

Corporate governance report

Annual statement from the remuneration committee chair

Our executive pay arrangements are aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all.



Alison Goligher
Chair of the
remuneration
committee

Dear Shareholder

I am pleased to introduce the directors' remuneration report for the year ended 31 March 2021, which includes the annual report on remuneration and an abridged version of our directors' remuneration policy which was approved by shareholders at our 2019 AGM.

The onset of the COVID-19 pandemic in early 2020 introduced a unique set of challenges for the company and the communities within which we operate. As is outlined elsewhere in this annual report, our focus throughout the past year has been on protecting colleagues, supporting customers, and maintaining our essential water and wastewater services across the North West. Thanks to the extraordinary hard work and dedication of our employees, many of whom are key workers, we have continued to deliver high quality services to our customers and support the interests of our other stakeholders.

The year in focus

As a remuneration committee we are always mindful of the extent to which the remuneration of the executives aligns with the experience of our stakeholder groups. We have taken a close interest in the actions that have been taken to protect our employees and support their wellbeing

during this difficult year. As outlined on pages 126 to 127, my role as the designated non-executive director for workforce engagement has enabled me to gain a first-hand understanding of the various initiatives that have been put in place and the feedback received from employees, which I have then been able to share with the committee for consideration. The committee has received regular updates on relevant matters affecting the workforce from our customer services and people director and head of reward at each meeting.

In the initial days and weeks of the pandemic, we made important changes to support the safety of our front-line colleagues, introducing safeguarding measures such as conducting risk assessments across all our sites. We implemented a range of measures to help and support over 3,000 employees who transitioned to home-working during the period. Recognising the broader impact of the pandemic on our employees and their families, we introduced a staff outreach scheme, offering one-time grants to employees whose families faced COVID-19 related financial challenges, to supplement our existing group-wide health and wellbeing schemes. No government support was accessed, no employees were furloughed or had their pay or benefits reduced, we have continued to recruit people through our graduate and apprentice programmes, and we are currently supporting the Government's Kickstart Scheme providing jobs for 16 to 24 year olds who are at risk of long term unemployment.

The team has performed extremely well in these challenging circumstances, with high levels of customer satisfaction and resilient services in times of significantly increased demand. In serving some of the most economically deprived areas in the country, we have been alert to the need to help customers who struggle to pay their bills and have extended our ongoing charitable support and community engagement programmes. As part of our commitment to Ofwat, we reduced average household bills by 5 per cent in real terms this year and acted swiftly to increase the number of households eligible for our social tariff alongside the extensive support we already provide to customers struggling with affordability, which now covers over 200,000 customers. We worked with our suppliers across the region to provide enhanced payment terms to aid cash flows, and accelerated our capital expenditure to bring forward benefits and help support 17,700 jobs in the supply chain.

Against this background our performance in this first year of the new regulatory period has been strong, with outperformance of the regulatory contract and positive ODI rewards resulting in good outcomes for shareholders.

QUICK FACTS

- The code requires that "the board should establish a remuneration committee of at least three independent non-executive directors".
- The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chairman.
- By invitation of the committee, meetings are attended by the Chairman, the CEO, the company secretary, the customer services and people director, the head of reward and the external adviser to the committee.
- Our remuneration policy was approved by shareholders at the 2019 AGM and is intended to apply until the 2022 AGM.

Quick link



Terms of reference – unitedutilities.com/corporate-governance

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- ➔ Read about how [our remuneration approach complies with the UK Corporate Governance Code](#) on page 162
- ➔ Read our [At a glance summary: executive directors' remuneration](#) on pages 164 to 166
- ➔ Read our [Annual report on remuneration](#) on pages 167 to 181
- ➔ Read our [Directors' remuneration policy](#) on pages 182 to 188

Remuneration committee members



Alison Goligher
(chair)



Kath Cates



Mark Clare



Brian May

Implementation of the directors' remuneration policy during 2020/21

Salary

Recognising the difficulty being experienced by many customers in our region, all members of the board, including the executive directors, volunteered a 20 per cent reduction to their salary/fees for the three-month period to August 2020, and agreed that giving the money to the foodbank charity FareShare would be an effective way to support vulnerable groups within our communities. Further details on our relationship with FareShare are shown on page 43.

Whilst our policy is that executive directors normally receive a salary increase broadly in line with the increase awarded to the general workforce (which was 2.3 per cent in the year), in recognition of the wider economic environment, all members of the board agreed that they would not receive scheduled increases during 2020/21. Salaries will next be reviewed in September 2021.

Annual bonus

Employees throughout the company participate in the same bonus scorecard as the executive directors, to ensure a shared focus on the business plan at all levels. As outlined in the Strategic Report we have seen another strong year of customer service, operational and financial performance, despite the challenges presented by the pandemic and periods of significantly increased demand.

We are leading the way on customer satisfaction and have made a strong start to our AMP7 customer ODIs delivering net outperformance this year, demonstrating resilient performance across most of the targets set for us by the regulators. While our written customer complaints performance for the year has fallen below our targets, in part reflecting the higher level of complaints during the dry spring in 2020 and our focus on collecting cash from those customers who are able to pay, but choose not to, we still expect our relative performance to be upper quartile compared with the other water and wastewater companies.

Underlying operating profit was down compared to last year as expected, and largely reflecting lower revenues arising from the new price control.

The efficient and effective delivery of the capital programme is reflected in our Time, Cost and Quality index (TCQI) score which remains high at 95.3 per cent.

Overall company results have led to an annual bonus out-turn for the executive directors of around 82 per cent of maximum (compared to the 2019/20 outcome of around 71 per cent of maximum) and a company-wide bonus pool totalling around £18 million (compared to around £17 million in the prior year),

reflecting the exceptional efforts and high levels of performance of the workforce during the very challenging year.

Long-term incentives

The outcome of the Long Term Plan (LTP) awards which were granted in 2018 will be confirmed in the summer of 2021, with an estimated vesting outcome of around 90 per cent. This reflects the continued delivery of high standards of customer service set in recent years, the achievement of just under the stretch level of sustainable dividend performance, and full vesting under the relative total shareholder return condition due to a return of 48 per cent over the performance period (compared to the stretch target of 26 per cent). As outlined in last year's report and as noted on page 169, as a result of Ofwat transitioning from SIM to C-MeX, the committee used its discretion to amend the customer service element of the award to be based on the new C-MeX measure and written complaints. The final outcome of this element will not be known until the volume of written complaints received by other companies are available later in 2021 and the overall vesting level can be confirmed. The awards for the executive directors will vest only after the completion of a two-year holding period, during which the shares will remain subject to withholding provisions. The committee believes that this approach aligns the interests of the executive directors with those of shareholders and customers.

During 2018/19, the committee consulted with shareholders on changing the structure of the LTP, so future awards would be based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures. These changes were approved at the 2019 AGM and applied with respect to the 2020 awards onwards. LTP awards are normally granted in June each year, but 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 grants until November to allow more time to settle the targets, details of which are set out on page 170. Stretching targets have been set for RoRE based on 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 finalised the selection of measures having taken into account the feedback received from customer research and focus groups (as to which areas of service/performance they considered the highest priority) and the performance commitments agreed with Ofwat, thereby ensuring that the measures reflect the views of our stakeholders.

Executive director changes

Russ Houlden retired from the board and as chief financial officer on 24 July 2020 and left the company on 31 July 2020. Russ' departure was treated in line with the remuneration policy for retirees and in line with the approach set out in last year's remuneration report. Following a rigorous selection process, we were delighted to appoint Phil Aspin to the role as successor. Phil's salary was set at £400,000 on his appointment, with a pension contribution aligned to the workforce rate. Other details of his package are set out on page 167.

Agenda for 2021/22

As a committee, we have always sought to fully embrace the changing landscape and implement remuneration arrangements that are transparent and well-aligned to our purpose, vision and strategy, and this continues to guide our approach for the current year and beyond.

No significant changes are proposed to the operation of the policy for 2021/22. Details of the measures and targets for the annual bonus plan and 2021 LTP awards are set out on page 171.

We have a regular programme of engagement with shareholders each year in advance of our AGM and were pleased that towards the end of 2020 the company had the opportunity to speak with Glass Lewis about our approach to executive remuneration.

The next directors' remuneration policy will be subject to approval by shareholders in 2022 and we will engage with shareholders about any potential changes to the policy at the appropriate time.

We continue to use our Employee Voice panel meetings as opportunities to discuss directly with employees our executive pay approach and its alignment with that of the workforce, as well as hearing the general views, concerns and comments from our workforce. Listening to the views of all the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy, and the committee is grateful for all inputs received.

This is my first report as chair of the remuneration committee, having been on the board and a member of the committee since 2016. I was delighted to be appointed committee chair in July 2020, taking over from Sara Weller, and I would like to express my personal thanks and that of the whole committee to Sara for her guidance and stewardship over last eight years.

I hope we will continue to receive your support this year for the remuneration resolution at the forthcoming AGM.

Alison Goligher

Chair of the remuneration committee