

Risk and Compliance Statement 2021/2022

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YorkshireWater

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We have published our Glossary of Terms separately. You can view this here: yorkshirewater.com/reports

Introduction

Purpose and scope of the risk and compliance statement.

The uninterrupted supply of sufficient clean, safe drinking water and removal of wastewater is an essential service we provide for our customers.

To make sure this is achieved in a way that is safe for all our customers, whilst protecting and enhancing the environment and keeping our colleagues safe and well, we need to comply with a range of regulatory and legal obligations. We recognise that openly reporting our level of compliance with these obligations, and reporting how this has been achieved, is important in building customer confidence.

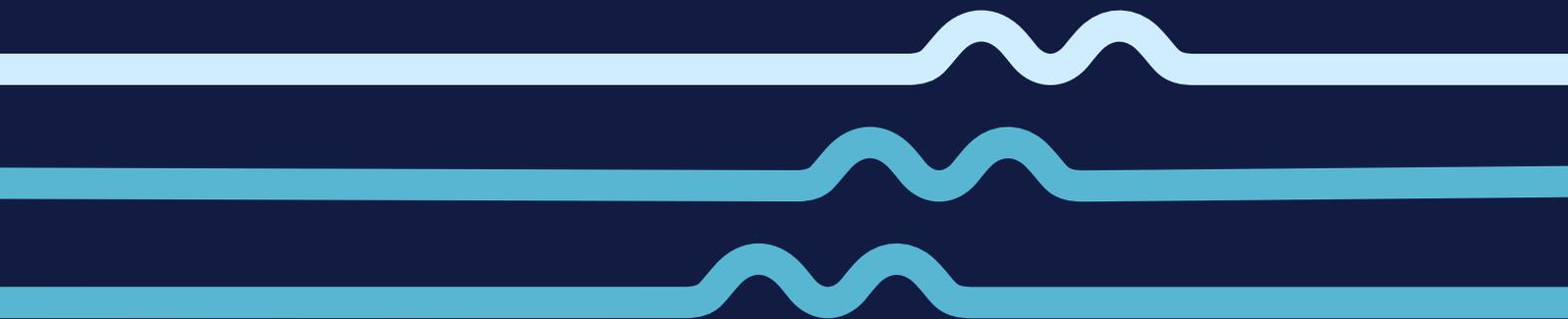
This statement sets out how we have complied with all our relevant statutory obligations and our Instrument of Appointment (licence), regulatory and performance obligations, where Ofwat is our regulator. It allows us to demonstrate our accountability to our customers and demonstrates to Ofwat how we are complying with its obligations.

This statement covers the reporting year 1 April 2021 to 31 March 2022 for all obligations, except for environmental compliance and water quality parameters which cover the calendar year, 1 January 2021 to 31 December 2021.

The statement is in two sections:

- **Section 1:** The Board assurance statement confirms the extent of our compliance with our obligations. It is signed by the Yorkshire Water Services Limited Company Secretary on behalf of the Board.
- **Section 2:** Outlines the processes and assurance we have in place to achieve compliance and meet our obligations.

1. Board Assurance Statement



Section 1

Board Assurance Statement

As the Board of Yorkshire Water Services, we are satisfied that we have sufficient processes, systems of internal control and assurance in place to allow us to confirm that:

- We have a full understanding of all our statutory, regulatory and licence obligations.
- Subject to the exceptions noted in [Table 1](#), we are meeting all these obligations.
- We have taken appropriate steps to understand and meet the expectations of our customers.
- We have designed our services to meet those expectations, including the value of water bills our customers are willing and able to pay.
- We have sufficient processes and internal systems of control to fully meet our obligations.
- We have appropriate systems and processes in place to allow us to identify, manage and review our risks.
- Our risk management process identifies and escalates risk to be managed to the level reported.

We confirm that we achieve Ofwat's ambitions for transparency by:

- Providing information to customers in line with Ofwat's information principles.
- Involving customers and their representatives in improving our approach to providing information.

We confirm that we have:

- Provided Ofwat with assurance that we have sufficient financial and management resources to enable us to carry out our regulated activities (licence condition P).
- Considered the financial impact of a range of severe but plausible risk scenarios materialising to enable us to provide reasonable assurance that the Company will be able to continue in operation and meet its liabilities as they fall due over the next 8 years, to 2030, as set out in our long-term viability statement which can be found in our Annual Report and Financial Statements.
- Sufficient rights and assets available to enable a special administrator to run the Company if such an order was to be made (licence condition P).
- Made sure that all trade with associate companies in the year has been at arm's length (licence condition P).
- Maintained the investment grade credit rating Baa2 (licence condition P).
- Explained how we link Directors' pay to standards of performance which can be found in our Annual Report and Financial Statements and Section 6. Board, leadership, transparency and governance of our Annual Performance Report (section 35A of the Water Industry Act 1991).
- Reported in [Table 1](#) of this risk and compliance statement where we have not achieved the level of performance agreed in our final determination.

The Board confirms that, over the period covered by this statement, it has complied in all material respects with its relevant statutory, licence and regulatory obligations that have not been confirmed by other processes, and that it is taking appropriate steps to manage the risks it faces.

Section 1

Principles of Corporate Governance

The Board is committed to achieving the highest standards of corporate governance in accordance with the requirements of company law, current best practice, the UK Corporate Governance Code (the Code) and Ofwat's Board Leadership, Transparency and Governance Principles.

The Board has reported in detail on our compliance with the Code and the Ofwat Principles in Section 6. Board, leadership, transparency and governance of the Annual Performance Report.

Additional detail is also provided within the Annual Report and Financial Statements. Both reports can be viewed on our reports webpage: yorkshirewater.com/reports

The impact of Russia and Ukraine

Our strong risk management processes enabled us to swiftly map the potential impact of the myriad threats arising from the Russian invasion of Ukraine and shape mitigation, monitoring arrangements and triggers for escalation. Severe but plausible scenarios have been considered as part of the long-term viability assessment, and business continuity exercises. There are four key strands to our response:

- The wellbeing and workforce impacts arising from the humanitarian crisis;
- The impact of economic uncertainty and inflationary pressures on financial resilience and business plans;
- The resilience of the supply for critical operational products, most notably chemicals; and
- Security including cyber-resilience, as well as protection of water quality and supply.

During the year, an exercise has been performed by management to ensure compliance across the business with sanctions imposed as a result of the invasion.

We have not identified the situation in Ukraine as a separate principal risk but recognised its potential to accelerate our principal risks.

Section 1

Exceptions

The following exceptions to achieving our obligations have been shared with Ofwat.

Table 1

Obligation	Yorkshire Water position	Action being taken to improve
<p>Water Industry Act: maintain maps of their sewers.</p> <p>Clause/section 199. Subject to subsections (6) to (8), it shall be the duty of every sewerage undertaker to keep records of the location and other relevant particulars.</p>	<p>The Water Industry Act places an obligation on wastewater companies to maintain maps of their sewers.</p> <p>In common with all other wastewater companies in England and Wales not all our sewers are mapped.</p>	<p>We continue to improve our maps as we perform work on our wastewater networks.</p>
<p>Performance commitment.</p> <p>For 2021/2022 we have met or exceeded 25 of our 44 performance commitments.</p>	<p>For 2021/2022 we have not met the target for the following 19 performance commitments.</p> <ol style="list-style-type: none"> 1. Water quality compliance 2. Water recycling 3. Per capita consumption 4. Water supply interruptions 5. Significant water supply events 6. Pollution incidents 7. Internal sewer flooding 8. Treatment works compliance 9. Surface water management 10. D-MeX 11. Priority services satisfaction 12. Priority services awareness 13. C-MeX 14. Priority Services for customers in vulnerable circumstances 15. Affordability of bills 16. Bathing water quality 17. Risk of severe restrictions in a drought 18. Biosecurity implementation 19. Drinking Water Contacts 	<p>You can read more about our performance and any actions we are taking in section 3 of our Annual Performance Report.</p> <p>yorkshirewater.com/about-us/reports</p>

Section 1

All senior leaders across the Company confirm their team's awareness and level of compliance with the corporate policies which are designed to ensure we meet the requirements of our highest risk statutory and regulatory obligations. They develop action plans to address any areas of non-compliance in their team. The results of this Evaluation of Compliance process show 94% compliance. This is a significant improvement from the 89% reported last year. This stepped change is due to the completion of 169 improvement actions agreed and the more settled senior leadership across the business, who are increasingly familiar with our core policies.

In addition to the company-wide programmes leaders have agreed 227 actions to improve awareness and compliance. Progress in delivering these is monitored by Yorkshire Water Leadership Team and the Audit and Risk Committee.

Board Signatures

Signed by the Yorkshire Water Services Limited Company Secretary on behalf of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Kathy Smith', written in a cursive style.

Kathy Smith
Company Secretary

This statement was approved at a meeting of the Yorkshire Water Board on 05 July 2022 and signed off on its behalf by Kathy Smith, Company Secretary.

2. Assurance to confirm compliance

Section 2

Assurance to confirm compliance

We have a full understanding of all our obligations

Our activities are governed by a range of legislation as well as the requirements of our licence, regulations set by various stakeholders and the performance commitments we make to our customers. It is important that we understand the detail of all these obligations and respond to any changes.

To make sure we achieve this, we employ relevant subject matter experts, called Champions. They are responsible for identifying new or amended obligations, and for translating the requirements into compliant policies and procedures for colleagues to follow.

Our specialist Champions include Legal Services, the Regulation team, Company Secretariat, Financial Services, Health & Safety, Environmental Services and Human Resources.

If needed, these teams draw on deeper external expertise to ensure that any changes to our obligations are appropriately applied.

We understand the extent to which we meet those obligations

Compliance with the approved policies and procedures to make sure we achieve our obligations is monitored through our three lines of assurance. This assurance is mapped to make sure we have effective coverage and dynamic escalation of risks and issues. Corrective actions are raised where weak controls or non-compliance is identified. Achievement of these actions is monitored by the Yorkshire Water Leadership Team.

To support and test this approach, all senior leaders are required to provide personal assurance over their team's awareness and compliance with relevant obligations by completing an annual Evaluation of Compliance (EoC). The Champions set out the policies each team needs to be aware of and comply with. Where senior leaders identify weaknesses, they are required to detail the actions they are taking to improve awareness and achieve compliance, including a reasonable timescale.

The achievement of these actions is monitored by business unit leadership teams, the Yorkshire Water Leadership Team and the Audit and Risk Committee. The results of the EoC exercise is triangulated with other sources of assurance: Internal Audit tests individual judgements on the level of compliance to supporting evidence.

The EoC outturn for 2021/2022 indicates a high level of compliance with key policies across Yorkshire Water at 96%. All senior leaders assessed themselves fully compliant with 83 key policies. The most significant improvement is compliance with our operational health and safety policies, particularly the provision and use of work equipment regulations. To further improve compliance across all policies we are investing in our corporate training tools. This will enable managers to monitor more easily colleagues' achievement of mandatory training in our key policies. There is also work on-going to improve compliance with the Display Screen Equipment Regulations as the company embraces hybrid working.

Section 2

Our ongoing engagement with customers and stakeholders ensures we continue to understand and meet their changing needs and enables us to design our services to meet those expectations.

The 5.4 million people who live in Yorkshire and the millions of people who visit Yorkshire each year rely on our services for their basic health needs and lifestyles. There are more than 140,000 businesses who use our water to provide goods and services that support the economy, not just in Yorkshire, but the whole of the UK.

Our Corporate Affairs Team undertake continuous engagement with customers and stakeholders to understand and meet their changing needs, enabling us to design our services to meet those expectations. Over the course of the last two years, the impact of the COVID-19 pandemic changed the way in which we engaged and communicated with our customers and stakeholders. Rather than the traditional approach of talking to customers about what we do as a company, our focus has been on understanding the impact of COVID-19 on individual lifestyles and how the pandemic shaped what customers wanted, needed and expected from us. With help, support and challenge from the Yorkshire Forum for Water Customers, we have developed a much richer understanding of the diversity of Yorkshire's people, their individual needs, and how best we meet these now and into the future.

Our continuous customer and stakeholder engagement also informs and shapes our long-term strategy and day-to-day service delivery. This participation has been crucial to the development of our business and operational planning, ensuring the continuous and safe delivery of our services throughout the pandemic and beyond. We have employed a range of research and wider engagement techniques to ensure customers and stakeholders have provided us with timely insight to inform and support our ongoing activity. We've begun to deliver our new customer experience strategy. Key activities have included defining a data model to measure customer emotion.

As we look ahead to Year 3 of AMP7, our focus will be on delivering our new improved customer journeys and embedding our customer promise through ongoing training and development. Our training will focus on core areas across vulnerability, managing unplanned incidents and events and improving overall customer satisfaction. We will also be progressing our IT road map, continuing our development of our online self-serve customer journeys and improvements around our incident map functionality to ensure customers can understand what's going on in their area in real time. We will see some significant changes in our operational customer experience as we launch a new operating model focused on the purpose of recovering and resolving customer issues on the first contact as well as working closely with the planning and scheduling programme as the transformation work continues to improve our capability across our customer journeys. Our new approach to customer engagement will go live this year with the new Yorkshire Engagement team to support communities and behaviour change to help further drive C-Mex and Operational Performance Commitments.

Section 2

We'll also be developing new approaches to engaging with regional stakeholders to ensure our long-term plans and day-to-day service delivery reflect the needs and ambitions of the region. In response to the ambitions set out in the National Infrastructure Strategy we'll be working with the Yorkshire Leaders Board (which includes representatives from every local authority in the region) and other key organisations to develop a new model for how our regional stakeholders can play a bigger part in setting our priorities and shaping our service.

We have a Board committee with a focus on the social purpose and public accountability of the organisation. We call this the Public Value Committee. We recognise our role as an anchor institution in Yorkshire and that we provide an essential public service, as well as playing a key role in the health, wellbeing and prosperity of the region. For more information on the Public Value Committee, please see the report in the Annual Report and Financial Statements. We continue to regularly discuss our performance with the independent Yorkshire Forum for Water Customers.

We have sufficient processes and systems of internal control to meet our obligations.

The Audit and Risk Committee monitors the effectiveness and operation of Yorkshire Water's system of internal control on behalf of the Board. Our controls are designed to achieve compliance with obligations and manage the risk of failing to achieve the business objectives we have agreed with our customers and our regulators. The operational policies and procedures which set out these controls are housed in the Integrated Management System or similar repositories and achieve international quality standards for Environmental Management, Quality Management, Occupational Health and Safety and Asset Management.

We seek to continually improve the approach to assessing our compliance. In 2021/2022, we have focused the senior leader self-assessment on the core business policies put in place to ensure we meet the requirements of statutory and regulatory obligations. We have involved the subject matter experts and our organisational development team more formally in the process. This allows them to see any weaknesses and to work together to address them early. We are also conducting a learning survey to identify any opportunities for further improvements.

Section 2

We have appropriate systems and processes in place to allow us to identify, manage and review our risks. Our risk management process identifies and reports risks to the appropriate departments.

Effective risk management is central to achieving our objectives. It improves our ability to prepare for challenges and protects the value of the Company. Risk management is embedded in our normal business process and culture and is overseen by the Audit and Risk Committee. It provides a standard approach to make sure that risks, including potential non-compliance with our obligations, are identified and escalated in a timely way and are managed by the relevant sections of the business. Our risk management framework and the principal risks to achieving our objectives are detailed in our Annual Report and Financial Statements.

Regulatory obligations at risk

Based on 2021/2022 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.

Water quality compliance

The target for this measure, Compliance Risk Index (CRI) is consistently zero as no level of exceedance of water quality standards can be considered acceptable. Although CRI scores can be quite variable, water quality compliance is a result of long-term investment and improvement programmes. We scored 4.83 for 2021. The 2021 outturn represents a deterioration from 2.46 in 2020 but is similar to the score of 4.73 in 2019. Although CRI scores can be quite variable, water quality compliance is a result of long-term investment and improvement programmes. We have never achieved 100% compliance in the past and therefore consider meeting this performance commitment as a risk in future years.

Treatment Works Compliance

Similarly to 'Water Quality Compliance', the target for this performance commitment is set as 100% as no level of failure of treatment works standards can be considered acceptable. There is however a 'deadband' of 99% which only performance under this would result in an underperformance penalty. We achieved 99.03% for 2021/2022, improving our position from 2020/2021. We are currently reporting within the deadband.

Water supply interruptions and significant water supply events

Adverse weather conditions and severe storms such as Storm Arwen have greatly affected the performance of these measures. With 19 of the 40 significant water supply events (interruptions over 12 hours) being attributed to this. Future adverse weather conditions impacting the level of network failure is a significant corporate risk. Given the evidence to suggest that we will continue to experience the effects of global warming, the impact of this is something that will continue to be monitored and managed. Projects to increase our resilience, such as our water supply system assessments and associated internal reporting are designed to mitigate future risks. 2021/2022 saw Water Supply Interruptions performance of 00:10:58 per property against a target of 00:06:08 with an increase of 00:01:23 being attributed to the period of Storm Arwen.

Per Capita Consumption

Per Capita Consumption (PCC) is calculated as a percentage reduction in consumption against a baseline calculated from previous years usage. 2021/2022 saw performance of 0.1% increase against a target of a 4.9% reduction. Contributing factors will have been the drastic change in water consumption habits caused by the COVID-19 pandemic as significantly more people are working from home as opposed to being office based. We will continue to increase our understanding of consumption and leakage as we assess the data from a Smart Metering trial, and ensure that we raise awareness of water saving measures by engaging with the region.

Section 2

Internal Sewer Flooding

The number of Internal Sewer Flooding incidents normalised per 10,000 sewer connections for 2021/2022 was 2.83 against a target of 1.63. Though we did not achieve performance against this measure there has been a reduction of the overall number of events from 778 in 2020 to 664 in 2021. This is due to a significant change in our approach to sewer flooding incidents with schemes concentrating on eliminating at source, effective response, eliminating repeats and governance over management information. These schemes include investment in capital funding to prevent flooding incidents as we continue to improve performance in this area.

D-MeX

2021/2022 saw us rank as 17th out of 17 in the D-MeX company comparison table. Our work to review results and feedback, along with identifying process improvement areas that will benefit customer experience, is all taking place to improve our performance for D-MeX across the AMP. While the risk of underperformance against this performance commitment for next year remains, we are confident we have created the right conditions for improvement in the future.

Bathing Water Quality

This year we are reporting 16 beaches meeting the sampling standard against a target of 18. The measure has been negatively affected by the inability to sample at one of our named coastal bathing waters, Tunstall. Through discussions with our regulator, this beach remains included in our performance outcome but, due to the inability to sample, will not pass the requirements to meet this measure. The beach is currently going through a process of de-designation. We are committed to ensuring that the remaining two beaches not meeting the required standard are improved but acknowledge that this will require long-term delivery solutions that span across the AMP.

Assuring our performance

We always want to provide our customers and stakeholders with information that they can trust. We understand that when we don't get this right we risk losing their trust and confidence.

To achieve confidence in the accuracy of our information we work to a risk-based assurance plan. This means we carry out a risk assessment to identify the processes that have a higher chance of deviating from the process and lowering confidence in our data. We check all data, but this best practice approach means that we gain more assurance in those areas with a higher risk of error associated with the information or with the publication.

As well as the probability and impact of any errors, our risk assessment also takes into consideration wider impacts. This includes engagement with our customers, wider stakeholders and conducting horizon scanning activities to understand how our customers' needs and regulatory requirements might change. We consult our customers and stakeholders to understand what is important to them and we publish their input in our Final Assurance Plan and in our Annual Performance Report we commit to taking actions that address these concerns.

We apply 'three levels of assurance' to our data and processes. This allows us to have checks over all elements of our processes by different people who bring different expertise to their checks. In addition to the routine assurance over our operational processes and systems of internal control, we have two assurance processes to confirm the accuracy, consistency and transparency of our annual reporting:

- A data assurance process is in place to make sure that the data supporting the information we publish is accurate.
- A wider assurance process ensures that the overall publication meets any guidance and that the publication is accessible and easy to understand.

You can read about our assurance process for reporting information in the Assurance Plan here: yorkshirewater.com/reports

yorkshirewater.com

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