

UUW11

Board assurance statement

October 2023

This document is the UUW Board Assurance Statement that supports the UUW PR24 business plan and supporting documentation.

This document was approved at a meeting of the Board of directors of United Utilities Water Limited on 26 September 2023 and is signed by all members of the Board.

1. Introduction

United Utilities Water provides vital services to customers and we recognise the privilege and responsibilities that this entails. We act responsibly towards all stakeholders, especially customers, in the provision of our services to them and upon which they rely.

The UUW Board is responsible for setting the purpose and strategy of the company and driving the long-term success of the company for customers, the environment and wider stakeholders, including investors. The Board is responsible for challenging and encouraging the executive team in the planning and execution of managing the business in accordance with the strategic goals and direction set by the board.

The board takes decisions on long-term planning, investment and financing to ensure that the business is set up for future success. Both we and our successors want to ensure the business can deliver efficiently and effectively for customers today and builds resilience to meet future challenges and demands. We are a commercial organisation, delivering essential public services within a framework of incentive based regulation. We have a responsibility to ensure that the level of risk involved in operating the business is managed at an appropriate level.

The board is responsible for ensuring that the company has sound and fit for purpose systems and processes to deliver internal controls on financial, operational and compliance matters. We must ensure that the company has the necessary resources – including skilled staff and financial resources - to achieve its objectives. The board regularly reviews managerial performance.

The board approves appointments to and removals from the board and membership of its committees. It applies the principles of the Corporate Governance code and reports against the provisions. There are a number of specific matters that are also reserved to the board¹, including oversight of major capital expenditure projects within UUW that exceed £150 million, and any project which materially increases the group's risk profile or is not in the ordinary course of the group's business.

Given our position as a provider of essential public services, the board has a responsibility to provide reliable, accurate and easily accessible information. We pride ourselves on publishing trusted information and have a proven track record of providing open, transparent and high-quality regulatory information and data. In developing and assuring this plan, we have followed our published assurance framework applying our risk-based approach to ensure that reported data and regulatory information receives the appropriate level of challenge, review, and approval.

Deloitte LLP was appointed as the assurance aggregator for the PR24 submission. This gives confidence that we established a successful programme and governance structure enabling consistency across the business plan in meeting the final methodology requirements. As part of this commission Deloitte LLP has reviewed our assurance framework in order to further give confidence to the board and wider stakeholders that it remains an appropriate and proportionate approach. A comprehensive description of our approach to assurance setting out the plan, governance and control activities can be found in *Chapter 10 - Assurance and track record*.

1.1 Structure of document

This document represents the board assurance statement. It is supported by the entire submission, but we draw particular attention to two documents. *UUW76 - Confidence and assurance of the submission* details the internal and external assurance activities that support the plan, with proof points providing clear evidence of assurance work undertaken. Meanwhile *UUW77 - Board leadership of the business plan* - sets out the depth of board ownership of the plan, the engagement by the board and the review of and challenges to the business plan throughout its creation. Many of these challenges were raised at meetings of the board and its committees and

¹ unitedutilities.com/globalassets/documents/pdf/03---schedule-of-matters-reserved-for-decision-by-the-board.pdf

the board has used the full range of skills from across its membership, as shown in the skills matrix included in UUW77.

The remainder of this document is structured as follows:

- **Section 2** provides the **UUW Board assurance statement** in support of the company's PR24 submission.
- **Section 3** describes how we meet the assurance requirements for long term delivery strategies
- **Section 4** describes how we meet the assurance requirements on affordability assurance requirements
- **Section 5** describes how we meet the assurance requirements on cost and outcomes (including deliverability)
- **Section 6** describes how we meet the assurance requirements on risk and return
- **Section 7** describes how we meet the assurance requirements on customer engagement

The board assurance statement is supported by the whole of the submission. However, key supplementary documents include:

- *UUW76 - Confidence and assurance of the submission* which details the internal and external assurance activities that support the plan, with proof points providing clear evidence of assurance work undertaken; and
- *UUW77 - Board leadership of the business plan* which sets out the depth of board ownership of the plan, the engagement by the board and the review of and challenges to the business plan throughout its creation.

2. UUW Board assurance statement

The Board of directors (the board) of United Utilities Water Limited (UUW, or the company) confirms that it has taken ownership of the strategy and long-term direction of this business plan. It has progressively reviewed and challenged the company executive and management to ensure that evidence and assurance has been provided to demonstrate that all elements add up to a credible plan that is high quality, deliverable and ambitious.

The board has been actively involved in determining the nature of the assurance undertaken to assess and verify the plan and has reviewed the key findings arising from it. In all material respects, it considers that the assurance undertaken validates and supports submission of the plan. As a consequence of the rigour applied to governance and assurance of our plan we are satisfied and confident that each area of the submission meets or exceeds the standards for a high quality, deliverable and ambitious submission.

We set out below how we have met or exceeded requirements for board assurance against the core tests for a high quality, deliverable and ambitious plan. In addition to this we provide separate supplementary documents - *UUW77 - Board leadership of the business plan* - which evidences board ownership of the plan and its contents - and *UUW76 - Confidence and assurance of the submission* - which provides details of the activities undertaken to assure the plan.

Long term delivery strategies

The board has challenged and satisfied itself that the long term delivery strategy (LTDS) reflects the long-term vision and ambition that is shared by the board and company management. The board is confident that the LTDS is high quality and represents the best possible strategy to efficiently deliver our stated long-term objectives, given future uncertainties.

The LTDS enables the company to meet our statutory and licence obligations, now and in the future. Based on adaptive planning principles the LTDS has been informed by customer engagement and we believe is capable of delivering long-term affordability and fairness between both current and future customers.

The board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long term delivery strategy. Further information on the nature of the challenge and the processes undertaken to develop the strategy to be the best it can be is set out in section 3.

Affordability

The board has challenged and satisfied itself that the full implication of the business plan for customers has been considered and that the plan achieves value for money. The long term delivery strategy protects customers' ability to pay their water bill over the long term and delivers fairness between what existing customers will pay and what is paid for by future customers. Section 4 provides additional information on the approach to considering affordability.

Costs, outcomes and deliverability

The board has challenged and satisfied itself that the performance commitment levels in the plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure. The expenditure forecasts included in the company's business plan are robust and efficient and the needs for enhancement investment are not influenced by non-compliance or non-delivery of programmes of work previously funded by customers (both base and enhancement).

The options proposed within the business plan are the best options for customers and a proper appraisal of options has taken place. The PR24 plans and the expenditure proposals within them are deliverable and we have put in place measures to ensure that they can be delivered. The board has taken steps to satisfy itself that supply chain risk is manageable. The delivery plans account for our ability and that of our supply chain to expand capacity and capability at the rate required to deliver the increased investment in AMP8. Our plans consider the

impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; as well as key supply chain risks such as the availability of specialist resource or components.

Our plan includes price control deliverables covering the benefits of material enhancement expenditure which is not covered by performance commitments. The expenditure proposals are affordable by customers and do not raise bills higher than necessary and reflect customer views, and where appropriate are supported by customers.

Further information on our approach to costs and outcomes, including deliverability, can be found in section 5.

Risk and return

The board can confirm that the business plan is financeable on the basis of the notional capital structure subject to raising the necessary debt and equity financing. This takes account of all components of the business plan, including the Ofwat early view on the allowed return on capital, and is consistent with maintaining target credit ratings at least two notches above the minimum of the investment grade. Further details on this assurance are set out in section 6 of this document including the consideration of the financial ratios.

The board can confirm that the actual company is financially resilient over the 2025-2030 period and beyond under its business plan, and as part of our submission the board has provided a viability statement out to March 2035² having satisfied itself that our plan will support the financial resilience of the company over at least this period.

Section 6 of this document sets out the steps taken to enable the board to support that statement, including the factors it has taken account of, and the suite of financial metrics used to ensure the company is financially resilient. This also includes the basis on which the assessment has been carried out, including how the base case and downside scenarios have been established and assessed.

Customer engagement

The board confirms that the company's customer engagement and research meets the standards for high-quality research. We have adopted best practice which has been used to inform both our plan and our long term delivery strategy. Further information on this is provided in section 7.

² Provided in supplementary report *UUW68 Financial resilience appendix 1*

3. Long term delivery strategies

Requirement – The board has challenged and satisfied itself that the long term delivery strategy reflects a long-term vision and ambition that is shared by the board and company management

The UUW Board is responsible for setting the strategy of the company, ensuring the long-term success of the company for customers, investors and wider stakeholders. The board is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set.

The purpose of the company is to provide great water for a stronger, greener and healthier North West. This purpose is delivered through a series of strategic themes which are to improve our rivers, provide a safe and great place to work, spend customer's money wisely, create a greener future, deliver services for all customers and contribute to our communities. We plan for long, medium and short term horizons to deliver our purpose in a sustainable way. In 2023 we have taken the opportunity to update and reshape our company purpose, our strategic direction highlighting our clear ambition for the future. This is reflected in our LTDS and PR24 plan which delivers for customers, the environment and all stakeholders and seeks to ensure that we make the North West stronger, greener and healthier.

The long term delivery strategy has been approved by the full UUW Board. Each of the component parts of the LTDS have followed the appropriate regulatory methodologies and external statutory guidance including, for example, the Water Resources Management Plan and Drainage and Wastewater Management Plan processes. Component parts of the long term delivery strategy have been presented to and approved by the UUW Board. Internal and external assurance activities have been followed in accordance with the published UUW assurance framework. Comprehensive evidence of the assurance activities in support of this are set out in the supplementary document *UUW76 - Confidence and assurance of the submission*. The supplementary document *UUW77 - Board leadership of the business plan* sets out key interactions, reviews and challenges made by the board on the business plan.

External assurance from Deloitte LLP confirmed that UUW's long-term vision and ambition is shared across both the board and management.

Requirement – The LTDS is high quality, and represents the best possible strategy to efficiently deliver its stated long-term objectives, given future uncertainties

Our plan is high quality and represents the best possible strategy to efficiently deliver the stated long-term objectives, given future uncertainties. The plan sets out both our numeric targets and provides a narrative to describe how we will achieve and go beyond our statutory requirements. Comprehensive assurance of the plan has been undertaken which gives us confidence in its quality.

The LTDS incorporates the outputs from a number of large programmes of work consisting of Water Industry National Environmental Programme (WINEP), Drainage and Wastewater Management Plans (DWMP), Water Resources Management Plan (WRMP), Drinking Water Inspectorate (DWI) water quality plan, NIS-D Cyber Assessment Framework (CAF) and Security and Emergency Measures Direction (SEMD). The coverage of these programmes is set out below.

- WINEP – A programme of work enabling us to fulfil our statutory environmental obligations arising from legislation and UK government policy;
- DWMP – The DWMP assesses the effects of future pressures on our wastewater systems over the short, medium and long term, and what can be done to address these issues – in partnership with others where possible;
- WRMP – The WRMP sets out how we will achieve a secure supply of water for customers whilst protecting and enhancing the environment;
- DWI water quality plan – This describes proposed water quality projects aimed at delivering our statutory obligations for water quality;

- NIS-D CAF – This sets out regulatory requirements for cyber security and resilience in key systems; and
- SEMD – Principal regulatory measures issued by the government under section 208 of the Water Industry Act 1991 to maintain a water supply and sewerage system in the interests of national security or to mitigate the effects of any civil emergency.

The board has been fully engaged with the development and submission on the above programmes of work, where relevant providing a signed board assurance statement in support of the submission. Each element has been assured in line with our published three lines of assurance framework, ensuring the statutory guidance where relevant has been met. Where appropriate, in line with the risk based approach, third party assurance has been provided. Actions arising as a result of the assurance have been tracked and closed through to completion. The details from this assurance, including external third party assurance can be found in the supplementary document *UUW76 - Confidence and assurance of the submission*. Data tables associated with each of these submissions have also been subject to third party assurance.

In addition to the third party external assurance, to further give confidence to the board, we commissioned a number of third parties to challenge, review and develop our submissions. Arup was commissioned to undertake independent scrutiny and challenge on the WINEP programme, which was informed by an independent panel (the “WINEP scrutiny and challenge independent panel”). The scrutiny and challenge was focused on assessing whether activity included in the WINEP was needed, costed appropriately and whether the programme was correctly optimised. This was also reviewed and challenged by three leading independent industry experts in order to help further shape the submission.

Customer research has also been an important part of our submission strategy and has been completed on affordability of the discretionary elements of the plan, testing views about our approach to planning, options and priorities. The results from the research have helped shape, update and inform our plans. Crystal marked summaries of our DWMP and WRMP submissions have been published on our website providing a platform for customers to understand the plans and provide feedback if required.

Delivering an efficient plan is fundamental to our submission. Our approach to costs is specific to the relevant programme or project, utilising a number of methodologies and tools to ensure the creation of optimal programmes of work. Working closely with project partners to make sure we maximise value using relevant expertise to help calculate costs and benefits. UUW commissioned Mott McDonald to inform cost estimating. This common methodology for scope development and estimating has been applied across a number of programme submissions such as WINEP. The discretionary elements of the preferred plan for DWMP were identified using an optimisation engine developed by Copperleaf, which prioritised interventions based on costs and monetised benefits so that optimal programmes of work could be created.

External assurance was provided by Deloitte LLP that confirmed that the approach to LTDS considered the strategy to efficiently deliver its stated long-term objectives, given future uncertainties.

Requirement – The LTDS will enable the company to meet its statutory and licence obligations, now and in the future

The board is fully committed to ensuring UUW meets its statutory and licence obligations, now and in the future. The LTDS has followed the statutory guidance provided by regulators. External assurance confirmed that we have met the requirements of this guidance for WRMP (which has been signed off by DEFRA), DWI Water Quality, DWMP and WINEP programmes of work. New obligations identified - for example those arising from the Environment Act 2021 - have been considered and the long-term plan has been constructed so that we can deliver against these. In addition to this, the long term preferred plan has been developed so as to be able to address future statutory and licence obligations based on today’s knowledge and understanding.

Each of the component parts of the plan have been brought together with adaptive planning, this has enabled plans to be developed over a range of different scenarios, allowing us to demonstrate that future obligations can be achieved.

The responsibilities for the obligations set out in the Water Industry Act and licence are mapped to Executives and their senior teams and included within the UUW Internal Control Manual. Compliance is assessed annually

through the internal governance checks. The LTDS has been reviewed and is supported by the same senior teams responsible for compliance with these obligations and is therefore considered to be consistent with the delivery of these requirements in all material respects, to the extent that these requirements are currently known.

External assurance was provided by Deloitte LLP that confirmed that the LTDS has been built in line with regulatory and statutory obligations.

Requirement – The LTDS is based on adaptive planning principles

The board has required that the LTDS be constructed based upon adaptive planning principles. Through the use of scenario testing in line with the Ofwat common reference scenarios and wider UUW scenarios plans have been developed based on adaptive planning principles of:

- testing against a range of plausible circumstances;
- identifying short term expenditure which keeps options open under a range of scenarios along with the appropriate decision and trigger points to inform future planning cycles;
- ensuring our AMP8 plan is low regrets and our long term strategies are flexible to cope with changes over time;
- optimising plans to ensure decisions are made at the right time; and,
- aligning plans to our long term ambitions.

External assurance was provided by Deloitte LLP that confirmed that the long-term plan is based on adaptive planning principles.

Requirement – The LTDS has been informed by customer engagement

The company has regularly engaged with customers to research and test their views (including intergenerational testing). Our high quality research programme tests customers changing views as well as testing specific topics such as smart metering. Outputs from our research have fed back in to our plans to ensure that the views of customers are considered and our approach has been challenged by the independent challenge group for the North West, the YourVoice panel.

As identified in our phase one research synthesis we are required to set out our five-year business plan in the context of a 25-year LTDS. UUW wanted customer insight and research to directly inform its LTDS (until 2050). It covered ambition and performance commitments, such as water supply, customer experience, affordability, biodiversity, and carbon/net zero.

Our continuous research and engagement programme allows us to track customer priorities over time and compare this with revealed preference data. This data is invaluable in feeding into our long-term planning and the company set out to synthesise and triangulate data from various sources to understand:

- How customer priorities have changed over time
- Understand how macro events and interruptions impact customer's priorities and what this tells us about similar events happening in the future
- Map industry climate scenarios against this insight to understand how priorities might change in the future.

All the research that has been undertaken in support of the LTDS, including its component parts, have been subject to a rigorous approach to ensure research is useful and contextualised, neutrally designed, fit for purpose, inclusive, continual, independently assured, shared in full with others for transparency and ethical. Further detail of the care taken in this regard and case study examples are provided in supplementary document *UUW21 - Customer research methodology*.

As part of our DWMP and WRMP submissions specifically we promptly collated feedback received from customers, stakeholders and regulators into a statement of response. These documents have been published on our website setting out how we have responded to the feedback.

External assurance was provided by Deloitte LLP that confirmed the plan has been informed by customer engagement.

Requirement – The company has taken steps to secure long-term affordability and fairness between current and future customers

In order to secure long-term affordability and fairness between current and future customers the company commissioned affordability and acceptability testing research. This research and testing sought the views of household, non-household customers and future bill payers to understand their preferences and outline to them the implications of our long term plan. This research helped inform the development of our plan embedding the preferences of customers where possible.

Intergenerational equity was also explored in affordability and acceptability testing research for the AMP8 plan, and a further in depth qualitative piece on the long-term delivery strategy considers intergenerational fairness to 2050. The adaptive plan has been developed so that projects are delivered at the right time to be able to deliver the company's long term strategy aligned to service improvements for customers and the environment. Through our high quality customer research we have tested our proposed plans, the bill implications of discretionary investment and long-term strategies.

Our research included over three thousand customers including wide ranging coverage of key customer groups including: household, business, vulnerable, low income, future, and digitally excluded customers. Our methodology included qualitative deliberative events and cognitive testing to help us inform and refine the priorities tested in the quantitative research. Our quantitative research was robust and used a maximum difference methodology to give insight into what customers' priorities were when comparing all outcomes together. External assurance confirmed that this approach was robust and adhered to the Ofwat and CCW guidance on high quality research.

The bill impact of the delivery of the AMP8 plan has been assessed in line with the Ofwat and CCW guidance on affordability and acceptability testing. This has been reviewed and challenged by the independent challenge group YourVoice. External assurance was provided by Turner & Townsend which confirmed the submission met the requirements of the guidance.

The company offers and will continue to offer a range of affordability schemes to customers who are struggling to pay their bill. In AMP8 we propose to provide £200m of shareholder funded support for affordability schemes, representing one of the most extensive affordability offerings in the sector. When combined with cross subsidy support for social tariffs we expect c590,000 customers to benefit from reduced tariffs and the total £525m of customer support will help prevent any increase in levels of water poverty. We provide one of the most comprehensive affordability and vulnerability support programmes providing a wide range of non-financial support options for customers adapted to their individual circumstances and we expect this to continue for AMP9 and beyond. The long term benefits of demand reductions programmes coupled with higher meter penetration and tariff reform also provide scope to enhance affordability over the longer term.

Requirement – The board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long-term delivery strategy

The board is satisfied that the 2025-30 business plan has been challenged and implements the first five years of our long term delivery strategy. We believe the plan is the best plan it can be, and have set out below further details of our challenges to the Executive and company management and the assurance which supports this.

The board has been actively engaged in the PR24 process. Supplementary document *UUW77 - Board leadership of the business plan* sets out the engagement with the board and the review of and challenges to the business plan, which were in addition to regular programme updates provided at board meetings. The document outlines the attendance of board members for each of the board and sub-committee meetings during the last financial year and the skills matrix for board members.

The board takes long-term decisions to ensure that the company continues to be able to operate efficiently, effectively and reliably for existing and future customers. Assets must be built and maintained that enhance our

current capabilities and meet future demands and changing capabilities. We aim to do this in a responsible manner with integrity and adhere to our published codes of practice.

Our business plan contains a number of enhancement cases, with each linked to the long term delivery strategy. These cases set out why now is the right time for this investment. All discretionary enhancement has had customer research in order to demonstrate support for the programmes. Each enhancement business case has an Executive sponsor appointed accordingly and has been assured in line with our published assurance framework, and. Further details can be found in *Chapter 10*.

External assurance of the LTDS and aggregate assurance was provided by Deloitte LLP that confirmed that the 2025/30 business plan delivers the first five years of the LTDS.

4. Affordability

Requirement – The full implication of the 2025-30 business plan for customers was considered and that the plan achieves value for money

In order to ensure that the plan achieves value for money, the company has utilised a number of different approaches. A value assessment tool was developed to assess the monetised benefits for each proposed project for wider environmental outcomes such as catchment resilience (in line with Environmental Agency guidance) to develop the best value AMP8 programme. Arup was commissioned to carry out an assessment to understand the total value provided by the business plan, concluding it will be far reaching in its impacts, as it delivers a wide range of benefits to different stakeholder groups, including its customers, local communities, the environment, as well as supporting jobs and the economy.

In addition to the value assessment tool, the regulatory procurement team have demonstrated the efficiency and effectiveness of our AMP8 delivery plan, including through the effective use of markets. We commissioned an independent third party, Baringa, to review our approach to our PR24 market strategy, which has evolved and developed from the market engagement model used at PR19. As part of its review, Baringa focussed upon the approach and its appropriateness to the price review, identifying high level recommendations and potential changes, as well as key opportunities to exploit greater use of markets.

The supplementary document *UUW50 - Ensuring value for customers through the use of markets* set out how UUW actively participates, supports and promotes competitive markets as part of its culture, activity and service. It provides specific focus on the company's ongoing work in promoting markets in Developer Services, Non-Household Retail and Bioresources with additional connectivity to the Bid Assessment Framework and Direct Procurement for Customers. It also sets out how the company has developed 'bottom up' dedicated efficiency and savings programmes, capital delivery strategies and business as usual procurement activities. We have also undertaken work with expert third parties such as Alvarez and Marsal to challenge ourselves in a 'top down' manner.

We believe that delivering value for money is wider than just cost and this is clear from our customer research, which also considered both societal and environmental value when building our plan. The majority of the social value we deliver is in our core service – providing great water and removing wastewater. We provide support to customers who are struggling to pay their bill and help those in vulnerable circumstances. These activities provide additional social value. We also deliver environmental value, for example by protecting and enhancing reservoirs, catchments, rivers and bathing waters that provide a home for wildlife, areas for recreation, tourism, and working hard to reduce negative environmental impacts. The company builds partnerships to support communities to be stronger, working with schools and young people to develop skills and help people get back to work and working with teachers and children to educate and raise awareness about water and the natural environment. This gives the current and next generation an understanding of the true value water brings and how we can all play our part in protecting the services nature provides.

In addition to the support and scrutiny provided by Arup and Baringa, external assurance of the value assessment tool was provided by Deloitte LLP. The assurance confirmed the appropriateness of the tool.

Requirement – The LTDS protects customers' ability to pay their water bill over the long term and delivers fairness between what existing customers will pay and what is paid for by future customers.

Bill impacts both now and in the longer term (to 2050) have been estimated using Ofwat's PR24 methodology. The shorter term AMP8 specific bill impacts have been tested with customers through the acceptability testing methodology guidelines jointly published by Ofwat and CCW. For assessment of bills and the pace of investment over the longer term we have engaged with customers and stakeholders to understand their views on the appropriate pace and phasing of investment up to 2050.

The Long Term Delivery Strategy (LTDS) sets out the long term vision and ambition of the company. Whilst developing this the company has regularly engaged with customers to research and test their views (including intergenerational equity testing and the phasing of service improvement to understand whether our proposed

plan is in line with their preferences). Where there is discretion in investment plans we have sought customer views to ensure they value the service improvement proposed. Our high quality research programme tests customers' views over time, as well as delving into specific topics, such as views on the implications of introducing smart metering.

The company has engaged with customers and stakeholders to understand their views on the phasing of investment. This engagement indicates customers wish to see important investment being delivered promptly, even if this affects bills in the near term. Outputs from our research have fed back into our plans to ensure that the views of customers are considered. Findings support the planned improvements in resilience and asset health, pollution, leakage and environmental protection in our AMP8 plan, enabling us to prioritise these in both the short and the long term. Our testing included views from households, non-household customer groups and future bill payers. Intergenerational equity has been explored in Affordability and Acceptability testing for the AMP8 plan, and a further in depth qualitative piece as part of the long term delivery strategy considers intergenerational fairness out to 2050.

The YourVoice "Customer Research and Engagement" and "Affordability and Vulnerability" sub groups provided challenge and scrutiny of the company throughout the development of the plan, with particular focus on the design and implementation of customer research, and the way the outputs of this work have been reflected in the business plan.

Acceptability testing suggests that many customers are concerned about their ability to meet the costs of increased water charges in AMP8. Mitigating these concerns, we are proposing our most extensive affordability support programme to help customers across a wide range of incomes manage increased charges. This extensive package includes £525m of financial support to the most hard pressed households. We project that levels of water poverty in the North West will remain stable until 2030 when this intervention is taken in to account.

More broadly, we continue to offer a wide range of water industry affordability schemes to customers such as Back on Track, WaterSure and Payment Matching. All of our schemes are in place to make water bills more affordable for customers who might be struggling to pay. These schemes are put in place following consultation with relevant stakeholders including CCW and our Affordability and vulnerability panel and debt advice sector.

This has been assured in line with our published assurance framework, with external assurance of our financial model provided by Deloitte LLP.

5. Costs and outcomes

Requirement – Performance commitment levels in our plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure

Proposed performance commitments have been developed by subject matter experts so that they are stretching and achievable and reflect the improvements from both base and enhancement programmes. Incentive rates have been calculated in line with Ofwat collaborative research methodologies and best practice guidance on incentive rates and triangulation. Exceptions to the Ofwat methodologies have been transparently called out and justified as part of the plan submission. The performance commitments have been informed by customer research and take account of cost constraints on customers, regulatory requirements, delivery capabilities and tackling intergenerational equity issues. The plan delivers stretching improvements in service for customers and the environment.

The performance commitments set out in our plan build on the improvements delivered in previous AMPs. Our PR24 proposals aim to deliver more from base expenditure than we have historically achieved. This will be done through a combination of innovation, effective use of markets, efficiencies, supply chain performance and DPC. This approach to costs enables us to propose stretching but achievable performance commitment levels for the business plan.

The stretch and ambition of each performance commitment has been assessed against the following criteria: PR19 levels, historical out turn performance and expenditure, forecasts that can be delivered from base expenditure, performance levels of efficient companies and the opportunity for transformational performance improvements. When calculating stretching performance levels we have included consideration of upper quartile and frontier levels of performance, comparing our own ambitions to these in order to fully stretch our ambitions and performance commitment levels. We are targeting upper quartile in all but two common performance commitments.

Our proposed performance commitments have been assured in line with our published assurance framework. This was supported by external assurance from a number of external providers including Deloitte LLP and Turner & Townsend. Together, the external assurance confirmed that the performance commitments were both stretching but achievable and reflected improvements from both base and enhancement expenditure.

Requirement – The expenditure forecasts included in the company’s business plan are robust and efficient

Root cause analysis of the requirements took into consideration current asset performance, headroom, lifespan, and maintenance activity, allowing extensive optioneering of potential solutions. As a result of this the expenditure forecasts in our plan are both robust and efficient.

Solutions have been reviewed in line with our engineering solution hierarchy. Costs and values were estimated to help inform preferred options. This assessment was made against the six capitals framework for value (human, financial, manufactured, intellectual, social and natural). Innovative technology and new ways of working were all considered, with partnership opportunities, nature-based solutions, and catchment systems thinking options all extensively explored.

Solutions were assessed using a value assessment tool developed for PR24 that leads users through questionnaires to quantify performance in terms of consequence, severity and quantity, and then uses agreed valuations to monetise the predicted performance. It calculates a best value ratio that considers the value of a solution in relation to its totex and carbon cost. This provides a robust and consistent valuation across our plan, helping us better understand risk and value in order to inform best value decision-making. It has been externally assured by Deloitte LLP, to give confidence on the robustness of value estimates and the overall process.

For our base expenditure, primary drivers for best value decision-making were our assessments of cost, performance, and greenhouse gas (GHG) emissions. For enhancement solutions, the default option was the one calculated to have the highest best value ratio. Where a different option has been selected this is because it delivers significant additional value.

Through extensive experience of working in partnership to co-create, co-finance and co-deliver, collaboration can unlock solutions that would not be available or possible for us working alone. Partnership working enables us to leverage greater value for customers and the environment, and achieve cost efficiencies through co-funding and pooling of resources and expertise. The AMP8 plan looks to further grow partnership value and will continue to expand the range of partners we work with, remaining agile and utilising different routes to attract new partners from other sectors, as well as continuing to work closely with our long-standing strategic partners.

Where it is in the best interests of customers and the environment, DPC schemes have been considered as potential solutions. A framework has been developed as part of the broader best value approach to assess the potential suitability for delivering schemes via this route and our plan includes proposals for DPC schemes that we believe would provide best value for money for customers.

Our WINEP programme build is unprecedented in scale. A significant proportion of this relates to our storm overflows programme. The forecasts have been appropriately assured in line with our assurance framework. Where there are remaining uncertainties in relation to the final scope and delivery dates of some specific elements of the WINEP programme, including whether there is scope to defer delivery to subsequent AMPs, these have been highlighted and we are confident that they are capable of resolution.

Where the unique characteristics of the North West drive materially higher costs which may not be adequately reflected in the econometric models, high quality cost adjustment claims have been submitted in line with Ofwat's cost adjustment claim process. The five claims submitted are phosphorus removal, costs to comply with the Industrial Emissions Directive (IED), dam maintenance, permit compliance at sludge thickening sites and drainage. Estimates in our cost adjustment claims have received external assurance from PwC, which reviewed the robustness of our approach to develop cost estimates and accuracy of input data, with a particular focus on the PR24 cost efficiency criteria. PwC found our approach to be robust, with a detailed and logical methodology.

External assurance was provided by Deloitte LLP that confirmed the value tool was developed using an appropriate methodology aligned to EA guidance.

Requirement – The needs for enhancement investment are not influenced by non-compliance or non-delivery of programmes of work (both base and enhancement) that customer have already funded

The board has required that investment needs are not influenced by non-compliance nor non-delivery of programmes of work. Work funded in previous AMPs is reconciled at the end of each period. The end of AMP7 WINEP reconciliation model submitted to Ofwat as part of the business plan sets out the projects that have been or are expected to be successfully delivered during AMP7. We have a proven track record of reinvestment significantly above our cost targets to ensure delivery of enhanced services to customers.

New and emerging statutory requirements identified by quality and environmental regulators, determined through WINEP and DWI plans, are based on new needs and therefore have not previously been funded. Some projects are incremental by their nature and therefore would build upon deliverables from previous AMPs. The starting baseline assumption for DWMP is from a stable asset health base. Therefore emerging investment requirements are as a result of enhancement needs only. The WRMP submission is built up from a supply baseline position, and then factored in are and future changes in demand, statutory requirements (for example water trading, resilience or temporary use bans). This then generates a supply and demand balance with deficits driving investment requirements. We have described in the plan submission how we have demonstrated that investment requirements identified for storm overflows are to deliver new requirements, beyond the standards supported by previous investment, and do not seek to fund the resolution of maintenance or operational issues, which should be met through base expenditure.

In support of this plan we have developed a number of enhancement cases which set out the requirements for efficient investment. These cases are based on the need for enhancement, the best option for customers and how we offer customer protection against non delivery. The enhancement proposed provides a proposed level of service above that which has been previously funded. As outlined above this was externally assured by PwC.

Requirement – The options proposed within the business plan are the best options for customers and a proper appraisal of options has taken place

To ensure the options proposed within the business plan are the best option for customers, a proper appraisal of options has taken place. In order to make certain best value for customers was considered throughout the process the engineering team challenged themselves on ensuring they are investing at the right time in the right assets, maximising potential value of investments and making evidence based decisions.

A risk and value process has been developed that provides a structured way of exploring the need behind the proposed investments. The process addresses inconsistencies and challenges assumptions. The application of the risk and value process provides confidence that the right projects are being proposed for the AMP8 programme and therefore managing and maximising the value for customers from their investments, ensuring that the correct approach to project delivery is adopted in order to maximise benefits realisation. A complexity assessment was completed, assessed and ratified by the internal PR24 technical authorities.

Optioneering ensured that every requirement was assessed for the feasibility of adopting a nature or catchment based solution. Alongside this a deliverability assessment process was created to highlight risks and propose potential mitigation measures where appropriate. This enables better development of the cost of implementing the PR24 solutions. Customer research helped inform our optioneering decision making process. Research and customer priorities supported actions to improve sustainable supply of water and use options and engineering solutions which reduce its impact on the environment. This includes environmental factors such as carbon and biodiversity. We have applied this to our optimisation of options appraisals. This is supported by triangulated customer research.

To ensure we offer best value to customers Mott MacDonald was commissioned to analyse the approach to building up the indirect costs and compare with peer organisation data sets. A market testing exercise was undertaken to ensure the costs established by the Mott MacDonald estimating team were appropriate. Market tested projects were selected to be representative of the scale and types of projects and solutions on the programme and the potential delivery routes. The conclusions from this exercise confirmed the costings were representative of current market conditions.

The iterative approach we have described helped the company to test and improve its approach to cost assurance and efficiencies. Through the independent scrutiny provided by Arup we are confident that our proposed WINEP submission satisfies the statutory requirements. Our DWMP costs were benchmarked externally and assured by Turner & Townsend. Further external cost and construction build benchmarking has been completed. External assurance has been provided Deloitte LLP. This assurance confirmed a proper appraisal of options has taken place.

Requirement – PR24 plans and the expenditure proposals within them are deliverable and that we have put in place measures to ensure that they can be delivered, considering:

- the ability of the company and its supply chain to expand its capacity and capability at the rate required to deliver the increased investment;
- the impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; and
- key supply chain risks and capacity constraints, such as the availability of specialist resource or components, e.g. river quality monitors, smart meters or SuDS designers

Management has undertaken a detailed assessment and where possible has confirmed that our PR24 plans and the expenditure proposals within them are deliverable. In developing these plans we have assessed the risks to our ability and that of our supply chain to expand capacity and capability at the rate required to deliver the increased investment. The impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints has also been impact assessed as well as key supply chain risks and capacity constraints, such as the availability of specialist resource or components, such as river quality monitors, smart meters or SuDS designers.

Recognising the step change required from AMP7 to AMP8, the company has made meaningful efforts to ensure that it can deliver the plan. These include:

- Undertaking a thorough review of the company’s ability to deliver through a 3Cs model of Challenge, Capability and Capacity
- Engaging external experts including Arup, Mace and Alvarez and Marsal to challenge and support readiness programmes
- Undertaking a full capability review and moving early to resource new PMO capability focused on programme optimisation and risk management, alongside new directorates with specific focus in growth areas such as storm overflows and rainwater management
- Engaging early and extensively with supply chain, assessing market capacity and mitigating supply chain risks for critical goods and services
- Utilising early start and accelerated investment schemes, innovation and detailed analysis of our WINEP programme to inform and build confidence in our AMP8 approach.

Deliverability of the plan is also supported by robust financing, corporate systems and resilience and a good track record of delivering on our promises.

External assurance of this approach to delivery has been provided by Deloitte LLP who assessed our approach and methodology to understand the current delivery environment and areas outlined above. This confirmed that we had a structured approach to assessing and managing risk to deliverability, including the risks to our AMP8 ambitions.

Requirement – The plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments)

The plan ensures that customers will be protected through a price control deliverable mechanism, which will link outcomes (risk reduction and/or delivery of statutory actions) to an agreed timescale, with processes to return money to customers in the event of underperformance, or if anticipated actions are not required following reservoir inspections. We have included a number of price control deliverables in the plan which are not covered by performance commitments.

Requirement – The expenditure proposals are affordable by customers and do not raise bills higher than necessary

In developing our plan we have adhered to both CCW and Ofwat guidance on affordability and acceptability testing research. Whilst our plan does anticipate long term bill increases these are principally driven by substantial investment to achieve new statutory requirements and enhanced service levels for customers. In order to support customers through this, we propose substantial increases in financial support for low income households. The proposal is to increase efforts to provide non-financial support to customers including water efficiency advice and support for socially important non-household customers. At the heart of this proposal is £525m of direct financial support for low income, and financially distressed households, including £200m of shareholder funded support. This will increase the number of customers helped each year to c560,000 (compared to just over 200,000 today) and we expect this to be capable of keeping levels of water poverty stable to 2030.

Through extending other forms of affordability support, such as data led water efficiency promotions, and innovative tariff trials we will further extend affordability support offerings to maximise the impact of the support we offer, under our new ‘Water without worry’ banner. We continue to offer one of the widest ranges of water industry affordability schemes to customers such as Back on Track, WaterSure and Payment Matching. All of our schemes are in place to make water bills more affordable for customers who might be struggling to pay.

The expenditure proposals have been assured in line with our published assurance framework. External assurance was provided by Deloitte LLP on affordability assessments. This confirmed that UUW has consulted widely and undertaken targeted customer-focused research and has a strong understanding of the socio-economic challenges being faced by UUW customers. The findings of this research have been integrated into the business plan and UUW sets out an extensive range of support tariffs.

Requirement – The expenditure proposals reflect customer views, and where appropriate are supported by customers

Extensive customer research has been carried out around the PR24 plan, across a wide range of topics including our long term strategies, statutory and non-statutory enhancements and affordability. All customer research studies have been subject to a rigorous approach to ensure research is useful and contextualised, neutrally designed, fit for purpose, inclusive, continual, independently assured, share in full with others for transparency and ethical. Further detail of the care taken in this regard and case study examples are provided in supplementary document *UUW21 - Customer research methodology*.

The independent challenge group for the North West, YourVoice, strengthened its approach to oversight and scrutiny of our performance and planning by creating a specific stakeholder subgroup, bringing more voices from different North West communities. For the first time, representatives of young people and the developer community joined this group. The creation of this group provides us with further access to regional stakeholder perspectives.

Our customer engagement strategy is to co-create our plans with customers. Our business plan has undergone continuous iterations incorporating feedback from customers. By actively considering their perspectives well-informed decisions have proactively influenced the plan. There was, for example, an early shift in customer perspectives, specifically on the need to proactively tackle environmental challenges and were therefore able to build these views into our strategy early on.

External assurance has been provided by Deloitte LLP. This has confirmed that our research is of high quality and that the results from the research has been fed back in to the plan.

6. Risk and return

6.1 Financeability

The board confirms the plan is financeable on the basis of a notional capital structure (taking in to consideration all of the component parts of the business plan, including the early view on allowed return on capital for PR24 and consistent with maintaining target credit ratings at least two notches above the minimum investment grade)

The board can confirm that the plan is financeable on both the notional and actual capital structures. This is subject to raising the necessary debt and equity financing and the board anticipates that the final determination will set a WACC at a sufficient level to facilitate this. The board also confirms that the cost recovery rates proposed ensure that these are reasonable and do not store up a financeability problem beyond the period of the price control.

For the notional company, the board has targeted credit ratings of Baa1 with Moody's and an Issuer Default Rating (IDR) of BBB+ and senior unsecured debt rating of A- with Fitch. For the actual company, this corresponds to targeting credit ratings with the benefit of AMP7 reconciliations of A3 with Moody's and an IDR of BBB+ and senior unsecured debt rating of A- with Fitch. Reflecting differences in S&P's ratings methodology compared with Moody's and Fitch, the board expects both the notional and actual company to be on the cusp of BBB+/BBB, although an increase in the WACC from Ofwat's early view should increase revenues and thus improve financeability with reference to S&P's key credit metrics for both the notional and actual company.

The board notes that Ofwat's guidance for notional company financeability in the PR24 Final Methodology is to target credit ratings of at least Baa1/BBB+ and the board believes that our plan clearly demonstrates attainment of these ratings with each of Moody's and Fitch after the application of our proposed financeability levers.

The board also believes the actual company ratings targets provide a robust degree of headroom above the threshold for investment grade and should enable UUW to maintain efficient access to the debt capital markets throughout the economic cycle.

To meet key credit metrics commensurate with the above credit ratings, we have modelled a series of equity injections into UUW totalling £2.25bn for the notional company and £1.35bn for the actual company. On the assumption that the overall PR24 risk and return package and the level of allowed equity return are set at an appropriate level at the final determination, we are confident that our plan is financeable from a debt and equity perspective on both a notional company basis and an actual company basis.

The board has assessed the financeability of the business plan under both the notional and actual capital structures and has reviewed the supporting independent assurance undertaken.

Specific reviews have been undertaken of a number of aspects of the financeability of the plan including by Deutsche Bank and JP Morgan and Deloitte for the long-term viability statement (LTVS).

6.2 Financial resilience

The board confirms that the actual company is financially resilient over the period of the price review (2025-30) and beyond under the business plan

The steps taken to provide assurance, including the factors taken into account and the suite of financial metrics used to ensure the company is financially resilient are set out below

The viability of the company has been assessed, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but plausible 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 twelve year period to March 2035. This viability statement is based on the fundamental assumption that the current regulatory and statutory

framework, and the interpretation thereof, does not substantively change and continues to appropriately fund and incentivise well managed companies.

The scenarios considered include the Ofwat prescribed common scenarios as well as additional company specific scenarios underpinned by UUW's established risk management processes. 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. Stress testing is set against the key credit rating agency metric thresholds at Moody's, Standard & Poor's and Fitch for each credit rating, including gearing, FFO:Debt and interest cover metrics. Consideration is also given to UUW's financial covenant ratios. This assessment has demonstrated the company's ability to absorb the impact of all severe but plausible scenarios modelled.

The analysis underpinning this assessment has been through a robust assurance process, which has included scrutiny and challenge from the audit committee, board, and assurance by Deloitte LLP. The full long term viability statement is provided as part of *UUW68 - Financial resilience*.

7. Customer engagement

Requirement – That the board should provide assurance that the company’s customer engagement and research meets the standards for high-quality research and any other relevant statements of best practice and has been used to inform its business plan and long term delivery strategy

It is important that our plan reflects the views of customers and stakeholders and customer engagement has directly driven the development of our plan and long term delivery strategy. The company undertakes research as part of our business as usual activities which gives us a more rounded holistic view of customer preferences. Over and above specific research requirements for PR24 we value customer’s feedback and spend a lot of time asking for, receiving and analysing this.

The company does this in a variety of ways, including setting up customer focus groups and online community panels, carrying out customer surveys face to face, over the phone and online, and also increasingly by using more sophisticated approaches incorporating behavioural economics and data science. This is done so that the company can improve its understanding of customers’ preferences and so that we can communicate in a way that suits them. We make sure we get views from all different groups of customers including those of different ages, genders, incomes, locations, metered and unmetered and customers who may be experiencing difficulties in their lives that’s making them more vulnerable than they might otherwise be. Our specific AMP8 customer and priority research was started in autumn 2021 giving us early insight into customer priorities.

Our customer engagement and research exceeds the standards for high quality research and best practice, meeting the industry principles for both Ofwat and CCW. Our methodology ensures we have met the standards of high quality research as set out in the Ofwat “PR24 Customer Engagement Policy” positioning paper and the CCW’s “lessons learned from 2019 price review” and “Framework for water company research” report. Research was undertaken by an approved panel of research agencies, all of whom fully accredited market research companies with broad experience of working in the sector. This approach to customer engagement and research has been assured in line with our published assurance framework.

External assurance on the research was undertaken by Turner and Townsend, confirming that we have exceeded the standards expected for research as set out by Ofwat in the PR24 final methodology. The table on the following page shows how the company has ensured that our customer research methodology reflects high quality standards.

Our high quality research programme tests customers’ changing views for example understanding of sewer flooding as well as testing specific topics such as smart metering. Outputs from our research have fed back in to our plans to ensure that the views of customers are considered, for example findings support the improvements in resilience and asset health, pollution, leakage and environmental protection in our AMP8 plan, enabling us to prioritise these in both the short and the long term. Further detail of our high quality approach to customer research is provided in supplementary document *UUW21- Customer research methodology*.

Executives and senior leaders regularly meet with the Independent Customer Challenge Group called YourVoice to discuss customer research. YourVoice is set up with four specialised sub-groups (Customer research and engagement, environmental and social capital, affordability and vulnerability and stakeholder). The Customer research and engagement sub-group is specifically designed to scrutinise the quality, design and reach of our customer participation. This ensures our customer research is high-quality and the business plan consistently reflects customers’ views and priorities. Where appropriate, we also worked with YourVoice to seek third party expertise to validate results, including independent consultancy advice on triangulating research from a variety of sources.

Our customer research methodology ensures:

Research is neutrally designed	To avoid selection and order bias, we ensure content is not leading, allows inclusivity and accurately represents the views of customers.
Research is useful and contextualised	Our scoping exercise and approach ensures research is timely, relevant and designed to ask meaningful questions, which will inform impact when it comes to business planning, taking into account a wider evidence base for our findings.
Research is fit for purpose	Research materials are piloted, with content designed to ensure questions and materials are easily understood so customers feel they can provide meaningful answers. The sample and methodology are appropriately selected with research objectives in mind.
Research is continual	Our research programme builds on multiple and continuous sources of insight. We have conducted over 75 research projects from 2020 to 2023, using a wide variety of mechanisms for customer insight to help us understand changes to customer sentiment over time, both in relation to UUW and wider factors affecting customers' lives.
Research is inclusive	Our customer research is representative of the UUW operating area. Sample sets and recruitment methods are designed to ensure all customers, including those that are vulnerable, hard to reach or digitally excluded, can participate.
Research is shared in full with others	We have, wherever practicable, published our research projects including full reports, methodology, screeners, stimulus, questionnaires and research guides on a dedicated area of our website since July 2022. This is an open data source that anyone can use and demonstrates our extensive and transparent approach to sharing research. We were the first water company to drive industry awareness of our published research through a customer research newsletter called, 'The Source'. We share reports and knowledge with other water companies and regulators. We are an active member of cross company forums, such as Water Resources West where we regularly share research.
Research is independently assured	Where appropriate, our research and usage of results is peer reviewed and independently assured. Research is completed by independent research agencies and is always in line with third-party best practice, such as Market Research Society guidelines.
Research is ethical	All research is conducted in line with ethical standards, including the Market Research Society and the Social Research Association.

YourVoice is fully engaged across our research programme covering design, executions, analysis and application. They are invited to view live research focus groups and dissemination events. Research briefs, proposals, discussion guides and stimulus are shared with YourVoice for comment and feedback ahead of the research taking place. YourVoice are also invited to pilot groups to help further development and inform improvements. The company engages with YourVoice through regular updates and quarterly customer sub group sessions. Feedback and critique of our projects are recorded in a tracker with a response on why we have or have not addressed the feedback for YourVoice and this is published on the YourVoice website.

External assurance on both customer research methodology and customer research triangulation was provided by Turner & Townsend. This assurance confirmed that the research has informed the business plan and long term delivery strategy in line with the Ofwat PR24 methodology requirements.



Sir David Higgins
Chair



Louise Beardmore
Chief Executive Officer



Alison Goligher
Senior independent non executive director




Phil Aspin
Chief Financial Officer



Liam Butterworth
Independent non executive director



Kath Cates
Independent non executive director



Michael Lewis
Independent non executive director



Paulette Rowe
Independent non executive director



Doug Webb
Independent non executive director



26 September 2023

United Utilities Water Limited
Haweswater House
Lingley Mere Business Park
Lingley Green Avenue
Great Sankey
Warrington
WA5 3LP
unitedutilities.com



Water for the North West