

Appendix 4a: Board oversight of Plan development

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Appendix 4a: Board oversight of Plan development

Introduction

The Board of Yorkshire Water owns our PR19 plan and has been integral to the development both of our long-term strategy and the plan itself. To ensure that the Board could consider all elements of the plan, eight day-long PR19 strategy workshops have been held. At each strategy workshop the Board has debated the emerging picture and challenged management across key themes including delivering for customers, resilience, financeability, stretching cost and service efficiency, and innovation. The Board has scrutinised, built upon and challenged the plan at each of these workshops. Management has been required to respond on areas raised at the following strategy workshop until the Board was satisfied with the plan. This process of review and challenge at the eight workshops ensures that the business plan is high quality. Further details of this process of review and challenge are documented in the Board Assurance Statement.

Board Strategy days

Each Board Strategy day reflected the evolving and maturing nature of the business plan. Table 1 summarises the key themes at each of the Strategy days.

Table 1 Key Themes at Board Strategy Days

Date	Key discussion points
September 2016	<ul style="list-style-type: none"> • Non-household retail strategy • Development of the long-term strategy
June 2017	<ul style="list-style-type: none"> • Post 2020 strategic direction and the long term strategic goals • PR19 strategy and approach
September 2017	<ul style="list-style-type: none"> • Customer participation in the development of the strategy • Development of our performance commitments and Outcome Delivery Incentives • Bioresources strategy

February 2018	<ul style="list-style-type: none"> • Review of the business plan scenarios • Structure and development of the plan narrative • Financing the plan • Progress update on our performance commitments and ODIs
March 2018	<ul style="list-style-type: none"> • The ambition in our plan • Review the overall size and shape of the plan • Business transformation plans • Development of the delivery plan and identifying delivery risk • Average bill profiles and financeability
May 2018	<ul style="list-style-type: none"> • Update from the Chair of the Yorkshire Forum for Water Customers • Development of the delivery plan and update on actions to mitigate delivery risk. • Demonstrate the plan that will deliver our ambition. • Assurance, risk profile and mitigations • Review financeability of the business plan
June 2018	<ul style="list-style-type: none"> • Progress report of the assurance plan • Development of the delivery plan and update on actions to mitigate delivery risk. • Average bill profiles and financeability • Assurance, risk profile and mitigations • Review of individual price control plans
July 2018	<ul style="list-style-type: none"> • Final review of business plan • Progress report of the assurance plan • Average bill profiles and financeability • Risk profile and mitigations • Performance commitments and outcome delivery incentives • Resilience assessment and outcomes

Key challenges and feedback

The Board Strategy days initially covered the development of our long-term strategy and the overall approach for our PR19 plan. The focus then shifted onto the more detailed aspects of the plan. The diverse nature of our Board made sure that all of these elements were considered from a wide perspective using multiple lenses. The Board has added significantly to the quality of the plan, for example in how we approached engaging our customers, how we developed our ambition and in how we quantified and mitigated risk.

One early Board intervention of particular note was its desire to understand, at a much more granular level, the diverse needs of the customers we serve and how their lifestyles interacted with water. The Board has taken care to ensure that the feedback we received from our customers is reflected in our plan, through our tailored approach to customer service.

The Board has also focused in particular on how the plan supports customers who find themselves in situations that make them vulnerable. It focused on confirming that the retail price control ensured that our already strong approach to vulnerability was developed even further.

The diversity of the Board has enabled it to add value and shape to the whole of the plan. For example, the Board has developed and scrutinised the delivery of our bioresources strategy that will deliver over 20% efficiency through the use of innovation and markets.

The Board has driven the ambition of the company, enabling the company to create ambitious service improvement plans that started two years before the start of the next price control period to ensure that the company improves the service it provides to customers in key service areas.

There have been regular interactions between the Board and the Yorkshire Forum for Water Customers (YFWC). Board members attended a YFWC meeting in March 2018 to jointly review the development of the performance commitments. The Chair of the YFWC attended the May Board strategy day to provide feedback to the Board regarding the levels of interaction between the YFWC and the company and discuss the future role

of the YFWC. The YFWC Chair has also met with the Board Chair, Chief Executive Officer, Director of markets, Finance and Regulation, Director of Communications and Director of Service Delivery.

Key Board Committees have also added significant value to the development of the plan:

The Board Audit Committee

The Board Audit Committee has shaped our approach to understanding and managing our risk appetite as part of our assurance processes. This is essential to ensure that the level of stretch and ambition in our plan was fully understood against the company risk appetite. Our long-term viability “severe but plausible” scenario was used as a way of ensuring that we will remain a resilient company. As part of this the Board Audit Committee, and also the Board has required management to analyse and assess the deliverability of our ambition.

The Remuneration Committee

The Remuneration Committee has designed a pay structure which clearly reflects the requirements in the plan to deliver sustainable, reliable services at the stretching levels our customers want and expect. Our senior executives are accountable for the company achieving the ambition and stretch in our PR19 plan, leading the company day-to-day, as well as meeting our long-term strategic direction as approved by the Board. To attract the best people to lead the business, the Remuneration Committee has developed a pay structure for 2020-25 which will attract and retain the best available executives while meeting the challenge of legitimacy for customers and other stakeholders. The structure also emphasises the importance of linking performance related pay to the achievement of stretching delivery targets, consistent with Ofwat’s “Restoring Sector Balance” consultation.

The Social Value Committee

The Social Value Committee has shaped our approach to the development and ongoing monitoring of our six capitals approach, ensuring best benefit is delivered to our

customers and the environment. It has also shaped the development of the long-term strategy and is responsible for our social contract.

The level of discussion and debate has been wide ranging and considerable as the PR19 plan has been developed. Table 2 provides an overview of the types of challenge and interventions the Board has made to add value to the plan.

Table 2: Feedback and challenges from the Board

Date	Key feedback and challenges
February 2018	<ul style="list-style-type: none"> • Common understanding and acceptance by the Board that the plan will contain a known and appropriate level of risk. The programme should consider how we should build in efficiency and increase in productivity into the plan. • In undertaking customer consultation on the plan, management needs to make sure that customers are provided with engaging material that shows our ambition to even further improve our services to them. • The company must ensure that the WRMP public consultation is made accessible and interesting for customers to read. • The long-term strategy and associated communications should be engaging and accessible to convey the aspirations of the company. • Consider the concept of varying pricing structures for customers in different socio-economic background e.g. more support for the vulnerable customers – more of what we do today. Demonstrate clearly that we understand what customers need and that we are able to provide it. • Demonstrate and ensure that the Board will gain comfort that management is ready to deliver the plan from April 2020. Demonstrate how the company will be structured and governed to achieve this.
March 2018	<ul style="list-style-type: none"> • Provision of further metrics and efficiency targets per price controls to be provided – confirmation required that our targets are at the agreed benchmark. • Request to provide full details on the “bridge” between PR14 plans and those proposed for PR19. This should clearly identify where the efficiency will be achieved. • Regarding our Living with Water plan in Hull, management to fully understand the company’s role and the total long-term cost. • Management to demonstrate how it will ensure that catchment innovation is embedded into the plan, further details to be provided at the May Board Strategy day • Provide a single view on the organisational transformation programme and demonstrate that management has identified any potential blockers. • Request for an understanding of the split and detail of the current asset base. • Management to confirm that our bad debt forecasts account for potential future trends. • Management to demonstrate how it is checking back to ensure it is meeting the expectations of customers and regulators,

Date	Key feedback and challenges
May 2018	<ul style="list-style-type: none"> • In preparing for the June and July sessions, the programme should put itself in the position of a Non-Executive Director (NEDs). Management to ask itself what are the key questions that the NEDs should pose in June and July to ensure that we have the best possible plan for Yorkshire Water. • Articulate our new ways of operating and how this would look like for customers. • There was a rich discussion around risk relating to a requirement to better understand the types of scenarios that are being modelled. • NEDs require better understanding on proposals for organisational transformation.
June 2018	<ul style="list-style-type: none"> • Further conversations with regulators regarding the Water Industry Environmental programme need to be fed back to the Board. • Review of emerging efficiency positions, use of cost adjustment claims and/or enhancement expenditure; final cost adjustment claims to be brought back to Board in July • Further refinements and outputs to the assurance process (deliverability risk) to be presented at the July Board strategy day • Request to hear deliverability risk assessment from external auditors (Deloitte). • Discussion of revised dividend policy ; final version to be brought back in July • Company transformation programme to have a dedicated Board strategy day later in the year.

<p>July 2018</p>	<ul style="list-style-type: none"> • On concern that there are a lot of performance commitments, customer testing did not suggest a concern over the number. Confirmation sought that customers supported the number of commitments overall. • In discussing Yorkshire's low per capita use of water, the Board asked whether there was regional and sub-regional data which might help the Company understand this better. Is there a socio-economic influence driving the lower per capita use of water. • Research suggests that the future will have much more extreme weather conditions. Something that was now a 1 in 40 event might in future become a 1 in 20 event. It was noted that these forecasts had been included in the resilience work and also that the Company had carried out a detailed climate change assessment three years ago. • The board noted the resilience measure was continuous long-term improvement. • The Board noted the risk position and associated dependencies. Deloitte confirmed that the risks had been communicated accurately to the Board. • There was a lot of discussion around stretch, service and efficiency with Board members seeking to better understand how the Company was proposing to push the boundaries of its service for customers whilst acknowledging that there was a large transformation programme needed to be able to deliver this service. • Confirmation that 86% of customers were in favour of the plan. • Company to think about whether we had enough stakeholders in the Northern Powerhouse to try and make a difference to alleviate poverty in Yorkshire and on issues like Hull.
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Submission approvals

In addition to the Board Strategy days detailed above, the Board was informed of programme progress at every Board through specific PR19 Programme update papers. Key submission documents were assured and submitted to the Board for full approval. These submissions, along with the Board minutes relating to their approval are detailed in Table 3.

Table 3: PR19 programme submissions and associated Board minutes

Date	Submissions and approvals	YW Board minutes
September 2017	<ul style="list-style-type: none"> Bioresources RCV submission 	<p>Following the recommendation of the Audit Committee, confirming that appropriate processes and controls had been put in place to deliver the valuation and bio-resources RCV allocation, the Board approved the submission of the bio-resources RCV allocation information and the signature of the board assurance statement, to allow the submission of the bio-resources RCV allocation information to be submitted to Ofwat by 29 September 2017.</p>
November 2017	<ul style="list-style-type: none"> WRMP submission 	<p>Management presented a paper informing the Board of the timetable for publishing the draft water resources management plan (WRMP) and for seeking approval that the draft WRMP be submitted to the Secretary of State for Environment, Food and Rural Affairs (SofS). Management explained that the Audit Committee had reviewed the risk and assurance processes and recommended approval of the draft WRMP and signature of the board assurance statement.</p> <p>The Board reviewed the processes in place to deliver the draft WRMP, approved the submission of the draft WRMP to the SofS, signature of the board assurance statement and signature of a director statement confirming that the draft WRMP does not infer any risks to water quality, to be submitted to the Drinking Water Inspectorate (DWI) at the time of submission of the draft WRMP.</p>
December 2017	<ul style="list-style-type: none"> DWI submission 	<p>Management presented a paper seeking approval for the PR19 submission (the "DWI Submission") to be submitted to the Drinking Water Inspectorate (DWI) by 31 December 2017.</p> <p>The Board noted the assurance processes put in place and the recommendation received from the Audit Committee, received the summary findings from the assurance processes and considered whether directors were in a position to sign the Board Assurance Statement and release the submission to the DWI.</p> <p>The Board reviewed the processes put in place to deliver the submission, received the recommendation from the Board Audit Committee and resolved that the Board Assurance Statement be signed and that the DWI Submission be submitted to the DWI by 31 December 2017.</p>

<p>January 2018</p>	<ul style="list-style-type: none"> • Water Resources RCV Submission 	<p><u>PR19 Water Resources RCV allocation submission</u> Management outlined the background and Ofwat's wish to split out the RCV to stimulate a competitive environment in water trading.</p> <p>TRC summarised the assurance process considered earlier in the day by the Audit Committee and in particular outlined the process reviewed by Halcrow. TRC confirmed that Audit Committee recommended to the Board that it could sign the relevant Board Assurance Statement.</p> <p>After due consideration, the Board approved the PR19 RCV water resources submission and authorised the Board Assurance Statement to be released to Ofwat by 31 January 2018.</p>
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Please note that, in line with guidance, the draft performance commitment definitions and indicative cost adjustment claims were not subject to formal Board approval but were subject to Board oversight.

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