

# Risks, Strengths & Weaknesses Statement



September 2017

# Contents

	Contents	2
	Foreword	3
<b>Section 01.</b>	Summary	4
<b>Section 02.</b>	Understanding our risks, strengths and weaknesses	6
<b>Section 03.</b>	Feedback from our customers and stakeholders in 2017	8
<b>Section 04.</b>	Our own review	12
<b>Section 05.</b>	Risks, strengths and weaknesses	16
<b>Section 06.</b>	Targeted areas	18
<b>Section 07.</b>	Get in touch	20

## Foreword

The Board of Yorkshire Water is committed to delivering the best possible service to customers and protecting the natural environment, all for a price people can afford.

In 2015 we agreed seven outcomes with our customers, supported by 26 performance commitments. Your water bill pays for the successful delivery of those outcomes and commitments, underpinning the service we deliver, so it's right that we should report to you on how we're doing in delivering on our commitments. It's very important that you can trust what we do and have confidence in the information we publish.

It is important that we know what you think, and how well we are doing, and so we consult with you about the risks, strengths and weaknesses in the information we publish. To make sure we know what you think we have gathered the views of our household customers, businesses, customer advocacy groups, financial bodies and regulators.

Last year your feedback told us that we hadn't done enough and there are improvements we needed to make if we were to gain your confidence. This was echoed by Ofwat, our regulator, which placed us in the lowest category of confidence and assurance, termed 'prescribed'.

Since that time, we've made a real effort to improve our reporting. We looked carefully at our published information and sought to make it easy to find, easy to read, accurate and trustworthy, but we want to continue improving so that you consider us as one of the most transparent and trustworthy companies to serve you.

This document summarises the feedback we've received from customers and other stakeholders, accompanied by our own view of where we can improve our reporting and where we need to focus our assurance activities to give you absolute confidence in us and our published information.

A handwritten signature in white ink, appearing to read 'R. H. H. H.', written over a dark background.

Chief Executive Officer  
Yorkshire Water Services Limited  
September 2017

**01.**

# Summary

**Each year we publish information about the services we deliver, the charges we levy and our performance in meeting our commitments to you. We know that our information needs to cover what customers and stakeholders want and need to know, and that it must be easy to find and easy to read. You need to be assured that all the information is accurate and reliable so you can have confidence and trust in what we publish. This document shares with you what we have heard, what we plan to do to improve and how you can have your say on those plans.**

We provide vital services to all our customers and play a significant role in protecting the environment. It is important for you to be able to see how well we are delivering those services for the money you pay.

The information we publish about our performance tells you how well we are doing against our promises. If we don't assure, present and publicise our performance information right then we risk losing your trust and confidence.

Every year we consult with customers and other stakeholders about the information we publish. This lets us know where we can improve for you. Last year we heard that we need to significantly improve. Our customers told us we sometimes use jargon and that our reports can be hard to understand. Our economic regulator, Ofwat, told us that we did not meet its expectations and placed us in the lowest category of assurance, termed 'prescribed'. This was hugely disappointing and since that time we've set out to improve the presentation and accuracy of our published information.

We've consulted with you again in 2017 so that we remain clear on what we're getting right and where we can still improve. In this document, we tell you:

- who we have heard from and what they said,
- what the results of our own assessment have told us.

Over the past year, based on your feedback, we think we've made significant strides in our reporting and assurance. To make sure that we continue to get it right we've looked again at how we identify risks, how well we share information with you, and how effective we are at making sure we meeting everyone's needs.

**The information we have obtained from this risks, strengths and weaknesses exercise has been incorporated into our new draft assurance plan for 2017/18 and 2018/19. We want to continue to maintain what was good from last year and continue to improve the assurance we give you in areas where we've identified risks and weaknesses. Our draft assurance plan can be downloaded or viewed at [yorkshirewater.com/discoverwater](http://yorkshirewater.com/discoverwater). This draft assurance plan is open for consultation and feedback until 31 December 2017.**

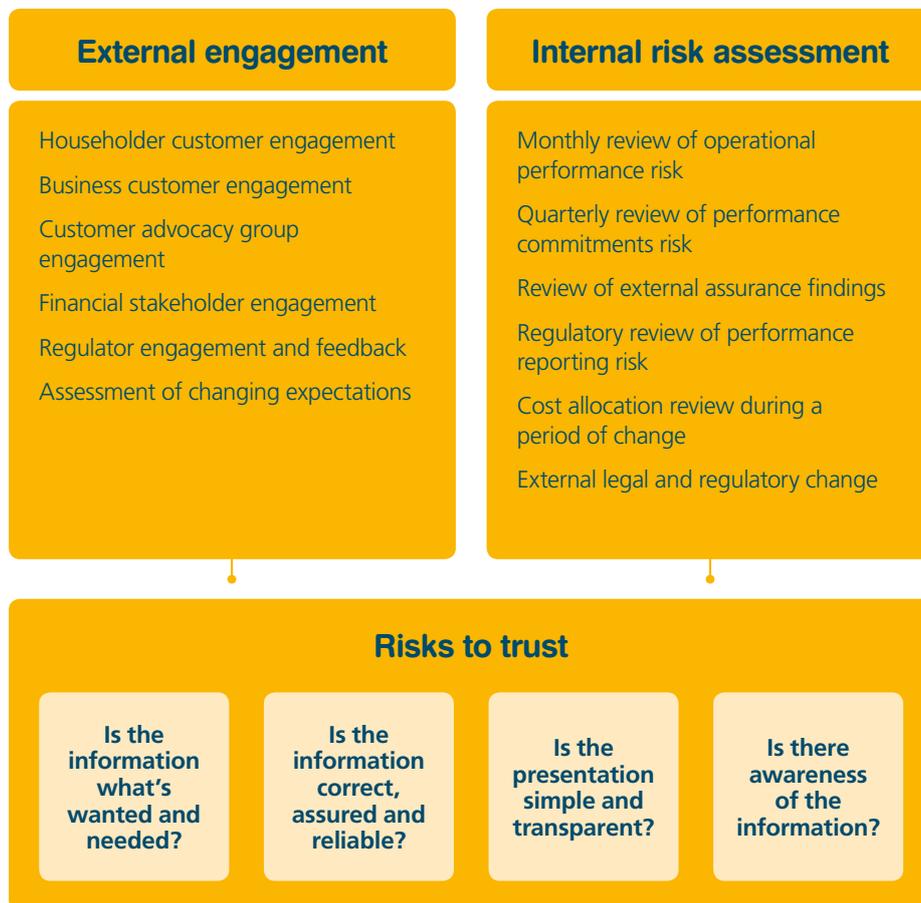
**02.**

# Understanding our risks, strengths and weaknesses

We want you to have confidence in what we do and we want you to have trust in the information we publish. To meet this objective and understand what our customers and stakeholders need from us, we carry out a risks, strengths and weaknesses consultation. Through this process we gather the views of all our stakeholders and combine them with our own assessment of our performance so that we have a clear understanding of the improvements we need to make.

### Approach to understanding the risks and weaknesses

We gather information from a variety of external and internal sources to understand where there are potential risks in the information we publish and in the way we report. The approach is set out below.



**03.**

# Feedback from our customers and stakeholders in 2017

**In this section, we present the findings from our consultations with stakeholders and customers. Some of this information has been retained from our previous risks, strengths and weaknesses statement published in January 2017. We have engaged with customers during the process of preparing our 2016/17 Annual Performance Report and after its' publication to identify how well we're responding to their challenges.**

We aim to provide the right information that is accessible, accurate and easy to understand so that you can have confidence and trust in us and in what we do.

Following our improvements on the previous year's reporting we received positive feedback that reinforces the view that there is trust in the information we publish. It also recognised the efforts we made to improve the style and accessibility of the information. We were particularly pleased to hear that customers found the information to be what they would expect to read, relevant to them and trustworthy.

Customers have provided clear feedback on which pieces of information are of greatest importance to them and which are of lesser importance. This provides us with an opportunity to segment the reporting in a way that improves the accessibility and relevance of the information whilst maintaining the detail required by all stakeholders.

## What our customers told us

In 2016 we received some excellent feedback from our customers on our reporting and we hope to have built on this through 2017.

During the preparation of our 2016/17 Annual Performance Report (APR) we engaged with customers through a series of focus groups and through an online survey. The survey received 132 individual responses, of which over 40% stated that they were in a situation that makes them vulnerable. We continued our engagement with customers following the publication of our 2016/17 Annual Performance Report and the customer summary of the APR. We ran additional focus groups and another online survey. The survey received 145 individual responses, which again reached out to vulnerable customer groups. Customers gave us some constructive, challenging and clear feedback on our reporting. We will take account of this feedback in our reporting over the coming year.

**The bullet points below capture the feedback we have received from our customers:**

### Supportive feedback

- approximately 80% of customers trust the information, think it is clearly explained and feel the approach to assurance is reasonable.
- reporting is comprehensive, covering what customers expect to see.
- the information is relevant and helpful.
- customers placed greater importance on the information around what Yorkshire Water does and an overview of performance in the previous year.
- reports are written in plain English, telling it like it is using everyday terms, while remaining professional and credible.

- the presentation of the reports is liked, making the documents easy to understand.
- the use of colour coding in the reports aids navigation and access.
- customers who we had previously engaged with met the final report with enthusiasm, felt that we had listened to them and had acted on initial feedback.

### Challenging feedback

- reports need to be shorter.
- a concise version of the Annual Performance Report within the annual bill would be valued.
- the use of more bullet point lists, images, icons and graphics would encourage readers to explore the documents further.
- the use of abbreviations and technical terminology can reduce access and clarity.
- the customer summary report of the APR needs to be short and simple to make it accessible but needs to provide enough information on performance.
- larger font sizes and careful use of colour between font and background are required to aid readers who are visually impaired.
- the Annual Performance Report provides information on the reasons for failure of some of the performance commitments but does not provide information on what action is being taken following the failure.

### Observational feedback

- customers clearly viewed performance and financial information as more important than the detailed regulatory accounting and assurance information. This gives us a clear opportunity to structure the document to make it more relevant to customers whilst retaining the other essential information important to other stakeholders.
- the graphics and visuals included within the customer summary report divided customers; some thought they were engaging and brought the information to life, whereas others thought they were unsuitable.
- the report could be used to provide more information on what action customers can take to get involved or how they can reduce their bills.
- additional information on where the money is spent would be liked.
- illustrations on how Yorkshire Water compares year on year and against other companies would be liked.

## What Ofwat told us

**In December 2016 Ofwat reported concerns about the accuracy of some of our information and how clearly we explain things. We also need to explain more clearly how our corporate and financing structure works and why that is important to you. We have sought to address these challenges in our 2016/17 reporting. We expect further feedback from Ofwat in November 2017.**

Table 1 provides a summary of Ofwat’s assessment highlighting the areas where we needed to improve. The table also points to a pattern of concerns indicating a more systemic risk in our approach to information provision and the needs of our stakeholders.

**Table 1: Summary of findings from Ofwat’s 2016 company monitoring framework assessment**

AREA	OFWAT’S ASSESSMENT	SUMMARY OF FINDINGS
Financial monitoring framework	Minor concerns	A small number of errors in the reported numbers were identified, which while not material, indicated that we had not interpreted some technical guidance correctly or that our assurance had not detected these errors.
Charges scheme assurance	Meets expectations	
Financial information	Meets expectations	
Final 2014-15 reconciliation data submission	Meets expectations	
Outcomes	Meets expectations	
Compliance with principles of board leadership, transparency and governance	Minor concerns	We did not provide enough information to help explain how we meet Ofwat’s board leadership transparency and governance principles. This means that we need to explain clearly how our company structure complies with these principles.
Risk & compliance statement	Minor concerns	We provided a clear statement that we complied with all relevant statutory, licence and regulatory requirements. However, we failed to sufficiently demonstrate board endorsement.
Assurance plan	Meets expectations	
Targeted reviews	Minor concerns	Our published tax reconciliation note should have provided clearer explanations of our approach. We also need to reflect findings from targeted reviews in our reporting.
Data assurance summary	Minor concerns	Ofwat could not locate a complete data assurance summary in or accompanying the annual performance report.
Evidence from casework activities	Exceeds expectations	Our approach to casework was found to be of a high standard.

Following this feedback, we have taken steps in our 2017 reporting to address the specific concerns set out by Ofwat, and the concerns this raised for us about possible systemic weaknesses in our reporting.

## What the Yorkshire Forum for Water Customers told us

**We have discussed the findings from Ofwat’s assessment and our plans to improve with the Yorkshire Forum for Water Customers (the Customer Forum). The Customer Forum has previously been supportive of the steps we have taken to improve the transparency of our reporting and publications. It continues to challenge us to simplify the presentation of information and use plain English.**

The Customer Forum continues to challenge us on the accessibility of our reports and remains supportive of our drive to adopt plain English in our publications.

The Customer Forum wants to see us meet the standards of the ‘Plain English Crystal Mark’.

The Customer Forum challenged us on the clarity of our company and corporate governance structures. We responded to this challenge by including a comprehensive section in the Annual Performance Report. However, there is more we can do to simplify the presentation of this information for customers.

Members of the Customer Forum have welcomed the inclusion of its statement in a prominent position within the Annual Performance Report.

### **The Customer Forum would like to see improvements in the following areas:**

- better use of infographics to help us summarise and present detailed information in a simpler way.
- careful use of colour between font and background are required to aid readers.

Members of the Customer Forum identified an opportunity to link the key corporate risks included in the Annual Performance Report to this risks, strengths and weaknesses statement.

## What our stakeholders told us

**We have sought to gain a diverse and balanced view from a wide range of stakeholders, including customers, businesses, financial representatives, local government, customer advocates and other regulators within our sector. This continues to be a challenging area for us to gain sufficient feedback. Our experience is that these groups are busy meeting their own objectives and we need to find a simpler way of engaging with these groups to make it easier for them to feedback to us.**

In 2016, the Consumer Council for Water (CCWater) completed an independent review of all Water Company’s Annual Performance Reports. The findings provided positive feedback identifying some of our key strengths. This stated, ‘the company is adequately reporting on priority areas of performance for customers. The commentary explaining why the company had either under achieved or over achieved against targets was clear and capable of being understood by customers’.

We approached wider stakeholder groups as part of our consultation process including local MPs, council leaders and chief executives. This continues to be a challenging area for us to gain large volumes of feedback. However, the information we have received includes the following feedback:

- information is clear and insightful.
- the Annual Performance Report and the Annual Report & Financial Statements are too long.
- there needs to be a short, easy to read version of our annual reports.
- assurance procedures look robust and comprehensive.
- presenting information at a sub-regional or Local Authority level, potentially using tools such as online interactive maps, would be welcomed.

04.

# Our own review

**This section provides the findings from our internal review of risks, strengths and weaknesses. We have reviewed our assurance processes, performance commitments and changes in the external environment against a set of principles. This review allows us to create a more robust and comprehensive assurance plan for all of our reporting and publications.**

## Our assurance processes

Assurance is a process intended to give our customers and stakeholders confidence in the information that we publish. We believe that good assurance is conducted at the right time, is focused on higher risk areas, asks the right questions and produces good evidence to support the statements we make.

We use a risk based approach to determine the amount of assurance required for all of the information that we publish. All information will be assured to make sure that it is accurate but there will be more assurance on the areas that are more important to our customers and stakeholders or that have a higher risk of error. Our internal review uses the following principles to identify risks:

- performance areas where we did not deliver to plan last year, where there may be a pressure to perform,
- areas where we were close to not meeting our commitment and we need to be sure of the reported performance,
- areas where we performed better than planned and we want to make sure this continues to be a true reflection,
- areas where financial rewards and penalties are at stake, providing strong incentives to perform,
- areas where we have to gather many pieces of data to compile the information we publish,
- areas where we rely on other people to provide some information, and
- areas where we are going through change be it internally or externally driven.

The outcomes of our internal review, and the additional actions that we propose to take, will be part of our draft assurance plan that you will be able to feedback on until 31 December 2017. Following your feedback we will then publish our final assurance plan.

## How we performed against our commitments last year

Getting it right for you is at the heart of everything we do. That's why we created our Blueprint for Yorkshire, planning the future with your priorities in mind. Our customers helped shape our Blueprint. With our customers, we identified seven customer outcomes supported by 26 performance commitments.

For the second year running we met or bettered 24 of the 26 commitments we agreed with you. The remaining two commitments missed their target. Whilst this means we consolidated our performance from the previous year, we know we have more to do. The two commitments we missed are set out below:

- **drinking water complaints.** During the year, we reduced the number of times customers needed to contact us regarding drinking water quality, down to 9,093 in 2016/17, from 10,007 in 2015/16. However, this was not sufficient to achieve the performance commitment of 8,120 for drinking water contacts, and
- **energy self-generation.** This is the amount of electricity we generate through renewable technology expressed as a percentage of total energy consumption. We achieved 10.4% against a target of 12%.

These two performance commitments will have additional scrutiny in the coming year.

Using the principles, we described on the previous page we also identified two other areas where we will apply additional assurance this year:

- **waste diverted from landfill.** We overachieved this target for the second successive year, by the inclusion of the disposal of clean water sludges discharged to sewer in the method of calculation. We completed a detailed review of the calculation in 2016/17 and we are confident that clean water sludges are included within this performance commitment. However, we now need to engage with the Yorkshire Forum for Water Customers and Ofwat to ensure this is clear. Additional assurance over the next year will ensure this action has been completed.
- **'Stability and Reliability' factor: sewer network.** These measures are a long-term assessment of the services you need from us. Our external assurance provider identified an area for improvement with blockages reporting. The reporting of the information is consistent with previous years and consistent with how the targets have been calculated. However, the process used to obtain the data is likely to mean that we are reporting worse performance than is the case. We plan to review this further in 2017/18 and will share the results of this review with our external assurance providers, Ofwat and the Yorkshire Forum for Water Customers.

In both cases, if we conclude on a change in reporting methodology, we will review the need to amend the target in the best interests of you, our customers.

## How we are performing against our commitments so far this year

Looking at our performance so far this year we have identified four areas where we feel the need for additional assurance. This is because there are financial incentives involved and we are at risk of incurring penalty in the case of the first three measures and we are forecasting a reward for the final one:

- **drinking water quality.** This year sees the performance commitment target improve to 100% compliance. This is a stretching target for us and is better than we have ever achieved. We will not meet the target this year, and will closely examine our performance to ensure we are doing everything reasonably possible to meet this challenging objective.
- **drinking water complaints.** We are receiving a higher number of customer contacts about water quality queries than we agreed with customers. This measure has a financial incentive attached to it. We are currently forecasting to be in penalty and we need to be confident in the value of penalty. We continue to review the measure to see what steps we can take to improve performance for our customers.
- **pollution incidents** that have occurred from failure of the sewerage system. We are not forecasting to meet the performance commitment target agreed with customers. This measure has a financial incentive attached to it. We are currently forecasting to be in penalty and we need to be confident in the value of penalty. We continue to review the measure to see what steps we can take to improve performance for our customers.
- **water supply interruptions.** We are continuing to drive operational performance improvements to reduce the amount of time customers go without water when we interrupt the supply. We are forecasting another year of bettering the target agreed with customers. This measure has a financial incentive and we are forecasting to earn a reward. We will ensure the value of the reward is accurate and fair and is supported by the Yorkshire Forum for Water Customers.

We will track how we are doing against the all the commitments we made to you, paying additional attention to the ones mentioned above. We regularly update the Yorkshire Forum for Water Customers on our performance throughout the year. The Customer Forum will meet with our independent external assurer, Halcrow, to receive independent review of our performance and to challenge how we have performed.

## Expenditure and costs

This is the third year of the regulatory current cycle and we are continuing to drive efficiency gains against the costs allowed at the last determination of prices. It is important for us to continue to explain and assure how we are driving that efficiency.

Also, we are part of the Kelda Group of companies. The Kelda Group is currently selling a number of its other non-regulated companies (Kelda Water Services). This activity is drawing on resources from across the group. We will provide robust assurance of the costs being allocated to this activity so that it is clear that none of these costs are incurred by Yorkshire Water.

## Changes in the external environment

In recent years Ofwat has introduced new ways to better understand our costs of delivering your services. This requires us to break down our costs into defined areas. These are called price controls. There are currently four price controls, extending to six from 2020. This is an area where we will continue to focus assurance activities to ensure we are allocating our costs correctly.

The Water Act 2014 introduced a new framework of retail competition for business customers. This has resulted in new market performance information reporting to ensure the market works for customers.

The Water Act 2014 introduced new obligations in relation to the services we offer to developers. We will continue to build on the initial processes introduced to meet the formal reporting requirements. These requirements will continue to be an area of focus for our assurance plans.

Every five years, water companies prepare plans for the following five years, and beyond. This is called the Periodic Review. The next Periodic Review will be in 2019. The information we produce today supports our business plan over the coming years. As was the case in 2016 we will need to be assured of its robustness so that we can produce a high-quality plan for our customers.

Competition law has become increasingly important in recent years, and will remain so as more of the services we provide are opened to market forces. We will need to ensure the information we produce and publish is clear and accessible, allowing competition to function properly.

There have been recent changes in legislation relating to data protection. We recognize there will be an important balance for us to strike in meeting the requirements of the General Data Protection Regulations (GDPR), whilst ensuring the transparency and usefulness of our reports and publications.

**05.**

# Risks, strengths and weaknesses

**Taking all of the feedback we have received and considering our own internal assessment we have identified the following strengths, weaknesses and risks in relation to how easy it is to find, read and trust our information.**

## Strengths

- customers and stakeholders have continued to voice high levels of confidence in our reporting,
- there is confidence in the assurance framework we have put in place,
- we have made significant improvements in providing information using style and language that meets the needs of all readers,
- our “This is Yorkshire” broadcasting style receives positive feedback from customers. We will continue to embrace this style in our communications where it is appropriate for the specific publication, and,
- we continue to take seriously the views of our customers and we always want to exceed their expectations in everything we do.

## Weaknesses

- Where we have failed a performance commitment, we could provide further information on the action we are taking as a result,
- there remains scope for us to consider further how we ensure the information most important to customers and other stakeholders is made easy to find and read,
- we can simplify the information we present and make better use of graphics and icons to get the key messages across,
- we need to embed the improvements in accuracy and robust assurance to demonstrate that we can sustain the standards expected of us,
- we need to encourage engagement by increasing awareness of the reports we publish and expand the understanding of how we compare to other companies, and
- we can still expand our use of the communications channels to extend the reach of the reporting and continue to build trust.

## Risks

- We lose the interest and trust of customers because we fail to present information that:
  - focusses on what is most important and is what is needed,
  - is presented in a way that is easy to read, simple and transparent,
  - is readily accessible, and,
  - is accurate and reliable
- if we fail to meet the shortfalls highlighted by Ofwat, some stakeholders may question the integrity and quality of all the information we publish, leading to the reputational impact and a further loss of trust in us, and
- errors in reporting can erode the trust and confidence that customers and stakeholders have in our reporting.

06.

# Targeted areas

**A review of the risks, strengths and weaknesses identified through this consultation exercise has helped us to identify areas that will need more focused assurance in 2017/18. We call these our targeted areas.**

**Our targeted areas for 2017/18 will be:**

- Information published is what our customers want and need.
- Information is easy to find.
- Information is easy to read and understand.
- Information is always accurate and reliable.
- Performance commitments where the target was missed in the previous year (drinking water complaints and energy self-generation).
- Performance commitments where additional challenge was provided by our external auditors in the previous year (waste diverted from landfill and stability and reliability factor: sewer network).
- Performance commitments where we are forecasting a financial incentive penalty (as at September 2017 this was forecasted to be drinking water quality, drinking water complaints and pollution incidents).
- Performance commitments where we are forecasting a financial incentive reward (as at September 2017 this was forecasted to be water supply interruptions).
- Cost allocation in the Kelda Group.
- Price control cost allocation.
- Price Review 2019.

The assurance plan associated with our regulatory reporting and our targeted areas is published alongside this Risks, Strengths and Weaknesses Statement. The assurance plan can be found on our website in the following location: [yorkshirewater.com/discoverwater](http://yorkshirewater.com/discoverwater).

The draft assurance plan is open for consultation and feedback until 31 December 2017. Following consultation on the draft assurance plan, we will review the feedback received and amend the plan as required. The final assurance plan will be published in March 2018.

As our business and reporting risk is dynamic, we will keep our reporting risks, targeted areas and the assurance plan up-to-date as required.

**07.**

# Get in touch

If you would like to provide feedback on this document or find out more about how you can get involved in our engagement programme, please contact us on the email address or website link set out below:

**Email:**

**[publicaffairs@yorkshirewater.co.uk](mailto:publicaffairs@yorkshirewater.co.uk)**

**Website:**

**[yorkshirewater.com/contactus](http://yorkshirewater.com/contactus)**

**More information about the reports referred to in this document can be found at:**

**[yorkshirewater.com/ourperformance](http://yorkshirewater.com/ourperformance)**

**For further information about water company performance and how we compare with others, visit:**

**[DiscoverWater.co.uk](http://DiscoverWater.co.uk)**

All water companies have their own set of performance commitments which have been individually developed to meet the needs and concerns of each company's customers. This can make it difficult to compare performance across different water companies. In recognition of this, [Discover Water](#) was launched in 2016 to bring key water company information together in one place for customers. The Discover Water website is a clear and simple source for trustworthy and factual information including how companies are performing against each other in key areas.

[yorkshirewater.com](http://yorkshirewater.com)

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