

United Utilities wants to play a leading role in shaping, supporting and executing the strategy for the water and wastewater sector. Our company's purpose, vision, strategic themes and core values are set out in the United Utilities Group Annual Report. We aim to be the best UK water and wastewater company, providing the best service to customers at the lowest sustainable cost in a responsible manner. The core values we apply to achieve this are customer focus, innovation and integrity.

We welcome the work that Ofwat has been undertaking to create a shared vision for the sector across stakeholders and customers and we believe that the key themes identified (stewardship for the future, delivering everyday excellence and delivering public value) capture major areas where the industry can perform better in the future, delivering to even greater effect by leveraging the opportunities afforded by working in partnership with other stakeholders.

We support the approach of looking beyond the price review cycle to establish a shared vision. Having considered the debates that have been held in recent months, we have come to the view that trying to capture a vision through long term performance targets is likely to fail to capture the full breadth of what the sector could achieve and could lead to a partial, narrow focus. We suggest that the best way forward would be to co-create a clear description of what the sector could aspire to look like in thirty years' time, covering both the outcomes that it should be achieving and the behaviours and means that should support their delivery. We must ensure that this is a vision that is supported and shared by customers – leveraging on the insights and research that companies already have and supplementing this where necessary. Having established this vision, the sector and other stakeholders can develop the strategies necessary to deliver a future which is aligned to what customers want and which stretches company ambition.

UU sees a future where the best performing companies will deliver better outcomes for customers and the environment by use of catchment markets and systems thinking. This will unlock innovation, connect with new stakeholders, create value through natural capital and act as a multiplier on the funding available to deliver social, environmental and service improvements. Achieving our vision demands that we to reach beyond the standard boundaries that have historically applied in order that we can drive value in new ways and in new areas of the value chain, whilst also being open to new ways of doing things in our traditional domain. To do this, we need to challenge legal, regulatory and behavioural barriers where they impede progress, whilst also protecting and nurturing the positive values and commitments that have driven much of the sector's progress over the last thirty years.

Like many others, we are concerned about the reputational issues which continue to affect the sector. We believe that many of the building blocks to recover trust and confidence are coming into place. The leading companies in the sector are already demonstrating better alignment to customer priorities, a focus on excellence in delivery, improved transparency, giving upfront commitments to sharing upside with customers and driving responsible financing and dividend arrangements. Where they lead, we expect that others will follow, voluntarily or otherwise. We should work together to encourage this.

The future strategy must go beyond restoring or maintaining legitimacy in our current activities and consider how companies can make a bigger contribution to a broader agenda. This means reaching out for new opportunities which serve customers better, being innovative in how we approach investment in water and wastewater catchments and ensuring that the contribution we make to the communities we serve is an overwhelmingly positive one.

UU's plans to 2025 show a clear direction of travel that we believe will unlock value for customers and other stakeholders. Our future strategy will build on these over the longer term to move closer to our vision of being the best UK water and wastewater company.

- **Improving natural capital through catchment innovation** - We see significant opportunities to broaden the scope and increase the effectiveness of catchment management through market based approaches which can enhance natural capital. In the near term we are looking to drive this forward through novel catchment based approaches in five innovative pilots which partner with organisations such as Flood Re and Nestlé to maximise benefits for customers and the environment. If these are successful then they could open the way to a much broader range and greater number of parties being engaged in catchment approaches.
- **Using markets to deliver efficiency and innovation** - We are setting new benchmarks for the sector through innovative approaches to procurement and use of markets, such as through our award winning approach to market engagement and being a sector pioneer for direct procurement for customers. We see continued progress in this area as being key to realising future efficiency gains.
- **Systems thinking for service improvement** – We are using a structured approach to developing systems thinking in the business with a long term route map and capability assessment which means we can benchmark our implementation against the best operators from all industry sectors. We believe that there is significant potential to harness systems thinking benefits at a catchment level, with more external interfaces, optimising our use of data and delivering improved customer service.
- **Long term legitimacy** - Our track record of resilient and fair financing is now enhanced by progressive approaches to upfront gain share arrangements, transparent dividend policies and clear commitments on our financing structure. We believe that we can continue to enhance legitimacy by further driving our financing and governance arrangements to be in line with customer expectations, such as our recent achievement of the “fair tax mark” and by continuing to lead on the affordability and vulnerability agenda.

We very much look forward to further engagement with Ofwat in the coming months as we continue to collaborate on the development of the sector vision.

Steve Mogford
13 August 2019