



## Assurance overview

The Board's aim is to produce a high-quality business plan that meets the expectations of its customers in delivering the services they need, now and in the future, at a price they can all afford to pay. This plan has customers at its heart. They have been engaged at every stage of its development so that they can have trust and confidence in the plan and know that it is aiming to deliver for them.

It is important that all stakeholders can have confidence that this plan meets the expectations of a responsible water and sewerage company. The Board has prepared a short and long-term plan based on the results of engagement with stakeholders and regulators, so in delivering for customers, the Board also meets its statutory requirements of:

- The legislative and regulatory framework under which the Company operates.
- UK Government's strategic policy statements.
- Ofwat's final methodology for the 2019 price review.
- The Drinking Water Inspectorate's long-term planning for the quality of drinking water supplies.
- The Environment Agency's water industry strategic environmental requirements and water resource management planning requirements.

The Board has applied robust assurance in the preparation and publication of this plan. Good assurance needs to be provided at the right time, be proportionate to the level of risk identified, ask the right questions and assess the quality of evidence supporting the statements made within the plan. The assurance approach has been risk based and aligned to the 'three levels of assurance' framework. This is best practice and is set out in Yorkshire Water's published Assurance Plan for 2018-19.

To satisfy itself that the plan is accurate, high quality and accessible, all elements of the plan including data are subject to the Board's robust assurance process. In summary, the Board confirms that:

- Assurance has followed the three levels of assurance as set out in its published Assurance Plan.
- The assurance process includes audit checks and challenges by data providers, data managers, senior managers, directors and its independent technical auditors (Jacobs) and financial assurers (Deloitte). Findings from these assurance processes have been fully reviewed and actions to address any concerns have been implemented.
- The Board Audit Committee has received and challenged the findings from the assurance reviews.
- The Board has received assurance that the plan implements the strategy and direction set by the Board.

The Board's assurance process has extended to the preparation, production and publication of the data that underpins the plan. The Board confirms that it considers it has prepared a plan founded on high quality data.

The Board's assurance process has ensured that all relevant audit information and risks have been exposed to its independent assurers.

## Board leadership and challenge

The Board of Yorkshire Water has been accountable for the leadership and preparation of this plan, including the quality and transparency of the information provided as well as setting the strategic direction for the business.

To lead the discussion on the development of the plan the Board has conducted a series of full day strategy workshops and has met on eight occasions. The strategy workshops were used as the method to challenge management and satisfy itself that its plan meets the expectations of its customers and all other stakeholders. The Board used the strategy workshops to ensure the plan follows its strategy for addressing the long-term challenges of climate change, population growth, all round resilience and long-term affordability.

The Board has sought to understand and meet the short and long-term challenges of becoming a high performing company delivering excellent service to customers, driving innovation, remaining efficient and resilient, while ensuring its charges remain affordable for customers and providing additional support to customers who need it.

At each strategy workshop the Board has challenged company management across six themes including development of the plan, delivering for customers, financeability, efficiency, and innovation. Management has been required to respond to the Board at the subsequent strategy workshop until the Board was satisfied with its plan. This process of discussion and challenge at the strategy workshops ensures the business plan is high quality. The Board has engaged external experts in considering the challenges and responses and has published its long-term strategy for the Company, setting out a clear and efficient approach to tackling the challenges posed over the long term.

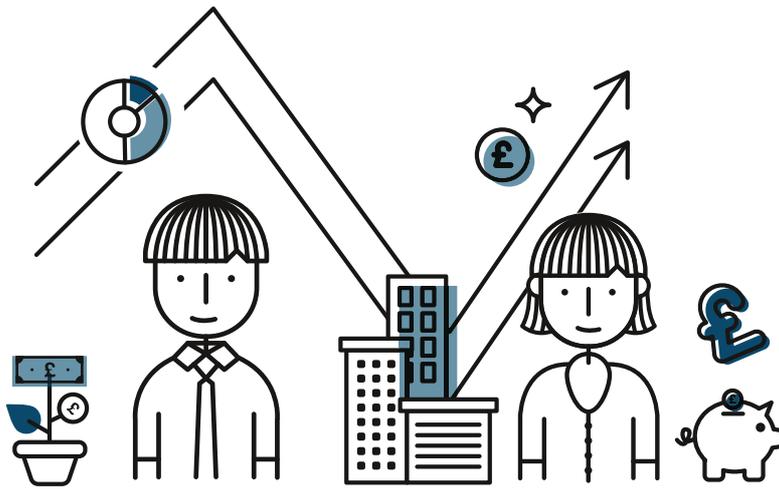
The Board has challenged management to demonstrate that all elements of the plan including the performance commitments are stretching and will drive innovation that delivers benefits to customers. The Board has challenged management to set stretching performance commitment levels for both bespoke and common performance commitments that are of greatest importance to customers.

The Board has challenged management to demonstrate that Yorkshire Water will remain an efficient company when compared with others in the sector and that its planned efficiency is in line with efficient companies beyond the sector.

The Board has challenged management to demonstrate that it understands the risk in the plan and that it has risk management processes in place to ensure the risk can be managed by the Company. The Board has specifically required management to demonstrate that it understands the innovation required to deliver a step change in performance.

The Board has also challenged management to clearly present the full range of benefits being delivered by the plan, given the impact of increased statutory investment requirements and their impact on customer bills.

Only by challenging itself to ensure that customer and statutory expectations are at the heart of its business, can Yorkshire Water remain an efficient and affordable provider of service, a company that supports customers in vulnerable circumstances, and delivers acceptable returns to investors with a clear understanding of its all-round and financial resilience. The Board considers that it has produced a high-quality business plan.



## Board assurance of the business plan

During 2017 and 2018, the Board has put in place internal and independent assurance to support it in ensuring that its direction and strategy have been incorporated at an operational level in the best interests of customers.

The Board has sought confirmation throughout the development of the plan that the expectations set out in the UK Government's strategic policy statements have been incorporated. The Board confirms that the plan takes account of all statutory and legal obligations and does not plan to fail in meeting drinking water quality legislation, water resource management planning guidance and environmental legislation now and in the long term.

Management has produced statements of compliance with the standards expected by the Board.

The Board has received independent assurance from its external technical auditors (Jacobs) and financial assessors (Deloitte).

So far as the Board is aware, there is no relevant audit information of which the Company's independent technical assurer is unaware. The directors have taken all the steps that they ought to 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 has reviewed and challenged the final plan through its formal Board meetings and specific Board workshops and has obtained confirmation from the Board Audit Committee that its controls and assurance processes have been implemented.

The Board is satisfied that its plan meets the expectations of a responsible company and is of high quality in the best interests of its customers.

## Customer engagement

The Board's plan has been founded upon continuous, comprehensive, robust, high quality customer and stakeholder engagement. The Board is satisfied with the high levels of customer engagement. The engagement has adopted an innovative programme of face to face and online community activity to ensure that the outcomes, performance commitments and incentives meet the expectations of customers and stakeholders. The results of the engagement and the priorities of customers, regulators and stakeholders are at the heart of the plan.

The Board has exposed the customer engagement programme, the development of the plan, the assurance approach, and the plan itself, to the independent Yorkshire Forum for Water Customers (the Forum). The feedback and challenges from the Forum have been incorporated into the plan in the best interest of customers.

The Board has met directly with the Forum to receive first-hand the Forum's views on customer engagement and the development of the plan, proposed outcomes and performance commitments. The Board has received direct confirmation from the Chair of the Forum that the Forum has been sighted in the development of the plan, is supportive of the plan and agreed that it has an important role in holding the Company to account for its delivery in the interest of customers.

The Forum has produced its report on the plan and its development. This has been published alongside the plan to provide an independent opinion on the quality of the customer engagement and how this has been incorporated into the plan.

The Board is committed to continual engagement with its customers to ensure that their priorities are always understood and factored into its long-term strategies and near-term plans. The Board is committed to reporting back to its customers on how it is progressing with delivering customers' stated priorities.

## Affordability and vulnerability

The Board has subjected the plan and the associated costs to customer engagement and challenge to ensure the proposed prices are acceptable and affordable. Clear feedback has been received from customers and the Forum that confirms the affordability of the proposed bills.

To ensure that the plan is affordable for all, the Board has established a package of mechanisms to reduce debt, ensure customers are on the best tariff and provide service in ways which reduce the cost to customers. Decisions have been made which balance the immediate and future needs of customers to ensure bills will be affordable in the long term.

The Board has put in place a programme of customer support mechanisms and bespoke services to support customers in vulnerable circumstances so that they receive the service they need, at a price they can afford specific to the circumstances they face. The package of support has been subject to challenge by the Forum.

## Outcomes and transparency for customers

In putting customers at the heart of the business plan, the Board has set stretching outcomes, performance commitments and incentives that reflect the preferences of its customers. It has been rigorous in challenging management to ensure the plan can be delivered.

The Board will closely monitor the delivery of its commitments to customers, regulators and stakeholders, through a programme of monthly review. It will utilise its Board committees to monitor performance and distribute resources in the best interests of delivering the Board's commitments.

The Board will expose the delivery of the plan to scrutiny from its independent technical and financial assurers and the Forum so that customers and stakeholders can continue to have trust and confidence in what it reports and the information it publishes.

The Board is committed to high levels of transparency and openness with customers. It has consulted with customers to create an openness and transparency policy. It will continue to develop and enhance its 'Openness Charter', making more data openly available and improving the clarity and accessibility of the data it holds and information it publishes.

The Board's aim is to enable customers to have trust and confidence in Yorkshire Water being a responsible company in the way it goes about delivering services to them. It is committed to remaining transparent on the financial and corporate structure. This is evidenced by the lead it has taken in the presentation of its financial and tax affairs in its accounts and annual performance report, the simplification of its group structure and removal of its Cayman Islands companies.

The Board will publish a quarterly customer focused update on how it is progressing and delivering on its performance commitments and outcome projections on its enhanced performance webpage.

The Board will continue to publish a final annual report that has been subject to external scrutiny and challenge, along with an assured customer focused performance summary annually. This will be available both on the website, through other digital channels and through other accessible formats relevant to customers' needs.

The Board will seek to use a variety of media to present important complex information in ways that are accessible to customers and stakeholders, for example, the use of video to explain its company structure. [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

## Long-term business resilience

The Board has ensured that customers' priorities and expectations for long-term whole business resilience, including operational, corporate and financial, have been incorporated into the development of the plan. It has founded the plan on a systematic and comprehensive risk assessment of its services, systems, processes and financing to ensure long-term resilience in the round. A whole-business resilience framework has been developed with Arup and its design has been reviewed by Deloitte. This approach has been aligned to British Standard 65000:2014 Organisational Resilience.

The Board is confident that the outcomes and benefits of the plan are sustainable and efficient in the long-term and meet the needs of its customers.

## Efficient and robust costs

The Board has assured itself that, based on its assessments, the proposed costs are efficient, robust and that the innovation required to execute the programmes of work can be delivered and that risk associated with cost uncertainty can be managed by the Company. It has tested its costs against the best performers within the sector and other relevant comparators outside of the sector in arriving at its cost estimates.

The Board has and will continue to exploit the potential of new markets and market testing to drive innovation and efficiency in the best interest of customers. The Board has actively tested the scope for utilising direct procurement to deliver efficient costs. It has satisfied itself that these innovations and efficiencies are embedded in its activities and costs.

The Board has made responsible use of cost adjustment claims ensuring that the majority of costs are exposed to the efficiency challenge. It has only proposed claims where there are conditions it considers to be specific to the Company's operating circumstances.

## Accounting for past performance

The Board's assurance of the PR14 reconciliation, submitted in July 2018, and restated as part of the plan reflects the forecast performance at the time of the original submission. This was subjected to audit checks and challenges by data providers, data managers, table owners, senior managers and directors. It was also subject to independent review and challenge from Jacobs and Deloitte.

## Returns, risk and financeability

In establishing the base level of return, the Board has based its proposal on the cost of capital and retail margins set out in Ofwat's early view.

In its plan, the Board has proposed an outperformance sharing mechanism which ensures that a balanced distribution of the benefits of financial and operational outperformance between customers, shareholders and executive management. The mechanism has five components which share the benefits from higher gearing, the cost of debt, outperformance already included in the plan to the benefit of customers, reinvestment of any benefits, and protecting customers from unexpectedly high outcome delivery incentive payments. The Forum will be engaged annually on all elements of the sharing mechanism.

The Board will incentivise executive management to deliver for customers in the short and long term. Annually, management will continue to be incentivised to deliver stretching performance improvements for customers, ensure employees remain safe and well, and keep bills low through driving efficiency. Over the longer term, management will be incentivised to demonstrate a strong balance between longer term financial performance and customer outcomes, without compromising all round resilience. These long-term incentives will be subject to over 90% moderation should customer outcomes not be delivered.

The Board's dividend policy ensures that distributions to shareholders will reflect a yield in line with Ofwat's final determination, allowing for adjustment for the actual capital structure, company performance and legitimate employee interests. They will only be made after robust and transparent financial and financeability testing demonstrates the ability to afford these distributions.

The Board has identified the internal and external risks associated with delivering the plan and tested the sensitivity of the return on regulated equity and financeability to the risks.

The Board will continue to operate its robust corporate risk management processes, as published in its Annual Performance Report, to monitor and control the risks it faces. This risk management process contains appropriate and clearly documented control measures and mitigation plans should the risks materialise.

The Board has tested the financial resilience of plan in the round, including scenario planning of risks within the plan and the potential impact on the short and long term financeability. The Board has estimated the expected monetary value of the risks it faces and updated its long-term viability analysis to confirm the Company's ability to manage the financial exposure.

The work has assured that both notional and actual capital structures remain financeable, that key financial ratios remain at a level that investment grade rating can be maintained, and shareholders will receive returns consistent with the risk being taken and performance delivered.

In carrying out financeability tests over the short and long term the Board has ensured that the use of pay as you go and RCV runoff rates used to manage bills over the short and long-term are supported by customers.

These ensure that both current and future customers are protected against under delivery in the short and long term.

## Board Assurance Statement

Signed by Yorkshire Water Services Limited Board of Directors



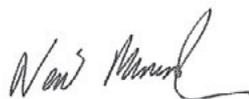
**Anthony Rabin**  
Independent Non-Executive Chairman



**Richard Flint**  
Chief Executive



**Liz Barber**  
Executive Director



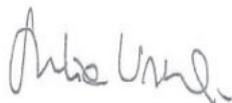
**Nevil Muncaster**  
Executive Director



**Pamela Doherty**  
Executive Director



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



**Julia Unwin**  
Independent Non-Executive Director



**Andrew Wyllie**  
Independent Non-Executive Director



**Andrew Dench**  
Investor Non-Executive Director



**Michael Osborne**  
Investor Non-Executive Director



**Scott Auty**  
Investor Non-Executive Director