

Risk and Compliance Statement FY23

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YorkshireWater

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

Introduction

Purpose and scope of the risk and compliance statement.

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

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

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

This statement covers the reporting year 1 April 2022 to 31 March 2023 for all obligations, except for environmental compliance and water quality parameters which cover the calendar year, 1 January 2022 to 31 December 2022.

The statement is in two sections:

Section 1: The Board assurance statement confirms the extent of our compliance with our obligations. It is signed by the Yorkshire Water Services Limited Company Secretary on behalf of the Board.

Section 2: Outlines the processes and assurance we have in place to achieve compliance and meet our obligations.

1. Board Assurance Statement



Section 1

Board Assurance Statement

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

- We have a clear understanding of all our statutory, regulatory and licence obligations.
- We have sufficient processes and internal systems of control to manage the risk of not achieving obligations.
- We have appropriate systems and processes in place to allow us to identify, manage and review our risks.
- Our risk management process identifies and escalates risk to be managed to the level reported.
- Subject to the exceptions noted in [Table 1](#), we are meeting our obligations in all material regards.
- We have taken adequate steps to understand the range of expectations of our diverse customer base. We have sought to provide a service that best meets those expectations taking into account the requirements of other stakeholders, the sustainability of the business and the level of water bills our customers are willing and able to pay.
- We have designed our services to meet those expectations, including the value of water bills our customers are willing and able to pay.
- Our risk management process identifies and escalates risk to be managed to the level reported.

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

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

We confirm that we have:

- Provided Ofwat with assurance that we have sufficient financial and management resources to enable us to carry out our regulated activities (licence condition P).
- Considered the financial impact of a range of severe but plausible risk scenarios materialising to enable us to provide reasonable assurance that the Company will be able to continue in operation and meet its liabilities as they fall due over the next 7 years, to 2030, as set out in our long-term viability statement which can be found in our Annual Report and Financial Statements.
- Sufficient rights and assets available to enable a special administrator to run the Company if such an order was to be made (licence condition P).
- Made sure that any new trade with associate companies in the past year has been at arm's length (licence condition P).
- Maintained the investment grade credit rating Baa2 (licence condition P).
- Explained how we link Directors' pay to standards of performance which can be found in our Annual Report and Financial Statements and Section 6 Board, leadership, transparency and governance of our Annual Performance Report (section 35A of the Water Industry Act 1991).
- Reported in [Table 1](#) of this risk and compliance statement where we have not achieved the level of performance agreed in our final determination.

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

Section 1

Exceptions

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

Table 1

Obligation	Yorkshire Water position	Action being taken to improve
<p>Water Industry Act: it is the duty of every sewerage undertaker to keep records of the location and other relevant particulars of their sewers.</p>	<p>In common with all other wastewater companies in England and Wales not all our sewers are mapped.</p>	<p>We continue to improve our maps as we perform work on our wastewater networks.</p>
<p>Environmental Permitting (England and Wales) Regulations 2016.</p> <p>WTW and WwTW discharge compliance.</p>	<p>We continue to work with the Environment Agency to ensure the environmental permits we monitor compliance to are up to date and in line with the expectations of the regulations.</p> <p>One treatment works, Flaxton Sewage Treatment Works, was classified as failing its discharge permit in 2022. We have achieved 99.68% against the Environment Agency's Environmental Performance Assessment. This is also reported as a performance commitment, with a 100% target.</p> <p>Yorkshire Water has submitted a number of environmental permit applications to the Environment Agency for new permits or to vary existing ones. Where there are significant delays in the Environment Agency's permitting process, we may choose to comply with the proposed permits where there is no lesser environmental protection, done after discussion with the Environment Agency. We have 65 applications to the Environment Agency for discharge permits, which would reflect the pre-privatisation position. We recognise that permits are required for these sites and have been open and transparent with the Environment Agency in respect of our continued operation of the sites pending completion of the Environment Agency process. We are clear on which sites have permits and those which are awaiting a permit and the progress of the permit applications is monitored and has been discussed at the highest level with the Environment Agency.</p>	<p>We have delivered an improvement plan which allowed us to achieve three star rating from the Environment Agency in 2022. Performance in 2022 is an improvement from three fails in 2021 and 2020.</p>

<p>Environmental Permitting (England and Wales) Regulations 2016.</p> <p>Water Industry Act 1991.</p> <p>Urban Waste Water Treatment (England and Wales) Regulations 1994.</p>	<p>In November 2021 Ofwat and the Environment Agency issued their own investigations. The Environment Agency is looking into compliance with the conditions of environmental permits in several Water Companies, including Yorkshire Water. Ofwat are considering the same issues in addition to compliance with wider environmental obligations. Each regulator has distinct regulatory obligations. We have responded fully and in a timely way to all data requests, with appropriate assurance over the completeness and accuracy of the information shared and have maintained an open dialogue with both regulators.</p>	<p>Yorkshire Water is committed to improving compliance with its environmental permits.</p>
<p>Performance commitments.</p> <p>For FY23 we have met or exceeded 22 of our 44 performance commitments.</p>	<p>For FY23 we have not met the target for the following 22 performance commitments.</p> <ol style="list-style-type: none"> 1. Water quality compliance 2. Water recycling 3. Per capita consumption 4. Water supply interruptions 5. Significant water supply events 6. Mains repairs 7. Risk of severe restrictions in a drought 8. Internal sewer flooding 9. Treatment works compliance 10. Surface water management 11. Integrated catchment management 12. D-MeX 13. Priority services satisfaction 14. Priority services awareness 15. C-MeX 16. Priority Services for customers in vulnerable circumstances 17. Affordability of bills 18. Bathing water quality 19. Biosecurity implementation 20. Drinking Water Contacts 21. Repairing or replacing customer owned pipes 22. Renewable energy generation 	<p>You can read more about our performance and any actions we are taking in section 3 of our Annual Performance Report. yorkshirewater.com/about-us/reports</p>
<p>YW Instrument of Appointment (licence) condition J – Levels of service information and service targets.</p> <p>Water companies are required to maintain an efficient and economic system of water supply.</p>	<p>Ofwat used to require each company to share an annual report of its performance against eight service indicators, to allow comparison with other companies and industries.</p>	<p>Because of changes to the regulatory approach, we are no longer required to fulfil this obligation.</p> <p>No action is needed.</p>
<p>YW Instrument of Appointment (licence) condition L – underground asset management plans.</p>	<p>This allows Ofwat to check that each water company is maintaining and developing the underground assets (water and sewer pipes) necessary to fulfil its legal obligations.</p>	<p>Because of changes to the regulatory approach, we are no longer required to fulfil this obligation.</p> <p>No action is needed.</p>

Section 1

Principles of Corporate Governance

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

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

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

All senior leaders across the Company confirm their team's awareness and compliance with the higher risk statutory and regulatory obligations. They develop action plans to address any areas of non-compliance in their team. The results of this Evaluation of Compliance process show 98% compliance. This is a significant improvement from the 96% reported last year. This improvement is due to the completion of over 200 improvement actions agreed and the deliberate focus on compliance, including the Compliance Review and setting up the Yorkshire Water compliance framework.

In addition to the company-wide programmes, leaders have agreed almost 50 actions to improve awareness and compliance. Progress in delivering these is monitored by Yorkshire Water Executive Team and the Audit and Risk Committee.

Board Signatures

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



Kathy Smith
Company Secretary

This statement was approved at a meeting of the Yorkshire Water Board on 05 July 2023 and signed off on its behalf by Kathy Smith, Company Secretary.

2. Assurance to confirm compliance



Section 2

Assurance to confirm compliance

We have a full understanding of all our obligations

Our activities are governed by a range of legislation as well as the requirements of our licence, regulations set by various stakeholders and the performance commitments we make to our customers. It is important that we understand the detail of all these obligations and respond to any changes. In FY23, as part of a focused review of our approach to ensuring compliance, we commissioned technical assurance over the completeness of our obligations. This confirmed over 400 statutory and regulatory obligations to our key regulators.

To make sure we achieve this, we employ relevant subject matter experts. They are responsible for identifying new or amended obligations, assessing the risk to Yorkshire Water and for translating the requirements into compliant policies, procedures or other controls for colleagues to follow. They oversee training and awareness and provide assurance.

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

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

We understand the extent to which we meet those obligations

Compliance with our policies, procedures and controls designed to achieve our obligations is monitored through our three lines of assurance. This assurance is mapped to make sure we have effective coverage and dynamic escalation of risks and issues.

Corrective actions are raised where weak controls or non-compliance is identified. Achievement of these actions is monitored by the Executive Directors and the Audit and Risk Committee.

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

The achievement of these actions is monitored by the Executive Team and the Audit and Risk Committee. The results of the EoC exercise is triangulated with other sources of assurance: periodically Internal Audit tests individual judgements on the level of compliance to supporting evidence.

The EoC outturn for FY23 indicates a high level of compliance with our obligations across Yorkshire Water at 98%. All senior leaders assessed themselves fully compliant with 124 key obligations. The most significant improvement is compliance with our operational health and safety standards and both HR and Business Resilience obligations. To further improve compliance across all policies we are investing in our corporate training tools. This will enable managers to monitor more easily colleagues' achievement of mandatory training in our key policies. There is also on-going action to improve compliance with the Display Screen Equipment Regulations as the company embraces hybrid working.

Section 2

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

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

Our ongoing engagement with customers and stakeholders ensures we continue to understand and meet their changing needs and enables us to design our services to meet those expectations. Research with our customers over the course of the last three years has taught us that the world of our customers has changed quite drastically. This is namely due to the Covid-19 Pandemic and the cost-of-living crisis which followed immediately after we emerged from lockdowns and social distancing. Our engagement informed us that the pandemic has had a lasting impact on many of our customers, namely their finances, personal resilience and their ability to see or plan over the long-term. Whilst we prepare our business plan and Long-Term Delivery Strategy and set out our ambitions for the next 25 and 50 years, our customers have struggled to engage with these long-term plans. This worrying trend has meant that important aspects of our future service such as working long-term to reduce our impact on the environment and climate change have been put on the back burner behind more immediate, but understandable, challenges some of our customers face, such as choosing between heating or eating.

However, our customers are clear on their priorities for our service which we must continue to deliver, do more of it and continue for the long term; these include:

- Maintaining high quality drinking water and security of supply.
- Providing an easy and reliable service that's affordable for all.
- Keeping wastewater in the pipes – preventing pollution and environmental harm.
- Maintaining and improving our assets – reducing leakage and avoiding interruptions and discoloured water.

Despite the financial challenges faced by our customers, our research on Social Tariffs shows our customers are willing to contribute more to support those who are struggling to afford their bills, and because of this generosity, this year we pledged an additional £15million to help with the provision of financial support to more of our customers through these challenging times.

As we move into Year 4 of AMP7, the focus of our customer research and engagement will be focused on creating a business plan which our customers have shaped and delivers on the priorities they set. Customer research will also support the business with meeting the growing expectations of our customers with regards to the service they receive.

Section 2

We have discussed our performance with the independent Yorkshire Forum for Water Customers. They have been invaluable in supporting and shaping our customer research, especially with regards to engagement around our next business plan for AMP8. Their challenge will ensure that our customers wants, and needs, are at the heart of our plans both for AMP8 but also long in to the future. They will provide independent assurance to the Board of Yorkshire Water on the quality and use of customer research in Yorkshire Water's 2025-2030 business plan.

We continue to engage with the Yorkshire Leaders' Board to ensure it plays a significant role in the creation of our business plan for the next price review. The Leaders' Board brings together the leaders and chief executives of Yorkshire's local and mayoral authorities, so this engagement delivers on the aspiration of the National Infrastructure Strategy for regional elected bodies to help set the priorities for water utilities. The early stages of this process have been very positive, and it has quickly become clear to the extent that investment in our network is a really important enabler for the growth ambitions of local authorities, particularly with regards to house building.

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

Our senior management regularly meet with organisational stakeholders such as councils, Members of Parliament, environmental groups, charities prioritising support for vulnerable customers and many other groups based in the region. These meetings shape operational decisions as well as feeding into the business planning process.

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

The Audit and Risk Committee monitors the effectiveness and operation of Yorkshire Water's system of internal control on behalf of the Board. Our controls are designed to achieve compliance with obligations and manage the risk of failing to achieve the business objectives we have agreed with our customers and our regulators. The operational policies and procedures which set out these controls achieve international quality standards for Environmental Management ISO14001, Quality Management ISO9001, Occupational Health and Safety ISO45001 and Asset Management ISO55001, and are accessible to colleagues through the Integrated Management System (IMS) or similar repositories.

During 2022 the Head of Regulation led a Compliance Review of 415 obligations required by our Economic and Environmental regulators. This tested the level of control in place for each obligation including ownership, training and awareness, and policy or procedure whatever the risk. It found a dispersed approach to developing controls and ensuring compliance, which hinders escalation of risks and transparency of reporting. It confirmed that a range of controls are in place for all the obligations assessed as highest risk.

The Yorkshire Water Compliance Framework approach is being introduced to improve the consistency of oversight, and allow proactive work through early insight of risks materialising.

Section 2

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

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

Regulatory obligations at risk

In April 2023, we published a [performance improvement action plan](#). This identified a number of our performance commitments where we are not meeting target and we want to improve outcomes for our customers in the short-term. The action plan was published to reassure customers and stakeholders that we understand the areas where we are underperforming and that we have plans in place to improve performance. The measures included in this plan were: customer satisfaction, priority services register, drinking water compliance, per capita consumption, water supply interruptions, leakage, mains repairs, internal sewer flooding and pollution.

Assuring our performance

We always want to provide our customers and stakeholders with information that they can trust.

We understand that when we don't get this right we risk losing their trust and confidence.

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

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

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

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

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

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