

How our operating environment influences what we do

Regulatory environment

The vast majority of our activities sit within United Utilities Water Limited (UUV).

Regulatory framework

UUV is the second largest of 11 regulated water and wastewater businesses in England and Wales, and is subject to regulation of price, performance and compliance by various bodies, as shown in the diagram below. These bodies exist to help protect the interests of customers and the environment and assess whether companies are meeting their obligations.

Companies must prepare and maintain long-term plans for managing water resources, drought, and drainage and wastewater. We must balance incentives and requirements that can sometimes act in tension, such as the desire for rapid environmental improvements and the upward pressure this places on customers' bills. We maintain constructive dialogue to agree commitments for improvement.

The Water Industry National Environment Programme (WINEP) is developed by the Environment Agency (EA), Defra, and Natural England, in consultation with water companies and other stakeholders. It sets out the actions that water companies need to take in order to meet their future environmental legislative requirements.

The Drinking Water Inspectorate (DWI) can also put in place programmes of work to improve drinking water quality.

These long-term plans feed into business plans submitted to Ofwat as part of the price review process. Ofwat then sets each company's final determination (FD) detailing revenue, required service levels, and the incentive package for five-year periods (AMPs). Companies can either accept the FD or appeal to the Competition and Markets Authority. 2024/25 was the final year of AMP7, and we have received our FD for the next five years (AMP8). Each company reports its performance against the FD in an annual performance report (APR) in July each year. Regulators also undertake comparative assessments of companies' performance.

Competitive retail market

Since April 2017, non-household retail activities have been open to competition, meaning businesses can choose who provides their retail services. Our non-household retail activities do not sit within UUV, but via a joint venture known as Water Plus. Details relating to Water Plus can be found in notes 12 and A5 to the financial statements on pages 207 and 231.

Ofwat and EA investigations

In November 2021, Ofwat and the EA launched separate industry-wide investigations into how companies manage their wastewater assets. In July 2024, Ofwat announced that it was opening enforcement cases for a number of water companies, including UUV, following the analysis of environmental performance and data about the frequency of spills from storm overflows. Ofwat stated that while it has concerns with the sector that it must investigate, the opening of enforcement cases does not automatically imply that companies have breached their legal obligations or that a financial penalty will necessarily follow. To date, Ofwat has not given a firm indication of the expected timeframe for its ongoing investigation or any subsequent action.

The EA has made a number of data requests and undertaken site visits as part of its industry-wide investigation, with which we continue to fully comply. This investigation is focused on environmental permit compliance at wastewater treatment works and wastewater networks, with the EA having a number of enforcement options open to it if it concludes that companies have breached their permit conditions and/or illegally polluted the environment. These include the potential for criminal prosecution and unlimited fines. As with the Ofwat investigation, this remains ongoing.

Independent Water Commission

This year, the Government launched an independent commission with broad terms of reference to review the regulatory framework, regulators and incentives that govern the water industry model and strategic water planning, requiring consideration of the conditions needed in the private regulated model to attract the investment needed to improve environmental performance, bring more accountability, rebuild public trust and confidence, and secure a resilient, innovative water sector and framework that will work for decades to come.

Chaired by former Deputy Governor of the Bank of England, Sir Jon Cunliffe, and drawing upon a panel of experts from across multiple sectors, the commission has launched a call for evidence, to which we have contributed fully. The commission is expected to report back to the Government in the summer of 2025 with a set of recommendations.



Natural environment

Climate change

We are already experiencing more extreme rainfall events, freezing temperatures followed by rapid thawing, and prolonged dry periods. This increases the level of risk for water availability, flooding, and network damage. We have detailed plans in terms of both adaptation (building resilience against these changes) and mitigation (reducing our carbon footprint).

Population growth

The North West population is already increasing, and forecast to grow by around a million by 2050. We plan well into the future and continually adapt to strengthen our long-term operational resilience. Our water resources management plan, for instance, considers consumption forecasts out to 2080.

Protecting and restoring ecosystems

Much of the landscape in our region is legally protected for its environmental or cultural significance, including national parks and sites of special scientific interest (SSSI), and we play a role in looking after it and restoring healthy, resilient ecosystems.



Economic environment

Market rate movements

The impacts on our business of movements, such as interest rates and inflation, are complex. Cost increases are partly offset by increased allowances under the regulatory mechanism. £4.7 billion of our debt is index-linked, therefore impacted by inflation. Our regulatory capital value (RCV) also rises with inflation, and our £4.9 billion of fixed-rate debt increases in benefit as interest rates rise. Unlike many companies, our low dependency pension schemes are protected from market rate movements.

Customer affordability

The economic environment also impacts customers, with the most deprived, typically, hit the hardest. The North West has 47 per cent of the most deprived neighbourhoods – more than any other region – making the industry-leading affordability support we provide even more critical. We are doubling our support in AMP8, helping one in six households in the region, and we remain strong supporters of the Consumer Council for Water's call for a national social tariff, pooling funds to help those in most need.



Political environment

Engagement and adaptability

Political decisions have the potential to impact on our operations, including changes to legislative obligations under environmental and competition law. We engage with regional and national politicians, and other policymakers, to understand developments and key issues, improving policy development where possible, and stay flexible to adapt as needed.

Environment Act 2021

The Government set out an ambitious plan for reducing spills from storm overflows, as well as obligations to reduce phosphorus and address nutrient imbalance. We have already invested significant amounts to improve the quality of rivers and seas in the North West, and AMP8 will see our biggest ever environmental investment programme.

Water (Special Measures) Act

Passed this year, this act strengthens the power of regulators to impose special measures on failing water companies, including blocking executive bonuses, imposing penalties and potential criminal charges for law breaking.



Technology and innovation

Developments

New technology and innovation can create opportunities for improvements in service and efficiency. The use of artificial intelligence and machine learning helps us to improve performance, and is central to our Dynamic Network Management approach. We work closely with suppliers and innovators from around the world to maximise the opportunities presented by new technology and ideas.

Customer interaction

In an increasingly digital world, we must evolve our services to ensure we meet changing customer expectations. We have modernised the methods and channels through which customers can get in touch to access their bills, update their information, and receive updates on services and support.

Cyber and data security

Technology can give rise to risks, such as the threat of cyber attacks, which has increased in recent years. Protecting infrastructure, customer information and commercial data from malicious activity is a key priority, as set out on page 57.

How we engage with stakeholders

There are many people and groups who take an interest in the water industry, its role in society, and the North West region. The nature of our work and the huge areas of land we manage means we interact with a wide variety of stakeholders, from communities and environmental interest bodies, to suppliers and regulators.

It is important that we understand what matters to each of them and develop constructive relationships built on mutual trust. We engage and consult with stakeholders to understand their views and priorities as we develop and execute our plans, balancing their often-conflicting priorities.

Each of our operational performance measures is linked to one or more stakeholders for whom we are creating value.

➤ Read about **how we engage with stakeholders** and factor their views into strategic decision-making at board level in **Our S172(1) Statement** on pages 90 to 91



Active engagement and responding to feedback

We engage with all of our stakeholders, including the six key groups for whom we create value, detailed on pages 10 to 11, and others that influence our activities (bottom row). Strong, constructive relationships help us to understand what matters most to them, and feedback from stakeholders has an influence on what we do, helping us to create long-term value for all. For example, we conducted extensive customer and community research that helped to shape the plans we submitted for AMP8.

There is robust governance to ensure regard is given to stakeholder views and priorities in decision-making at executive and board level. Our S172(1) Statement on pages 90 to 91 provides examples of how the board has had regard to stakeholders in some of the key board decisions made during the year.

The ESG committee has stakeholder engagement and reputation as standing agenda items, and the chair of the independent customer challenge group (YourVoice) attends the relevant board meeting each year to provide the group's perspective on the customer-related content in our annual performance report.



Customers

To deliver value for customers, we need to understand their immediate issues, and longer-term expectations of us as their water and wastewater company. As expectations change, we need to evolve our services to ensure we meet them. We actively seek feedback on what customers think about our service so we can make our services better and address the issues that matter to them.



Environment

We depend on the environment and have a key role in protecting and enhancing it. We engage with interested groups such as environmental regulators, non-governmental organisations, campaigners and local communities to find the best ways to tackle environmental issues, such as climate change and land management. Working together is often the best way to find the right solution.



Communities

Our work puts us at the heart of local communities – places where customers and colleagues live and work. We want to support them to be stronger and increase understanding of the impact and contribution our work has. We balance decisions based on often-competing stakeholder interests and look to develop collaborative and partnership solutions where feasible.



Colleagues

We could not deliver our services without our colleagues. They know our business better than anyone, and bring a diverse range of views and experience, making them well placed to help us identify new ways of working and opportunities for improvement, which can be raised directly to the CEO through our 'Call it Out' initiative. We have hosted two all-colleague events in Blackpool to share our plans for AMP8.



Suppliers

Good relationships help ensure projects are delivered effectively and efficiently. Awareness of issues in the supply chain means we can address them together and become more resilient. Supplier engagement can also help us identify and realise innovative approaches and solutions. We engaged the supply chain early and have already appointed several contract partners for AMP8.



Investors

It is important that investors have confidence in the organisation and how it is managed. We provide regular updates to debt and equity investors and meet with many top investors to establish two-way dialogue about matters of interest to them. Increasingly, this includes environmental, social and governance (ESG) updates alongside financial and performance data.



Media

The media is influenced by current public interests and, in turn, the media also has the power to influence the public through what it reports. Many people hear about us and our activities from traditional and/or social media, so it is important that coverage is fair, balanced and accurate. This requires effective two-way dialogue, and we continuously engage with local and national media on important issues.



Politicians

Politicians influence the long-term national water strategy and environmental priorities, matters that affect how all businesses operate, and champion issues raised by their constituents. Local government, elected representatives and devolved administrations provide insight into shared ESG and economic issues across the North West.



Regulators

Through proactive, constructive engagement with economic, quality and environmental regulators, we understand requirements and deliver against commitments, aiming to meet, or exceed, the expectations they have of our business. We actively engage in workshops and respond to consultations to contribute towards the policy and regulatory framework.

How we maintain a high-performance culture

Our culture drives the interactions we have with our stakeholders and reflects our commitment to responsible business.

Embedding an effective culture across the organisation helps us to ensure that our policies, practices and behaviours are aligned with our purpose, strategic priorities, and core values (as set out below). A culture that promotes equity, diversity and inclusion brings diverse thinking, helps us to represent the communities that we serve, and enables us to access higher levels of innovation.

Culture is also key to attract and retain the talent we need to continue delivering strongly for all our stakeholders, so our strong focus on health, safety and wellbeing is crucial, as is our commitment to offering and encouraging continuous development.

It is really important to us that we have a culture where colleagues feel comfortable being themselves and speaking up with any questions or concerns. We have numerous channels available that encourage this, from line manager one-to-one meetings to our 'Call it Out' inbox, through which colleagues can raise issues or opportunities for improvement directly with the CEO. We also have a confidential helpline and whistleblowing policy for raising concerns.

We want to celebrate and reward great examples where our colleagues are living our core values and demonstrating the culture that we want to see. We have introduced a company-wide recognition scheme, the ACE awards, where colleagues are nominated by managers and peers when they have done something particularly positive and acted in line with our core values, and a monthly winner is chosen from each business area.

The way we measure and report performance helps us to track how effectively we have embedded a high-performance culture. Metrics are monitored and targets set for the stronger, greener and healthier ambitions within our purpose, as set out on pages 66 to 67. These are closely aligned to our strategic priorities and to ESG matters, as well as being linked to stakeholder value creation. This includes key metrics relating to our colleagues including engagement, health and wellbeing, diversity, and development. Leadership has a strong influence on culture, so, as well as colleague behaviours, we also assess colleague perceptions of the tone that is being set from management. We use qualitative and quantitative metrics to monitor and assess culture, including several from our annual colleague engagement survey, with a 'listen and act' section that focuses on perceptions of management.

➤ Read more about **our culture and how the board monitors this** on page 116

We have a strong governance structure helping to set the tone from the top, with the board and its committees providing oversight and challenge, and the executive team holding two scheduled meetings each month – one focusing on day-to-day performance and the other focusing on matters of a strategic nature – along with weekly informal 'scrums' and other ad hoc communications.

The structure of board and principal management committees is set out on page 112. In addition, we have a number of other management-level governance and steering groups, including the compliance working group, integrated risk reviews, new and emerging risk forum, price control boards, water quality first board, operational risk and resilience board, dam safety group, asset management board, and land management steering group.

➤ Read more in our **corporate governance report** on pages 104 to 172, including **individual reports of board committees**



Core values

Our culture is underpinned by three core values, guiding how we expect our people to behave in a way that is clear and easy to apply to every situation.

These apply across the organisation, from the board to every one of our colleagues. They focus on responsible behaviour, delivery for customers and other stakeholders, continuous improvement and sustainable practices. These values reflect the things we believe are most important to help us deliver our purpose, and drive a high-performing and innovative culture.

Do the right thing

First and foremost, we are committed to responsible business practices, and we want our people to always focus on doing the right thing.

This means always putting safety first, delivering for the benefit of our stakeholders, championing fairness, acting with courage and integrity, and speaking up if they come across anything that doesn't feel right.

This is vital for building and maintaining trust with the public and our stakeholders, and for delivering our purpose: doing the right thing for the natural environment helps us to create a greener North West; and doing the right thing for customers, communities, colleagues and suppliers helps us to build a stronger and healthier North West.

Make it happen

We are focused on supporting each other and working as a team to make things happen, taking accountability and putting progress over perfection.

We want to celebrate successes, for individuals and for the company, and learn when we don't get things right first time.

We enable and foster new ways of working, from both internal and external sources, through initiatives such as our graduate CEO Challenge and our Innovation Lab process.

We are able to act quickly and capitalise on pockets of efficient financing opportunity, and we have a track record of accelerating investment where we can deliver improvements for customers and the environment faster.

Be better

Ultimately, everything we do is about improving things and creating a better tomorrow for everyone.

We want to be better as a company, and this means encouraging our colleagues to live this value as well – being curious, ambitious, and solution-focused, seeking out new and innovative ways to deliver our services more efficiently and effectively.

We want to ensure we are learning from the best people that are available to us, which is why we embrace equity, diversity and inclusion, collaboration and partnership opportunities, nature-based solutions, and other innovation and best practice ideas from across our sector, other industries, and the wider world.