

# Corporate governance report

## Nomination committee

To ensure that board members and senior management have the appropriate balance of skills and experience to support the group's strategic objectives.

### Quick facts



- All members of the committee are independent, thus exceeding the Code requirement that a 'majority of members of the nomination committee should be independent non-executive directors'
- The role of the committee is to make recommendations to the board on its composition, balance and membership and on refreshing the membership of the board committees
- The company secretary attends all meetings of the committee
- The business services director, who has responsibility for human resources, regularly attends meetings and is responsible for engaging with executive search recruitment advisers
- The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chairman nor the CEO would participate in the recruitment of their own successor

### Quick links

Terms of reference –

[corporate.unitedutilities.com/corporate-governance](https://corporate.unitedutilities.com/corporate-governance)

### Dear Shareholder

We have made considerable progress during the year in developing our board succession plans, and we have tried in this report to provide an informative explanation of our succession planning activities that will reassure our stakeholders that these matters are being properly addressed. In many ways, given the nature of the subject matter, it is a difficult topic to report publicly, and on a human level, people's lives and circumstances can change, sometimes at short notice.

As a board that is relatively small in size, succession planning to ensure that board members and senior management have the appropriate balance of skills and experience to support the group's strategic objectives is a matter that the board as a whole considers. We therefore have the benefit of the views and experience of all board members to contribute to the debate. During the year the board has reviewed the people and organisational capability plan twice, in June and in November. The review examined the changing nature of the organisation and move towards digitalisation both internally and externally, and the progress being made to understand the skills and capabilities we need going forwards. In our succession planning we aim to ensure both our board directors and members of the executive team and other senior managers, who are potential successors to the executive team or board, are well equipped with the right skills and experience to address the challenges of our business and, where necessary, address any developmental needs. They also need to be in tune with the culture of the company.

In support of these board discussions, the nomination committee has responsibility for considering the detailed recruitment process for executive and non-executive board appointments and members of the executive team. All the non-executive directors are members of the nomination committee and participate in meetings and in the recruitment process. The nomination committee is supported in the recruitment process by Sally Cabrini, business services director, as part of her human resources responsibilities. The committee has met four times during the year. The meetings discussed and developed our board and executive level succession plans, which address both contingency planning needs and requirements in the short to medium-term. These plans now include more granularity on timescales for key board positions. Additionally, the committee oversaw the appointment process of a new non-executive director.

### Nomination committee members

 Dr John McAdam (chair)	 Alison Goligher (appointed 1 August 2016)
 Dr Catherine Bell (stepped down 22 July 2016)	 Brian May
 Stephen Carter	 Paulette Rowe (appointed with effect from 1 July 2017)
 Mark Clare	 Sara Weller



Read the [Board of directors](#) on pages 52 to 54



**Pictured:** Dr John McAdam, chairman of the nomination committee

Historically, independent non-executive directors at United Utilities have served a term of between seven and nine years, a pattern which has facilitated the refreshing of the board in recent years by one appointment on an annual basis, along with ensuring a high degree of continuity. Notwithstanding this, the specifics of each of the non-executive directors' time of departure has been driven by their own personal circumstances. Serving beyond a nine-year term is identified in the Code as being one of the reasons which could affect a non-executive director's independence. The Code excludes board chairmen from the nine-year rule. As reported last year, Alison Goligher was appointed on 1 August 2016, succeeding Dr Catherine Bell who stepped down at the AGM in 2016. I am pleased to report that Alison has been very proactive in learning about the business and is making a valuable contribution in board meetings. We also recently announced the appointment of Paulette Rowe to join the board with effect from 1 July 2017 as an independent non-executive director. Paulette's first hand regulatory experience will

provide additional perspective in this important area for the group, and her experience of technology driven business transformation will contribute to our operation, through the customer experience programme and our Systems Thinking approach.

Our board diversity policy (see page 69) is taken into account during every candidate selection process. Ultimately, we do strive to appoint the person we believe is best matched to the role in terms of what they have to offer the company and to make a positive contribution to the board conversation and board dynamics. Diversity of outlook and interest is essential to ensuring we have a different variety of views to contribute to discussions. We have revised our target for gender diversity in our board diversity policy, which shall be to maintain at least 25 per cent, and aspire to 33 per cent female representation on our board by 2020.

**Dr John McAdam**  
Chair of the nomination committee

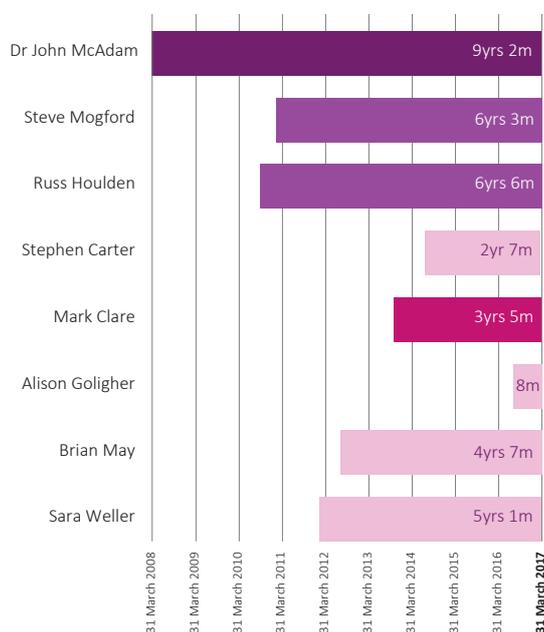
## Main responsibilities of the committee

- › Lead the process for board appointments and make recommendations to the board about filling vacancies on the board, including the company secretary
- › Consider the succession planning of directors and members of the executive team
- › Make recommendations to the board on refreshing the membership of the board's principal committees
- › Review directors' conflict authorisations
- › Consider the request from executive directors for election to the boards of other companies and make a recommendation to the board
- › Consider requests from non-executive directors for the election to the boards of other companies; this role has been delegated to the Chairman (other than in respect of his own position)

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### Directors' tenure as at 31 March 2017\*



\*Excludes Paulette Rowe who was not appointed until 1 July 2017

### What has been on the committee's agenda during the year

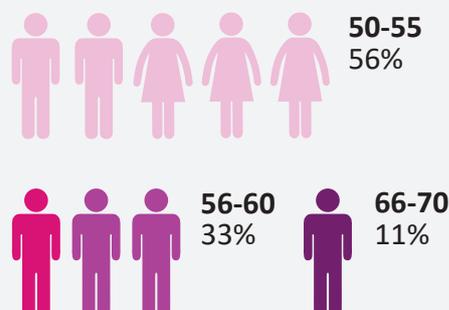
#### Board succession

The committee has further developed the board succession plans during the year, taking into account more granularity around timescales for key board positions, the likely evolution of the business and the changing shape and increasingly competitive nature of the industry expected from 2020 onwards. A succession planning matrix tool (incorporating the skills matrix, see opposite) for board directors is used to support the planning process for board appointments. The succession planning matrix highlights the Code governance requirements; existing directors' terms of appointment and a forecast/anticipated timeframe for when they might leave the business; the projected strategic needs of the business and the resulting preferred experience of any potential new board member; and existing potential internal successors to a role (where identified) and those who could act as an interim should the need arise. A candidate suitable for the role of CEO would need to demonstrate that their management approach would fit with the company's culture of acting responsibly. The committee would seek to consult with the incumbent CEO, given their unique knowledge and perspective of the group, on his view of the needs of the business going forwards. The CEO would not be involved in the appointment process of his successor, nor would the Chairman be involved in the appointment of his successor.

#### Board appointment process

Typically, following board discussions, the nomination committee will be responsible for drafting a brief, setting out the attributes and experience of a preferred candidate supported by the director of business services as part of the human resources function of the role. The brief would be shared with a number of executive search agencies (all of which would be signatories to the voluntary code of conduct on gender diversity for executive search firms) who would be invited to present their understanding of the role

### Age profile



and attributes required. One of these firms would be engaged to conduct the search. Russell Reynolds were involved in Paulette Rowe's recruitment, as they demonstrated the best understanding of the role. Other than providing executive search services on previous occasions, Russell Reynolds has no other connection with the company. A long-list of candidates would then be reviewed by the nomination committee and those identified for a short-list would be invited for interview, initially with the Chairman, the CEO and the business services director. Thereafter, a number of candidates would be invited to meet other non-executive directors and the CFO. Following the interview process, the nomination committee would meet to review and discuss the candidates (with the support of the business services director) taking into account the views of the CEO/CFO and assess the 'best-fit' with the succession planning and skills matrix and then make a recommendation to the board. References would be sought and reviewed by the Chairman prior to an appointment being taken up. A preferred candidate would also meet with representatives of Ofwat.

### Reviewing membership of the principal board committees

The committee considered the membership of the principal board committees, and concluded that, given his financial expertise, it would be beneficial for Brian May to join the remuneration committee to provide a mutual benefit to both the remuneration and audit committees. Paulette Rowe would join the audit committee, where it was felt her experience of regulated services, and the importance of risk and reputation, would be of most benefit to the board. On her appointment, Alison Goligher had been appointed to all the principal board committees. This was unusual at United Utilities but had been done to provide Alison with a window into all the activities of the board. On Paulette joining the board and providing additional resource, it was agreed that Alison should relinquish her responsibilities as a member of the audit committee.

### Skills matrix of board directors

	Finance/ accounting	Utilities	Regulation	Government	Construction/ engineering	Industrial	Customer facing	FTSE companies
Dr John McAdam		✓				✓	✓	✓
Steve Mogford		✓			✓		✓	✓
Russ Houlden	✓	✓	✓			✓	✓	✓
Paulette Rowe			✓		✓		✓	✓
Stephen Carter		✓	✓	✓			✓	✓
Mark Clare	✓	✓	✓		✓		✓	✓
Alison Goligher					✓	✓		✓
Brian May	✓					✓	✓	✓
Sara Weller			✓	✓			✓	✓

### Board diversity

The board diversity policy is to 'ensure the selection process for board candidates provides access to a range of candidates, although any appointments will be made on the basis of equal merit but with due regard for the benefits of diversity on the board, including gender diversity'. As stated by the policy, the board is looking for new directors to bring something different to the board table, be it in terms of experience, skills, perspective or interests.

During the year, we have revised the gender target in our board diversity policy, which is now to maintain our target of at least 25 per cent, and aspire to 33 per cent female representation on the board by 2020.

We are keen to develop our female senior managers so that, over time, they can be considered for executive board appointments or as potential candidates for non-executive directorships in other companies and we have a number of initiatives in place supporting women in the workplace (see page 70). We encourage our senior managers to take on a non-executive directorship role but recognise that the responsibilities of such a role are very much a personal commitment.

### Conflicts of interest and time commitment

The company's articles of association contain provisions which permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chairman of any potential conflict or potential new appointment or directorship, and the board reviews the position of each director annually. No changes were recorded which would impact the independence of any of the directors.

The board does not specify the time commitment it requires from its non-executive directors in taking on the role as they are expected to fulfil it and manage their diaries accordingly. The board is content that none of its directors are over-committed and unable to fulfil their responsibilities as a board director for United Utilities and are not 'overboarded'. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing to board discussions the Chairman would be responsible for discussing the matter with them and agreeing a course of action.

### Summary of board diversity policy

- Ensure the selection process for board candidates provides access to a range of candidates, although any appointments will be made on the basis of equal merit but with due regard for the benefits of diversity on the board, including gender diversity
- Ensure that the policies adopted by the group will, over time, promote gender diversity among senior managers who will in turn aspire to a board position
- In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms as recommended by Lord Davies
- Adopt measurable objectives from time to time for achieving gender diversity at board level – which shall be to maintain at least 25 per cent, and aspire to 33 per cent female representation by 2020

### Induction of new non-executive directors

An induction programme is devised for each new non-executive director. It would include one-to-one meetings with the Chairman and each of the existing non-executive directors. They will have one-to-one meetings with the CEO, CFO, managing director of the wholesale business and the company secretary along with other members of the executive team. They will also meet members of the operational teams and visit some of the key operational sites and capital projects to ensure they get a first-hand understanding of the water and wastewater business. New directors receive a briefing on the key duties of being a director of a regulated water company, including the role of the regulated company's holding company, and they will also meet with the director of regulation and representatives of Ofwat.

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### Alison Goligher: summary of induction

- Met with members of the executive team discussing our business and regulation
- Visited the integrated control centre based in Warrington, meeting staff, and discussing the group's monitoring and control of its water and wastewater network and assets which forms the 'digital brain' of our network
- Attended the AGM as a guest and met with board members
- Met with Sara Weller, chair of remuneration committee, the head of reward and a representative from New Bridge Street as part of her remuneration committee responsibilities
- Had a meeting with the business development director to discuss new initiatives
- Met with the corporate affairs director and head of sustainability in relation to her corporate responsibility committee responsibilities
- Met with the head of customer services to discuss the actions undertaken by the business and its employees to improve their service to customers
- Discussed the wholesale operating model with the wastewater services director and water services director and visited the water and wastewater testing laboratories
- Visited Davyhulme wastewater treatment works and met with the programme services director with a particular focus on the extension of the sludge treatment plant and the offsite design and build approach being used
- Visited Cumbria to view the progress with the extension of the water supply network to ensure the security of water supplies to customers in West Cumbria

### Wider succession and talent management

For a number of years, we have had a written succession plan for our executive directors and other members of the executive team, which now includes more granularity in terms of timescale. This plan identifies an interim internal successor to fill a role in the short-term should the need arise, and the longer term development needs of potential successors to be able to fulfil a role on a more permanent basis. As with all our board appointments, we would always aim to appoint the best person to fulfil a role. It would be common, when recruiting for a senior role, for an external search to be conducted alongside an internal candidate recruitment process.

Any changes that are required to the profile of the management team to reflect the changing needs of the business are considered by the board in the executive succession plan. Succession and development initiatives for senior executives include executive mentoring and international business school training.

During the year, board directors have a number of opportunities to meet with members of the executive team, both formally when senior managers are required to present to the board on matters related to their responsibilities at board meetings, and on more informal occasions such as when they host site visits for board members. Board members also have the opportunity to meet members of the apprentice and graduate population and other employees identified as potential talent within the business.

### What have we done in 2016/17?

#### Improving diversity across the talent pool

In our executive team of eight (including the CEO and CFO), three are women, namely Louise Beardmore (customer services director), Sally Cabrini (business services director) and Gaynor Kenyon (corporate affairs director). We are actively working with these individuals on their personal development plans, which include building their external portfolio and capabilities to take up a non-executive appointment.

Women hold 15 per cent (2016: 21 per cent) of senior leadership positions. We actively support their individual personal development plans, which includes encouraging them to broaden their external network. The 'Women in UU' network is very popular and membership has trebled during the year. This year we are focusing on extending our network to include our partners and making better use of digital media to promote 'Women in UU' externally, with a view to externally enhancing our employer brand. Sally Cabrini, business services director, has been included in the top 50 of the Northern Power Women list, and this year Louise Beardmore has been nominated for inclusion on to the list. We were nominated as a finalist in the large company category of the 2017 Northern Power Women Awards in recognition of the work we are doing to attract and develop female talent.

Our graduate scheme continues to be successful in attracting female applicants; the overall number of female graduates on the scheme is 40 per cent and 36 per cent of our engineering graduates are female.

In 2016, 24 per cent of our intake of apprentices were female, (2015: 30 per cent). Research from the Sector Skills Council for Science, Engineering and Manufacturing Technologies shows the average number of women in apprenticeships is between five and seven per cent. At United Utilities, 15 per cent of applicants were female (2015: 11 per cent) and our total female apprentice population is 22 per cent.

During the year, we have rolled out unconscious bias training to our senior leadership teams to encourage them to consider any bias they may have, not only from a gender perspective, but more broadly. This training will also be provided to high volume recruitment managers.

We are members of Race for Opportunity, part of Business in the Community and the leading organisation for ethnic diversity and inclusion. In 2015, we participated in the annual benchmarking survey and achieved a bronze award. Our aim is to achieve a silver award in 2017.

Our employee-run lesbian, gay, bisexual and transgender network, newly rebranded as 'Identity' has organised a number of employee events and has participated in a number of Pride events during the year in our region. The company has enabled employee representatives of the network to attend the Stonewall conference. Louise Beardmore is the executive sponsor for the network.