

# Risk and Compliance Statement 2015

It's part of our Blueprint for Yorkshire



YorkshireWater



## Endorsement of the Risk and Compliance Statement

The Board has confirmed that it has sufficient processes and internal systems of control to meet its obligation to make the Risk and Compliance statement to Ofwat.

So far as the Directors are aware, there is no relevant information of which the company's Auditor or independent Reporter 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 Auditor and Reporter are aware of the information.

The Board (including Non-Executive Directors) have considered a paper and received a presentation explaining the nature of the company's procedures and practices for compilation of the 2014/15 Key Performance Indicators and confirmation of the Risk and Compliance statement. The Audit Committee, on behalf of the Board, has also received an overview of the process and any key issues from the company's independent Reporter, Atkins.

In 2006/07, Yorkshire Water received ISO 9001:2000 for the June Return process. The certification has been maintained throughout 2014-15, now ISO 9001:2008, and the company continues to use a document management system (SharePoint) to compile the compliance data and Key Performance Indicators.

Signed on behalf of the Yorkshire Water Services Limited Board of Directors



**Richard Flint, Chief Executive**



**Raymond O'Toole, Non-Executive Director**

## Risk and Compliance Statement 2015

The Risk and Compliance Statement 2015 covers the reporting year 01 April 2014 to 31 March 2015 for all obligations, with the exception of environmental compliance and water quality parameters, which rely on a calendar year report, for which the statement covers obligations during the period 01 January 2014 to 31 December 2014.

### Compliance with obligations

The Board has confirmed 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 and/or mitigate the risks it faces.

In particular, the Board confirms that it:

- considers it has a comprehensive understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations.
- has satisfied itself that it has sufficient processes and internal systems of control to meet its obligations.
- has appropriate systems and processes in place to allow it to identify, manage and review its risks.

In addition, the Board has confirmed, in accordance with Ofwat's information provision requirements, that it:

- provides information to customers in line with Ofwat's information principles.
- involves customers and representatives in preparing, changing and implementing its information provision approach.

Yorkshire Water continues to comply with the requirements of the Guaranteed Standards of Service (GSS) scheme and offers enhanced guarantees and /or payments in a number of areas.

## Key Performance Indicators

Yorkshire Water's compliance with its obligations is demonstrated by the Key Performance Indicators (KPIs), represented in Table 1.

Yorkshire Water continues to apply the Levels of Service Methodologies as last published in June Return 2010, enhanced through continual improvement, for compilation of annual performance information.

A review of Yorkshire Water's performance is published in our [Annual Report](#).

## Material or potentially material risks

Using the Key Performance Indicators as indicators of compliance with regulatory obligations, the Board has identified the following material or potentially material risks:

- Sewer Flooding
- Pollution Incidents

Appendix 1 to this statement details the steps which the company is taking or will take to manage and/or mitigate those risks. In addition, an update on the actions taken to improve Discharge Permit Compliance over the last year is also detailed within Appendix 1.

<b>Ofwat Dashboard</b>		<b>2014/15</b>
<b>Customer Experience</b>		
Service Incentive Mechanism (SIM)	Overall Score	85
Internal Sewer Flooding	Number of Incidents	121
Water Supply Interruptions	Hours per Properties Served	0.16
<b>Reliability &amp; Availability</b>		
Serviceability Water Infrastructure	Stable / Improving / Marginal / Deteriorating	Stable
Serviceability Water Non Infrastructure	Stable / Improving / Marginal / Deteriorating	Stable
Serviceability Sewerage Infrastructure	Stable / Improving / Marginal / Deteriorating	Stable
Serviceability Sewerage Non Infrastructure	Stable / Improving / Marginal / Deteriorating	Stable
Total leakage	ML/d	288
Security of Supply Index (SoSI)	Index Score	100
Water Quality (Overall Compliance)*	Percentage	99.94% <sup>1</sup>
<b>Environmental Impact</b>		
Greenhouse Gas (GHG) Emissions	ktCO2e	369
Satisfactory Sludge Disposal*	Percentage	100%
Discharge Permit Compliance*	Percentage	99.32
Pollution Incidents (sewerage)*	Category 1-3 incidents per 10,000km of sewer	58.82 <sup>2</sup>
Serious Pollution Incidents (sewerage)*	Category 1-2 incidents per 10,000km of sewer	1.31
<b>Financial Health</b>		
Post Tax Return on Capital	Percentage	5.1%
Credit Rating	Rating (lowest)	Baa2
Gearing	Percentage (Senior)	77.2%
Interest Cover	Number (Senior Adjusted)	1.47

Table 1: Key Performance indicators 2015<sup>1</sup>

- <sup>1</sup> KPI definitions and tolerances are described by Ofwat in Information Notice 13/03 ([http://www.ofwat.gov.uk/regulating/prs\\_in1303regreporting1213.pdf](http://www.ofwat.gov.uk/regulating/prs_in1303regreporting1213.pdf)), with the addition of the Water Quality indicator, which is the number of fails of regulatory samples expressed as a percentage of the total number of regulatory samples taken in a calendar year.
- <sup>2</sup> The sewerage pollution indicator shows amber performance against the 2008-2010 industry average. This is an Environment Agency comparative measure.
- \* Calendar year measures.

## Materially different outputs

In addition to outputs covered by the Key Performance Indicators the Board identified the following outputs in its Final Business Plan (2015-20), which are materially different to that required by the 2010-2015 Final Determination agreed with Ofwat:

- **Knothrop Sewage Treatment Works.** Performance from upgraded works exceeded expectations. The obligation was reappraised to deliver improvements to Knothrop intermittent discharges. A total of £314k has been reinvested in revised modelling. The modelling showed that no further improvements to the intermittent discharges at Knothrop were required. The results of this work have been formally supplied to the Environment Agency who have agreed the findings. The change was formally approved by Ofwat, via Change Protocol, in June 2013.
- **Private sewer transfer.** Ofwat logged up the capital expenditure invested in private sewers associated with the transfer within the PR14 Final Determination.
- **Flooding from Sewers.** Fewer properties experienced sewer flooding than budgeted for within the Final Determination for the 2010-2015 Business Plan, and consequently the funding has been returned to customers as part of the PR14 Final Determination.
- **Completion of 2014/15** has revealed that additionally one regulatory output for customers will be delayed. This is the Leeds Drainage Area Plan, a £4.5m study, which will be completed in 2017 instead of 2015. However, this is partially offset by the over-delivery of DG5 sewer flooding outputs which addressed more flood risk to customers than envisaged as part of the Final Business Plan and PR14 Final Determination.

## Confirmatory statements for obligations

In satisfying obligations the Board is required to make confirmatory statements. These are contained in Appendix 2, where not published in the Financial Accounts for the relevant period, and include:

- Licence condition F6A: sufficient financial and management resources.

## Appendix 1

### Steps to manage and/or mitigate material or potentially material risks

<b>Pollution Incidents</b>	
<p>Overall pollution performance for Yorkshire Water has improved year on year over the course of the AMP, the funded improvement for AMP5 has been achieved. Performance is Green for Category 1 &amp; 2 incidents however is considered amber for Category 3 incidents against the 2008-2010 industry average calculations, the improvement to Green was not funded in the 2009 Final Determination. The Pollution Reduction Plan which commenced in AMP5 will continue in 2015/16 (the Pollution Plan) however achieving the Performance Commitment will leave this measure Amber. There is currently no customer willingness to pay for an improvement in performance during AMP6.</p>	
<p><i>Steps already taken / to be taken to manage / mitigate issues identified:</i></p>	
Action	Indicative Timescale
1. The Delivery Assurance Group (DAG) for sewer networks includes the Performance Commitment for pollution incidents. Initiatives to deliver the Performance Commitment will impact the KPI however the level of performance will leave this measure Amber.	On going
2. Training of colleagues and partners, who deal with asset failure, to ensure recent business restructure does impact adversely on performance increase awareness of their impact on the water environment.	On going
3. Continue the Pollution Plan – A wide ranging strategic and tactical plan to maintain improved performance achieved in AMP5 and manage pollution incidents. The plan focuses on key waste water network assets through increased operational and capital activity, along with aspects covering culture and behaviour, data analytics and communications.	Q4 2015/16

<b>Sewer Flooding</b>	
<i>Reason for Amber / Red Rating:</i>	
<p>The Yorkshire region experienced exceptionally wet weather in August 2014. This led to an increase in the number of sewer flooding incidents recorded and included within the sewer flooding key performance indicator. The indicator includes flooding due to exceptional rainfall events that are outside the design criteria for sewer networks. Within the KPI a total of 68 incidents are due to overloaded sewer, very similar to the previous wet year of 2012/13.</p>	
<i>Steps already taken / to be taken to manage / mitigate issues identified:</i>	
Action	Indicative Timescale
1. Review approach to sewer flooding investment prioritisation and type of solution to manage flood risk holistically within drainage zone.	Q2 2015/16
2. Increased use of and more extensive mitigation to prevent repeat internal flooding.	Q3 2015/16
3. Continued activity on the Other Causes Programme to prevent flooding incidents; this includes asset inspection and CCTV survey to identify and resolve blockages and defects.	On-going programme to end of 2015/16
4. Delivery Assurance Group initiatives and actions to deliver the sewer flooding Performance Commitments will also benefit the KPI where incidents are prevented on the legacy sewer network.	On-going to end of 2015/16

**Discharge Permit Compliance** –Updated from 2013-14 Risk & Compliance Statement

Yorkshire Water recorded two failing works in 2014, resulting in a discharge permit compliance of 99.3%. This is an improvement from six failing works in 2013, and results in green performance on the KPI.

The actions described in the CCC14 Action Plan have been completed.

Business processes are in place to ensure regional sludge processing levels are understood, and change control for any process changes on site is in place.

Significant investment to change the process at Beverley WWTW has been included within our AMP6 plan and the project is in the early stages of delivery.

*Steps already taken / to be taken to manage / mitigate issues identified:*

2013-14 Actions		Indicative Timescale
1.	Review Beverley WWTW investment plan to improve design standard during AMP6 (carried forward from CCC13 action plan – no change to dates)	Complete
2.	Implement improved monitoring of sludge processing	Complete
3.	Implement improved change control process	Complete

Our performance in 2014 was our best ever. Whilst it is our aim to continue to achieve this level of performance and drive towards zero failing works, our AMP6 plan was based on continuing to achieve the stable reference level of five failing works.

## Appendix 2

### Confirmatory statements for obligations

#### Licence condition F6A: sufficient financial and management resources

The Directors declare that, in their opinion:

- i. the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and
- ii. the company will, for at least the next 12 months, have available to it:
  - a) management resources; and
  - b) systems of planning and internal control which are sufficient to enable it to carry out those functions.

In making this declaration, the Directors have taken into account:-

- a) the net worth of the company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2015 and the company's business plan for 2014/15;
- b) borrowing facilities which include significant committed undrawn bank facilities;
- c) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due;
- d) the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners; and
- e) the company's employment policies and strategy as described in detail in the Directors' Report within the statutory financial statements of Yorkshire Water.

The Directors also declare that in their opinion all contracts entered into with any Associated Company, include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

(Certificates required by this Licence Condition are sent to Ofwat by separate cover).

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