



Sustainability | Leadership | Innovation



## 2016 WINNER COMMUNICATING INTEGRATED THINKING

# LESSONS IN DRIVING BUSINESS SUSTAINABILITY

## UNITED UTILITIES

United Utilities is a major provider of water and wastewater services in the north-west of England, an area which has increasingly come under pressure from weather events, and major floods in particular. This creates unpredictable challenges to an operator in this environment. Before 2010, the company had also been one of the worst-performing companies in the sector. It needed to transform itself both in the way it coped with the difficult weather challenges it was increasingly facing, and in how its performance was regarded by investors and stakeholders. A key part of the transformation was to use an integrated process in the way it ran its whole water and wastewater network through an integrated control centre. A strategic programme called Sustainable Business Performance Improvement resulted in a large range of improvement initiatives. Recognising the scale of delivering the capital programmes required each year, the company devised a Time:Cost:Quality Index. With some 9,000 projects amounting to £3.5bn in capital expenditure across a five-year cycle, the company now achieves 95% on time, cost and quality – a huge improvement compared with around 50% previously. ‘We changed the way we were working,’ said CFO Russ Houlden, ‘and we needed to communicate that to all of our stakeholders, particularly our investors, our customers and the society around us.’

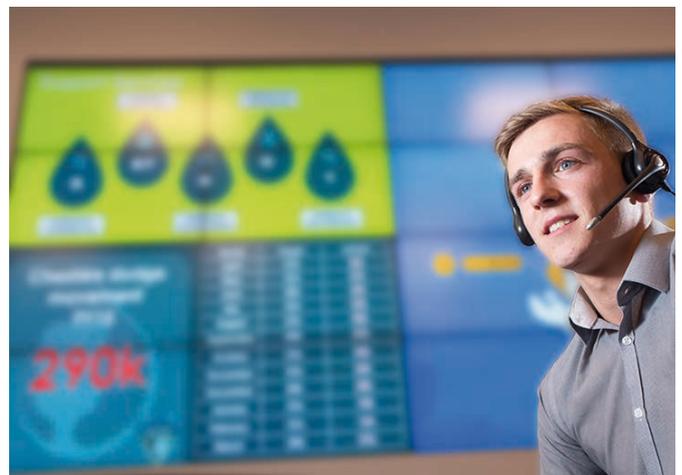
**‘We changed the way we were working and we needed to communicate that.’**

It was a process of changing how the company worked and then communicating how it had changed. ‘So we first set about improving our service to our customers and then we set about running the network in a much more integrated way, which enabled us not only to provide a better service to customers on an ongoing basis but also to respond to severe weather events better than we could have done in the past.’ Having done that, the key was making sure that shareholders and stakeholders understood what they were doing and why they were doing it. ‘The key for us was putting integrated thinking into action in how we run catchments, how we run our whole water and wastewater network from an integrated control centre. We were putting all this into action and we

wanted to communicate that with our shareholders.’ The transformation relied on being able to run the company on a more joined-up basis. ‘Historically we would have managed each of our assets separately,’ said Houlden. The company has around 100 water treatment works, 600 wastewater treatment works and 170 reservoirs. ‘Managing them all as an integrated network is a big difference for us,’ said Houlden. But it worked and 2015 saw a dramatic demonstration of its value.

**‘The key for us was putting integrated thinking into action.’**

Traditionally the company, like others in the industry, designed its networks to stand up to floods of a 1-in-30-years severity. The floods in Cumbria in late 2015 were of an utterly different magnitude. ‘That flood,’ said Houlden, ‘was a 1-in-1,000-years severity so no one would ever design the network for that flood. But what we did have was a lot of remote sensing and we had this integrated control centre able to view what was going on throughout the network. We were able to spot there had been a landslide into a reservoir that was causing a plume of dirt, mud, silt and stones that was coming down towards the outlet of the reservoir. So we were able to switch the outlet off, which prevented the water treatment works from being destroyed.’



The Integrated Control Centre is the central hub from which United Utilities now monitor and control all of their water and wastewater network and operations

And we were able to redirect flows from other water treatment works to keep our customers onstream.’ This was a practical example of what was being changed through integrated thinking within the company.

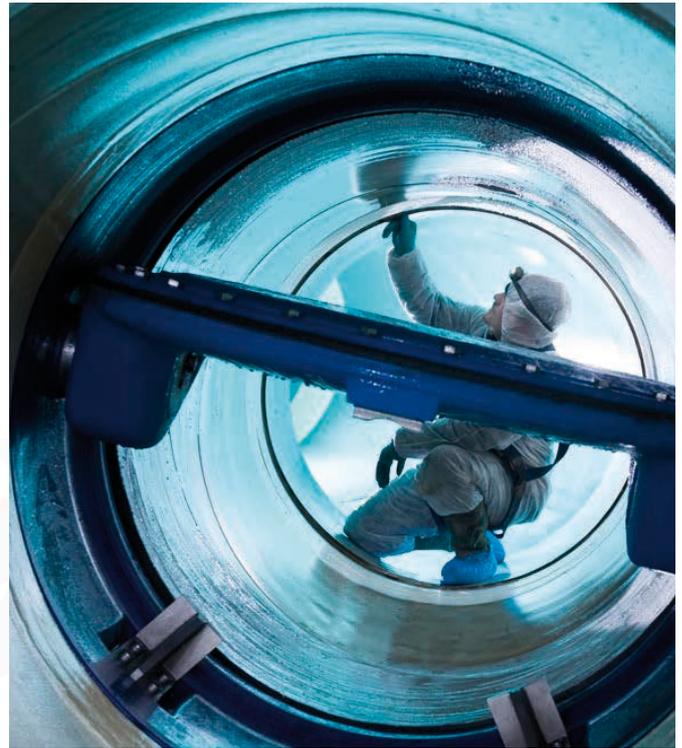
## At the heart of this was the creation and refining of a business model diagram.

‘It is important to us,’ said Houlden, ‘because shareholder value is driven by out-performance, and out-performance is driven by things like running the network more efficiently for customers and doing it in a way that brings environmental benefits, and doing that at lowest possible cost but doing it in a sustainable way. So it was all about delivering the best service to customers at the lowest sustainable cost in a responsible manner. It is all about communicating that, and the link to shareholder value.’ At the heart of this was the creation and refining of a business model diagram. ‘We used that business model diagram as the structure for the annual report, so everything hangs off that diagram,’ said Houlden. ‘The challenge is simplifying everything you do into a form that can be communicated to all investors and other stakeholders and getting it onto one page.’ It was not an easy task. ‘What we do is really complicated,’ he said, ‘and so it’s an art to distil that into something really simple. It is what I call “cutting through complexity”,’ he said. It has been a company-wide process to bring about the change, with the finance function providing important input and drive. ‘Finance was important in many regards,’ said Houlden.

## There are still challenges ahead.

‘We distilled the thinking of what we were all about, which was this three component phrase of “best service to customers at lowest sustainable cost in a responsible manner”. You see that throughout our reporting. We had to do the thinking about distilling it into a business model diagram which is then at the core of how you write the integrated report and the annual report.

That took a lot of work and if you look through our annual reports you can see we have modified it to improve it over the last couple of years.’ But it is not all the finance function’s domain. ‘We write large sections of the annual report,’ said Houlden, ‘but there are many, many others involved – our operational colleagues, our communication colleagues, our legal and company secretary colleagues and, of course, our CEO and the Chairman.’



The West-East Link Main is a new pipeline between Liverpool and Manchester that United Utilities built a few years ago to provide better connectivity and enable them to operate the water network in a more integrated way, allowing flows to be diverted when needed

And there are still challenges ahead and much of this is about refining processes. ‘There are a lot of information technology challenges still to be dealt with,’ said Houlden. ‘But we have a journey of another three to four years before we can get to where we want to be, which is to be the best water and wastewater company in the UK by a long margin.’ There are lessons to be learned from the story of how United Utilities has approached its task. The most important, said Houlden, is: ‘Don’t treat the integrated thinking or integrated reporting as an add-on or an optional extra. It has got to be core to the business. And for us it was core to the business. The water cycle is inherently a cycle. Our society is the customers we serve, and they benefit from the way we improve the local environment. So the integrated thinking approach driving the way we run the network was core to how we run the business. And if it is core to how you run your business then it will be real and then communicating it will come naturally.’

### WHAT THE JUDGES SAID

By producing clear, concise, integrated communications, United Utilities has demonstrated how integrated thinking translates to shareholder value in financial terms.