

# Corporate governance report

## Corporate responsibility committee

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Stephen Carter  
Chair of the corporate  
responsibility  
committee

### Dear Shareholder

I am pleased to introduce the report on the activities of the corporate responsibility committee in 2020/21.

The committee has discussed the COVID-19 pandemic at every meeting this year to assess the actions taken by the company from a responsible business perspective. It considers the approach to be comprehensive and thoughtful, ranging from enhanced support for vulnerable customers through extension of the company's social tariff and the prominent promotion of its payment break scheme, to the help offered to suppliers through accelerated payment terms and the unrelenting focus on employee health and wellbeing.

It has been encouraging to see that the company is already well advanced in its thinking about working patterns in a post-pandemic environment, positioning it as the 'next ways of working'. The committee recognises there are many implications associated with changed working patterns and it looks forward to the opportunity to comment on plans as they develop. The committee debated the broader impact of

COVID-19 for the company's approach to responsible business, concluding that it was premature to draw lasting conclusions as the pandemic was still with us.

As a result of the lockdown, there has been a marked increase in the number of visitors to United Utilities' recreation sites which, regrettably, has resulted in an increase in anti-social behaviour. The committee welcomed a paper on the company's approach to land management which set out clearly the risks and opportunities that come with being custodians of land in some of the most highly valued parts of the North West, such as the Lake District.

In response to growing investor interest in ESG – environmental, social and governance – the committee was pleased to comment on the company's sustainable finance framework ahead of its first successful sustainable bond issuance. The fact that the bond was three times over-subscribed reveals the level of investor focus on ESG. To help this community better understand the company's approach, an investor guide to ESG at United Utilities was published in 2020 to provide a helpful summary of the material issues the company is managing. It is also the fifth consecutive year that my report to shareholders has been structured under ESG headings.

The creation of the sustainable finance framework was a further example of the company's long-standing commitment to responsible business. While the committee is clear, on behalf of the board, that the company is making real progress, we believe that judgement is best left to others. It is both pleasing and reassuring that the company continues to perform well across a broad range of ESG indices. In the Dow Jones Sustainability Index, in which the company has participated almost longer than any other, it was again ranked world class – for the 14th consecutive year.

Over the past twelve months, the sector has transitioned from AMP6 to AMP7, and the company took the opportunity to review its approach to responsible business. As it exited AMP6, it reported that over 75 per cent of the stretching targets first set in 2015 to measure responsible business progress had been achieved. With AMP7 underway, the committee supported an evolution in its approach to frame the company's responsible business efforts around its purpose 'to provide great water and more for the North West', with particular emphasis on the value the company creates for its stakeholders.

The committee endorsed a new set of measures and targets out to 2025 that are aligned to each stakeholder the company

### QUICK FACTS

- The corporate responsibility committee has existed for over thirteen years.
- The committee comprises three directors appointed by the board, two of whom are independent non-executive directors.
- The company secretary, corporate affairs director and customer services and people director attend all meetings of the committee.
- Senior operational directors attend the committee to report on the environmental, social and governance aspects of particular topics and initiatives.

### Quick link



Terms of reference – [unitedutilities.com/corporate-governance](https://unitedutilities.com/corporate-governance)

### Corporate responsibility committee members



Stephen Carter  
(chair)



Alison Goligher



Steve Mogford

## MAIN RESPONSIBILITIES

The terms of reference remained unchanged for the committee. Its main duties are to:

- consider and recommend to the board the broad corporate responsibility (CR) policy, taking into account the company's desired CR positioning;
- keep under review the group's approach to CR and ensure it is aligned with the group strategy;
- review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review the status of the company's reputation and examine the contribution the group's CR activities make towards protecting and enhancing this;
- monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- monitor and review the steps taken by the company to support customers in vulnerable circumstances; and
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

It has been encouraging to see that the company is already well advanced in its thinking about working patterns in a post-pandemic world.

GOVERNANCE

creates value for and reflects what matters to them. We welcomed the intention to include these measures in a revised section of the annual report (see pages 50 to 73), reporting openly and transparently on them to help stakeholders to determine if the company is purpose led. This means that a 'golden thread' from purpose, through to vision and strategy, and then to measurement, will be clearly evident.

In what has been a challenging year, it has mattered more than ever that the company has engaged with its stakeholders on topics relevant to them. At every meeting, the committee discusses the company's approach to stakeholder engagement, ranging from national political and regulatory stakeholders through to the devolved administrations in the North West and regional NGOs. For example, it was good to hear of the favourable response to the company's first virtual caseworker event from the staff in regional MP offices.

The pandemic has drawn attention to many issues, with three of particular interest to the committee. First, it is evident that the pandemic has had a disproportionate impact on socially and economically deprived communities, of which there is a greater proportion in the North West than the rest of the country. The committee focused on the affordability and vulnerability support offered by the company.

Second, inequality in society has been brought into sharp focus, whether that is through the Black Lives Matter movement or increasing youth unemployment. In response, the company presented its refreshed diversity and inclusion strategy, marking a step change in its efforts to address the issue, and the committee welcomed United Utilities' first social mobility summit, hosted virtually, where it convened over 150 regional businesses to debate how best to tackle inequality, setting out its own intentions in its Opportunity on Tap plan.

The third issue has been the climate and nature emergencies. The committee reviewed the company's progress on its climate change adaptation plan and how its stewardship of 56,000 hectares of land will pay a critical role in both mitigating climate change (for example through planting trees and restoring peatland) and adapting to the impacts that are already occurring, such as slowing the flow of water to reduce flood risk.

Changes to the Corporate Governance Code in 2018 means that the committee now examines some additional responsible business topics on behalf of the board, in particular in relation to employees. Two papers were presented to the committee on progress in relation to work of the Employee Voice panel and how it has established an important role in contributing to the company's plans.

As the contribution that businesses make to society is examined ever more closely, especially as we think about a post-pandemic world, I am confident that the company, with its long-standing commitment to corporate responsibility and its determination to fulfil its purpose, will continue to build legitimacy amongst the opinions of customers, regulators, government and other stakeholders.

As a listed company, United Utilities complies with the UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

**Stephen Carter**  
Chair of the corporate responsibility committee

# Corporate governance report

## Corporate responsibility committee

### The committee's agenda during the year:

#### Environmental

#### Climate change adaptation strategy

A comprehensive overview of the company's approach was presented to the committee, which included: meeting government requirements for climate change adaptation reporting; embedding climate risk into the corporate risk framework; using UK Climate Projections 2018 in future planning; an independent review of climate change preparedness and the interaction climate change adaptation will have with PR24; and plans for the company's involvement in COP26.

#### Land management update

The committee debated the company's approach to land management. As a result of excess visitor numbers due to COVID-19 lockdowns, efforts were underway to stabilise the current situation and reduce the impact of visitor behaviour. Alongside this, the company had begun a comprehensive review of its strategy, including: overall ambition and direction; processes; governance; funding; partnerships; stakeholder engagement; communications and culture.

#### Waste and circular economy

The committee discussed conclusions reached by the company that business benefits could be gained through circular economy thinking. This will involve engagement across the company and with partners and suppliers in four areas: water and wastewater; energy; materials; and restoration of natural systems. As an example, the committee heard about scope to work more closely with housebuilding companies on water efficiency. A pilot will be undertaken in the Carlisle area with government agencies, customers and other stakeholders to explore opportunities.

#### Social

#### Next ways of working

Two updates were provided to the committee on plans for employee working patterns post-pandemic. The first phase of work will develop a 'flexibility framework' and common principles to optimise and hardcode the benefits of the current ways of working. The second phase considers the medium-term workforce strategy, assessing the impact from disruptors such as technology and automation, changing demographics and changing employee expectations. The committee debated the impact on line management, measuring productivity, and the development of skills, and observed how other factors such as diversity and inclusion were shaping working patterns.

#### Diversity and inclusion

A refreshed and updated strategy was discussed by the committee. It agreed that to attract great people to deliver a great public service, the company had to reach out and recruit from every part of society and support employees to achieve their full potential and feel valued and included. Five key work streams had been identified: leadership development; encouraging openness; people policies and processes; increasing awareness; and enabling inclusion. The committee welcomed the company's strong performance in the FT Diversity Index, indicating efforts to engage on diversity and inclusion were being recognised.

#### Gender pay report

The committee commented on the draft gender pay report for 2020 and welcomed that employee feedback had been sought in shaping the report. Progress against the action plan and commitments would continue to be monitored as part of the wider diversity and inclusion strategy.

#### Affordability and vulnerability: lower income groups

As a standing item, the committee was provided with an update on the company's performance in assisting customers on low incomes, focusing on free meter options and how the company is responding through planned initiatives.

#### Human rights policy

The committee approved an updated Human Rights policy. Analysis by the company's working group on its risk assessment showed movement in the likelihood and severity of some risks but this did not change the most salient issues: forced/child labour (modern slavery); health and safety; data protection and privacy; and access to clean water and sanitation. Material updates to the policy included the addition of a clause concerning the company's expectations of personnel, business partners and other relevant parties and a statement that the company has a mechanism by which to report concerns safely and in confidence.

#### Governance

#### CR committee terms of reference

Following review, the committee concluded that no further changes were needed to its terms of reference at the current time. The emergence of recent trends, such as the greater emphasis on purpose, were accommodated by the existing terms.

#### CR committee evaluation

The committee reviewed the external evaluation results and, in particular, points raised about the visibility of ESG and how its elements are brought together. It noted that ESG was already represented in the committee's section of the annual report and, through the standing item on reputation, it reviewed company efforts to promote its ESG credentials and encouraged it to do more.

#### Employee Voice

Twice a year the committee reviews progress on employee and board engagement. During lockdown, the company adopted a 'virtual' Employee Voice panel which covered key topics such as reward strategy and the scope of the 'next ways of working' programme, with members providing feedback on the company's response to COVID-19. The committee heard of the work of the Employee Voice networks and sub-groups, discussions on the employee opinion survey, and feedback on the culture in United Utilities. The committee considered further opportunities for the employee voice to be heard and was advised that the management conference was to be replaced with an all-employee conference. The committee noted that the company was satisfied that activities and progress enabled it to demonstrate compliance with the code.

#### Stakeholder engagement and reputation

Engagement and reputation remained a standing agenda item allowing time to examine the relationship between responsible business and reputation. Each paper provided an update on national and regional political and regulatory engagement, and interaction with people and organisations representing regulatory, social and environmental interests. The committee was keen to understand the company's stakeholder approach during COVID-19 and discussed the virtual consultation approach for the Haweswater Aqueduct Resilience Programme. It welcomed the favourable response to the company's first virtual MP caseworker event. The committee was presented with an update on current reputational risks under active management.

Measuring and reporting CR performance against the business principles measures was reviewed for the final time as the targets were aligned to the end of AMP6. The committee welcomed the outcome that the company had met over 75 per cent of the targets it had set in 2015.

#### Cross cutting

##### United Supply Chain

The committee was updated on the company's new approach to suppliers in AMP7, called United Supply Chain (USC), with its aim to embed responsible sourcing principles. This had taken into account best practice in other sectors, with the aim of providing a consistent approach to suppliers, with customers positioned as a common theme. Adherence will be monitored through the company's established supplier relationship management mechanism.

##### Sustainable finance framework

A paper setting out the design for the company's sustainable finance framework was presented to the committee. It included: categories of green/sustainable projects eligible for funding; the governance around identifying and selecting projects; tracking the net proceeds to eligible projects and pre-allocation investment; and publishing reports annually until full allocation, with external verification. The committee endorsed the approach, concluding that it aligned well with the company's responsible business and ESG credentials.

##### Value framework – multi-capitals

An update was provided to the committee on a project related to embedding the company's purpose into business processes. Aligned with the six capitals of integrated reporting, the work will determine what level of maturity the company wants for each capital (manufactured, financial, natural, social, human and intellectual).

#### LOOKING TO THE NEXT YEAR, THE COMMITTEE WILL:

- examine new and emerging issues, such as how the company deals with the impact of COVID-19 and its legacy;
- review new or updated responsible business strategies, such as the company's community strategy, how it delivers its purpose objectives through its capital programme and its approach to talent and young people;
- consider the responsible business themes emerging for PR24;
- return to several issues to review progress, including digital and responsible business, approach to air quality, waste and circular economy, land management, carbon strategy, climate change adaptation and an update on surface water management;
- review performance, specifically the new measures and targets that will evidence how the company is fulfilling its purpose, ESG rating performance and the dashboard tracking the company's efforts to support customers on low incomes;
- on behalf of board, review progress and issues arising from the Employee Voice panel and the company's approach to culture;
- continue to examine the interaction between purpose, ESG and reputation and review the approach to stakeholder engagement and the management of reputational risks;
- oversee matters of general governance, such as reviewing the gender pay report; and
- undertake matters of committee governance, such as reviewing its rolling calendar of agenda items, the annual committee evaluation and examination of the committee's terms of reference.

