

# Risk & Compliance Statement

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**The Board of Yorkshire Water makes the following statement in relation to meeting its obligations and customer expectations.**

**Yorkshire Water Services is bound by a suite of statutory, licence and regulatory obligations. This statement sets out how we manage the risks to achieving those obligations and how we can demonstrate that we comply. It is signed by our Board to confirm compliance.**

**Reporting Period:**

This statement covers the reporting year 1 April 2016 to 31 March 2017 for all obligations, except for environmental compliance and water quality parameters. These obligations are reported for the calendar year, 1 January 2016 to 31 December 2016.

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## Compliance with our obligations

**The Board confirms that, over the period covered by this statement, it has satisfied itself that it has sufficient processes and internal systems of control to meet its obligations, considers that it has full understanding of and has complied in all material respects with its relevant statutory, licence and regulatory obligations except for:**

- **Energy generation performance commitment:**  
We did not achieve our performance commitment although we are on target to meet this for 2017/18. In 2016/17, we supplied 10.4% of our needs through self-generated energy. This is down from 11.3% in 2015/16 and does not achieve our performance commitment to meet 12% of our energy needs from renewables. The main reason for this is that our thermal hydrolysis plant at our Esholt works in Bradford was damaged in the 2015/16 floods and it took most of 2016 to get this back to full working order. During this time, we also took the opportunity to repair a number of defects at the plant. Despite our performance improving at the end of the financial year as Esholt came back on line, the poor start to the year, impacted on our overall performance as this is one of our largest generation plants
- **Drinking water quality contacts performance commitment:**  
We have seen continued reduction in the number of times that a customer has to contact us about drinking water quality. This is down to 9,093 in 2016/7, from 10,007 in 2015/16. However, this was not enough to achieve the performance commitment of less than 8,120 drinking water contacts during the year. During 2016/17 we commenced a programme of enhanced flushing on our water network to improve the colour and taste of water and reduce the need for customers to contact us. This involves proactively flushing water through our mains at a higher than normal speed to remove the sediment that gathers on the inside of the mains. We are also reviewing our data relating to taste and odour contacts to improve our understanding of links between customer contacts and specific water treatment works. A significant review of the way in which our customer service team handles contacts has also been undertaken and we are pleased that we are seeing a continued reduction in the number of times a customer has to contact us about the same incident. We recognise the need to improve faster to achieve this stretching performance commitment in the future.
- **Environmental Performance Assessment:**  
The EA annually completes an Environmental Performance Assessment (EPA) of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. Our overall treatment works compliance in the 2016 calendar year was 97.2%, compared to a 2015 performance of 99.0%. Five of the seven failures at our waste water treatment works occurred in the first half of 2016 while we diverted resources to respond to the impacts of the severe floods of late 2015. This, and other factors, contributed to this lower than normal performance which recovered in the latter half of 2016.

The Board confirms that it meets the regulator's requirements over the provision of information by:

- providing information to customers in line with Ofwat's information principles
- involving customers and representatives in preparing, changing and implementing its information provision approach.

Yorkshire Water continues to comply with the requirements of the Guaranteed Standards of Service (GSS) scheme and offers enhanced guarantees and /or payments in several areas.

## Sufficient financial and management resources (Licence condition F6A)

In addition to the disclosures and statements made elsewhere in our Annual Performance Report, the Board confirm the following:

The directors issue a certificate to declare that, in their opinion:

- i. the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and
- ii. the Company will, for at least the next 12 months, have available to it:
  - a) management resources
  - b) systems of planning and internal control which are sufficient to enable it to carry out those functions.

In making this declaration, the directors have considered:

- both the long-term viability statement which demonstrates that the Company has sufficient resources to cover plausible risks scenarios until at least 2025 (the long-term viability statement is included within Appendix 4 Disclosures).
- the net worth of the Company shown in the audited financial statements for the year ended 31 March 2017
- the Company's business plan for 2017/18, which covers 2017/18, 2018/19 and 2019/20
- borrowing facilities, which include significant committed undrawn bank facilities
- parental support provided by the holding company, which will provide financial support to the Company to enable it to meet its liabilities as they fall due
- the risk management process which identifies, escalates, manages, monitors and reports on the Company's risks and controls and considers potential impact in terms of health and safety, value, service, reputation, compliance and people (more information on risk management is included within Appendix 4 Disclosures).
- the employment policies and strategy.

The directors also declare that in their opinion all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. A copy of the accounting statements and auditor's reports are submitted with the Condition F certificate to confirm these declarations.

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## Principles of corporate governance

The Board of directors is committed to achieving the highest standards of corporate governance and follows Company Law, best practice and the following requirements:

- The UK Corporate Governance Code (the Code). This is published by the Financial Reporting Council and sets out standards of good practice for companies listed on the stock exchange. We are required by our licence to conduct and report on our business as if we were a publicly listed company (PLC). The Code covers board leadership and effectiveness, remuneration, accountability and relationships with shareholders.
- The Ofwat 'Board leadership, transparency and governance principles' (the Ofwat Principles). These were published in 2014 by Ofwat and set out the principles it expects regulated water companies to follow. The Board can confirm that by 31 March 2015, these principles had been fully implemented. A majority of independent non-executive directors sit on the Board, which is led by an independent non-executive Chairman. There are no investor representatives present on the Board.
- 'The Yorkshire Water Code'. This sets out how the Company has complied with the Ofwat Principles. This is available on our website: <https://www.yorkshirewater.com/sites/default/files/Yorkshire%20Water%20transparency%20code.pdf>

The Board also notes the Government's proposals on corporate governance reform and in this context recognises its accountability to all stakeholders in terms of its corporate governance as a large private company.

## Customer Expectations

### **The board confirms that it has taken steps to understand and meet customer expectations.**

Central to the delivery of our customers' priorities we agreed seven customer outcomes for the five-year period 2015 to 2020. The outcomes are measured by 26 performance commitments. These were shaped through our engagement with over 30,000 customers and our regulators. They set the level of service our customers and regulators expect across the range of services and activities we provide. The commitments and the level of performance we achieved against them is detailed in Tables 3A, 3B and 3D in Section 5. These tables show that we have achieved 24 of our 26 commitments.

Yorkshire Water ensures that its performance reporting complies with all relevant definitions and requirements set by our regulators.

Performance against our seven agreed outcomes and 26 performance commitments is monitored by operational management on a daily basis and monthly by senior leaders. Performance reports and dashboards are used to ensure that any risks to achieving our objectives is understood and managed through the year.

We receive regular challenge from the Yorkshire Forum for Water Customers. Where we haven't met a commitment, we agree appropriate steps to improve our service with them.

We engage with our customers about our performance through an online community panel and through social media.

We undertake research to help us understand what information customers want and need and how to present it so that it is understood.

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## Managing our risks

**The Board confirms that it is taking appropriate steps to manage the risks it faces and that it has appropriate systems and processes in place to allow it to identify, manage and review its risks.**

Effective risk management is central to the achievement of our objectives. Risk management is embedded in our normal business process and culture and overseen by an executive-led Risk Committee. This improves our ability to predict and prepare for challenges to the achievement of our priorities and supports the creation and protection of value within the Company.

Our company wide risk management framework provides a standard approach to the identification, assessment, monitoring and reporting of risk. To ensure that risks are managed at the right level, they are escalated according to their potential impact through a series of aligned registers at strategic, functional and operational levels.

Our integrated, proactive approach to risk management ensures that risks are escalated in a timely way, to be visible and managed at the right level of the business.

Our risk management approach is explained in more detailed within the Annual Report and Financial Statements [www.yorkshirewater.com/ourperformance](http://www.yorkshirewater.com/ourperformance)

## Material risks to meeting our regulatory obligations

Based on 2016/17 performance, and using our performance commitments as indicators of compliance, the Board has identified the following material risks to achieving specific performance commitments in future years:

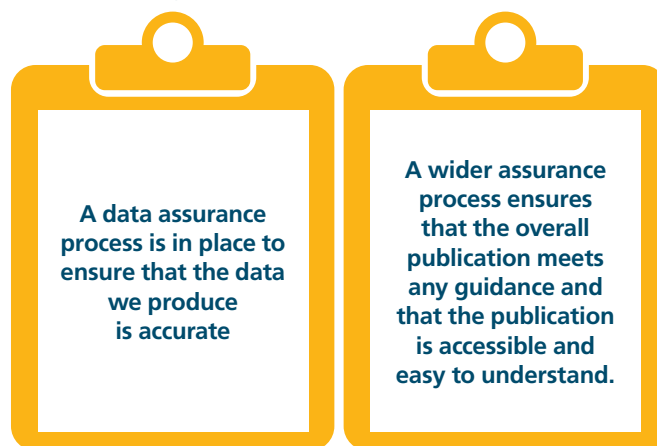
- **Drinking Water Contacts:** We did not meet our 2016/17 performance commitment and we have a stretching performance commitment over the next three years. While we strive to achieve this stretching performance commitment, our Price Review business plan and funding agreement with Ofwat was based on maintaining the level of contacts at or around 12,143 contacts each year between 2015 and 2020.
  - **Drinking Water Quality Compliance:** We have identified a risk to achieving the 100% compliance required from 2017/18. We achieved 99.96% in 2016/17.
  - **Energy Generation:** Although we expect to achieve this commitment in 2017/18, and at the time of publication performance is on track, we will continue to monitor this commitment closely as we did not meet the performance commitment for the past two years.
  - **Pollution Serious Incidents (Category 1-2):** We have a stretching target to achieve zero serious pollution incidents by 2019/20. We have plans in place to meet this commitment but recognise achieving this will be challenging.
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## Assuring our performance

We always want to provide our customers and stakeholders with information that they can trust and have confidence in. When we don't get it right, we risk losing the trust and confidence of our customers and our stakeholders.

Our assurance uses a method called 'three levels of assurance' and is risk based. This makes sure that our assurance activities are proportionate to the level of risk of error associated with the information or with the publication. This is best practice for assurance. Our assurance processes are detailed further within our assurance plan. We can confirm that we have followed these processes for the Annual Performance Report. Our annual reporting processes are accredited to the British Standard ISO 9001:2008 Quality Management System standard. This is best practice and externally verified.

We have two main assurance processes:



More information on our assurance approach can be found within Section 3.

In November 2016, Ofwat assessed us 'prescribed' within their Company Monitoring Framework. This is the lowest category of assurance. This is because we failed to meet the minimum standards of accuracy, breadth of reporting and transparency expected of us in five areas of their assessment. In response, we have taken a number of steps to address these concerns. We have completed a thorough review of our assurance approach and we published a detailed Assurance Plan in March 2017 to explain the processes we have in place to give confidence that the information we publish is accurate and accessible and easy to understand. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets our customers' needs.

Each year we consult on, and publish our Risks, Strengths and Weaknesses Statement. This provides information on what our customers and stakeholders think about the quality of the performance information that we publish and any risks they may identify with this. It also sets out any additional reporting risks we have identified through our own processes and controls or through our internal/external audit findings. We then commit to a series of actions to mitigate the risks identified and to give confidence to our customers and stakeholders that we are responding and they can trust the information we report.

**For 2016/17 reporting, we identified the following areas that were high risk for reporting and we ensured these had additional focus during the assurance processes through the year**

- Information published is what customers and stakeholders want and need
  - Information is always accurate and reliable
  - Information is easy to find
  - Information is easy to read and understand
  - Performance commitment: drinking water quality compliance
  - Performance commitment: water quality contacts
  - Performance commitment: energy self-generation
  - Performance commitment: waste diverted from landfill
  - Performance commitment: stability and reliability services measures
  - Performance commitment: pollution performance
  - Performance commitment: leakage performance
  - Data from service providers
  - Capital expenditure
  - Cost allocation in the Kelda Group
  - Price control cost allocation
  - Water Act 2014
  - Periodic Review 2019 (PR19)
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## Taking responsibility for resilience: managing our obligations

Our customers have told us that they expect us to deliver safe, affordable water and waste water services, and they expect us to play our part in protecting and enhancing the natural environment. Our ability to deliver on the commitments we have made to our customers is dependent on our business being resilient. To maintain customer trust and meet our duties we need the ability to cope with, and recover from, disruption and anticipate trends and variability to maintain services for people and the environment, now and in the future.

As part of our long-term planning for PR19 we have been deciding how we will build on our existing plans, processes and systems to review and confirm what steps we need to take, if any, to ensure we maintain and further enhance the levels of resilience we provide, and to ensure we meet our resilience duty.

We are developing our approach to determine what we need to do to keep things running well and to ensure we are managing our risks and responding in the most sustainable way. We do this by:

- meeting customer expectations
- embedding effective systems and governance to understand and manage risks
- enabling the ability to take action to deal with the consequences of unplanned failures or crises
- ensuring appropriate systems, processes and controls
- ensuring governance is in line with best practice
- performing a long-term review of our financial resilience

We recognise that our duty is not only in relation to service but also in recognising how financial and economic changes could impact us. This is reflected in the financial resilience assessments, as presented in our Annual Report and Financial Statements.

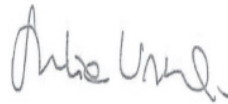
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## Risk & Compliance Statement

### Board Signatures



**Anthony Rabin**  
Chairman



**Julia Unwin**  
Non-Executive Director



**Richard Flint**  
Chief Executive



**Teresa Robson-Capps**  
Non-Executive Director



**Liz Barber**  
Group Director of Finance,  
Regulation & Markets



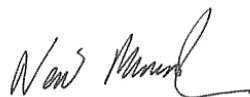
**Ray O'Toole**  
Non-Executive Director



**Charlie Haysom**  
Director of Service Delivery



**Kath Pinnock**  
Non-Executive Director



**Nevil Muncaster**  
Director of Asset  
Management Delivery



**Chantal Forrest**  
Company Secretary

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