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	35.531	490.291	550.891	64.353	4C.2
Transition expenditure	£m	3	0.000	15.423	9.422	0.000	4C.3
Disallowable costs	£m	3	1.018	-0.049	-0.428	0.006	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	34.512	505.763	560.741	64.347	4C.5
Variance	£m	3	-4.461	118.039	129.130	-6.844	4C.6
Variance due to timing of expenditure	£m	3	-4.600	113.096	101.986	-6.959	4C.7
Variance due to efficiency	£m	3	0.140	4.943	27.144	0.115	4C.8
Customer cost sharing rate	£m	3	50.00%	50.00%	50.00%	0.00%	4C.9
Customer share of totex over/underspend	£m	3	-2.230	59.020	64.565	0.000	4C.10
Company share of totex over/underspend	£m	3	-2.230	59.020	64.565	-6.844	4C.11
Totex - business rates and abstraction licence fees							
Final determination allowed totex - business rates and abstraction licence fees	£m	3	34.724	47.071	20.743	6.077	4C.12
Actual totex - business rates and abstraction licence fees	£m	3	34.644	47.175	18.480	5.827	4C.13
Variance - business rates and abstraction licence fees	£m	3	-0.080	0.104	-2.263	-0.250	4C.14
Customer cost sharing rate - business rates and abstraction licence fees	£m	3	75.00%	75.00%	75.00%	75.00%	4C.15
Customer share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.060	0.078	-1.697	-0.188	4C.16
Company share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.020	0.026	-0.566	-0.063	4C.17
Totex not subject to cost sharing							
Final determination allowed totex - not subject to cost sharing	£m	3	3.469	25.594	0.751	0.000	4C.18
Actual totex - not subject to cost sharing	£m	3	3.679	22.283	3.336	0.028	4C.19
Variance - 100% company allocation	£m	3	0.210	-3.311	2.585	0.028	4C.20
Total company share of totex over/under spend	£m	3	-2.040	55.734	66.585	-6.879	4C.21
RCV							
Total company share of totex over/under spend	£m	3	-2.040	55.734	66.585	-6.879	4C.22
PAYG rate	£m	3	83.02%	66.84%	51.27%	53.09%	4C.23
RCV element of totex over/underspend	£m	3	-0.346	18.479	32.448	-3.227	4C.24
Adjustment for ODI outperformance payment or underperformance payment	£m	3	0.000	0.000	0.000	0.000	4C.25
RCV determined at FD at 31 March	£m	3	619.636	3526.647	7079.024	456.038	4C.26
Projected 'shadow' RCV	£m	3	619.289	3545.126	7111.472	452.811	4C.27

Regulatory accounts

Pro forma 4D Totex analysis – water resources and water network+

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water resources	Network+ Raw water transport	Network+ Raw water storage	Network+ Water treatment	Network+ Treated water distribution	Total	RAG 4 reference
Operating expenditure									
Base operating expenditure	£m	3	61.010	12.494	1.128	88.103	203.767	366.501	4D.1
Enhancement operating expenditure	£m	3	0.255	0.195	0.016	2.400	3.385	6.251	4D.2
Developer services operating expenditure	£m	3	0.000	0.000	0.000	0.000	2.315	2.315	4D.3
Total operating expenditure excluding third party services	£m	3	61.264	12.688	1.144	90.504	209.466	375.067	4D.4
Third party services	£m	3	0.267	0.701	0.000	0.235	0.558	1.760	4D.5
Total operating expenditure	£m	3	61.531	13.389	1.144	90.738	210.024	376.827	4D.6
Grants and contributions									
Grants and contributions - operating expenditure	£m	3	0.000	0.000	0.000	0.000	2.665	2.665	4D.7
Capital expenditure									
Base capital expenditure	£m	3	5.799	0.496	0.000	95.051	34.041	135.387	4D.8
Enhancement capital expenditure	£m	3	5.505	3.120	0.000	25.993	65.414	100.032	4D.9
Developer services capital expenditure	£m	3	0.000	0.000	0.000	0.000	19.616	19.616	4D.10
Total gross capital expenditure (excluding third party)	£m	3	11.304	3.616	0.000	121.043	119.072	255.035	4D.11
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.12
Total gross capital expenditure	£m	3	11.304	3.616	0.000	121.043	119.072	255.035	4D.13
Grants and contributions									
Grants and contributions - capital expenditure	£m	3	0.000	0.000	0.000	0.000	-3.436	-3.436	4D.14
Net totex	£m	3	72.835	17.005	1.144	211.782	329.867	632.633	4D.15
Cash expenditure									
Pension deficit recovery payments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.16
Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.17
Totex including cash items	£m	3	72.835	17.005	1.144	211.782	329.867	632.633	4D.18
Atypical expenditure									
Item 1	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.19
Item 2	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.20
Item 3	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.21
Item 4	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.22
Item 5	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.23
Total atypical expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.24

Variance analysis of operating and capital expenditure compared to the prior year can be found in our 2020/21 accounting methodology statement, published on our website alongside the APR
www.unitedutilities.com/globalassets/documents/pdf/rr21-accounting-methodology-statement
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Pro forma 4E Totex analysis – wastewater network+ and bioresources

For the 12 months ended 31 March 2021

Line description	Units	DPs	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			Total	RAG 4 reference
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal		
Operating expenditure												
Base operating expenditure	£m	3	45.397	45.878	18.327	140.288	2.497	9.661	21.519	8.472	292.040	4E.1
Enhancement operating expenditure	£m	3	0.540	0.520	0.208	3.802	0.048	0.000	0.000	0.000	5.118	4E.2
Developer services operating expenditure	£m	3	0.032	0.046	0.018	0.000	0.000	0.000	0.000	0.000	0.097	4E.3
Total operating expenditure excluding	£m	3	45.970	46.444	18.553	144.091	2.545	9.661	21.519	8.472	297.255	4E.4
Third party services	£m	3	0.055	0.028	0.011	0.046	0.001	0.004	0.013	0.005	0.163	4E.5
Total operating expenditure	£m	3	46.025	46.471	18.564	144.137	2.547	9.665	21.532	8.477	297.418	4E.6
Grants and contributions												
Grants and contributions - operating expenditure	£m	3	0.111	0.137	0.054	0.000	0.000	0.000	0.000	0.000	0.302	4E.7
Capital expenditure												
Base capital expenditure	£m	3	4.077	4.505	1.796	128.130	0.000	0.000	27.483	2.325	168.315	4E.8
Enhancement capital expenditure	£m	3	34.511	38.134	15.203	90.630	0.000	0.000	0.720	0.000	179.199	4E.9
Developer services capital expenditure	£m	3	2.614	2.888	1.151	0.000	0.000	0.000	0.000	0.000	6.653	4E.10
Total gross capital expenditure (excluding third party)	£m	3	41.202	45.527	18.151	218.760	0.000	0.000	28.203	2.325	354.167	4E.11
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.12
Total gross capital expenditure	£m	3	41.202	45.527	18.151	218.760	0.000	0.000	28.203	2.325	354.167	4E.13
Grants and contributions												
Grants and contributions - capital expenditure	£m	3	2.924	3.589	1.431	0.000	0.000	0.000	0.000	0.000	7.945	4E.14
Net totex	£m	3	84.191	88.272	35.229	362.897	2.547	9.665	49.736	10.802	643.338	4E.15
Cash expenditure												
Pension deficit recovery payments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.16
Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.17
Totex including cash items	£m	3	84.191	88.272	35.229	362.897	2.547	9.665	49.736	10.802	643.338	4E.18
Atypical expenditure												
Item 1	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.19
Item 2	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.20
Item 3	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.21
Item 4	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.22
Item 5	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.23
Total atypical expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.24

Variance analysis of operating and capital expenditure compared to the prior year can be found in our 2020/21 accounting methodology statement, published on our website alongside the APR.
www.unitedutilities.com/globalassets/documents/pdf/rr21-accounting-methodology-statement

Regulatory accounts

Pro forma 4F Major project expenditure for wholesale water by purpose

Table is provided within the APR tables file
www.unitedutilities.com/globalassets/documents/pdf/apr-tables-2021

Pro forma 4G Major project expenditure for wholesale wastewater by purpose

We have no large projects to report in this table.

Regulatory accounts

Pro forma 4H Financial metrics

For the 12 months ended 31 March 2021

Line description	Units	DPs	Current year	AMP to date	RAG 4 reference
Financial indicators					
Net debt	£m	3	7628.331		4H.1
Regulatory equity	£m	3	4053.013		4H.2
Regulatory gearing	%	2	65.30%		4H.3
Post tax return on regulatory equity	%	2	8.54%		4H.4
RORE (return on regulatory equity)	%	2	4.50%	4.50%	4H.5
Dividend yield	%	2	0.00%		4H.6
Retail profit margin - Household	%	2	-18.18%		4H.7
Retail profit margin - Non household	%	2	0.00%		4H.8
Credit rating - Fitch	Text	n/a	A- (Stable)		4H.9
Credit rating - Moody's	Text	n/a	A3 (Stable)		4H.10
Credit rating - Standard and Poor's	Text	n/a	BBB+ (Stable)		4H.11
Return on RCV	%	2	4.57%		4H.12
Dividend cover	dec	2	0.00		4H.13
Funds from operations (FFO)	£m	3	830.528		4H.14
Interest cover (cash)	dec	2	6.07		4H.15
Adjusted interest cover (cash)	dec	2	2.29		4H.16
FFO/Net debt	dec	2	0.11		4H.17
Effective tax rate	%	2	18.64%		4H.18
RCF	£m	3	830.528		4H.19
RCF/Net debt	dec	2	0.11		4H.20
Revenue and earnings					
Revenue (actual)	£m	3	1784.264		4H.21
EBITDA (actual)	£m	3	1007.852		4H.22
Borrowings					
Proportion of borrowings which are fixed rate	%	2	46.33%		4H.23
Proportion of borrowings which are floating rate	%	2	4.56%		4H.24
Proportion of borrowings which are index linked	%	2	49.11%		4H.25
Proportion of borrowings due within 1 year or less	%	2	8.47%		4H.26
Proportion of borrowings due in more than 1 year but no more than 2 years	%	2	5.63%		4H.27
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	2	13.50%		4H.28
Proportion of borrowings due in more than 5 years but no more than 20 years	%	2	54.30%		4H.29
Proportion of borrowings due in more than 20 years	%	2	18.10%		4H.30

Line 17 – FFO/Debt of 10.9% is calculated in accordance with the Ofwat line definition as per RAG 4.09.
UUW's FFO/Debt applying Standard & Poor's (S&P) calculation method would equal 9.7%. The main difference is that S&P FFO definition includes all interest, whereas the Ofwat FFO definition includes just cash interest, so would exclude all interest on index-linked debt.

Lines 23-30 – Borrowings represents the notional value in the company's statutory accounts and does not take account of the impact on interest of derivative instruments. Further narrative regarding borrowings is disclosed on pages 137 to 139.

Lines 23-25 – The proportion of borrowings between fixed, floating and index-linked takes into account hedging arrangements in place, mirroring how borrowings are allocated to each category in Table 1E.

Pro forma 4I Financial derivatives

At 31 March 2021

Line description	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2021)		RAG 4 reference
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable	
Units	£m	£m	£m	£m	£m	£m	%	%	
DPs	3	3	3	3	3	3	3	3	
Interest rate swap (sterling)									
Floating to fixed rate	604.234	1125.000	653.041	2382.275	-72.773	0.000	1.471%	0.067%	4I.1
Floating from fixed rate	-375.000	-450.000	-1325.000	-2150.000	204.861	0.000	0.795%	3.095%	4I.2
Floating to index linked	0.000	0.000	575.000	575.000	-12.454	-2.260	-0.544%	1.262%	4I.3
Floating from index linked	0.000	0.000	0.000	0.000	0.000	0.000	0.000%	0.000%	4I.4
Fixed to index-linked	0.000	0.000	0.000	0.000	0.000	0.000	0.000%	0.000%	4I.5
Fixed from index-linked	0.000	0.000	0.000	0.000	0.000	0.000	0.000%	0.000%	4I.6
Total	229.234	675.000	-96.959	807.275	119.634	-2.260			4I.7
Foreign Exchange									
Cross currency swap USD	0.000	0.000	0.000	0.000	0.000	0.000			4I.8
Cross currency swap EUR	0.000	0.000	0.000	0.000	0.000	0.000			4I.9
Cross currency swap YEN	0.000	0.000	0.000	0.000	0.000	0.000			4I.10
Cross currency swap Other	0.000	0.000	0.000	0.000	0.000	0.000			4I.11
Total	0.000	0.000	0.000	0.000	0.000	0.000			4I.12
Currency interest rate									
Currency interest rate swaps USD	0.000	0.000	252.866	252.866	135.638	0.000			4I.13
Currency interest rate swaps EUR	0.000	0.000	156.790	156.790	20.351	0.000			4I.14
Currency interest rate swaps YEN	0.000	0.000	0.000	0.000	0.000	0.000			4I.15
Currency interest rate swaps Other	0.000	0.000	286.027	286.027	41.822	0.000			4I.16
Total	0.000	0.000	695.683	695.683	197.811	0.000			4I.17
Forward currency contracts									
Forward currency contracts USD	0.000	0.000	0.000	0.000	0.000	0.000			4I.18
Forward currency contracts EUR	0.000	0.000	0.000	0.000	0.000	0.000			4I.19
Forward currency contracts YEN	0.000	0.000	0.000	0.000	0.000	0.000			4I.20
Forward currency contracts CAD	0.000	0.000	0.000	0.000	0.000	0.000			4I.21
Forward currency contracts AUD	0.000	0.000	0.000	0.000	0.000	0.000			4I.22
Forward currency contracts HKD	0.000	0.000	0.000	0.000	0.000	0.000			4I.23
Forward currency contracts Other	0.000	0.000	0.000	0.000	0.000	0.000			4I.24
Total	0.000	0.000	0.000	0.000	0.000	0.000			4I.25
Other financial derivatives									
Other financial derivatives	0.000	0.000	100.379	100.379	-7.509	1.472			4I.26
Total financial derivatives	229.234	675.000	699.103	1603.337	309.937	-0.788			4I.27

The inclusion of all 'Other' interest rates swaps in to one line in the table (line 16) makes the calculation of a meaningful weighted average interest rate problematic. We would recommend that the weighted average interest rate is better represented by splitting the three swaps that make up the balance:

The interest rates disclosed reflect the following gross positions:

- 'RDC' rate: pay 0.52%, receive 5.02% (Notional of £54.2m)
- 'HKD' rate: pay 1.27%, receive 2.90% (Notional of £53.0m)
- 'HKD' rate: pay 0.83%, receive 2.37% (Notional of £78.9m)
- 'HKD' rate: pay 0.70%, receive 2.92% (Notional of £68.1m)
- 'HKD' rate: pay 0.95%, receive 2.867% (Notional of £31.8m)

For certain interest rate swaps we have swapped the fixed coupon on the debt (including credit spread) to a floating interest rate plus margin, whereas for other interest rate swaps we have swapped a fixed rate representing underlying interest (i.e. debt coupon less the credit spread) to a floating interest rate without any margin. Therefore certain rates payable/receivable included in the table are market interest rates excluding any element of credit spread, whereas other rates are 'all in' effective interest rates including credit spread. Care should be taken when interpreting the rates in the table.

For certain cross currency swaps that have historically reached mandatory breaks, these have been re-hedged mid-life at on-market rates (at that point). In these scenarios the fair value of the swap would have been paid to / received from the counterparty (affecting the volume of debt), with the rate on the re-hedged swap being amended either up or down accordingly (sometimes significantly so). Therefore the rates payable on these swaps may not reflect the underlying cost of debt (for instance we have some swaps where we receive the debt coupon but pay LIBOR minus a margin and others where we pay LIBOR plus a margin significantly higher than the underlying credit spread), again care should be taken when interpreting the rates in the table.

The interest rates incorporate fixed interest rates which are reflective of the position at the balance sheet date, and floating interest rates based on the last rate reset. As such, these are not representative of our future cost of debt.

The paying interest rate on the floating to index linked swaps represents the weighted average effective interest rate at the balance sheet date. An annual CPI increase of 0.7 per cent, or an annual CPIH increase of 0.9% at March 2021 has been applied to calculate this nominal effective rate, dependent on the index the swaps are referenced to.

The nominal value of the currency swaps reflect the sterling receivable amount.

Other Financial derivatives (line 26) includes forward starting swaps, electricity swaps which ensures the table now agrees to table 1C. It also includes RPI-to-CPI derivatives (£100m nominal). The nominal effective interest rate on these RPI-to-CPI swaps has been disclosed, where the annual RPI increase of 1.5% and annual CPI increase of 0.7% have been used to calculate the weighted average receivable and payable legs, respectively.

Electricity swaps- £6.9m asset

S21 - 21,960Mwh @ £41.99 £ per Mwh
S22 - 131,760Mwh @ £42.57 £ per Mwh
W22 - 174,720Mwh @ £49.49 £ per Mwh
S23 - 153,720Mwh @ £42.81 £ per Mwh
W23 - 175,680Mwh @ £49.45 £ per Mwh
S24 - 153,720 Mwh @ £42.60 £ per Mwh
W24 - 196,560 Mwh @ £48.57 £ per Mwh

Forward starting floating to fixed rate swaps- £11.8m liability

£200m Feb 22 -Feb 27 pay 1.50% receive 6 month libor
£54.2m Mar 22 -Mar 27 pay 1.50% receive 6 month libor
£59.7m Apr 22 -Oct 26 pay 1.65% receive 6 month libor
£75.9m Jun 22 -Dec 26 pay 1.64% receive 6 month libor

Pro forma 4J Base expenditure analysis – water resources and water network+

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water resources	Water network+				Total	RAG 4 reference
				Raw water distribution	Raw water storage	Water treatment	Treated water distribution		
Operating expenditure									
Power	£m	3	5.276	4.876	0.133	16.340	10.387	37.012	4J.1
Income treated as negative expenditure	£m	3	-0.049	-0.240	0.000	-0.075	-0.031	-0.394	4J.2
Bulk supply	£m	3	0.123	0.013	0.004	0.165	0.000	0.305	4J.3
Renewals expensed in year (infrastructure)	£m	3	7.888	0.290	0.000	0.000	94.869	103.047	4J.4
Renewals expensed in year (non-infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.5
Other operating expenditure	£m	3	13.128	4.960	0.669	63.268	60.883	142.907	4J.6
Local authority and Cumulo rates	£m	3	17.484	2.595	0.322	8.143	35.852	64.397	4J.7
Service Charges									
Canal & River Trust abstraction charges/ discharge consents	£m	3	0.761	0.000	0.000	0.000	0.000	0.761	4J.8
Environment Agency / NRW abstraction charges/ discharge consents	£m	3	14.631	0.000	0.000	0.263	0.000	14.894	4J.9
Other abstraction charges/ discharge consents	£m	3	1.767	0.000	0.000	0.000	0.000	1.767	4J.10
Other operating expenditure									
Costs associated with Traffic Management Act	£m	3	0.000	0.000	0.000	0.000	1.805	1.805	4J.11
Costs associated with lane rental schemes	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.12
Statutory water softening	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.13
Total base operating expenditure	£m	3	61.010	12.494	1.128	88.103	203.767	366.501	4J.14
Capital expenditure									
Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.15
Maintaining the long term capability of the assets - non-infra	£m	3	5.799	0.496	0.000	95.051	34.041	135.387	4J.16
Total base capital expenditure	£m	3	5.799	0.496	0.000	95.051	34.041	135.387	4J.17
Traffic Management Act									
Projects incurring costs associated with Traffic Management Act	nr	0	0	0	0	0	33653	33653	4J.18

Pro forma 4K Base expenditure analysis – wastewater network+ and bioresources

For the 12 months ended 31 March 2021

Line description	Units	DPs	Expenditure in report year									RAG 4 reference
			Wastewater network+					Bioresources				
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge Transport	Sludge Treatment	Sludge Disposal	Total	
Operating expenditure												
Power	£m	3	3.736	4.585	1.826	44.660	1.886	0.010	-7.044	0.013	49.672	4K.1
Income treated as negative expenditure	£m	3	0.000	0.000	0.000	-0.014	0.000	0.000	-10.450	0.000	-10.465	4K.2
Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.3
Renewals expensed in year (infrastructure)	£m	3	20.953	23.117	9.216	0.000	0.000	1.289	1.525	0.000	56.101	4K.4
Renewals expensed in year (non-infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.5
Other operating expenditure	£m	3	19.542	16.734	6.707	72.660	0.428	8.276	31.175	7.885	163.406	4K.6
Local authority and Cumulo rates	£m	3	0.028	0.024	0.010	18.235	0.183	0.086	5.167	0.575	24.307	4K.7
Service Charges												
Canal & River Trust discharge consents	£m	3	0.110	0.134	0.054	0.358	0.000	0.000	0.000	0.000	0.656	4K.8
Environment Agency / NRW discharge consents	£m	3	0.902	1.097	0.439	4.321	0.000	0.000	0.058	0.000	6.817	4K.9
Other discharge charges / permits	£m	3	0.040	0.049	0.020	-0.035	0.000	0.000	0.000	0.000	0.074	4K.10
Other expenditure												
Costs associated with Traffic Management Act	£m	3	0.086	0.138	0.055	0.000	0.000	0.000	0.000	0.000	0.279	4K.11
Costs associated with lane rental schemes	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.12
Costs associated with Industrial Emissions Directive	£m	3	0.000	0.000	0.000	0.103	0.000	0.000	1.089	0.000	1.192	4K.13
Total base operating expenditure	£m	3	45.397	45.878	18.327	140.288	2.497	9.661	21.519	8.472	292.040	4K.14
Capital expenditure												
Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.15
Maintaining the long term capability of the assets - non-infra	£m	3	4.077	4.505	1.796	128.130	0.000	0.000	27.483	2.325	168.315	4K.16
Total base capital expenditure	£m	3	4.077	4.505	1.796	128.130	0.000	0.000	27.483	2.325	168.315	4K.17
Traffic Management Act												
Projects incurring costs associated with Traffic Management Act	nr	0	1178	1901	758	0	0	0	0	0	3837	4K.18

Pro forma 4L Enhancement expenditure for the 12 months ended 31st March 2021 - water resources and water network+

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-tables-2021

Pro forma 4M Enhancement expenditure for the 12 months ended 31st March 2021 - wastewater network+ and bioresources

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-tables-2021

Pro forma 4N Developer services expenditure – water resources and water network+

For the 12 months ended 31 March 2021

Line description		Units	DPs	Expenditure in report year						RAG 4 reference
					Water network+					
				Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total	
New connections	Capex	£m	3	0.000	0.000	0.000	0.000	10.580	10.580	4N.1
New connections	Opex	£m	3	0.000	0.000	0.000	0.000	0.241	0.241	4N.2
Requisition mains	Capex	£m	3	0.000	0.000	0.000	0.000	6.601	6.601	4N.3
Requisition mains	Opex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4N.4
Infrastructure network reinforcement	Capex	£m	3	0.000	0.000	0.000	0.000	2.435	2.435	4N.5
Infrastructure network reinforcement	Opex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4N.6
s185 diversions	Capex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4N.7
s185 diversions	Opex	£m	3	0.000	0.000	0.000	0.000	2.003	2.003	4N.8
Other price controlled activities	Capex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4N.9
Other price controlled activities	Opex	£m	3	0.000	0.000	0.000	0.000	0.071	0.071	4N.10
Total developer services expenditure - capex	Capex	£m	3	0.000	0.000	0.000	0.000	19.616	19.616	4N.11
Total developer services expenditure - opex	Opex	£m	3	0.000	0.000	0.000	0.000	2.315	2.315	4N.12
Total developer services expenditure	Totex	£m	3	0.000	0.000	0.000	0.000	21.931	21.931	4N.13

Pro forma 4O Developer services expenditure – wastewater network+ and bioresources

For the 12 months ended 31 March 2021

Line description		Units	DPs	Expenditure in report year									RAG 4 reference
				Wastewater network+					Bioresources				
				Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge Transport	Sludge Treatment	Sludge Disposal	Total	
New connections and requisition sewers	Capex	£m	3	1.165	1.287	0.513	0.000	0.000	0.000	0.000	0.000	2.965	4O.1
New connections and requisition sewers	Opex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4O.2
Infrastructure network reinforcement	Capex	£m	3	1.449	1.601	0.638	0.000	0.000	0.000	0.000	0.000	3.688	4O.3
Infrastructure network reinforcement	Opex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4O.4
s185 diversions	Capex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4O.5
s185 diversions	Opex	£m	3	0.017	0.027	0.011	0.000	0.000	0.000	0.000	0.000	0.055	4O.6
Other price controlled activities	Capex	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4O.7
Other price controlled activities	Opex	£m	3	0.016	0.019	0.007	0.000	0.000	0.000	0.000	0.000	0.042	4O.8
Total developer services expenditure	Capex	£m	3	2.614	2.888	1.151	0.000	0.000	0.000	0.000	0.000	6.653	4O.9
Total developer services expenditure	Opex	£m	3	0.032	0.046	0.018	0.000	0.000	0.000	0.000	0.000	0.097	4O.10
Total developer services expenditure	Totex	£m	3	2.646	2.934	1.170	0.000	0.000	0.000	0.000	0.000	6.750	4O.11

Pro forma 4P Expenditure on non-price control diversions

For the 12 months ended 31 March 2021

Line description	Units	DPs	Water resources	Water network+	Wastewater network+	Bioresources	Total	RAG 4 reference
Non-price control diversions								
Diversions - NRSWA	£m	3	0.000	-0.793	0.236	0.000	-0.557	4P.1
Diversions - other non-price control	£m	3	0.000	0.012	0.040	0.000	0.052	4P.2
Total expenditure on non-price control diversions	£m	3	0.000	-0.782	0.276	0.000	-0.505	4P.3

In 2020/21 there has been a commercial settlement on one of our large NRSWA diversion schemes (impacting water and wastewater assets), which reduced the costs that had been recognised in prior financial years. This has caused a credit to expenditure in 2020/21, leading to overall negative NRSWA expenditure values.

Regulatory accounts

Pro forma 4Q Developer services - New connections, properties and mains

Line description	Units	DPs	Water	Wastewater	Total
Connections volume data					
New connections (residential – excluding NAVs)	nr	0	16349	600	16949
New connections (business – excluding NAVs)	nr	0	501	154	655
Total new connections served by incumbent	nr	0	16850	754	17604
New connections – SLPs	nr	0	13920		
Properties volume data					
New properties (residential - excluding NAVs)	nr	0	26418	26059	52477
New properties (business - excluding NAVs)	nr	0	649	636	1285
Total new properties served by incumbent	nr	0	27067	26695	53762
New residential properties served by NAVs	nr	0	354	479	833
New business properties served by NAVs	nr	0	2	2	4
Total new properties served by NAVs	nr	0	356	481	837
Total new properties	nr	0	27423	27176	54599
New properties – SLP connections	nr	0	14713		
New water mains data					
Length of new mains (km) - requisitions	nr	0	23		
Length of new mains (km) - SLPs	nr	0	120		

Regulatory accounts

Pro forma 4R Connected properties, customers and population

Line description	Units	DPs	Unmeasured	Measured	Total	Voids
Customer numbers - average during the year						
Residential water only customers	000s	3	43.294	30.394	73.688	3.411
Residential wastewater only customers	000s	3	23.082	54.982	78.064	5.628
Residential water and wastewater customers	000s	3	1585.308	1349.112	2934.420	188.23
Total residential customers	000s	3	1651.684	1434.488	3086.172	197.269
Business water only customers	000s	3	2.255	22.474	24.729	5.131
Business wastewater only customers	000s	3	1.949	12.144	14.093	23.57
Business water & wastewater customers	000s	3	10.934	105.57	116.504	44.717
Total business customers	000s	3	15.138	140.188	155.326	73.418
Total customers	000s	3	1666.822	1574.676	3241.498	270.687

Line description	Units	Dps	Water			Wastewater		
			Unmeasured	Measured	Total	Unmeasured	Measured	Total
Property numbers - average during the year								
Residential properties billed	000s	3	1628.602	1379.506	3008.108	1608.390	1404.094	3012.484
Residential void properties	000s	3			191.641			193.857
Total connected residential properties	000s	3			3199.749			3206.341
Business properties billed	000s	3	13.189	128.043	141.232	12.883	117.713	130.596
Business void properties	000s	3			49.849			68.288
Total connected business properties	000s	3			191.081			198.884
Total connected properties	000s	3			3390.830			3405.225

Line description	Units	Dps	Water								
			Unmeasured				Measured				Total
			No meter	Basic meter	Smart meter	Total	No meter	Basic meter	Smart meter	Total	
Property and meter numbers - at end of year											
Total new residential properties connected in year	000s	3	0.000	0.000	0.000	0.000	5.806	0.000	20.612	26.418	26.418
Total new business properties connected in year	000s	3	0.000	0.000	0.000	0.000	0.069	0.000	0.580	0.649	0.649
Residential properties billed at year end	000s	3	1653.235	1.874	5.727	1660.836	0.000	632.026	793.856	1425.882	3086.718
Residential void properties at year end	000s	3				76.447				51.404	127.851
Total connected residential properties at year end	000s	3				1737.283				1477.286	3214.569
Business properties billed at year end	000s	3	14.223	0.000	0.000	14.223	0.000	88.143	52.504	140.647	154.870
Business void properties at year end	000s	3				8.626				27.527	36.153
Total connected business properties at year end	000s	3				22.849				168.174	191.023
Total connected properties at year end	000s	3				1760.132				1645.460	3405.592

Line description	Units	DPs	Water	Wastewater
Population data				
Resident population	000s	3	7293.490	7345.680
Business population	000s	3		350.734

Section 9 Additional regulatory information – Innovation Competition

Pro forma 9A Innovation Competition

For the 12 months ended 31 March 2021

Line description	Units	DPs	Current year	RAG 4 reference
Allowed				
Allowed innovation competition fund price control revenue	£m	3	6.222	9A.1
Revenue collected for the purposes of the innovation competition				
Price control revenue collected from customers	£m	3	6.222	9A.2
Non-price control revenue (e.g. royalties)	£m	3	0.000	9A.3
Revenue collected from customers and transferred into the innovation competition fund	£m	3	0.000	9A.4

Line description	Bids accepted and awarded funding for innovation competition	Forecast expenditure on innovation projects funded through the innovation competition	Actual expenditure on innovation projects funded through the innovation competition in year	Difference between actual and forecast expenditure	Cumulative spend on innovation projects	Allowed future expenditure on innovation projects funded through the innovation competition	Expenditure on innovation projects funded by shareholders	RAG 4 reference
Units	nr	£m	£m	£m	£m	£m	£m	
DPs	0	3	3	3	3	3	3	
Innovation project 1	0	0.000	0.000	0	0.000	0.000	0.000	9A.5
Innovation project 2	0	0.000	0.000	0	0.000	0.000	0.000	9A.6
Innovation project 3	0	0.000	0.000	0	0.000	0.000	0.000	9A.7
Innovation project 4	0	0.000	0.000	0	0.000	0.000	0.000	9A.8
Innovation project 5	0	0.000	0.000	0	0.000	0.000	0.000	9A.9
Innovation project 6	0	0.000	0.000	0	0.000	0.000	0.000	9A.10
Innovation project 7	0	0.000	0.000	0	0.000	0.000	0.000	9A.11
Innovation project 8	0	0.000	0.000	0	0.000	0.000	0.000	9A.12
Innovation project 9	0	0.000	0.000	0	0.000	0.000	0.000	9A.13
Innovation project 10	0	0.000	0.000	0	0.000	0.000	0.000	9A.14
Innovation project 11	0	0.000	0.000	0	0.000	0.000	0.000	9A.15
Innovation project 12	0	0.000	0.000	0	0.000	0.000	0.000	9A.16
Innovation project 13	0	0.000	0.000	0	0.000	0.000	0.000	9A.17
Innovation project 14	0	0.000	0.000	0	0.000	0.000	0.000	9A.18
Innovation project 15	0	0.000	0.000	0	0.000	0.000	0.000	9A.19
Total	0	0.000	0.000	0.000	0.000	0.000	0.000	9A.20

Administration	Units	DPs	Value	RAG 4 reference
Administration charge for innovation partner	£m	3	0.000	9A.21

Innovation competition in relation the Water Challenge Scheme has been introduced for AMP7 and is intended to fund industry-wide innovation projects approved by Ofwat. No innovation projects were approved in 2020/21, with the first round of innovation projects approved in April 2021, of which we were pleased to have been involved in five of the eleven successful projects.

In 2020/21 we have reported £6.2m in appointed revenue (1A.1) and cash (1C.11), which we have recovered from customers for the purpose of future innovation projects. Offsetting costs of £6.2m have been recognised within operating expenditure (1A.2), and also within enhancement tables 4L (WR & WN+) and 4M (WWN+ & Bio). This is to provide for costs that will be incurred in relation to future projects for which we are successful bidders, or for which we will be required to transfer funds to other successful companies.

Innovation costs are included in actual totex reported for the year within table 4C (classified as totex not subject to cost sharing). However, they are not included in the final determination allowed totex (since funded directly through customer revenues). Consequently, this results in a reported totex underperformance of £6.2m in the year, albeit this is not a genuine overspend.

2.6 APPENDIX 1: UUW P30 certificate

Report of KPMG LLP to United Utilities Water Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition P30

In accordance with the terms of our engagement letter dated 24 June 2021, we have examined the Company directors' certificate - Condition P dated 29 June 2021 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2021.

Respective duties of directors and auditors

The directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition P in accordance with Section P30 of the Licence. The Certificate is presented as set out in the instrument of appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Act 1989.

As specified in our engagement letter dated 24 June 2021, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any informatThis is certificate was approved by the board and signed on its behalf by:ion which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2021 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition P30. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 29 June 2021, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2021.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WSRA, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

Basis of our findings

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our work as Company's Auditors.

Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2021 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2021.

KPMG LLP

KPMG LLP

Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
29 June 21

Appendix 1 Assurance summary and findings

This Appendix describes how we have complied with our published assurance plan, which has been developed in accordance with Ofwat's requirements. It sets out the assurance activities that we have in place to provide reliable, accurate and complete data, the key findings from the assurance process and updates on our specific targeted risk areas.

A) Overview and assurance framework

As we strive for best practice in assurance arrangements to deliver reliable, accurate and transparent information, we have continued to evolve our assurance framework. As a minimum we have adopted the requirements established by the targeted category under Ofwat's previous company monitoring framework and continue do so. This involves engagement with stakeholders, draft and final publications on risks, strengths and weaknesses, and the company's Final assurance plan. Accordingly we consulted on and published a 'Risks, strengths and weaknesses and draft assurance plan' and then following feedback published our 'Final assurance plan' for our year one reporting. These publications are available on website: www.unitedutilities.com/corporate/about-us/performance/assuring-our-performance-2020–25/.

The purpose of the assurance framework is to ensure that stakeholders can rely on the information we provide as a water company and to make sure that the assurance of this information builds confidence and trust. There are six elements covered by our framework which are outlined below under 'Assurance framework'.

In order to satisfy ourselves that we meet Ofwat's approach to monitoring and assuring delivery, we have processes in place to:

- Publish information that can be trusted;
- Demonstrate the board is taking an active role to ensure accurate and accessible information is provided about company performance and challenge for improvements in assurance (linked to our board leadership and transparency principles);
- Show the data assurance activities we have put in place to provide accurate data; and
- Provide confidence to all customers and stakeholders that we will continue to deliver the services they want in both an efficient and affordable manner and report on our performance.

Assurance framework

The document AMP7 regulatory reporting assurance framework is published on our website: www.unitedutilities.com/corporate/about-us/performance/assuring-our-performance-2020–25/. It sets out the assurance activities that we have put in place to provide reliable, accurate and complete data. It also sets out the wider assurance activities that we undertake to ensure that we can effectively listen to our customers and other stakeholders' views and continue to deliver the services that they want and can afford. The framework is set out in six sections which are summarised below:

- **Measurement and data capture** – The data required to report on the delivery of our performance commitments and other commitments has been developed to be a subset of our routine and often long standing operational and management information that is directly used to support and direct key business activities. We have also established a centralised reporting function, which has accountability for both assuring the quality of the data and for providing a central source of management information which can be used by many areas of the business.
- **Risk based assurance** – We have adopted a structured risk assessment process to underpin the governance and assurance processes supporting our regulatory reporting. The overall combined risk rating is used to help to determine the level of governance and assurance that is applied to the reported information.
  - As the level of risk increases the governance and assurance applied to the reporting of this data also increases and ensures that key risks are escalated up to board level where necessary to ensure that the management, control and reporting of any risks and resulting actions identified through the process are proportionate to the level of risk.
- **Targeted audit and assurance** – We have adopted a well-established 'three lines of assurance' framework. The three lines of assurance are;
  - **First line** – management has accountability for developing and maintaining sound processes, systems and controls in the normal course of their operations;
  - **Second line** – the Strategy, Policy and Regulation or Finance teams, where applicable, have accountability for providing the framework and governance for our regulatory reporting. Our Corporate Audit team undertake rolling and cyclical audit activity and targeted reviews of key submissions; and
  - **Third line** – independent audit and assurance activities are undertaken by specialist external auditors.
- **Governance and accountability** – We are committed to the very highest standards of corporate governance with defined accountabilities from the UUW board level cascaded into our operational governance and review processes. We apply the principles and report against the provisions of the 2018 UK Corporate Governance Code.
- **Independent challenge and review** – To ensure that our reporting is independently challenged we established an independent stakeholder forum called the 'YourVoice' panel. The role of the YourVoice panel is to both monitor and challenge us on the delivery of our business plan, to review and assure our reporting and to scrutinise our customer engagement on the development of our future business plans.
- **Additional communications and publications** – We are a purpose-led company, driven by what matters to customers and other stakeholders. As well as publishing the minimum information requirements set out by Ofwat within the Annual Performance Report, we are committed to providing regular and transparent reporting of our performance and using a broad range of communications channels to communicate with our customers.

COVID-19 risk

Throughout the period we have again been significantly affected by the impact of COVID-19, in both changing the way we work and also impacting some of our operations. A large number of staff – including staff at our contractors and auditors – have been forced to amend their working procedures and processes.

Appendix 1 Assurance summary and findings

Despite the challenges we have faced we maintained the highest levels of data integrity, informed by our risk based approach to assurance. We have utilised technology in order to facilitate the audit and assurance of data and documents and have preserved our published process for sign off by relevant levels throughout the organisation. The process has resulted in electronic sign offs with strict controls and robust audit trails, assured by both our Corporate Audit function and also our technical auditor Jacobs.

Corporate responsibility

We publish information on how we operate in a responsible manner in our integrated Annual Report and on the responsibility pages of our corporate website (which can be found on our website: www://corporate.unitedutilities.com/corporate/responsibility/our-approach/cr-performance/). Our APR assurance process includes a number of metrics relating to corporate responsibility performance across the five commitment areas of our Business Principles.

B) 2020/21 Annual Performance Report assurance plan

Our 2020/21 Final assurance plan set out how data reported in this year's APR would be subject to a structured and risk based governance and assurance process, as summarised in the table below. It also identified a number of potentially higher risk (targeted) areas summarised on the next page.

Risk based assurance plan for the 2020/21 Annual Performance Report

Section	Content	Governance and assurance activities
Risk and compliance statement	Annual statement confirming compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers.	Signed off by the UUW board, based upon the defined governance and assurance approach relevant for each obligation.
Regulatory financial reporting	Historical cost financial information. Disaggregation of income, from a regulatory accounting perspective, with reconciliation to the UU statutory accounts.	(1) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
		(2) Finance team review of information and audit trails.
		(3) Financial Auditors (KPMG) audit as set out in the audit opinion on pages 106–110.
Price review and other segmental reporting	Further separation of revenue and costs to allow stakeholders to review the company's performance against the FD.	(4) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
		(5) Finance team review of information and audit trails.
		(6) Financial Auditors (KPMG) audit as set out in the audit opinion on pages 106-110.
Performance summary	A high-level report of the operational performance of the business against the performance commitments set out in the PR14 FD, highlighting any financial incentives accrued in the year.	(7) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
		(8) Regulatory Reporting team review of information and audit trails.
		(9) Technical Auditors (Jacobs) review data and commentary and report opinion to the board.
Additional regulatory tables	Additional financial and non-financial information, including wholesale totex performance against both the PR14 FD assumptions and intercompany unit cost metrics, retail operating cost analysis and financial metrics.	(10) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied.
		(11) Regulatory Reporting team review of information and audit trails.
		(12) Financial Auditors (KPMG) or Technical Auditors (Jacobs) procedures as agreed with management on the relevant tables in Section 2.

Appendix 1 Assurance summary and findings

Targeted areas, mitigation and assurance

In addition to the generic assurance processes described above and which have been applied to data within the APR, we also reviewed the potential risks to our reporting as part of the development of the assurance plan. This year we were able to remove a number of targeted areas (water availability and leakage, PR19-14 reconciliation, AMP7 readiness, Thirlmere transfer to West Cumbria and Water Resource Management Plan).

This risk assessment process confirmed that our established systems of governance and control were effective in identifying and managing reporting risk levels. The areas we identified for additional assurance activity in our Final assurance plan were flagged as a result of four main factors:

- Previous reporting issues had been identified;
- Inherent data quality issues (usually due to new requirements or changes in circumstances or reporting regimes);
- High priority areas from a customer or stakeholder view point; and
- Areas where delivery of our performance commitment targets may have been at risk.

The targeted areas identified in the Final assurance plan are set out in the table below and described in detail in our published Final assurance plan.

Targeted area	Status	Previous issues	Inherent data accuracy	High priority	Delivery and performance
Performance commitments and outcome delivery incentives	Continued		✓	✓	✓
Water quality	Continued			✓	✓
Charges and tariffs scheme	Continued		✓	✓	
System implementation (formerly Integrated Network Solution)	Updated		✓	✓	
Market support	Continued			✓	
Consent compliance	Continued			✓	
Haweswater aqueduct replacement programme	Continued		✓	✓	
Water transfer programme	Continued		✓	✓	
Drainage and wastewater management plans	Continued		✓	✓	
Internal sewer flooding	Continued			✓	✓
COVID-19	Continued		✓	✓	✓
Reconciliation models and applications for in-period determination	New		✓	✓	

Our 2020/21 Final assurance plan contains full details of the reasons for the targeted status, the ongoing and planned activity to mitigate the risks and the planned activity to assure our reporting in these areas. A summary of the status of these targeted areas is set out in the following table.

The corporate audit report and findings – set out in Section C of this Appendix – confirms that the assurance activities included within the Final assurance plan have been complied with and sets out the summary of Corporate Audit's findings.

Appendix 1 Assurance summary and findings

2020/21 targeted areas and reason for status

Following publication of our Final assurance plan, we said that we would highlight any variations in approach that were taken in delivery of the assurance, including any changes that were required because of COVID-19 impacts. We are pleased to confirm that we were able to deliver each area of targeted work in line with the governance and assurance approach set out in the Final assurance plan document and no variations were required.

Targeted area	Action taken to assure targeted area
Performance commitments and outcome delivery incentives	Performance and any resulting financial incentive is reviewed and signed off by an executive sponsor. The executive sponsors review performance against our performance commitments regularly through director review meetings and performance boards, which are typically held on a monthly basis. Performance reviews and forecasts are carried out each month to track progress against delivery of our performance commitments. Performance against each commitment is reported at UUW board level throughout the year. We have regular liaison with relevant external regulators and groups (CCW, DWI and EA) who also publish annual company performance reports. Regular challenge sessions are held to ensure compliance with methodologies for water and wastewater network performance commitments. We regularly review performance against our performance commitments with the customer challenge group, YourVoice, who challenge the measures we are taking to manage performance levels or manage the customer impacts of any issues. The detailed internal methodologies and calculation tools have been subject to third party review by our independent technical auditor, Jacobs. ODIs that have been identified as requiring targeted assurance are subject to a detailed audit of the data collection, incentive calculations and reporting process by our independent technical auditor, Jacobs, to provide assurance that the data can be reported reliably, accurately and completely and in accordance with reporting requirements. This includes sample checks to test process, assumptions, methodology, implementation, governance and results.
Water quality	The reporting of our performance in this area is reviewed with the YourVoice panel. The reported data has been reviewed and signed off by the appropriate executive director. A detailed third party audit of the data collection and reporting process by our independent technical auditor, Jacobs, to provided assurance that the data was reported reliably, accurately and completely and in accordance with reporting requirements. This included sample checks to test process, assumptions, methodology, implementation, governance and results.
Charges and tariffs scheme	The charges schemes are subject to a series of reviews by members of the company's legal team for compliance with the relevant legislation. Management undertake a review of each charging rule to demonstrate how each charging rule has been complied with, and this document is published on the United Utilities website. Corporate Audit reviews sections 3 and 4 of the assurance statement and presents its findings to the UUW board. The company publishes and provides to Ofwat an assurance statement from the UUW board, no later than the time of publication of the charges schemes, confirming that: a) UUW has complied with its legal obligations relating to the charges set out in the charges schemes b) the board has assessed the effects of the new charges on retailers and on customers' bills for a range of different customer types and approves the impact assessments and handling strategies developed in instances where the bill increases for particular customer types exceed 5 per cent c) UUW has appropriate systems and processes in place to make sure that the information contained in the charge schemes, and additional information is accurate d) the company has consulted the Consumer Council for Water (CCW) in a timely and effective manner on its charges schemes.

Appendix 1 Assurance summary and findings

Targeted area	Action taken to assure targeted area
Systems implementation (formally Integrated Network Solution)	All the information within the system that will be used for our AMP7 regulatory reporting was identified and included with the list of programme deliverables, and our regulatory reporting data continues to be risk assessed and assured appropriately. The Regulatory Reporting team reviewed the design of the solutions to ensure that regulatory requirements and obligations were addressed. Existing reporting methods were continued post go live to ensure the new system provided reliable, accurate and complete data. Programme deliverables were signed off by the both the project steering group delivery team and the business team responsible for undertaking the relevant activity. Sign off of reported data was undertaken by the line owner, responsible, accountable and executive manager as appropriate. A detailed audit of the data collection and reporting process was undertaken by the independent technical auditor, Jacobs, to provide assurance that reported data is reliable, accurate and complete and in accordance with reporting requirements. This included sample checks to test process, assumptions, methodology, implementation, governance and results.
Market support	Details of Ofwat's findings regarding incumbent support for markets were taken to the board and the identified actions are being monitored at an executive level. We have reviewed the competition compliance policy, training and guidance in light of the Effective Market publications ensuring we can support collaboration where appropriate (and not restrict efforts unnecessarily).
Consent compliance	The November 2019 Jacobs report aimed to examine whether United Utilities has sufficient and effective governance, processes, controls and systems to identify and mitigate the types of risks highlighted by the Southern Water investigation. The report also looked to recommend actions to strengthen process controls. For the water compliance regime, the report concluded that there were no issues identified, stating that there is clear organisational separation and accountability for operations, regulatory sampling, sample analysis and board/regulatory reporting, which are effective in ensuring that performance of drinking water assets is being fully and correctly disclosed. For the wastewater regime, the report concluded that United Utilities has comprehensive processes in place to manage the compliance regime, to prevent, detect and correct any potential compliance issues and to escalate through the business and to the Environment Agency. In terms of opportunities for improvement, Jacobs suggested the company would benefit from small improvements to the sampling regime, post-incident technical reviews and the process to reclassify erroneous sample results for wastewater. These suggested improvements were then addressed through a series of changes in practices, associated control checks and extended audits. A secondary Jacobs report is planned in early 2022 to assess the effectiveness of implementing these improvements.
Haweswater aqueduct replacement programme	Accountability for development of this scheme has been assigned to the Director of Strategic Programmes, who reports progress directly to the monthly executive meeting. The executive meeting is chaired by the Chief Executive, with key risks and decisions being highlighted to the UUW board as required. Three specific steering groups have been established that provide guidance on the commercial, legal, regulatory, financial, technical, operational and stakeholder aspects of the scheme. An independent assurance specialist, Deloitte LLP, has been appointed to develop a specific assurance framework for this project. This will ensure that any potential risks are identified at a sufficiently early stage to allow them to be resolved in a way which does not compromise the delivery, or the quality of the work being developed which will be required to be submitted to Ofwat throughout the development of the scheme. Alongside this, the programme will utilise our established assurance and governance framework following a risk-based approach using a three lines of assurance model. Where required, external specialist assurance will be put in place for those higher risk areas.

Appendix 1 Assurance summary and findings

Targeted area	Action taken to assure targeted area
Water transfer programme	A number of intercompany groups have been established with representatives from each affected company. These include stakeholder, engineering and environmental working groups and an overall programme board and steering group. Within United Utilities, accountability for development of this schemes lies with the Director of Strategic Programmes, who reports progress directly to the monthly executive meeting. The executive meeting is chaired by the Chief Executive, with key risks and decisions being highlighted to the UUW board as required. An independent assurance specialist, Deloitte LLP, has been appointed to develop a specific assurance framework for this project. This will ensure that any potential risks are identified at a sufficiently early stage to allow them to be resolved in a way which does not compromise the delivery, or the quality of the work being developed which will be required to be submitted to Ofwat throughout the development of the scheme. A joint assurance framework has been agreed with the other appointees to assure RAPID and the UUW board of the details and requirements within the programme. This framework will take a risk based approach, assessing the programme deliverables and where required apply external specialist assurance to those complex or higher-risk areas.
Drainage and wastewater management plans	A technical steering group of key subject matter experts has been established to ensure that all key data and assumptions used within the process can be appropriately challenged, validated and agreed. A programme board of operational directors or equivalent has been established to advise and govern the process to assure and direct the approach taken by the programme team and technical steering group. Updates are provided to the executive at key milestones detailing any decisions that have been made and information to be published. Additional assurance of the data used within the process is being provided by adding the data to the data set covered by our established three lines of assurance, regulatory reporting process. The plan will be audited internally on two occasions prior to draft plan publication. The first completed in October 2020, with a subsequent report being prepared for the board.
Internal sewer flooding	Performance and any resulting financial incentive is reviewed and signed off by an executive sponsor. The executive sponsors review performance against our performance commitments regularly through director review meetings and performance boards, which are typically held on a monthly basis. Performance reviews and forecasts are carried out each month to track progress against delivery of our performance commitments. We regularly review performance against our performance commitments with the customer challenge group, YourVoice, which challenges the measures we are taking to manage performance levels or manage the customer impacts of any issues. A detailed audit of the data collection and reporting process by our independent technical auditor, Jacobs, to provide assurance that the data can be reported reliably, accurately and completely and in accordance with reporting requirements. This includes sample checks to test process, assumptions, methodology, implementation, governance and results. Verification is sought from Jacobs throughout the reporting year for any difficult or unusual events or circumstances.
COVID-19	We will seek to undertake additional reviews of data which is unable to be subject to the planned assurance processes to highlight any potential risks or caveats that need to be applied to the data. External assurance providers have described any limitations to their approach as part of their reports. Corporate Audit have reviewed the outputs from this work as part of its planned reviews of regulatory submissions.
Reconciliation models and applications for in-period determination	Data used to populate reconciliation models were subject to risk based assurance as part of the Annual Performance Report process and have been reviewed and approved by a business sponsor. Reconciliation models were used to calculate revenue or RCV adjustments and were subject to assurance as part of the Annual Performance Report process. The results of this assurance, together with confirmation from the accountable executive sponsor, have been provided to the UUW board to support its consideration of the submission.

Appendix 1 Assurance summary and findings

In addition to our published targeted areas, we also focused some more specific external assurance relating to a number of our performance commitments. The table below outlines which third party has undertaken that assurance in order to meet the additional assurance requirements of the final determination (www.ofwat.gov.uk/publication/pr19-final-determinations-united-utilities-outcomes-performance-commitment-appendix/).

Performance commitment	Requirement	Assurance provider
Keeping reservoirs resilient (no. of people moved to acceptable risk)	Third party assurance needed for works completed at each site	No deliverables completed year one
Improving the water environment (AMP7)	The company will ask the EA to confirm this is reported correctly	No deliverables completed year one
Improving river water quality	The company will ask the EA to confirm this is reported correctly	No deliverables completed year one
Protecting the environment from growth and development	Independent assurance report on baseline and additional capacity	The additional assurance requirement will be undertaken at the end of the AMP when the PC is reconciled
Enhancing natural capital value for customers	Independent baseline assurance	Vivid Economics
Better air quality	Independent assurance report	Element Materials Technology Environmental UK Ltd (formerly Envirodat)
C-MeX – Customer experience	See guidance	Jacobs
D-MeX – Developer experience	See guidance	Jacobs
Gap sites (retail)	Independent assurance report to identify and bill new properties	Jacobs
Systems thinking	Independent assurance report	Accenture
Raising customer awareness to reduce the risk of sewer flooding	Tracked by independent research organisation	McCann Manchester
Water service resilience	Jacob's independent reports of the assessment audit of the baseline position and then further audits of any changes in the risk position	Jacobs
Hydraulic flood risk resilience (internal)	Independent baseline assurance	Jacobs
Hydraulic flood risk resilience (external)	Independent baseline assurance	Jacobs

C) Deviation from methodology – statement of additional clarity

This section sets out identified exceptions to published methodology requirements.

Statement of additional clarity – leakage

The COVID-19 pandemic has had a number of impacts on the reporting of this measure. The 2018 Ofwat leakage reporting guidance states that 90 per cent of all properties within continuous night flow monitoring networks shall be available for reporting night flow data through the year. Our availability during 2020/21 was 86 per cent to 87 per cent. We have seen a deterioration in availability and operability during COVID-19 lockdowns as resources were redeployed to maintain supplies. Additional maintenance activity is planned to achieve an availability of 90 per cent for 2021/22. The leakage reporting impact of this issue is likely to be very marginal and we generally find that leakage derived from demand/distribution monitoring zone (DMZ) estimates is marginally higher than leakage derived from metered flows. Therefore, this issue would typically be expected to lead to a slight over-estimate of leakage levels.

In line with the 2018 Ofwat leakage reporting guidance, we also commenced a programme to meter all sewage treatment sites and other key assets using greater than 10m3/d (0.01 Ml/d). This programme has been significantly delayed by site access changes due to COVID-19 and we are now expecting it to complete in 2021/22. The leakage reporting impact of this issue is likely to be very marginal and offset by the availability overestimation explained in the paragraph above. Progress against these programmes of work is being tracked by the leakage board, an internal governance group.

Statement of additional clarity – FEH13

In AMP7 all flooding incidents are reported upon regardless of severity of storm intensity. Internal assurance checks identified that we have not been using the Flood Estimation Handbook 13 (FEH13) model to assess severe weather events as is set out in the AMP7 guidance. This unintentional deviation from the reporting guidance was due to software application faults resulting in FEH13 data not being retrievable by our storm event calculation software. This resulted in the default FEH99 version being used instead.

This information is only used to calculate storm return periods. The incident numbers reported in the APR tables are therefore an accurate reflection of our performance in 2020/21 and the software error has therefore not impacted on our reported number of incidents for our sewer flooding performance commitments.

Appendix 1 Assurance summary and findings

Having identified the cause of the issue as part of our assurance processes we have identified and applied a temporary fix which will allow us to use FEH13 to assess flood return periods, whilst we are investigating a permanent solution.

D) Summary of the findings of the assurance

This section summarises the findings of the assurance that has been undertaken to support the Annual Performance Report.

Financial auditor – We have engaged KPMG to provide an audit opinion or perform procedures as agreed with management on the regulatory accounting information set out in the table below. The coverage of the KPMG audit opinion is set out in more detail, together with the findings from this review on pages 106 to 110 within section 2 of the APR. KPMG have also completed agreed upon procedures for the section 4 and section 9 pro forma tables identified in the following table, with no issues noted.

Technical auditors – We have engaged Jacobs to review the performance and volumetric data used to support the remainder of the data within the APR tables, including the outcome delivery information and cost assessment tables.

The findings from technical auditor's review, which covers the APR information were presented to the UUW board and are set out below. The Independent Technical Assurance Statement is set out on page 208.

Corporate audit – UU Corporate Audit performed an independent review of the effectiveness and application of the assurance framework applied to the APR. The findings were presented directly to the UUW board and are set out in Section 4.2 on page 219 below.

In addition **YourVoice**, the independent stakeholder forum, have reviewed our performance and reporting throughout the year and presented their findings directly to the UUW board. The reflections of the panel on United Utilities' performance during 2020/21, which can be found on our website www.unitedutilities.com/globalassets/documents/pdf/apr-yourvoice-statement-2020-21.

Appendix 1 Assurance summary and findings

The table below sets out each area of the APR and shows how the independent assurance has been provided for that area.

UUW Annual Performance Report data tables – independent assurance

	Section 1 Regulatory financial reporting at 31 March 2021	Lines	Independent assurance
1A	Income statement	All	KPMG audit opinion
1B	Statement of comprehensive income	All	KPMG audit opinion
1C	Statement of financial position	All	KPMG audit opinion
1D	Statement of cash flows	All	KPMG audit opinion
1E	Net debt analysis	All	KPMG audit opinion
1F	Financial flows	All	KPMG audit opinion
	Section 2 Price review and other segmental reporting at 31 March 2021		
2A	Segmental income statement	All	KPMG audit opinion
2B	Totex analysis – wholesale water and wastewater	All	KPMG audit opinion
2C	Operating cost analysis – retail	All	KPMG audit opinion
2D	Historical cost analysis of tangible and fixed assets wholesale and retail	All	KPMG audit opinion
2E	Analysis of grants and contributions – water resources, water network plus and wastewater network plus	All	KPMG audit opinion
2F	Residential retail	All	KPMG audit opinion
2G	Non-household water – revenues by tariff type	All	N/A
2H	Non-household wastewater – revenues by tariff type	All	N/A
2I	Revenue analysis	All	KPMG audit opinion
2J	Infrastructure network reinforcement costs	All	KPMG audit opinion
2K	Infrastructure charges	All	KPMG audit opinion
2L	Analysis of land sales	All	KPMG audit opinion
2M	Revenue reconciliation – wholesale tariffs	All	KPMG audit opinion
2N	Residential retail – social tariffs	All	KPMG audit opinion
2O	Historic cost analysis of intangible fixed asset	All	KPMG audit opinion
	Section 3 Performance summary		
3A	Outcome performance Water common performance commitments	All	Jacobs agreed upon procedures
3B	Outcome performance Wastewater common performance commitments	All	Jacobs agreed upon procedures
3C	Customer measure of experience (C-MeX) table	All	Jacobs agreed upon procedures
3D	Developer services measure of experience (D-MeX) table	All	Jacobs agreed upon procedures
3E	Outcome performance – non financial performance commitments	All	Jacobs agreed upon procedures
3F	Underlying calculations for common performance commitments – Water and Retail	All	Jacobs agreed upon procedures
3G	Underlying calculations from common performance commitments – Wastewater	All	Jacobs agreed upon procedures
3H	Summary information on outcome delivery incentive payments	All	Jacobs agreed upon procedures
3I	Supplementary outcomes information	All	Jacobs agreed upon procedures
	Section 4 Additional regulatory information – service level		
4A	Water bulk supply information	All	Jacobs agreed upon procedures
4B	Analysis of debt	All	KPMG agreed upon procedures
4C	Impact of price control performance to date on RCV	All	KPMG agreed upon procedures
4D	Totex analysis – water resources water network plus	All	KPMG agreed upon procedures
4E	Totex analysis – wastewater network plus and bioresources	All	KPMG agreed upon procedures
4F	Major project expenditure for wholesale water by purpose	All	Jacobs agreed upon procedures
4G	Major project expenditure for wholesale wastewater by purpose	All	Jacobs agreed upon procedures
4H	Financial metrics	All	KPMG agreed upon procedures
4I	Financial derivatives	All	KPMG agreed upon procedures
4J	Base expenditure analysis – water resources and water network plus	All	KPMG agreed upon procedures
4K	Base expenditure analysis – wastewater network plus and bioresources	All	KPMG agreed upon procedures
4L	Enhancement expenditure water resources and water network plus	All	Jacobs agreed upon procedures
4M	Enhancement expenditure on wastewater network plus and bioresources	All	Jacobs agreed upon procedures
4N	Developer services expenditure – water resources and water network plus	All	KPMG agreed upon procedures
4O	Developer services expenditure – wastewater network plus and bioresources	All	KPMG agreed upon procedures
4P	Expenditure on non-price control diversions	All	KPMG agreed upon procedures
4Q	Developer services non financial information	All	Jacobs agreed upon procedures
4R	Properties, customers and population	All	Jacobs agreed upon procedures

Relevant commentary for tables 3-9 is provided on our website www.unitedutilities.com/globalassets/documents/pdf/apr-tables-commentary-2021 and www.unitedutilities.com/globalassets/documents/pdf/rr21-accounting-methodology-statement

Appendix 1 Assurance summary and findings

Section 5 Additional regulatory information – water resources			
5A	Water resources asset and volumes data	All	Jacobs agreed upon procedures
5B	Water resources operating cost analysis	All	Jacobs agreed upon procedures
Section 6 Additional regulatory information – water network plus			
6A	Raw water transport, raw water storage and water treatment	All	Jacobs agreed upon procedures
6B	Treated water distribution – assets and operations	All	Jacobs agreed upon procedures
6C	Water network plus – mains, communication pipes and other data	All	Jacobs agreed upon procedures
6D	Demand management – metering and leakage activities	All	Jacobs agreed upon procedures
Section 7 Additional regulatory information – wastewater network plus			
7A	Wastewater network plus functional expenditure	All	Jacobs agreed upon procedures
7B	Wastewater network plus large STW	All	Jacobs agreed upon procedures
7C	Wastewater network plus sewer and volume data	All	Jacobs agreed upon procedures
7D	Wastewater network plus sewage treatment works data	All	Jacobs agreed upon procedures
7E	Wastewater network plus energy consumption and other data	All	Jacobs agreed upon procedures
Section 8 Additional regulatory information – bioresources			
8A	Bioresources sludge data	All	Jacobs agreed upon procedures
8B	Bioresources operating expenditure analysis	All	Jacobs agreed upon procedures
8C	Bioresources energy and liquors analysis	All	Jacobs agreed upon procedures
8D	Bioresources sludge treatment and disposal data	All	Jacobs agreed upon procedures
Section 9 Additional regulatory information – innovation competition			
9A	Innovation competition	All	KPMG agreed upon procedures

Relevant commentary for tables 3-9 is provided on our website www.unitedutilities.com/globalassets/documents/pdf/apr-tables-commentary-2021 and www.unitedutilities.com/globalassets/documents/pdf/rr21-accounting-methodology-statement

United Utilities Technical Assurance

RR21 Board Assurance Statement

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18/06/21

United Utilities Water

Appendix 1 Jacobs audit report

RR21 Board Assurance Statement

Jacobs

United Utilities Technical Assurance

Project No:	B2349200
Document Title:	RR21 Board Assurance Statement
Document No.:	1
Revision:	3
Document Status:	Final
Date:	18/06/21
Client Name:	United Utilities Water
Client No:	
Project Manager:	Chris Morley
Author:	Glen Hawken
File Name:	RR21 Board Assurance Statement.docx

Jacobs U.K. Limited

www.jacobs.com

Document history and status

Revision	Date	Description	Author	Reviewed	Approved
1	16/06/21	Initial Draft to UU for review	C Morley	G Hawken	G Hawken
2	18/06/21	Second Draft to UU for review	C Morley	G Hawken	G Hawken
3	18/06/21	Final – Incorporating comments from UU	C Morley	G Hawken	G Hawken

Appendix 1 Jacobs audit report

RR21 Board Assurance Statement

Jacobs

Contents

RR21 Board Assurance Statement

Jacobs

1. Introduction

UUW engaged Jacobs UK Limited to provide external technical assurance, in order to confirm that specific technical and expenditure elements of RR21 have been compiled in accordance with the guidance of the Water Services Regulatory Authority (Ofwat); good practice; and the PR19 Final Determination.

All water companies are required by Ofwat to submit an Annual Performance Report (APR) to demonstrate compliance with their separate price controls. This includes specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. Data used by United Utilities (UUW) to populate the APR has been predominantly derived from their RR21 data return.

The reports prepared by the Company are required to be accessible to all stakeholders so that they show how the sector is delivering for its customers, environment, and wider society. In this regard, Ofwat has provided a series of standard templates and accompanying guidance for the outcome, performance commitment and incentive mechanisms. The information in the spreadsheet will assist stakeholders to track and compare actual performance.

Each company's Board is accountable for the quality and transparency of the information they provide on their performance and for implementing assurance procedures to make sure they meet all their legal and regulatory obligations.

This statement covers our work in providing independent technical assurance on aspects of the Company's APR submission to Ofwat.

2. Role and Scope

Jacobs UK Ltd was appointed to provide an independent review of UUW's compliance and governance processes covering the key technical information presented in or supporting their regulatory performance and public domain information reports.

The scope of our work has been determined by UUW, and largely agreed in our Outline Assurance Plan, dated 19th March 2021, which is summarised as follows:

APR information (as reported in RR21), which is prepared in accordance with Ofwat's APR guidance and information which supported the Final Determination for the AMP7 period, includes:

- General information
- Customer service information
- Operational activities and performance in AMP7 against PR19 and other business targets
- Networks and treatment
- Capital expenditure allocations to revenue controls and business streams, to investment categories and to performance commitments
- Calculation of 2020/21 performance associated with the Outcome Delivery Incentives and Performance Commitments.
- Other miscellaneous metrics

Where the above guidance does not cover the items assured, they are assessed against the guidelines set out by Ofwat for June Return information up to 2012, where detailed Reporting Requirements can be used to assess compliance and consistency of reporting over time and between companies. The following hierarchy of guidance is deemed to apply:

- Relevant Regulatory Accounting Guidelines: version 4.09
- APR21 table templates and guidance
- Performance commitments and definitions agreed with Ofwat for the AMP7 period, or as subsequently superseded
- Ofwat's most recent 'June Return' guidance (2012)
- UUW procedures, definitions and assumptions which should where relevant, be compliant with the guidance hierarchy above
- Reasonable and appropriate judgement

3. Approach

3.1 Process

Our approach is summarised in the following steps:

1. Agree Scope with UUW
2. Produce and agree Assurance Plan
3. Review preliminary topic information
4. *Undertake Remote Audits via MS Teams – specific requirement for RR20 and RR21 due to Covid-19 travel restrictions and social distancing requirements*
    - Check that the Company's reported data conforms to the published guidance
    - Identify and examine the material assumptions to assess their reasonableness, and challenge those which we deem to be inappropriate
    - Where appropriate, test on a sample basis, UUW's approach against its stated methods, procedures, policies and assumptions, and reliability of source data
    - Review the appropriateness of the confidence grades assigned,
    - Assess performance in the Report Year and check consistency against that of previous years, and
    - Ensure relevant performance data has been accurately utilised in the calculation of the various performance commitments and ODIs, where applicable.
5. Summarise Audit Findings (SAF)
    - For RR21, the SAF consists of a brief bullet point summary of the findings and a tabulation of any outstanding issues or areas identified for further UUW action. The purpose of this approach was to meet UUW's tighter reporting timetable and ensure a SAF is available in advance of the Level 2 sign off.
6. Close out key issues – through iteration between auditor and UUW specialists, escalating through both organisations where appropriate to agree, as appropriate: adjustment to reported information; future action plans; or additional statements which provide adequately transparency of the issue.
7. Presentations and preparation of Reports and Assurance Statement.

3.2 Assessment

We use the following RAG coding to simply highlight the areas of concern:

Figure 1 - RAG Criteria used by Jacobs for reporting compliance against the guidelines

Key to Audit RAG status	
R	Material concerns over the validity of the reported information
A	Potential material concerns over reported information
B	Content with reported information but supporting data needs completion/ noting/or future improvements required
G	No material exceptions and compliant with the requirements

Appendix 1 Jacobs audit report

RR21 Board Assurance Statement

Jacobs

The following tests are applied to the data presented and the accompanying commentaries:

Figure 2 - Example of Tests applied to APR Data and Performance Commitment information

RR21 Table Criteria	RAG	Assessment
Performance and Significant events	Green	Has the company met their respective targets and is the reporting process well managed/maintained?
Methodology	Green	Does the methodology remain unchanged from previous year and is it clearly laid out with key data sources, processes and well-defined control points?
Assumptions	Green	Are all assumptions reasonable and appropriately applied?
Source Data	Green	Has the source data been clearly identified, is it complete beyond material concern and is it well managed through to accurate systems input?
Clarity of Audit Trails	Green	Is the audit trail detailed, comprehensive and traceable back to source?
Confidence Grades	Green	Do you concur with the confidence grades presented by the company?
Governance	Green	Has all evidence of appropriate sign-off been provided?

ODI Measure	RAG	Assessment
Performance Commitment	Green	Are the performance figures accurately carried forward to the ODI and correctly calculated in accordance with Ofwat's PR19 FD - United Utilities – Outcomes performance commitment appendix?

4. Findings

Below we highlight the key findings and exceptions:

- The reported data is materially compliant with Ofwat's Reporting Requirements (Regulatory Accounting Guidelines, APR21 table guidance, 2019 Final Determination or superseding definitions, or June Return definitions, as appropriate)
- The tables, commentaries and statements provide a fair and balanced overview of the Company's 2020/21 circumstances and performance
- Procedures and assumptions are generally reasonable and well embedded, well documented, and appropriately implemented
- Overall, UUW staff were knowledgeable, helpful, receptive, and generally well prepared for the audits.
- We continue to see very good evidence of senior management engagement.
- We do, however, recommend that UUW adopts the APR table structure and naming conventions for RR22, and differentiates between data integral to the APR or other regulatory submissions, with that used for internal reporting only, to ensure all submitted data is assured against the appropriate reporting guidance.

RED issues	There are no RED status issues.
AMBER issues	Whilst there were a small number of AMBER issues raised during the audit process, these were all resolved prior to submission.
BLUE issues	Several non-material BLUE issues were identified during the audit process. Some examples of these are summarised below:

- **T15a – C10-BR –** The calculation of the reward for C10-BR is not consistent with the methodology in the FD PC Appendix. This appears to be an accidental Ofwat omission, but when compared against the current reward methodology, UU appears to have over claimed the reward. We recommend this is clarified with Ofwat and corrected.
- **T13 – Line 17-19 –** There is a risk that the reported non-resident population will be less accurate than in previous years as UU are unable to fully assess the impact of COVID-19. However, the methodology is unchanged from previous years and we expect the impact on total connected population will be minimal.
- **T6/6a – GSS Flooding and Appointments –** UU is incurring a very high proportion of penalty payments, as GSS payments are not being made in a timely manner. Whilst processes have been improved to track incidents/appointments, we recommend that UU continues to review the overall process and look to better understand the cause of penalty payments and where in the end to end process delays are occurring.
- **T3 – G02-WWN –** Potential under reporting of a number of damp patch exclusions, where a large proportion of the cellar is affected, which we consider to be out-with the definition for a damp patch. We recommend UU clarify the definition of damp patch exclusions.

- **T8C – Line 17 – Bioresources Sludge Liquors** - The team were unable to demonstrate that the chosen cost allocation basis is RAG compliant, in particular that there is a causal relationship between opex and NMEAV. Whilst we confirm that UU has reported this measure on a best endeavours basis for APR21, which is in accordance with the guidance for Year 1 of AMP7, we recommend that the team work to improve the opex cost allocation process for APR22 to ensure RAG compliance.

There are also a few areas where further improvements have been recommended. This includes improvements to the quality and handling of some source data, clarity of audit trails and general improvements to methodologies. However, these are not deemed to be sufficiently material to be escalated into this report.

Appendix 1 Jacobs audit report

5. Independent Technical Assurance Statement

Jacobs UK Ltd has been appointed by United Utilities Water to provide independent technical assurance of the data that feeds into their regulatory submissions.

Through a series of virtual meetings and information exchanges, we have reviewed and tested the methodologies, processes and supporting evidence on which the statements in the Annual Performance Report 2021 are based. Under the current Covid-19 restrictions our assurance has been undertaken remotely using MS Teams. In general, this has worked satisfactorily and has not adversely impacted on the effectiveness of the overall assurance process.

Based upon our assessment of United Utilities Water's performance and the supporting information we have reviewed, with only minor and non-financially material exception, we conclude that:

- the statements of non-financial numeric measures are consistent with our assurance of the supporting information, which is appropriately robust; and
- the Company's explanations of their activities and performance are reasonably based.

Our detailed findings will be provided under separate cover.

On the basis of our audit work and with exceptions as noted in Appendix A, we are satisfied that the information within and which supports RR21 has been assembled using appropriate data and methodologies and provides a reliable representation of Company performance. There is also good evidence of senior management engagement, governance and programme management.

GA Hawken

Technical Assurance Director

Jacobs UK Ltd

18 June 2021

CORPORATE AUDIT MEMORANDUM

Review of the APR 2021 - FINAL

United Utilities
Water for the North West

From: James Taylor, Head of Audit & Risk

Date: 22 June 2021

1. Background

Ofwat require companies to report on their financial and operational performance in an Annual Performance Report (APR). This includes information specific to customers and stakeholders, together with information that enables comparison between companies across the sector.

As part of the APR Ofwat require that a risk and compliance statement is published annually, setting out how the company has complied with its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate key risks it faces.

The APR is supplemented by a series of data tables and supporting commentary in four main sections:

- Section 1: Regulatory financial reporting;
- Section 2: Price control and additional segmental reporting of costs and revenues;
- Section 3: Performance summary, including outcome delivery performance; and
- Section 4: Additional regulatory information, including totex and financeability information.

The Annual Performance Report, together with a summary of the results of the data assurance ('Assurance Report'), needs to be published by 15 July each year. Our audit is therefore timed to provide assurance over the process by which regulatory data is compiled in advance of UUW Board sign-off on 29 June 2021.

Ofwat have issued a revised Guideline for the format and disclosures for the annual performance, RAG 3.12. This includes a requirement for (water) "Companies to provide a statement, signed by, or on behalf of their boards, stating that the data and information which the company has provided to Ofwat in the reporting year and/or which they have published in their role as water and sewerage undertaker was accurate and complete and setting out any exceptions to this". The Section goes on to state that "Companies should explain the reasons for any exceptions". This statement is in addition to the Board statement on Risk and Compliance.

Key risks

The overall risk is that inaccurate, incomplete or misleading data / information is published and reported to Ofwat resulting in regulatory action being taken against UU and/or its Directors. Consequently, financial penalties could be imposed together with a loss of confidence by customers and investors.

2. Audit Objective and Scope

The **objective** of the audit was to provide assurance in respect of the governance, processes and key controls over the production of the 2020-21 Annual Performance Report and associated Assurance Report.

The **scope** of this review supplements the assurance provided by KPMG and Jacobs. We provide the Board with assurance over the 2020-21 regulatory reporting governance, processes and key controls in advance of the Board sign-off of the Annual Performance Report and Assurance Report prior to publication in July 2021.

The audit covered the following areas:

1) Overall governance arrangements in place to ensure the regulatory data is complete, accurate and reported in line with the required timescales;
2) The validity and consistency of the data and associated commentaries reported in Sections 3 and 4 of the Annual Performance Report. This included sample testing to agree data back to underlying UU records and systems. *Note: this review did not duplicate the testing performed by KPMG or Jacobs;*
3) Compliance of the reported data in the APR with key aspects of Regulatory Accounting Guideline 3.12 "*Guideline for the format and disclosures for the annual performance report*";

Review of the APR 2021

4) Review the proposed Assurance Report (to be published along with the Annual Performance Report) to ensure it is a fair reflection of UU's published Final Assurance Plan and associated assurance activities;
5) Review of the Risk and Compliance Statement for reasonableness; and
6) Review the Board statement for accuracy and completeness of data and information.

Note: The review was carried out alongside the preparation of the regulatory data and therefore we have provided feedback on any observations in real-time to the Economic Regulation team during the course of our work.

Exclusions from scope

- As testing was performed on a sample basis, the review did not verify all the regulatory data or compliance with regulatory obligations;
- Sections 1 and 2 of the Annual Performance Report which are subject to external audit by KPMG with opinion;
- Review of the ODI data collection, incentive calculations and reporting processes as this was performed by the technical auditor Jacobs; and
- The review did not assess the underlying adequacy of other assurance activities performed or the competency and objectivity of the assurance provider. However we considered, by reference to the scope and provider, the appropriateness of the assurance activity given the nature of the risk.

3. Conclusion

There is a robust governance framework in place over the production of the APR data tables and commentaries, and our sample audit testing has not highlight any inconsistencies or inaccuracies in the data. The Assurance Report is a fair reflection of the published Assurance Plan and associated assurance activities. The format of the APR is compliant with RAG 3.12 "*Guideline for the format and disclosures for the annual performance report*". Specifically, the new Board statement on completeness and accuracy of data and the measures taken to assure this, complies with the provisions set out in RAG 3.12.

Note that our work has been performed on draft copies of the APR and associated documents, and we will continue to work alongside Economic Regulation Team, to assure any changes made to the data and/or commentaries and other draft documents until the final publication of the APR.

4. Summary of Audit Findings

4.1 Overall governance arrangements in place to ensure the regulatory data is complete, accurate and reported in line with the required timescale

- ✓ The governance framework in place for Regulatory Reporting has been documented in a Board paper and includes documented roles and responsibilities for each data table including three levels of sign off.
- ✓ These are documented in a "Table of Accountabilities", and we confirmed that this was up-to-date and appropriate.
- ✓ We confirmed that a timetable had been published for submission of the regulatory data tables and that submission of the data is managed through standard evidence packs, the "Performance and Compliance Statements".

No issues noted, however we have a recommendation for management to further improve the process:

Recommendation: The Economic Regulation team will continue their efforts to achieve electronic sign-off of data tables and associated documentation.

4.2 The validity and consistency of the data and associated commentaries reported in Sections 3 and 4 of the Annual Performance Report

- ✓ We selected a sample of data table blocks (which included multiple lines) and these were traced back to the underlying systems and records with reference to the supporting Methodology Statements.
- ✓ For the selected data lines, we confirmed consistency with associated APR commentary].

See Section 5 of this report for details of the sample testing.

Review of the APR 2021

No issues noted, however we will continue to work alongside Economic Regulation Team, to assure any changes made to the data and/or commentaries until the final publication of the APR.

4.3 Compliance of the reported data in the APR with key aspects of Regulatory Accounting Guideline 3.12 "Guideline for the format and disclosures for the annual performance report"

- ✓ We reviewed the content of the Annual Performance Report (APR) against the requirements set out in RAG 3.12 "Guideline for the format and disclosures for the annual performance report" to ensure that the APR included all the required disclosures (e.g. policy notes on revenue recognition, capitalisation policy, bad debt).
- ✓ All the required disclosures are included in the APR. Specifically, the Board statement on completeness and accuracy of data and the measures taken to assure this, complies fully with the provisions set out in RAG 3.12.

No issues noted, however, in order to complete this testing, we will need visibility of the relevant, completed sections of the APR.

4.4 Review the proposed Assurance Report (to be published along with the Annual Performance Report 2020/21) to ensure it is a fair reflection of UU's published Final Assurance Plan and associated assurance activities

- ✓ We verified, on a sample basis, that the assurance activities as described within the Assurance Plan had been performed.
- ✓ We have reviewed the Assurance Report and are satisfied that it is a fair reflection of the assurance activities performed and the results of those activities.

No issues noted, however we will also review the explanation of KPMG's and Jacob's responsibilities within the Final Assurance Plan against the respective assurance reports, as these become available.

4.5 Review the Risk and Compliance Statement for reasonableness

- ✓ We reviewed the Risk and Compliance Statement and are satisfied that it is a comprehensive and reasonable description of the activities that the Board undertake to comply with relevant statutory, licence and regulatory obligations.

No issues noted.

4.6 Review the Board statement for accuracy and completeness of data and information

- ✓ The new requirement within RAG 3.12 for a Board statement on the accuracy and completeness of data & information is included within the Risk and Compliance Statement and we confirmed compliance with the requirement.
- ✓ We have confirmed that the Board statement contains the elements required by RAG 3.12, such as Board engagement and challenge on assurance.
- ✓ Exceptions to data accuracy or completeness have been set out in a table following the Risk and Compliance Statement, as required by RAG 3.12.

No issues noted.

Appendix 1 Corporate audit report

Review of the APR 2021

5. Sample Testing

Sample No.	Table Ref	Measure Description	Type	*All Tests Completed Without Any Issues noted
1	Reliable Water Supply (T2)	Unplanned outages	ODI	Y
2	Sewer Flooding and Network Performance (T3)	Internal sewer flooding incidents	ODI	Y
3	Sewer Flooding and Network Performance (T3)	Hydraulic flood risk resilience (internal)	ODI	Y
4	Sewer Flooding and Network Performance (T3)	Hydraulic flood risk resilience (External)	ODI	Y
5	Water Properties and Population (T7)	Household/ non household properties connected during the year inc NAV's	Supporting	Y
6	Water Properties and Population (T7)	Household Cost to Serve Denominator	Other data	Y
7	Developer Services (T9)	D-MeX - Supporting information	Supporting	Y
8	Leakage (T10)	Leakage	ODI	Y
9	Security Of Supply (T10a)	Drought resilience (percentage of customers that would experience severe supply restrictions in a 1 in 200 year drought)	ODI	Y
10	Security Of Supply (T10a)	2020-25 leakage improvements to supply-demand balance	Other data	Y
11	Water Quality (T11a)	Compliance Risk Index	ODI	Y
12	Pollution incidents (T18)	Pollution incidents	ODI	Y
13	Pollution incidents (T18)	Pollution incidents (cat 1, 2 and 3) and exclusions – supporting information	Supporting	Y
14	Resilience (T22)	Keeping reservoirs resilient (no. of people moved to acceptable risk)	ODI	Y

Tests performed:

- RR21 timetable reflects accurately the contributors/owners, and Responsible / Accountable managers;
- Table line data consistent with Performance & Compliance statement;
- Methodology verified by the owner, Responsible and Accountable managers;
- Performance & Compliance statement verified by (signed off) by the owner, Responsible & Accountable managers;
- Responsible manager review forms completed and responsibility indicated;
- Accountable manager review forms completed and responsibility indicated;
- Traced to Underlying records and evidence obtained; and
- Executive sign off evidenced (certain lines only).

Appendix 2

Certificate demonstrating the delegated authority to sign off the Condition P certificate (ring fencing)

July 2020

Appendix 2

United Utilities Water Limited

United Utilities
Water for the North West

EXTRACT FROM THE MINUTES OF A MEETING OF THE BOARD OF DIRECTORS HEOLD ON 29 JUNE 2021, BY MS TEAMS

11. UUW STATUTORY AND REGULATORY ACCOUNTS

11.6 The Board also approved the Condition P Ring-Fencing Certificate (the Certificate) and delegated authority to sign the Certificate on behalf of the Company to any one director.

Certified to be a true extract.

……………………

Amy Donnelly
6 July 2021

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Appendix 3
Non-standard ODI pro-forma

This appendix sets out the calculations for the non-standard outcome delivery incentive payment for abstraction incentive mechanism (AIM) and better air quality.

Introduction

As part of the process to calculate the net outperformance or underperformance payment required, a reconciliation between the reporting period company performance and the performance commitment level for each performance commitment occurs. The majority follow a standard calculation format of:

(A – B) * C

Where A is actual performance, B is the performance commitment level and C is the incentive rate.

However, there are times where complex, non-standard calculations are required in order to provide additional detail regarding the steps to calculate the outperformance or underperformance payment due per performance commitment. In this reporting period, two of our performance commitments required a non-standard calculation approach. A description of each of these performance commitments and a summary of the level of performance delivered can be found in section 1.1 of this document. The section below outlines the calculation steps for each of the two non-standard performance commitments.

C03-WR – Abstraction Incentive Mechanism

There are two components to this performance commitment, associated to two environmentally sensitive sites where abstraction of water is to be reduced: Old Water and Ennerdale and each has their own incentive rate. Performance is measured in Megalitres per day and a negative number signifies an improved performance as average abstraction is less than the baseline. The nature of the ODI calculation follows the typical approach of:

(A – B) * C

Where A is actual performance, B is the performance commitment level and C is the incentive rate.

However, due to each site having its own incentive rate, as stated in the Outcomes performance commitment appendix on pages 77 and 78, this means it is difficult in table 3A to specify whether any performance value that is stated is reflective of the performance of the company against only one component of the measure or be an amalgamation of performance across both components. Therefore, a non-standard calculation approach is required to specify United Utilities' performance against each component.

The calculation detailed below outlines the performance per component of the measure and then the subsequent calculation, that follows the standard (A - B) * C approach.

Old Water

Performance in year one of AMP: 0.0 ML

Performance Commitment Level in year one of AMP: 0.0 ML

Outperformance incentive rate: £0.00078 million

Underperformance incentive rate: -£0.00080 million

ODI Calculation: (0.0 ML – 0.0 ML) * £0.00078 million = £0.00000 million

Ennerdale

Performance in year one of AMP: -695.9 ML

Performance Commitment Level in year one of AMP: 0.0 ML

Outperformance incentive rate: £0.00036 million

Underperformance incentive rate: -£0.00036 million

ODI Calculation: (-695.9 ML – 0.0 ML) * £0.00036 million = £0.251 million

The outputs of the calculation above indicates that for the 2020–21 reporting period, United Utilities outperformed and is due an outperformance payment of £0.251m as a result of reduced abstraction of water at the Ennerdale site.

C10-BR – Better Air Quality

This performance commitment is bespoke to United Utilities and is measured as Tonnes of NOx emissions per GWh of renewable electricity generated per year, reported to two decimal places. This measured in an A/B formula where:

A – total tonnes of NOx emitted per year

B – total renewable electricity generated per year

The result of the A/B calculation is then United Utilities' performance against the performance commitment level in that reporting period and the value calculated in the A/B calculation should be decreasing across each reporting period in this AMP (found on page 99 of the FD outcomes appendix).

In United Utilities' business plan submission, within the S3001 Performance Commitments technical document, it was stated that the incentive rate was to be applied as a rate per tonne/GWh as opposed to a rate per tonne only. This was applied in order to avoid deterring additional renewable electricity generation.

Based upon projections of tonnes NOx and GWh at that time, an adjustment was calculated as follows:

1.6008 tonnes reduction in NOx will lead to a reduction of 0.01 tonnes NOx per GWh.

Incentive rate per 0.01 tonnes NOx per GWh = 1.6008 x £16,820 per tonne incentive rate = £26,925

Therefore, when calculating the outperformance or underperformance payment due, a 0.01 point conversion is required in order to ensure the incentive is applied and measured as 0.01 NOx/GWh point values. This means that as part of the standard (A – B) * C approach for the outperformance/underperformance ODI calculation, a conversion step must be added in that is done after (A – B), but before applying the incentive rate. This additional calculation step is not included within the FD outcomes appendix but is required in order to accurately determine the underperformance or outperformance payment due to United Utilities for this performance commitment.

Therefore, when applying the actual performance of United Utilities the performance commitment level and incentive rate (found on page 99 of the FD outcomes appendix) for the 2020–21 reporting year in the above formula and using the additional conversion calculation step (to multiply up the performance by 100 from its 0.01 factoring), the ODI is:

(1.30 – 1.42) * 100 = 12

12 * 0.02690m = £0.323 million

The outputs of the calculation above indicates that for the 2020–21 reporting period, United Utilities outperformed and is due an outperformance payment of £0.323 million as a result of reduced tonnes of NOx emitted per GWh of renewable electricity generated across the period.