

Board Statement

July 2019

Contents

Board Assurance Statement	03
Company performance and direction	04
Statement from the Yorkshire Forum for Water Customers	09

Board Assurance Statement

Our aim is to produce an Annual Performance Report that covers the key information that our customers and stakeholders have told us they want to see and are interested in, while also meeting the requirements of our regulator, Ofwat.

We believe that good assurance needs to be provided at the right time, proportionate to the level of risk identified, asking the right questions and producing good evidence to support the statements made within this report. Our assurance approach is risk based (this means that we place more focus in areas that are higher risk) and uses a method called 'three levels of assurance'. The first level of assurance is from management controls in our front-line operations which measure performance throughout the year. The second level of assurance consists of line management and oversight teams with specialist knowledge such as our finance, regulation and legal teams. The third level of assurance is provided through independent assurance which includes our internal audit function, the Yorkshire Forum for Water Customers and other external experts and auditors. This approach is best practice and is described in more detail later in this report (Section 5), in our Assurance Plan and in our Data Assurance Summary.

To satisfy ourselves that the information is accurate and accessible, all elements of the report are subject to an appropriate assurance process. In particular:

- Our assurance processes for annual reporting are certified to the British Standard ISO 9001 : 2015 Quality Management System. This is best practice and externally verified.
- The assurance process includes audit checks and challenges by Data Providers, Data Managers, Senior Managers and Directors. The assurance process also includes review and challenge by our financial auditor, Deloitte, and our technical auditor, Jacobs. We have reviewed and actioned all findings from these assurance processes.
- We have worked with the Yorkshire Forum for Water Customers, and listened to our customers at focus groups, to ensure we meet our ambitions for a document that is accessible for all customers and our assurance means that our published information is trusted.
- The outputs from the assurance processes have been reviewed and challenged by the Board Audit Committee.


The Board confirms that the APR sets out how the regulatory accounting statements have been completed in accordance with the Regulatory Accounting Guidelines.

So far as the Directors are aware, there is no relevant audit information of which the company's independent technical and financial auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's independent auditors are aware of the information.

The Board of Yorkshire Water understands that it is accountable for the quality and transparency of the information provided within this report. The Board has read the report, reviewed the content and owns the information that is presented. The Board has obtained comfort from the Board Audit Committee that there are appropriate controls and assurance processes in place regarding the information contained within the report.

The Board Audit Committee reviewed the processes and approach to delivery of the Annual Performance Report on 26 March 2019 and then reviewed the completion of the process including receiving the assurance findings from the independent financial auditor and the independent technical auditor on 9 July 2019. At these meetings, appropriate enquiries were made on the executive team and the relevant experienced members of staff involved in delivering the Annual Performance Report. In between these meetings, the Board members were provided with draft versions of the developing report and have been able to review and provide comment.

At the Board meeting on 9 July 2019, following feedback from the Board Audit Committee that there are appropriate controls and assurance processes in place, regarding the information contained within the report, the Board approved the Annual Performance Report, including the wording of this Board Assurance Statement, and approved the release of the Annual Performance Report for publication. The Board authorised the Company Secretary to sign this Board Assurance Statement on behalf of the whole Board.



Kathy Smith
Company Secretary

Company performance and direction

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 and lifestyles. Approximately 140,000 businesses use the water we supply to provide goods and services that support the economy, not just of Yorkshire, but of the whole United Kingdom and beyond.

This statement shows how our board sets and reviews our ambitions and targets so that we deliver our goods and services for all our customers and stakeholders (those with an interest in our business) who depend on our services. Within this statement, we also provide information on the relationship between our financial performance, rewards for our executives and how we deliver our services.

This statement has the following sections.

- How we set our ambitions
- How we monitor performance and make decisions
- How we involve our customers and stakeholders
- How we change and update our commitments
- How we have performed in 2018/2019
- How we balance the relationship between financial performance, rewards for executives and delivering our services

As a water and waste-water company, we provide some of society's most essential services, and we help to protect the natural environment. Our vision is 'taking responsibility for the water environment for good', which includes our ambition to go beyond regulatory requirements and is based on doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term.

How we set our ambitions

The water industry works in five-year asset-management planning (AMP) periods. One of the main aspects of the regulatory framework that supports this five-year planning cycle is called the price review. The price-review process sets the prices we charge, investment we make and services we provide to customers in each AMP. We are currently in asset-management period 6 (AMP6), which covers the period from April 2015 to March 2020. We set the prices, investment and services that customers should receive in this period during our last price review in 2014 (PR14).

As part of PR14, we contacted over 30,000 of our customers as well as our stakeholders, our regulators and the Yorkshire Forum for Water Customers (the forum) to ask them what they wanted us to focus on as a priority. We used the feedback we received to define seven long-term themes, known as customer outcomes. These outcomes formed the core of our current five-year

plan. Once we had defined the outcomes, we worked with our customers to develop measures that support these outcomes. These are known as performance commitments, and are our promises to you. There are currently 26 performance commitments and we report on them in our annual performance report.

As well as delivering against these targets, we must keep to a range of legal obligations and broader duties to customers, the environment and other stakeholders. You can find more details of how we identify these requirements, and manage the risks of keeping to them, in our risk and compliance statement.

In August 2018, we published a new long-term strategy called #notjustwater, which you can find at: www.yorkshirewater.com/biggoals. Our strategy recognises how we need to meet the challenges that Yorkshire will face in the future. These include looking at how a growing population means that we need to make sure enough water is available and that we continue to take away and recycle waste water. The strategy identifies five 'big goals' that will shape everything we do in the future. Our five big goals are shown below.

- 1. Customers:** We will develop the deepest possible understanding of what our customers need and want, and make sure that we develop a personalised service to meet those needs.
- 2. Water supply:** We will always provide our customers with enough safe water. We will not waste water and we will always protect the environment.
- 3. Environment:** We will remove surface water from our sewers (surface water is rain water that drains from roads and from properties into the sewer) and recycle all waste water, protecting the environment from sewer flooding and pollution.
- 4. Transparency:** We will be a world leader in openness and transparency.
- 5. Bills:** We will use innovation to improve our services, get rid of waste and reduce costs and we will not waste money.

To develop our new strategy, we looked closely at the future economic, social and environmental issues that Yorkshire faces as a region. We spoke at length to our customers and stakeholders, talking to over 30,000 people to help make sure our plans match their expectations.

Our long-term strategy sets the background for our new business plan for the period from 2020 to 2025, known as asset-management period 7 (AMP7). The detailed plan sets out how we will maintain and improve water and waste-water services in Yorkshire to make sure they are

resilient and sustainable. Our business plan also sets out our new performance commitments that we have developed with our customers and stakeholders in line with our long-term strategy. These new commitments will come into force from April 2020, when the new AMP starts. Our AMP7 plan is an ambitious one which will stretch and challenge us. We will need to achieve significant savings and, at the same time, transform our organisation that focuses even more on our customers.

We sent our new price-review business plan (PR19) to our regulator, Ofwat, in September 2018 and they are now reviewing it. This should be completed by the end of 2019. You can find our plan at: www.yorkshirewater.com/ourbusinessplan.

How we monitor our performance and make decisions

Throughout 2018/2019, our board had seven scheduled meetings, with one extra non-planned meeting to consider matters related to PR19. The board also regularly meets during the year for workshops to consider specific matters in more detail. During the year, five of these workshops were held.

At each meeting, the board considers health and safety, financial performance and non-financial business performance, including past performance and expected future performance.

To make sure all board members have a full picture of our company, monthly reports on financial performance, our employees, governance, keeping to our standards and health and safety are sent to the board members. We do this whether or not a board meeting is scheduled.

The board aims to regularly meet both formally and informally with senior management across the business to gain further insight into the day-to-day operations and the main risks and opportunities facing each part of the business. Members of the Yorkshire Water Leadership Team and other key senior managers are regularly invited to go to meetings with the board to provide updates and give the non-executive board members regular direct access to the senior management team.

There is a schedule of matters reserved for the board which sets out the specific matters that must be referred to the board for approval. These include matters relating to the structure of the company, our policy on dealing with dividends (money paid to shareholders), significant issues to do with regulations and press releases, along with significant operational matters.

The board is in the process of setting up an employee forum so employees can speak to the board direct.

Decision-making will inevitably involve some trade-off to make sure we take a fair and reasoned approach to delivering our services. To help us with our decision-making, we are using the concept of the 'six capitals'. The six capitals are shown below.

- 1. Financial capital** – our financial health and efficiency
- 2. Manufactured capital** – our pipes, treatment works, offices and information technology (IT)
- 3. Natural capital** – the materials and services we rely on from the environment, for example water
- 4. Human capital** – our workforce's abilities and wellbeing
- 5. Intellectual capital** – our knowledge and processes
- 6. Social capital** – our relationships with our customers and stakeholders and our customers' trust in us

Companies traditionally tend to focus mainly on financial capital. Our decision-making is improved by considering the positive and negative effects and links between all of the six capitals. This means that our decisions have a balanced effect, which takes account of risk and value, so that we can look at long-term approaches.

As well as using the concept of the six capitals in our decision-making, we need to keep our long-term plans up to date. As a result, the board has put in place a PESTLE, which is a tool companies use to view, in different ways, the environment that a company is working in.

Humberstone Bank Farm is an example of a trade-off that the board has had to consider. When one of our long-standing agricultural tenants advised that they planned to retire from farming, the board had to decide on what to do with this land, including looking at the option to sell it. We decided that we should test out a 'Beyond Nature' approach. Yorkshire Water's 'Beyond Nature' vision will transform how farms in the future connect with the land, water and wildlife around them. Protecting water quality is still our main aim, but we recognised that the land also had the opportunity to generate significant value to society, our communities, customers and stakeholders. This supported our vision of taking responsibility for the water environment in the future. There are other examples too across the region where we decided to keep land and turn it into nature reserves rather than sell the land on.



PESTLE

An acronym for political, economic, social, technological, legal and environmental. We use it so our decisions consider all the different stakeholders involved.

How we involve our customers and stakeholders

We need to continue involving our customers and stakeholders to make sure our ambitions match our priorities. Understanding from our customers what matters most to them about the services we provide shapes both our immediate targets and our long-term plans.

We know that our customers' expectations are changing. We want our services to be flexible so that we can tailor them to match our customers' needs. For example, some people want to talk to us on the phone to report a problem, but other customers prefer to report and deal with problems online. No two customers are the same and the way customers want us to contact them, or ways to get in touch with us, varies greatly.

We are committed to continuing to involve our customers to make sure that we always understand their priorities and take account of them in our plans, now and in the future.

We regularly discuss our performance with the independent Yorkshire Forum for Water Customers (the forum). Our board Chairman, Anthony Rabin, meets with the Chair of the forum, Andrea Cook, twice a year. The board also met with the forum over the last year as part of the price-review process.

We know we need more focus on customer experience. We set up the customer-experience department, in February 2019. Given the ambitious plans of PR19, and our aim to continuously focus on our customers' needs and expectations, the new department is an important milestone in delivering our plans. It brings together a number of existing teams from across the organisation who have contact with customers. The purpose of the new customer experience department is to make sure we understand customer needs in the future and that we share best practice.

How we change and update our commitments

Although we set our regulatory performance commitments using a five-year cycle, our commitments continue to change.

As a result of feedback from our customers, the new long-term strategy and from reviewing our performance every month, we set a new aim to be in the top 25% of water companies in the next AMP for several priority areas of service. We announced this aim in December 2017. The following new commitments were made after wide-ranging consultation with our customers, and have been strongly supported by stakeholders, such as the forum. We are working to:

- reduce leaks by 40%;
- cut category-three pollution incidents by 40%;
- reduce sewer flooding by 70%; and
- reduce, as far as possible, the average interruption time for each property to two minutes.

We have also committed to a policy of being 'open by default' by 2020. This means we aim to release most of our information on our operations and services by 2020. We will start with releasing information on leaks and pollution incidents from the last five years. We will then involve the public and those people and organisations who use the information we provide to find out what they would like us to publish next. We are committing to a two-year programme of releasing information until we reach the 'open by default position'. We are the first in the water sector to commit to this. The only exceptions to the open data policy will be information which could identify individuals and information with security implications. By becoming 'open by default', we hope to give our customers the chance to assess the information we provide and hold us to account on our performance. We also hope that this may stimulate new ideas, by encouraging experts from outside our organisation to look at operational performance and identify new solutions to traditional industry issues.

As well as the ambitions we set ourselves during PR14 and PR19, our ambitions are also influenced by best practice throughout the world. The United Nations Development Programme (UNDP) has formally adopted a set of 17 sustainable development goals which are backed up by 169 targets. We have assessed where we can make the most substantial contribution to these goals by increasing the value we create for communities in Yorkshire and by reducing our carbon footprint. You can find out more about the SDGs at <https://sustainabledevelopment.un.org>. Our Annual Report and Financial Statements provide information on where we have made a notable contribution to these goals.

In April 2019, the water industry published five stretching goals called public interest commitments. The goals are:

- to speed up the rate of reducing leaks;
- to make sure water bills are affordable;
- for the sector to achieve net zero carbon emissions (balancing the amount of carbon produced with the carbon we remove or simply removing carbon emissions altogether);
- to prevent the equivalent of four billion plastic bottles ending up as waste; and
- to give 100% commitment to the social mobility pledge (Social mobility is the link between a person's occupation or income and the occupation or income of their parents. Where there is a strong link, there is a lower level of social mobility. Where there is a weak link, there is a higher level of social mobility.) The pledge is a campaign involving all political parties to improve social mobility in the United Kingdom and shows our commitment to accessing talent from all backgrounds.

All of these goals go beyond planned commitments within our current business plan. We actively helped the industry to shape these commitments and they work alongside our plans for AMP7 and beyond. We have already started to plan how we will contribute to the five national goals. Each one is being led by a member of the executive team

who will work with colleagues across the sector to develop and put those plans in place. We also plan to fully involve customers in developing our plans to meet the goals. You can find the public interest commitments at www.water.org.uk/wp-content/uploads/2019/04/Public-Interest-Commitment.pdf

How we have performed in 2018/2019

The annual performance report provides more information on our performance. We explain our latest performance, including where we have been successful in meeting or going beyond our performance commitments, and why some commitments have not yet been delivered.

We have met 21 out of 26 performance commitments this year. You can find more information on our performance against all 26 of our performance commitments later within the annual performance report. The five performance commitments where we have not met the target are shown below.

- Drinking-water compliance. We achieved a compliance of 99.96% against a target of 100%. Our performance in 2018/2019 is an improvement from the previous year.
- Drinking-water contacts. We achieved a slight reduction in the number of people who contacted us about their drinking water from 8,100 in 2017/2018 to 7,964 in 2018/2019. This is against a target of less than or equal to 6,108 people contacting us about the quality of their drinking water.
- Serious pollution incidents. We had 11 serious pollution incidents in 2018 compared with a target of no more than two.
- Energy generation. We generated, through renewable energy generation, 11.3% of the total amount of energy we used over the last year, which is below our target of 12% and slightly reduced compared with our performance of 11.4% in the previous year.
- Measure of customer service. Our target is to improve our performance year on year. We achieved a result of 84.0 points out of 100 compared with a target of 84.3 points out of 100.

We and the other water companies in England and Wales provide information to a central hub so you can compare how we are performing against each other and how the water industry compares with other sectors. Visit www.discoverwater.co.uk to find the latest information on water quality, environmental performance, customer service and water bills.

How we balance the relationship between financial performance, rewards for executives and delivering our services

We believe in the importance of being open about paying our directors and we try to make sure we pay our directors fairly in relation to their experience, their performance, the demands and complexity of their role and the experience our customers have. At the same time we also consider the pay and employment conditions of others in the organisation and those in the communities we serve.

We can break the pay packages for our executive directors into the following parts.

Fixed pay:

- Salary
- Benefits
- Pension

Variable pay:

- Annual bonus – this is designed to encourage directors to achieve in-year targets that link to a range of both short- and long-term business priorities.
- Long Term Incentive Plan (LTIP) – the LTIP is a rolling three-year plan based on achieving specific performance conditions focused on the long-term sustainability of the business.

Our pay structure is intended to be simple and transparent and to clearly link pay to performance. The pay of our executive directors is weighted towards variable pay, with the most they can earn being linked to achieving stretching performance targets based on measures chosen to promote our long-term success and an improved customer experience.

You can find full details of our directors' pay in our Directors' Remuneration Report, which is published in our Annual Report and Financial Statements.

We are in the process of carrying out a significant policy review, comparing our policy with best practice, organisations of a similar size and other organisations within our own sector. We are being helped in this review by remuneration consultants. The recommendations from this review will be presented back to the Remuneration Committee later in 2019. Any changes to the policy as a result of the review will apply from 1 April 2020 and will be reported in the Directors' Remuneration Report next year.

Statement approval

At the board meeting on 9 July 2019 the board approved this statement on our direction and performance. The board authorised the Company Secretary to sign this statement on behalf of the whole board.

Signed on behalf of the Board



Kathy Smith
Company Secretary

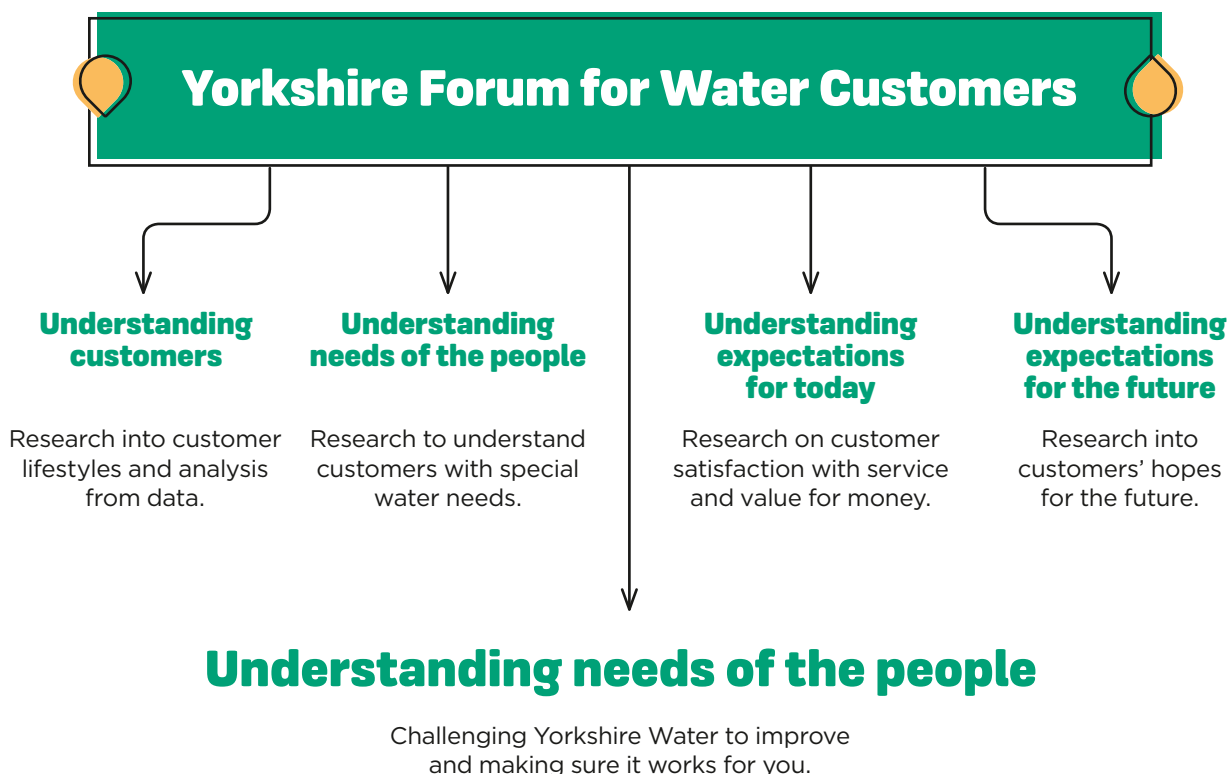
We have tested this Board statement on our company direction and performance with our customers on our online community and have shared this statement with the Yorkshire Forum for Water Customers. We have incorporated their feedback into this statement. We have also obtained the Plain English Crystal Mark for this statement.



Statement from the Yorkshire Forum for Water Customers

We regularly engage with the Yorkshire Forum for Water Customers (the Forum), which gives us valuable insight into what our customers want from us now and into the future. The Forum is an independent challenge group that is responsible for making sure our customers' views are fairly reflected in our business plan and ensuring we meet the performance commitments we have made to customers. You can read more about how we have engaged with the Forum in section 6 of this APR.

The Forum has published a statement on our performance. You can view the statement here: www.yorkshirewater.com/customerforum





Our commitments to customers

Our vision is 'taking responsibility for the water environment for good' and we recognise the responsibility we have in providing one of life's most essential services and protecting the natural environment. Our vision is about doing what's right for our customers, colleagues, partner organisations, the environment and our investors, both in the short and long term.

Over the next few pages we will go through where we provide our services and some of the things we do every day.

YORKSHIREWATER.COM

Yorkshire Water Services Limited, Western House, Halifax Road,
Bradford, BD6 2SZ. Registered in England and Wales No.2366682



YorkshireWater