Our business model

Assets

Our fixed assets (including all our reservoirs, treatment works and pipes) have a gross replacement cost of around £90 billion which is the estimated amount it would cost for another company to build similar assets and networks. However, it is not the replacement cost of our assets upon which we are allowed to earn a return through our revenues. We earn a return on our regulatory capital value (RCV), a regulatory measure of the value of our capital base, which is currently just over £10 billion, so it is this asset value which is more important economically.

Long-term solutions

Many of our assets are long-term in nature, for example our impounding reservoirs have a useful economic life of around 200 years. By carefully reviewing our potential capital projects, and considering the most efficient long-term solutions, we can save future operating costs, help to reduce future customer bills, and work towards being able to operate in a more sustainable manner. It is important that we have the right systems and procedures in place in order to monitor and control the assets efficiently and effectively within our network. Embracing innovation in our asset configuration and work processes can help to make our future service better, faster and cheaper.

Investing in the region

Since privatisation in 1989, total capital investment of over £15 billion has provided substantial benefits to our customers and our region's environment. It has also contributed to the North West's economy through job creation, both within our company and also in our supply chain. Disciplined investment, along with RPI inflation, also grows our RCV, increasing future revenues.

2015-20 investment programme

We expect to invest around £3.6 billion across 2015-20 and to continue with a substantial investment programme, for the foreseeable future, in order to meet more stringent environmental standards and to maintain and improve the current standards of our assets and services. When deciding on our investment strategy we have to be mindful of the impact on our customers' bills and this is why, for example, we are spreading some of the environmental spend, required by European legislation, over the next 15 years.

Financing

Capital structure

We aim to maintain a robust and responsible capital structure, balancing both equity and debt, to achieve a strong investment grade credit rating. Our proactive equity and credit investor programmes allow us to engage effectively with investors. Issuing new debt is particularly important as our capital investment is largely financed through a mix of debt and cash generated from our operations. We maintain access to a broad range of sources of finance, in a number of markets, across which we seek best relative value when issuing new debt.

Controlling our finance costs

Locking in long-term debt at good relative value can help keep our finance costs low and give us the potential to outperform the industry-allowed cost of debt. Sustained low-cost finance across the industry benefits customer bills. The average life of our term debt is around 20 years. Our prudent financial risk management policies, covering credit, liquidity, interest rate, inflation and currency risk, help reduce the group's exposure to changes in the economic and regulatory environment.

External environment

Natural environment

Whether it is treating and delivering drinking water for our customers, or returning treated wastewater to rivers and the sea, the natural environment is fundamental to our business. We continue to invest in the protection and, where appropriate, enhancement of the natural environment of the North West. This in turn brings economic benefits such as underpinning the region's tourist industry.

Preparing for climate change

We plan far into the future to ensure we are prepared for the changing natural environment, most notably the risks and opportunities presented by climate change. With severe dry periods becoming increasingly common, we must ensure we continue to have resilient water resources and an infrastructure capable of moving water efficiently around the region. At other times, we must tackle flooding incidents caused by the intensive bursts of rainfall which are becoming more frequent due to changing weather patterns. The potential effect of climate change on our future water resources is included in our 25-year Water Resource Management Plan.

Preparing for a changing population

Additionally, we must ensure we are able to meet increased demand on our sewerage network as the regional population is expected to increase. A phased, long-term approach ensures that the necessary work can be delivered without placing too much pressure on customer bills.

Returning water safely to nature

We have a responsibility to return water to the environment safely. Spills from our network can lead to pollution which, depending on their severity, can damage the natural environment and potentially lead to loss of reputation and financial penalties. We have had one of our best years in relation to serious pollution incidents, and it remains an important area of focus. The Environment Agency assesses water companies' performance across a basket of measures, including pollution, and its overall assessment is included as one of our KPIs (see page 32). All of the pollution sub-measures are reported within our Corporate Responsibility pages on our website at: corporate.unitedutilities.com/cr-environment

Reducing our environmental impact

We can make an important contribution to protecting and enhancing the natural environment by using fewer natural resources. We have been driving down our carbon footprint over the last decade (22 per cent fall in CO_2 emissions since 2005/06) and have plans to reduce it further. Less than 6 per cent of our waste goes to landfill and our use of recycled products is increasing. We plan to substantially increase our renewable energy production from 2015 to 2020 with the main contributor being solar opportunities. This will provide environmental benefits and add value to shareholders through energy cost savings.