



# Yorkshire Forum for Water Customers

## PR19 ASSURANCE REPORT

The Forum's comments on Yorkshire Water's  
2020-2025 Business Plan submitted to Ofwat



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# STATEMENT FROM THE CHAIR

**There has been a marked shift in company culture during the preparation of this business plan to being more transparent and to engaging in meaningful consultation with the Yorkshire Forum for Water Customers (the Forum) and customers. This runs from Board level right throughout the company. Whilst there is work to be done to embed this consistently across the company - and for the Forum to become an integral part of the process of future business decision-making - the impact on the business plan is clear. The Forum has held discussions with Yorkshire Water on gearing and dividend policy and supports proposals on how a Sharing Mechanism will be developed going forward.**

The level of innovation and the extent and reach of the customer research programme is commendable and has meant that Yorkshire Water now has an expanded depth of understanding about its customers to shape its services around their preferences. There is also a new level of ambition to deliver excellent customer service at an affordable cost. Yorkshire Water has a long-established reputation of leading on the provision of services to customers in vulnerable circumstances, but it has responded to the challenge to go even further, not only by being the first in the industry to appoint a safeguarding officer, but also with increased financial contributions from the company to support those most in need and who are excluded from mainstream services.

There is an increasing focus on working with others to deliver what is best for customers. This partnership approach can be witnessed in the company's innovative work to support its staff to identify and

refer the most vulnerable of its customers to other agencies and to publish open source data to facilitate the development of more sustainable solutions to environmental challenges. This, together with changes to how the company is structured, will help increase the already high level of trust and confidence in Yorkshire Water.

Ofwat has made clear it expects companies to deliver improved services at a lower cost. This would have been achievable had it not been for the significant environmental obligations which the company faces. This is likely to lead to a small annual increase in bills, which customers do support. The company has set itself challenging efficiency savings and is using these to fund the service improvements which have been identified by its customers. The Forum has explored the environmental programme in detail and shares Yorkshire Water's view that the requirements arising from the European Union's (EU's) Urban Waste Water Directive and the likely designation of a number of Yorkshire rivers could be addressed in ways that are better for the environment, and at lower cost to its customers. The Forum would like to see the UK Government and the EU recognise this in future legislation and hopes that Ofwat will be supportive of this.

The management of any bill increase and the provision of a carefully designed package of meaningful financial support measures receives the overall support of the Forum. The net result after the Water Industry National Environment Programme (WINEP) is a bill increase of approximately £3 a year. Of the £4,967 million investment, £900 million relates to the WINEP programme.



The Forum has commented on individual building 'blocks' of the plan along the way, however the demands of the 2019 Periodic Review (PR19) timescale are such that the final pieces of the jigsaw puzzle have largely been put in place towards the end of the process, although it is commendable that there were 'no surprises'.

This price review has been even more demanding than others in terms of methodology, technical complexity, customer engagement and innovation.

There are a number of areas where the company is seeking to be innovative or to demonstrate that it is leading the sector, for example river restoration, water recycling, sustainable demand management-led solutions, flood risk reduction and bio-resources. This is in recognition of Yorkshire Water's role in providing a public service within a corporate entity and in which the company seeks to deliver a community good through clear leadership. Every customer account will be reviewed annually to make sure they are on the correct tariff and bills will be kept low through innovative operational practices and an understanding of customer choice

and preferences. An annual review by the Forum and leading charities will identify practices to assist customers from falling into debt and the company will develop the role of "dementia friends" within the business. Behaviours with adverse impacts such as sewer blockages and water efficiency will also be prioritised.

I would like to thank all of my colleagues for their scrutiny of the company proposal and for their diligence and good humour. We have been fortunate in the commitment shown by company representatives and in their willingness to respond to the challenges they have been set. Our appetite for delivering what customers want at a price they can afford will now follow through to monitoring the achievement of Performance Commitments and Outcome Delivery Incentives, ensuring that the customer voice is listened to.

**Andrea Cook OBE**

Independent Chair,  
Yorkshire Forum for Water Customers'

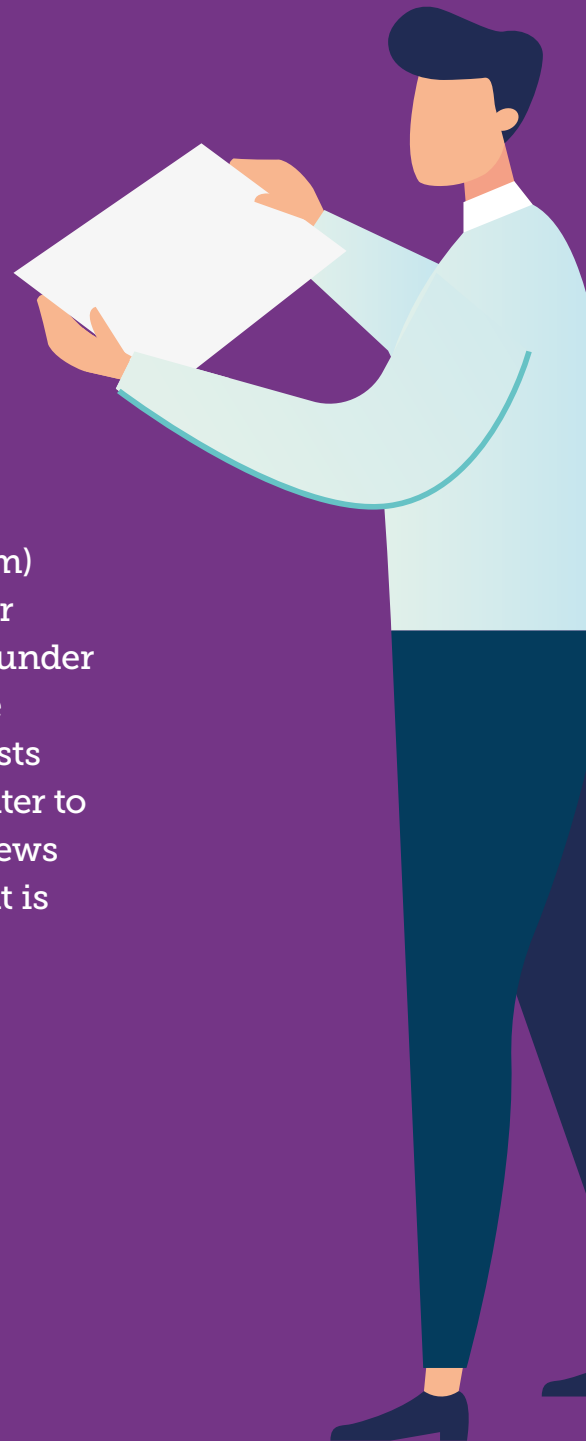




# THE ROLE OF THE YORKSHIRE FORUM FOR WATER CUSTOMERS

The Yorkshire Forum for Water Customers' (the Forum) is an independent group of customer and stakeholder representatives brought together by Yorkshire Water under the guidance of an Independent Chair to support the company in managing its business in the best interests of its customers. The Forum challenges Yorkshire Water to ensure its business plans fairly reflects customers' views gained from quality customer engagement and that it is delivering on its performance commitments.

Ofwat requires companies to have a Customer Challenge Group (CCG) (in this case named as the Yorkshire Forum for Water Customers) to challenge and endorse their five-yearly planning process – the Periodic Review.





To protect customers, the development of companies' five-yearly business plans is closely overseen by Ofwat. The regulator sets the five-year price, service and incentive package to encourage

companies to deliver improved customer service at a fair price (the price controls). The regulator examines companies' plans to ensure they follow the framework set for companies, have been challenged by customer representatives and eventually approves them.

Once approved, the plans are monitored to see how well the companies perform on an annual basis. This is necessary because the sector provides an essential public service and has to deliver on certain legal obligations. It is also necessary because companies operating in this sector do not experience the same competitive pressures as other sectors to help drive up the standards of service to customers. If Ofwat considers companies' proposals to be of an appropriately high standard they will receive less oversight of their activities by the regulator.

For the 2014 price review, Ofwat introduced a step change in how companies approached the development of their business plans. This change placed customers at the heart of the price setting process and ensured customer views informed each stage of the business planning process. Unlike previous price reviews, water companies consulted their customers to ensure business plans reflected the outcomes customers and wider society wanted at every stage of the water cycle, from improved water quality to protecting and improving the environment. This process was challenged and endorsed by the newly established Customer Challenge Groups.

The Forum was set up to address this and Yorkshire Water has chosen to retain the Forum to support its work on an ongoing basis, not just for Periodic Reviews. For example, the Forum has been involved in reviewing and challenging Yorkshire Water's Annual Performance Report including producing its own report.

Robust challenges by the Forum in the production of the plan and a constructive response to these challenges by Yorkshire Water is an integral part of Ofwat's assessment of their plan. For the purpose of the 2019 Periodic Review (PR19), there are four performance categories – 'requiring significant scrutiny', 'slow track', 'fast track' and 'exceptional'. Yorkshire Water is aiming for 'fast track'.

For this Price Review, Ofwat has given the Forum a very clear role<sup>1</sup>. This is to provide independent challenge to companies and independent assurance to Ofwat on:

- the quality of a company's customer engagement:
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's business plan.

Ofwat also welcomes CCG challenge on company costs where appropriate and in customers' interests, but this does not form a part of a CCG's core role.

It is **not** the role of CCGs:

- to endorse a company's overall plan.
- to provide assurance that all costs included in a company's plan are efficient.
- to act as a substitute for a company engaging with its actual customers.
- to substitute their views for those of customers.





Ofwat has also made clear that CCG Chairs should not represent particular organisations or groups of customers, they are there for their broad strategic understanding of customers. Each CCG must include a representative from the Consumer Council for Water (CCWater). Ofwat also expects the environmental and drinking water quality regulators to play a significant role in informing CCG discussions at PR19 - the Drinking Water Inspectorate (DWI), the Environment Agency (EA), the National Farmers' Union (NFU) and Natural England (NE).

The Forum's work in delivering its role is documented in this assurance report which has been submitted to Ofwat on 3 September 2018, alongside the company's business plans.

## THE FORUM'S REPORT

This report describes:

- How the Forum has been supported by Yorkshire Water to carry out its role.
- Areas of challenge and disagreement, including how the company - and the Board - has responded to these challenges.
- Any areas of outstanding disagreement.
- How trade-offs have been explored and reflected in the development of the company's business plans.

The report documents these in Chapters 3 to 9.





03

# SECURING CUSTOMERS' TRUST AND CONFIDENCE





## WHAT DOES YORKSHIRE WATER NEED TO DO?

Customers expect companies to be open and transparent about their performance. This helps build trust and confidence in the company.

As a provider of a public service, it is critical that Yorkshire Water can be held to account for its performance by all key stakeholders. This requires openness about performance, corporate and financial structures, the quality and reach of customer engagement and acceptance of robust, independent challenge. The Forum can state that it considers Yorkshire Water has achieved this but there will be a continued need for Board leadership to achieve a company-wide culture that puts customers at the heart of the business.

## CORPORATE AND FINANCIAL STRUCTURES

Over the last 12 months there has been an increase in public concern over the way in which the water industry is structured and financed, with questions being raised as to the balance between shareholder and customer interests.

The Forum met with Yorkshire Water's Company Secretary and Group Treasurer to discuss the structure and financing of the company. It challenged Yorkshire Water to simplify its financial structure as one mechanism to increase transparency around financial issues. The Forum welcomed the announcement made by Yorkshire Water of its commitment to remove three subsidiary companies incorporated in the Cayman Islands and replace these as soon as possible with one company registered for tax purposes in the UK.

It was recognised by the Board that the three Cayman Island companies were no longer necessary or appropriate. The Forum has received assurance from Yorkshire Water that the Cayman Island companies were originally formed in order to raise debt and not to evade tax. In addition, the company is simplifying its structure more generally through exiting the non-household retail market. The Forum has discussed with Yorkshire Water the need for it to be able to finance its functions and the issues related to gearing and a proposed dividend policy.

The company has paid only one dividend to its shareholders this AMP and the balance between shareholder and customer interests, and a sharing mechanism, requires careful consideration on a year by year basis, based on company performance and financial testing. It is the Forum's view that this cannot be 'artificially' constructed in advance at the time of the submission of the business plans and will need to be part of discussion and agreement with the Forum going forward.



## COMMUNICATION WITH CUSTOMERS

Over the past year, the Forum has continued to challenge Yorkshire Water to make its published material as accessible and understandable as possible.

### **The company has responded by:**

- Working hard to drive technical language out of its publications and research materials and explain complex issues simply. It has gained the Crystal Mark for three publications and is working towards achieving the Crystal Mark for all published documents and committing to producing a plain English summary of technical documents.
- Taking on board feedback from different customer groups to differentiate communication approaches (e.g. tailoring communications to reflect the local demographic).
- Making publications on the Yorkshire Water website easier to find and working towards achieving Crystal Mark accreditation for key website pages.
- Consulting publicly at an earlier stage.
- Hosting consultation workshops to inform its communications strategy.
- Undertaking an extensive research engagement and participation programme with customers and stakeholders.

Ofwat has recognised improvements in the transparency of Yorkshire Water's financial reporting (see Ofwat's Evaluation at the end of this chapter).

In addition, the Forum welcomes Yorkshire Water's work to make its operational data available to others online. This transparency should help build trust and confidence and encourage the public to hold the company to account for its performance and support the development of innovative technical solutions for issues such as leakage and pollution.

The Forum will continue to challenge in this area and on the accessibility of reports for all customers.





## CUSTOMER RESEARCH



Yorkshire Water has regularly attended Forum meetings to discuss its ongoing approach to customer and stakeholder engagement and participation. It has continued to undertake an extensive programme of customer engagement activity – significantly broader and deeper in scope than what was undertaken for PR14 – which has explored, tested and evaluated the key themes of Ofwat’s business planning framework – customer service, affordability, resilience and innovation – from multiple perspectives across its diverse customer and stakeholder base.

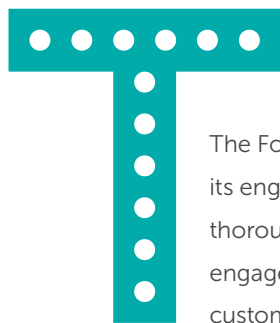
While some of these issues have research projects specifically dedicated to them, Yorkshire Water has also maximised the knowledge and output from its ongoing research programme, and so exploration of these themes frequently cuts across multiple projects. The company used segmentation modelling to determine the most effective communication channels to use during incidents.

The Forum has provided the company with over 100 individual responses across all areas of the research projects to date.

Common themes of challenge – all of which have been responded to positively – include:

- Ensuring the sample framework is representative of all customer types.
- Ensuring the methods used allow for total inclusion of the customer base.
- Ensuring that the research materials being presented are easy to understand and – in cases where the subject matter is lengthy and complex – the stimulus is appealing and interesting. This has included making technical suggestions on improving questionnaires and discussion guides.
- Avoiding potential research bias from customers who may be better informed.
- Customer involvement in informing the next stages of the research programme.





The Forum commends Yorkshire Water on its engagement process which has been thorough, robust and innovative, including engagement with non-household customers. The Forum is sympathetic to Yorkshire Water's difficulty in engaging business customers in its research. The Forum considers Yorkshire Water's research to understand customers' diverse needs and lifestyle choices and to be innovative in its approach. It will provide a strong basis for the development of more personalised customer service and a more customer-focused culture, with a better understanding of the differing needs and expectations of customer groups.

Yorkshire Water has also undertaken innovative work around how to fully measure all of the impacts it's work has on people and the region. This is to be communicated to customers and will help the company develop its work to deliver more benefits. This is called the **'six capitals' approach** and the Forum has noted that Yorkshire Water appears to be leading the way on this fuller understanding of its impact on the people, environment and economy of Yorkshire (see Chapter 4 – Ofwat's rules on performance commitments).

The volume and pace of work required by Ofwat and the demand on the Forum's members has resulted in an ambitious timescale for consultation on the research programme. The Forum supports increased consultation at an earlier stage in future price reviews – but this would require adjustments to Ofwat's methodology.

Yorkshire Water has been moving away from infrequent customer research to deliver its business plans (common among many water companies)

towards more meaningful, ongoing customer engagement which is characteristic of other sectors. It is considering using customer panels to test themes, issues, priorities and programmes over the life of a business plan. The Forum strongly endorses this approach and has itself become part of this ongoing process of customer engagement.

### OFWAT'S RULES

Ofwat has welcomed CCG's (or in this case the Forum's) involvement in the review and challenge of their company's ongoing performance. It has committed to reviewing their role beyond PR19.

To complement this, Ofwat should also encourage Yorkshire Water's approach to innovative and continuous customer engagement to be used across the sector. This requires it to be more flexible about research requirements at the next price review.

Together this would:

- Help CCGs shape the research and understand what customers and stakeholders truly value.
- Result in more manageable timescales for the production of business plans.
- Help customers to receive the services they want and would value most.

## THE IMPACT OF CUSTOMERS' VIEWS ON THE BUSINESS PLAN



There has emerged a clear connection – or **golden thread** – between Yorkshire Water's business plan development and what its customers are telling the company. This was not evident at the outset of the process because regulatory timetables pressurised companies to commit to approaches which were as yet untested.

A clear example of this golden thread between evidence and planning can be seen in the company's priorities. The company initially set out five long-term goals in its strategy document, based on previous customer priorities<sup>2</sup>.

Subsequent research on customer priorities led to these being amended, not only to make them align but also to make them more readily understandable to customers. These goals were also tested in customer outcomes research. They include:

- **Customers** – We will tailor our services to meet everyone's needs.
- **Water supply** – We will provide you with enough safe water.
- **Environment** – We will protect you and the environment from flooding and pollution.
- **Transparency** – We will be a global benchmark for openness and transparency.
- **Bills** – We will ensure no one need worry about paying their bill.

Another example occurred when Yorkshire Water failed to gain support for ideas which were developed based on its wider benefits research (e.g. increasing investment in the public use of reservoirs and land for recreation). The company has chosen to treat this as a learning exercise and to build the foundations for more work in the next planning process which has the capacity for greater impact.

The Forum recognises that those who engaged regularly with the Forum had grasped the importance of being customer-focussed in all of their work but consider that a cultural shift is needed for this approach to be embedded throughout the company. The Forum met with the Director of Service Delivery who presented the company's plans to deliver an innovative transformation programme over the next 18 months. This will ensure the company can deliver better, tailored services to customers whilst remaining efficient.

The Forum met with the Board in March 2018 to discuss the Outcomes and Performance Commitments that the company was developing. At this meeting the Board also heard feedback from the Forum in relation to the levels of support and interaction the Forum had received from the company to date. The meeting was positive, and the Forum Chair indicated satisfaction at the level of engagement and interaction from the personnel the Forum was working with. This led to further refinements to the household retail performance commitments in response to Forum and Board feedback.

The Forum Chair attended a Board strategy day in March 2018 to share the Forum's views on the development of the plans and meets regularly with the Chair of Yorkshire Water, most recently in May 2018. The Forum challenged Yorkshire Water to secure Board leadership to achieve the critical goal of monitoring and evaluating issues of affordability and vulnerability (under the broad umbrella of "inclusion") and one of the independent Non-Executives is responsible for this.

<sup>2</sup>[www.yorkshirewater.com/biggoals](http://www.yorkshirewater.com/biggoals)

## INDEPENDENT CHALLENGE

A number of measures have been put in place to secure the independence and transparency of the Forum:

**Appointments** – The Chair of the Forum is Andrea Cook OBE. As required by Ofwat, the Chair does not represent any particular customer group. Andrea's background is in consumer representation and regulation in the energy, financial, legal and water services sectors, with a particular interest in the needs of low income and other vulnerable people and in addressing issues of affordability. To ensure independence, the Chair appoints the other members of the Forum and there are eight other members of the Forum.

They include representatives from: the Consumer Council for Water; Natural England; Alzheimer's Society; National Farmers Union; The Rivers Trust; an independent member with local authority and engineering expertise; the Environment Agency; Citizens Advice and Pennine Prospects. The Chair and others made substantial efforts to recruit members of the small business and health sectors, without success.

This was largely because of the time commitment involved. The representative from the Alzheimer's Society gained promotion within another organisation and was also unable to offer an ongoing time commitment. This does raise issues about continuity and what is asked of members alongside their day to day responsibilities.

**Conflicts of interest** – Members are expected to identify these in consultation with the Chair based on other commitments and work programmes linked to Yorkshire Water and these are recorded in minutes of meetings.

**Induction / Training** – Yorkshire Water has supported the Forum's ability to challenge effectively by providing induction meetings, relevant workshops and site visits to assist members to gain knowledge. For example, in June 2017 the Forum visited Esholt Treatment Works to see how the company is generating renewable, low cost, low carbon energy from sewage sludge. In January 2017 Yorkshire Water ran an all-day workshop on customer engagement.

**Meetings** – The agendas for the Forum are set by the company in consultation with the Chair but increasingly the Forum has driven the agenda. Main Forum meetings are usually held monthly. The Forum has challenged Yorkshire Water to make sure the insight drawn from its customer and stakeholder engagement and participation activity has been accurately reflected in the development of its business plan and informed its day-to-day operational decisions and this has been reflected in the agendas for meetings.

**Sub-group meetings** – There are three sub-groups meeting chaired by different Forum members – environmental, communications and affordability/vulnerability. They report into the main Forum meetings and have met as and when needed to work on more detailed aspects of this work.

**Board engagement** – The scope of the Forum has expanded. There is now Board support for the Forum to be involved in all decisions which have an impact on customers and the Forum works closely with the Head of Regulation. The Forum met with the Board in March 2018 and the Chair attended a Board meeting in June 2018. The Chair of the Forum also met the company's chair in May 2018. Submissions to the Board and key feedback received from Board members were shared in a timely manner with the Forum.



**Communications between meetings** – Members are emailed materials for review outside of meetings where timescales demand. Challenges to these are submitted by email or discussed in teleconferences.

**Use of external experts** – Where there hasn't been sufficient expertise within the Forum, other experts have been invited to attend the Forum (e.g. independent financial and technical assurance providers Deloitte and Jacobs and various other research companies where required).

**Private discussions** – The Forum and sub-groups have members-only discussions at the beginning of the meetings.

**Challenge log** – Yorkshire Water staff maintained a log of challenges from the Forum, including identifying areas of disagreement on separate topic areas. The Forum has a clear view on how the company has responded to challenges.

**Payments** – Some Forum members (e.g. the Chair) are paid by Yorkshire Water for their time. Members employed by statutory organisations are not paid (i.e. CCWater, EA, NE and the NFU). Others do not receive payment as this would represent a conflict of interest and, as an alternative, payment is made to their organisation as a charitable donation in support of their work (The Rivers Trust and Citizens Advice). This was recommended by the Chair and implemented by the company. There is also scope for an attendance fee, consistent with a daily rate for public sector appointments.

**Website** – The Forum requested that details of the arrangements and minutes of Forum meetings and past publications be placed on Yorkshire Water's website. As a result, the Forum has its own webpage [www.yorkshirewater.com/customerforum](http://www.yorkshirewater.com/customerforum). The reports for PR14 are on the website on the page for the current business plan, 'Our Blueprint for Yorkshire' [www.yorkshirewater.com/blueprint/](http://www.yorkshirewater.com/blueprint/) and other reports for the Forum can be found at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

## OFWAT'S EVALUATION

Ofwat considers that Yorkshire Water has improved its performance on openness and transparency and as a result does not need to be so closely monitored. Under Ofwat's Company Monitoring Framework, in November 2016 the company was moved to the 'prescribed' category. There were no major areas, but a general sense of the need for improvement in accuracy and transparency around Board ownership. In November 2017 the company was elevated to the 'targeted' category after it was recognised that there had been significant improvement. This was welcomed by the Forum. Yorkshire Water exceeded Ofwat's expectations in three areas:

- Board leadership, transparency and governance,
- Assurance plan and
- Data assurance summary.

Yorkshire Water met expectations on all remaining areas except for the Financial Monitoring framework where minor concerns were raised. The Forum will continue to challenge Yorkshire Water in this area to make sure that the information it publishes is trusted by customers and the company meets its ambition to achieve 'self-assurance' in the next Ofwat assessment.



04

# PERFORMANCE COMMITMENTS





## WHAT DOES YORKSHIRE WATER NEED TO DO?

Ofwat set companies 14 performance commitments and requires them to make their own commitments in eight areas.

Yorkshire Water has consulted intensively with its customers about these commitments to ensure they are appropriately targeted and sufficiently stretching.

The results of this customer engagement led shareholders to make a major contribution to delivering higher standards in customer service and operational delivery in the current AMP period.

Yorkshire Water's innovative work to develop a way of measuring all of its impacts on society, the economy and environment and partnerships is sector leading. It will help the company and others understand how to perform better in the future. The Forum looks forward to working with Yorkshire Water to make this a success.

## YORKSHIRE WATER'S APPROACH TO DEVELOPING PERFORMANCE PRIORITIES

Companies are required to make public how they will measure if they have successfully achieved their long-term goals and report on their performance every year.

Ofwat requires all water companies in England and Wales to have 14 common performance commitments<sup>3</sup> as well as their own bespoke commitments, tailored to their own unique regions and customer needs. There are eight areas in which companies are required to develop a bespoke performance commitment<sup>4</sup>.

Customer opinion is critical to setting these bespoke commitments to ensure they are appropriately targeted and sufficiently stretching. Yorkshire Water developed the draft Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs) throughout 2017-18, taking into consideration four key strands of information:

- Customer preferences and stakeholder feedback (over 26,000 customers engaged).
- Legal requirements.
- Ofwat's requirements.
- Investment plan development.

Customer research has included:

- Preferences for how Yorkshire Water reports on its performance.
- Priorities for the next five years and beyond including those areas customers would most like to contribute to.
- Qualitative research and engagement on Yorkshire Water's big goals for the future, the language used and the range of PC definitions.

<sup>3</sup>One of these is a commitment relating to the Abstraction Incentive Mechanism. Currently there are no abstraction sites identified as being suitable by the Environment Agency and so Yorkshire Water cannot currently report against it. <sup>4</sup>These include: support for vulnerable customers, protection of the environment, resilience metrics, abstraction incentives and the treatment of gap sites in retail.

- Extensive customer valuation research to inform the performance commitment levels and incentives.
- Testing the acceptability of the PCs and ODIs.

The Forum reviewed and challenged the company's approach to its engagement with customers regarding the proposed PCs to ensure the engagement reflected the varied customer needs within the Yorkshire and Humberside region.

The Forum also reviewed the feedback Yorkshire Water received from customers and the proposed changes to the draft PCs as a result.

Alongside the above customer research, Yorkshire Water has been consulting with customers on its performance priorities for its 25-year strategic plan, helpfully putting shorter-term goals into context.



## CUSTOMERS' INFLUENCE ON COMMITMENTS

The Forum has witnessed how intensively Yorkshire Water has consulted customers and shaped its thinking in response. Yorkshire Water has taken great time and care to ensure that the Big Goals, PCs and ODIs for the 2020-2025 period reflect customers' priorities for service improvements. The Forum set an ambitious level of challenge and, where appropriate, stretching incentives, consistent with customer preferences. Customer consultation has been extensive and present at every stage of the process, making sure that customer views have been fed into the development of PCs and reflected in the final proposals.

Research found that Yorkshire Waters customers' top priorities remain broadly the same as five years ago - a safe and continuous supply of water and the removal of sewage – but new areas of focus are needed, including:

- preventing homes from flooding.
- preventing pollution and leaks.
- dealing with flood events.
- prevention of interruptions.
- providing a good constant water pressure.



In addition, customers want the company to respond to the future challenges of servicing a growing population,

coping with climate change and flood management and defences. Customers expect Yorkshire Water to engage with its customers and to be transparent, ethical, efficient, 'green' and socially responsible. This also means supporting customers in vulnerable circumstances, including those in financial difficulty. Prior to this research, Yorkshire Water's initial business plan was based around 7 goals<sup>5</sup> – goals which the Forum felt needed more refinement to ensure there was no duplication and their purpose was clear. Feedback from customers supported this and led Yorkshire Water to reduce these to five goals and to align them more closely with customer needs<sup>6</sup>. After being provided with information on the achievements of other companies, customers wanted to see an improvement in Yorkshire Water's performance. As a result, Yorkshire Water committed to significantly improving its performance in the most important service areas immediately and to report on progress every six months. This also resulted in

Yorkshire Water changing some of its PCs in line with the prioritisation customers gave to particular issues.

Yorkshire Water's two quantitative research studies indicated that customers supported the proposed 40% reduction in leakage by 2025. However, because of customers' views on Yorkshire Water's performance compared with other companies, the Board decided to invest circa £250 million from outperformance to improve leakage, internal sewer flooding, pollution performance, and interruptions to supply from now until 2020. This should result in Yorkshire Water's performance to deliver upper quartile efficiency before the end of the current price control period in 2020. This is welcomed by the Forum. Yorkshire Water's targets were shared with the Forum as part of the approval, with the stated aim of being upper quartile in leakage, pollution and internal sewer flooding by the end of 2020/2021 and Frontier in interruptions to supply.

<sup>5</sup>[www.yorkshirewater.com/sites/default/files/Full%2025%20year%20blueprint%20plan.pdf](http://www.yorkshirewater.com/sites/default/files/Full%2025%20year%20blueprint%20plan.pdf)

<sup>6</sup>[www.yorkshirewater.com/notjustwater](http://www.yorkshirewater.com/notjustwater)





## REFINING THE COMMITMENTS

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The Forum made the observation to Yorkshire Water that including the initial full list of performance areas as commitments could be 'excessive' and might not reflect customers' overall preference for a smaller list of focussed PCs. The main challenges from the Forum on the draft PCs prior to their submission to Ofwat included:

### **Regulatory challenges**

The Forum is sympathetic to the challenges Yorkshire Water has to manage relating to the cost of the WINEP. These significant costs will need to be met depending on a decision from Defra on whether to designate a number of rivers under the UWWTD which will require phosphate removal at Yorkshire Water assets. This is not due until after the business plan is to be submitted. Yorkshire Water's approach to include the full WINEP costs is considered to be appropriate given the circumstances.

### **Transparency and clarity**

The Forum wanted the links between Yorkshire Water's Big Goals and the PCs to be clearer, together with the explanations of some of the PCs. The company's research reinforced this as customers found some PCs difficult to understand (e.g. 'Company transparency' and 'Vulnerability'). The Forum also requested clarification of what is included in the definition and reporting of the PCs, especially its environmental ones (e.g. that the 'Carbon Emissions' PC takes account of the full range of emissions). From Ofwat's review of companies' draft PCs it considered the best examples of PC definitions to include more context, explanation of the connection to the companies' targeted outcomes and to be written in plain English.

### **Limitations of customer engagement**

Poor understanding can lead to poor customer support even of required PCs (e.g. transparency, gap sites and voids). Environmental PCs were sometimes assessed in terms of their personal impact whilst others considered the impact more widely. Customers also wanted to be clear which performance areas were decided by the regulator and by other statutory agencies versus those which Yorkshire Water and its customers could choose.



### Linkages between related PCs

The Forum wanted a greater focus on the links between PCs to help eliminate the potential for being rewarded more than once for the same work (e.g. catchment management) or where they are already potentially rewarded by Government (e.g. renewables). Identifying links should also help refine thinking on effective delivery (e.g. education and working with others).

### Measuring benefits

The Forum wanted to see a consistent focus on the benefits delivered by Yorkshire Water, not simply the work the company had undertaken. If this wasn't possible or appropriate, the Forum identified how Yorkshire Water could more accurately measure the effort involved (e.g. 'Education', 'Working with Others', 'Integrated Catchment Management' and 'Land Conserved and Enhanced').

### Refining the research design

The Forum advised that further research should still include Ofwat's required PCs but that these should be labelled clearly as Ofwat's, thereby making clear that using them was not optional. This ensured Ofwat's approach was also subjected to customer scrutiny.

Yorkshire Water agreed to inform the regulator of any discrepancies between what it considered to be important and what customers value. The Forum also sought assurance that all customer groups were included in the research and were supportive of the PCs, including customers in vulnerable circumstances, future bill payers and non-household customers. The Forum felt that robust quantitative research was also needed to add credibility to the findings from the qualitative research. Yorkshire Water was confident it could demonstrate this through its prior work. Finally, the Forum asked the company to ensure that any potential bias in its PCs was removed (e.g. environmental issues). The final package of research findings was tested with over 2,000 customers across the Yorkshire region through a mixed methodology of on-line research and face-to-face interviews.



The Forum is confident that Yorkshire Water has responded positively and constructively to its challenges:

- 'Integrated Catchment Management' has been amended to reflect a land-based metric which has been approved by the Forum. It is a non-financial PC, so no reward is applicable. The Forum considers this appropriate for a legal requirement.
- 'Carbon Emissions' – Yorkshire Water has made it clearer what is included and measured.
- 'Land Conserved and Enhanced' – This is now measured in terms of the benefits delivered, not the work undertaken.
- 'Education' – Yorkshire Water has responded by giving a financial measure for the social benefits delivered.
- 'Working with Others' – Further discussions took place about this commitment and, whilst supportive of the measure, the Forum sought greater clarity and satisfaction on what is delivered. A very positive outcome was it was agreed that the Forum will oversee the projects selected to add some assurance that the schemes deliver value and are therefore worthy of a financial reward.

Yorkshire Water reduced its original 49 PCs to 27 bespoke and 14 common performance commitments before submitting these to Ofwat for review in May 2018. 'Time taken to Resolve Customer Reported Leaks' was removed because the current monitoring and reporting system to measure this was not considered robust enough to make it a regulatory PC for this price review.

At that stage the Forum supported the proposed PCs in the submission but expressed a view that there should be further discussion on the commitments relating to customers in vulnerable circumstances and the continued development of Yorkshire Water's understanding of wider environmental benefits,

This full list was then further tested with customers, alongside consideration of long-term aspirations for the company to make sure the PCs reflect both the current needs of society and the environment as well as future regulatory requirements.





## ENVIRONMENTAL COMMITMENTS



Yorkshire Water, like other water and sewerage companies, has to meet complex and extensive environmental obligations (e.g. Urban Waste Water Directive, Water Framework Directive). The Environment Agency and Natural England jointly produced the Water Industry Strategic Environmental Requirements (WISER) which sets out the environmental obligations and expectations of water companies. It provides the advice on legal obligations and asks companies to consider enhancements beyond the statutory minimum where there is customer support and, wherever possible, identify opportunities for working in partnership in order to achieve wider benefits. The DWI has agreed Yorkshire Water proposals for drinking water solutions from 2020 to 2025 (see section 9). It is extremely likely that some rivers within the Yorkshire Water region will be designated under the European Commissions' Urban Waste Water Directive before or during PR19. There will be a deadline by which solutions will need to be implemented. The required solution of the large-scale use of chemicals to remove phosphorous from waste water may not be sustainable in the longer-term, as its both expensive and will deplete a finite resource.

The anticipated costs associated with meeting these obligations are much larger than when Yorkshire Water last completed its planning process five years ago – about £900 million for PR19 compared to circa £350 million for PR14. But there is considerable uncertainty around the extent of the work and therefore costs. The first is confirmation of the proposed designation of 'sensitive area' within Yorkshire under the Urban Waste Water Directive (UWWTD). The second is the confirmation of measures to deliver the Water Framework Directive which will be determined by the Environment Agency and an update of decisions about the Humber River Basin Management Plan. Decisions are to be made in 2019. The Forum questioned how Yorkshire Water was intending to cope with these challenges to achieve effective planning and customer engagement.

Yorkshire Water explained that its approach to drafting the business plan would follow the guidance received from Ofwat and the Environment Agency. The Forum endorsed its planned research approach to test the acceptability of the highest possible average bill whilst explaining this figure might go down. It concluded that this was the most transparent approach but recommended that the company should discuss this with Ofwat prior to submitting the business plan.

Yorkshire Water agreed with the Forum to test the highest average bill so that any adjustments made after the plan is submitted can only benefit customers. The research also explains the uncertainty resulting from WINEP and is the most transparent way to test customers' acceptability of future bills.



In the interim, the Forum welcomed Yorkshire Water's commitment to moving away from using incinerators for advanced anaerobic digestion to manage bioresources - the products of sewerage that can be used in other ways (e.g. energy production). For the bioresources price control, Yorkshire Water proposed two new PCs, a modification to the existing 'Renewable Energy' PC to relate specifically to the bioresources activities and a new 'Bioresources Treatment Standard'. These two PCs will enable Yorkshire Water to deliver agricultural stakeholders with a high-quality fertiliser substitute, while ensuring that it is being produced at the lowest possible cost by using energy generated on sludge treatment sites.

Significant new investments such as the Hull Blue-Green Infrastructure programme have given rise to proposals for a new 'Surface Water Management' PC to reflect the large increase in non-traditional approaches to removing or attenuating water run-off into the sewers. The new investments will also help contribute to both 'Internal and External Sewer Flooding' and 'Pollution' PCs, as reducing the flow of water through the sewers will reduce the risk of serious service failures occurring (see chapter 6 – Yorkshire Water's approach to managing exceptional costs).

This series of initiatives from Yorkshire Water makes clear how aspirational the company is in working towards the highest standards in customer service and operational delivery. It's what Yorkshire Water customers expect, and what they deserve, and follows on from the investment in key areas from outperformance in the current price review.



## OFWAT'S RULES

The Forum would like to note a number of specific points in relation to the regulatory framework that Ofwat has set out in the final methodology, particularly relating to the common PCs.

Firstly, companies have a statutory obligation to comply with environmental requirements not to pollute water courses. Ofwat allows companies to earn financial rewards for addressing or reducing pollution incidents. The Environment Agency does not support the use of rewards for complying with legal requirements. However, the ODI research shows strong customer support for outperformance payments in this area – the only other wastewater ODI with stronger support was River Length Improved. The valuation research also shows high monetary support for pollution being reduced.

Secondly, the detailed conversations Yorkshire Water has had with customers highlights that many of the common PCs mandated by Ofwat have much lower levels of support than the bespoke commitments proposed by the company. In particular, the requirement for companies to include commitments relating to 'Gap sites' and 'Void properties' in the residential retail price control<sup>7</sup> could be an area that Ofwat develops outside of the PC framework.

Thirdly, the focus on financial incentives in the regulatory framework for PCs may not allow companies sufficient flexibility to innovate in the setting of PCs. The outcomes framework at PR14 was intended to encourage companies to consider the services that customer receive. For PR19, a successful evolution of the framework would be to allow companies to consider the total value or benefit that

## RECOMMENDATIONS TO OFWAT

Ofwat's ambition for companies to achieve bill reductions does not take into consideration the different costs of their environmental obligations. This should be a consideration when assessing business plans.

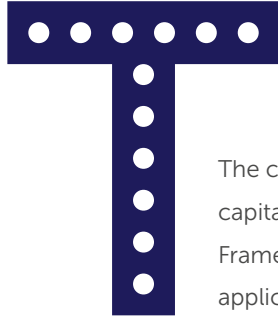
Ofwat should avoid over-ambitious efficiency savings as a means of achieving this, which risks weakening companies' financial resilience.

their activities generate for customers. However, as measurement and quantification techniques in this area are still maturing, they may not be suitable for financial incentives and so result in companies setting output-based commitments.

Yorkshire Water has been developing how it measures its impact on the economy, society and the environment. Its Total Impact and Value Assessment (TIVA) trial seeks to measure the benefit of the services and activities it provides in terms of the impact in six areas (or capitals) – natural; human; social; intellectual; manufactured and financial. It has committed to reporting on its total impact as part of its annual performance report. The company has published its thinking in this area and is inviting feedback<sup>8</sup>. The Forum welcomes this initiative which it views as 'sector leading' and Yorkshire Water is fully committed to transparency and sharing the benefits of this work with the sector generally.

<sup>7</sup>Gap sites – The timescale to set up and bill gap sites. Void properties – The percentage of void properties verified as empty.

<sup>8</sup>Our Contribution to Yorkshire can be found at [www.yorkshirewater.com/capitals](http://www.yorkshirewater.com/capitals)



The company has demonstrated how it has applied the six capitals in its decisions through the use of its Decision Making Framework (DMF). The approach to the six capitals, and the application of the DMF has been shared with the Forum. The company demonstrated to the Forum how the application of the six capitals approach has added additional benefits, for example, through the move towards more demand management solutions such as rain gardens, resolving issues and also providing additional societal benefits.



### **Financial capital**

Our financial health and efficiency.



### **Manufactured capital**

Our pipes, treatment works, offices and IT.



### **Natural capital**

The materials and services we rely on from the environment, especially water.



### **Human capital**

Our workforce's capabilities and wellbeing.



### **Intellectual capital**

Our knowledge and processes.



### **Social capital**

Our relationships and customers' trust in us.

# PERFORMANCE REWARDS AND PENALTIES





## WHAT DOES YORKSHIRE WATER NEED TO DO?

Ofwat gives companies a framework within which they can choose the rewards and penalties they allocate to each of their PC targets.

The company used extensive and cutting-edge customer research to ensure there was transparency about current performance and a clear connection between what services customers most value and decisions on the investment programme, PCs and Outcome Delivery Incentives (ODIs).

The Forum has confidence that Yorkshire Water has considered and mitigated against the risks associated with such an ambitious business plan.

## AN INTRODUCTION TO REWARDS AND PENALTIES

As the regulator, Ofwat monitors the performance of water companies against agreed targets. To encourage companies to reach these targets, Ofwat instructs them to develop performance incentives for approval by the regulator. There are three types of incentives – known as Outcome Delivery Incentives (ODIs):

**Reputational** – Progress on these performance commitments is reported publicly. This can impact on the reputation of the water company.

**Compensation** – If a company has not achieved an agreed target, it will be penalised through a bill reduction for customers, or the company being required to reinvest its own money to improve the services it offers. For some PCs, a penalty will only be avoided if the performance is above average (i.e. upper quartile).

**Outperformance payments** – When a company performs better than its target the company is financially rewarded through being allowed to increase bills. The rationale for this is customers pay more for a 'gold standard' service.

The ODIs should mostly have financial incentives (within a range set by Ofwat), be assessed on an annual basis during the five-year price control and have an impact on the companies' revenue. Companies are only permitted to set large financial rewards (known as 'enhanced') if their current performance is in the top 25% (known as 'frontier') or lowest 25% of all companies.

## YORKSHIRE WATER'S APPROACH TO DEVELOPING REWARDS AND PENALTIES



Yorkshire Water's largescale customer research programme on the value which customers place on service failures, identified the PCs which they felt should receive greatest investment, and which should be rewarded and which should be penalised. The Forum commended Yorkshire Water on the scale of its research programme and the use of such a wide range of techniques - including those it regarded as 'cutting edge' - to obtain this information. The research incorporated existing methodologies for 'willingness to pay' surveys, as well as cutting edge techniques in behavioural and experimental research, such as revealed preference studies and dynamic agent modelling. Yorkshire Water wanted there to be a clear connection between the findings of this research and the cost benefit analysis of the investment programme and the incentives to be used for the ODIs.

In general customers wanted to better understand current performance levels before making a decision on penalties and incentives, although some areas have not been measured before. Customers also wanted it to be made clearer which targets were decided by the regulator versus those which Yorkshire Water could choose. Yorkshire Water committed to improving its communication of this information before the next round of testing.

The results of this initial research informed Yorkshire Water's draft ODIs submitted to Ofwat in May 2018. In this report, Yorkshire Water proposed that 27 of its PCs had both compensation and outperformance incentives, four were compensation-only and 10

were reputational incentives. Households and non-households were generally supportive of penalties for sub-standard drinking water quality, leakage, affordability and water taste.

Prior to submitting these proposals, the EA challenged Yorkshire Water on the appropriateness of companies being rewarded for meeting legal obligations (e.g. 'Preventing Pollution Incidents'), being rewarded for customers' actions (e.g. 'Per Capita Consumption') or if they could be financially rewarded by others (e.g. by Government rewarding the use of renewables). The company was alert to this and made clear that it was not seeking financial incentives where it was not supported by customers or appropriate, although it is noted that concerns were expressed generally about the potential for this by the Chairs of other Customer Challenge Groups at their meeting with Ofwat in May 2018.

In July 2018, Yorkshire Water published its Annual Performance Report as required by Ofwat. As recommended by the Forum, the performance summary report was crystal marked for plain English. The Forum had the opportunity to comment on a draft of this publication and produced its own summary report<sup>9</sup>.

In the next round of acceptability testing, customers were provided with details of Yorkshire Water's performance in 2015 for each of the PC's and projections of where they plan to be in 2020, 2025 and to 2040. Participants were given a number of options for rewards and penalties to choose between. They were also provided with information showing how Yorkshire Water's performance compared with other companies.

<sup>9</sup>[www.yorkshirewater.com/sites/default/files/Yorkshire-forum-for-water-customers-statement-July-2018-yorkshire-water.pdf](http://www.yorkshirewater.com/sites/default/files/Yorkshire-forum-for-water-customers-statement-July-2018-yorkshire-water.pdf)



The Forum commends Yorkshire Water for its rigour in customer engagement, although this was an area where further time to reflect on the framework and its consistency with customer views would have been beneficial. To strengthen understanding, the Forum requested details of the package of proposed ODIs alongside information on current and expected performance to help judge whether Yorkshire Water was seeking to be rewarded for 'easily achievable' targets and an overview of the evidence on customers' views on PCs, rewards and penalties. Where it is possible the ODIs rewards and penalties are drawn directly from actual costs or marginal costs as proxies. It is noted that the results of the research on ODI Rewards and Penalties is also drawn directly from the customer valuations research and there is therefore symmetry between these. Yorkshire Water said that the research showed customers were keen for the company to receive large financial rewards if they did well. Ofwat has set a range for RoRE of between 1% and 3%. This compares with between 0.5% and 1.2% for the company at PR14.

Yorkshire Water informed the Forum that it expected to have an overall 'neutral' level of performance, neither gaining nor losing money as a result of performance against the ODIs. Despite time pressures the Forum was involved at every stage of the development of the ODIs – long list, refinement, draft definitions, PC targets and the integration with the customer research. The ODIs and the mathematical model which supports them has been subject to external third-party assurance from Deloitte, Jacobs, First Economics and Economic Insight. The Forum concluded that what the company is setting in terms of assurance is stretching, consistent, accurate and of a high quality.

## OFWAT'S RULES

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Ofwat wants all PCs to be challenging to achieve. However, its previous treatment of what constitutes 'good' performance by the industry may work against this. If a company did even better than the targets it had agreed with the regulator (i.e. it outperforms), Ofwat assumed that the company set the performance target too low and then required additional efficiency savings. This essentially penalised the company for good performance, something the Forum does not consider to necessarily be in customers' best interests. It could also have the unintended consequence of encouraging companies to focus on satisfying Ofwat as opposed to its customers.

The Forum has been keen to ensure that Yorkshire Water responds to customer preferences and priorities but does not leave itself vulnerable to being set unachievable additional performance targets by Ofwat should the same approach be taken again.

Yorkshire Water embraced this challenge. The research asked customers how ambitious the performance targets should be and over what timescale they should be delivered, and this has led the company to develop a business plan that is currently more 'risky' than in PR14 because of a lack of confidence about how to deliver what Ofwat and customers want. This includes increasing investment in systems, reducing retail costs, improving performance on debt and meeting new costs.

## RECOMMENDATIONS TO OFWAT

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The Forum recommends to Ofwat that it ensures its mandatory performance commitments and penalty/reward framework is supported by robust customer research.

Ofwat should also avoid driving service standards beyond what customers want and placing companies at financial risk as a result.

The Forum strongly encouraged Yorkshire Water to establish a level of confidence about delivering services based on the most accurate assumptions and to be satisfied that it was not exposing itself to unnecessary risks. Yorkshire Water proceeded to 'stress test' the plan by exploring what the consequences would be under 'worst case scenario' and the impact on the measure of Long Term Viability. The company responded to this challenge. The Forum has concluded that the plan is ambitious and stretching, which in turn leads to a higher level of identified risk. However, the Forum is content that this risk has been mitigated and that stress-testing of the companies' finances should ensure that, should the risk materialise, it can still deliver its services to customers.





06

# MANAGING EXCEPTIONAL COSTS



## WHAT DOES YORKSHIRE WATER NEED TO DO?

Yorkshire Water has to keep customers' bills as low as possible. If it plans to spend significant amounts of customer money on exceptional and unavoidable projects, it must secure customer and Ofwat's support.

Customer engagement was used to shape investment priorities and test customer support of the refined list of projects.

The Forum considers the final proposals reflect customers' views. It supports the cost adjustment claims proposed for increasing waste water services because of population growth and to reduce leakage and flood risk.

## OFWAT'S APPROACH

An important part of business plan assessment is how well companies keep costs down since this helps make customers' bills more affordable.

However, Ofwat recognises that there can be exceptional, unavoidable reasons why a company may need to invest a significant amount of money in a project that is unique to them. Ofwat gives companies the opportunity to make the case for this type of spending – called cost adjustment claims – and ensures that it gives permission for bills to be increased to cover this cost, that the costs are kept as low as possible.

## YORKSHIRE WATER'S APPROACH

Yorkshire Water's initial proposals for cost adjustment claims were developed following Ofwat's guidance and examined by independent experts. The claims were then prioritised based on customers' priorities, the size of the claim and after consultation with the Forum. The final list of proposals was then tested and refined with customers using a research technique that the Forum commented on. Yorkshire Water committed to further refining its approach to reflect any financial gains indicated from regulatory discussions and customer acceptability testing of the business plan. This process and outcomes has been checked by Jacobs, Yorkshire Water's independent technical assurance provider.

The Forum challenged the initial draft cost claims tested with customers in the following areas:

**Some environmental work** – it considered costs in some areas to be too high, for example river quality improvements and leakage.

### Improving Urban Waste Water Treatment

**(part of WINEP)** – this was not considered to be a customer priority. The Forum's observation was that costs should be included within an improved calculation of unit costs.

**Water discolouration** – this was seen as a customer priority and the Forum's view was that this should only proceed with support from the DWI.

**Sewer flooding** – Costs were considered to be too high as a result of Ofwat changing how this is measured.

### Customer Relationship Management IT update

– This was not supported by the Forum on the grounds that this is not exceptional or unique and is core to the business. Recommendations included: exploring lower cost options, exploring the approach taken by other companies and considering whether Yorkshire Water’s shareholders should pay for this investment.

**Number of claims** – The Forum concluded that the total number of cost adjustment claims to Ofwat should ideally be reduced to two or three.

Yorkshire Water reflected on this feedback and the responses were fed into the company’s paper to Ofwat on its early view on cost adjustment claims in May 2018. The Forum provided a statement with this submission<sup>10</sup>:

“The Forum supports the overall package of cost adjustment claims as proposed by Yorkshire Water for the early May submission. The claims that it has supported are:

- **Hull and Haltemprice (managing flood risk).**
- **Growth (wastewater).**
- **Leakage.**
- **Cellared properties.**
- **Drinking water quality.**

We believe all of our challenges have been considered and sufficiently responded to. In some cases, this has led the company to re-visit its thinking and to withdraw potential claims for further examination. The company has taken the Forum through its process of claim development and we have had sufficient opportunity to challenge throughout that process

### OFWAT’S RULES

The Forum recommends that Ofwat reviews how cost claims are considered within the new suite of price controls

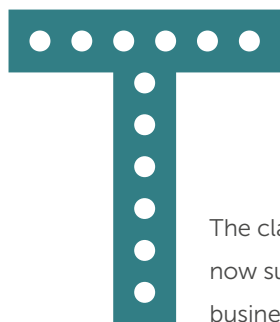
Where a change in reporting requirements may lead to deterioration in performance, an adjustment should be made for all companies to reflect this change in reporting requirements.

to ensure that the views of customers and wider stakeholders are understood and considered.

The Forum also reviewed the approach the company was taking to customer engagement in this area. This has allowed us to form the view that the company has sufficiently challenged itself to develop a rational list of claims that are of need to the business and sufficiently unique in their circumstances. As such the submission reflects the feedback that the Forum has provided to the company.”

The company has had further engagement with the Forum since the early submission in May. Whilst the company has had no specific feedback from Ofwat regarding its early submission, the company has continued to refine its cost adjustment claims and involved the Forum in its continued development. The challenges that have been posed by the Forum have been addressed by the company.





The claims that the company is now submitting as part of the business plan are:

- **Growth (wastewater)** – The company and the Forum are clear that the claim should be for growth that is beyond the normal levels expected. Through discussions it is clear that the claim relating to the four new settlements and the cost of the growth to the company is abnormal and as such supports the inclusion for a cost adjustment to reflect this.
- **Cellared properties** – Whilst Yorkshire Water does have other reasons why its work on this may be costlier than for other companies, the Forum considers that YW is motivated to make a claim for sewer flooding. A change in reporting requirements by Ofwat had led to a worsening of YW's performance, making them look inefficient and the challenge it faces is larger due to this definitional change. It has been noted that the cost of the claim has reduced significantly, and the Forum is supportive that the company has addressed its challenge.
- **Bioresources enhancement expenditure** – The company has made the Forum aware that there are a number of consequences due to the size and scale of its national environment programme (WINEP). Yorkshire Water requires a claim for bioresources enhancement expenditure that is driven by the WINEP. The Forum is clear that increased volumes of bioresources as a consequence of the WINEP are outside of the companies control.

The Forum has indicated its support for all three adjustment claims above and the process that has been undertaken in developing these claims.

## OFWAT'S APPROACH TO ASSESSING EFFICIENCY

Yorkshire Water's initial proposal to make a cost adjustment claim for the replacement of out-of-date technology for Customer Relationship Management was primarily driven because of the company's concerns that the cost of delivering this placed pressure on its total allowance for retail costs and therefore it would be assessed as being inefficient. This in turn would risk Ofwat giving Yorkshire Water a less favourable assessment which would in turn lead to significant oversight of its work for the next five years, a situation the company understandably wished to avoid.

The Forum is concerned that Ofwat's current accounting rules make it almost impossible for companies to 'top up' their retail budgets with other budgets (e.g. wholesale) to allow for non-exceptional projects to be funded without extra costs to customers.

Yorkshire Water has engaged extensively with the Forum on its efficiency plans and how it is addressing the challenge to ensure that affordability and bill impacts are managed effectively to limit the impact on its customers. The Forum has seen the company's plans and how it aims to transform its business to deliver efficiency in its plan. It is clear that the company has challenged itself extensively to delivery significant efficiencies in its plan and that it is engaging with all aspects such as innovation and use of markets in its drive to deliver value for money for its customers.

07

# DELIVERING AFFORDABLE BILLS



## WHAT DOES YORKSHIRE WATER NEED TO DO?

**Yorkshire Water needs to deliver services that customers want at a price they can afford and find acceptable. It also needs to deliver additional financial support for those customers who are likely to struggle most to pay their bills alongside meeting environmental obligations.**

**The company's proposal for an average £3 a year bill increase is supported by customers, but it recognises that it must deliver challenging efficiency savings to achieve this. The range of support measures to help those who may struggle to pay their bills is creative and comprehensive. The challenge will be to raise awareness of their existence and value to all customers.**

## UNDERSTANDING OF AFFORDABILITY

Yorkshire Water's overarching Vulnerability Strategy encompasses both financial vulnerability and non-financial vulnerability. However, the Forum felt that for the purpose of the business plan absolute clarity was needed on the work that has been done for each of the two areas. In response to the Forum's observation, this was tested with other stakeholders and with customers and, for the purpose of the business plan, Yorkshire Water has responded by using the definitions from Ofwat's methodology guidance.

To ensure this important area received the attention it deserved, the Forum also suggested that a Board member have oversight for Yorkshire Water's performance in this area and a Non-Executive Board member has taken a keen interest in this area.

It is important for water companies to understand what services customers want or could have, at a price that is affordable. Yorkshire Water's research found that although customer priorities remain the same, they want Yorkshire Water to deliver them in different ways to keep bills low.

Companies are also obliged to consider how they can support customers who may struggle to pay their bills in full. Yorkshire Water's research found that its customers have a low disposable income, with some segments – low income families and low income elderly households – being at greater risk of having affordability problems. The Forum was told that income growth in Yorkshire is expected to fall behind the UK due to weaker economic prospects and higher than average levels of those dependant on state benefits. As a result, Yorkshire Water has sought to tailor its



support to those customers most at risk of being unable to afford their bills and to have schemes which support those at risk but are not yet in debt.

The Forum has been impressed with how thorough and innovative Yorkshire Water's customer engagement on affordability has been. This included:

- Lifestyle research to understand the level of bills customers can afford.
- Research and analysis of ability for customers to pay in the future.
- Social tariff impact research, including views of existing schemes and acceptability of an increase in subsidy.

- Customer testing of bespoke PCs on affordability.
- Bill acceptability research.

The Forum provided detailed comments on the research materials and questions for the bill acceptability research to ensure the information given was clear, accurate and not misleading.

The Forum would have welcomed greater involvement in the research on vulnerability and affordability, particularly since this is an area of



expertise for Forum members. However, the scale and pace of the research programme limited opportunities for engagement and involvement in consideration of PCs in this area.

## ACCEPTABILITY OF THE PROPOSED AVERAGE BILL

The Forum is pleased to note that Yorkshire Water business plan has endeavoured to keep bills as low as possible whilst also committing to deliver the significant customer service improvements which customers want. These improvements are being funded through significant efficiency savings.

The Water Industry National Environment Programme (WINEP) sets out the actions that companies will need to complete to meet their environmental obligations. As discussed earlier, Yorkshire Water's environmental requirements will not be decided until after the draft business plan has been submitted so the company has sought to demonstrate the approach it will take under different likely scenarios and has tested the acceptability of the highest possible average bill with customers.

It is anticipated that with WINEP and forecasted efficiency savings there will be an average bill increase of about £3 a year. Without WINEP, there would be a bill decrease which is what Ofwat wanted companies to achieve. The Forum questions whether Ofwat's expectation to have reducing bills at the same time as delivering long-term resilience is achievable. However, Yorkshire Water's research found that customers considered higher bills for environmental improvements was a price worth paying.

## RECOMMENDATIONS TO OFWAT

The Forum has concluded that Ofwat's ambition for companies to reduce bills should not result in efficiency savings which cannot be delivered and which disregard customers' views.

Ofwat should consider permitting companies to spread the costs of a wider range of environmental improvements to help reduce the possibility of undesirable significant bill increases for customers.

This may go some way to achieving the competing objectives of lower bills and resilience set by Ofwat.

Whilst Yorkshire Water has not improved bill affordability for all customers, there are exceptional challenges to Yorkshire Water achieving this and their approach has clear customer support.

The Forum commented on the draft research material and stimulus prior to the Acceptability Testing activity commencing. It considers this research to be industry leading.

The research with nearly 2,000 household customers, shows that 86% support Yorkshire Water's business plan. 76% of its financially vulnerable customers are also supportive of the plan. In addition, 67% of household customers find the plan good value for money. 52% of financially vulnerable customers also believe the plan is good value for money.

## EVIDENCE OF EFFECTIVENESS OF PROPOSED APPROACH

Over the next price review period, Yorkshire Water will attempt to provide some form of financial assistance to 50,000 customers, an increase of 20,000 customers.

The Forum considers the measures Yorkshire Water has put in place for those who may struggle to pay their bills are effective for its target audiences and that the company is focussing on the schemes that will have most impact for those facing affordability worries. The focus is on debt prevention because it removes unnecessary worry for customers and prevents debt costs. In addition, Yorkshire Water will be trialling new tariffs - Fresh Start and Temporary Help.

**Social tariff** – Yorkshire Water currently offers a discounted tariff for those who struggle to pay their bills - WaterSupport. Company research found that of those who receive the tariff, 73% no longer worry about their water bill as a result of the financial assistance provided and 90% would recommend the tariff to others. There is an appetite to provide more financial help through bills and, as a result, Yorkshire Water has explored building on the existing scheme rather than creating something new.

When tested, 61% were willing to pay another £0.97 on top of the current subsidy of £0.75 in order to deliver meaningful support - a £174 average annual benefit to customers through this tariff. The increased subsidy seeks to assist 26,000 people and is endorsed by CCWater.

## RECOMMENDATIONS TO OFWAT

In order to deliver the level of assistance needed to help those who are most vulnerable, the Forum considers a nationally- funded social tariff is needed as promoted by CCWater.

Ofwat should revisit this with Government and consider whether guidance can be drafted to support companies to collaborate to manage such a scheme for themselves.

**Metering** – The next most effective intervention for those in debt is promotion and take-up of metering for those who would be better off on a meter. Within the current business plan, this is forecast to help 1,040 customers by an average of £200 pounds per household. The proposal is to have a further 1,000 customers who are in debt placed on a meter over the new business planning period, bringing the total to 2000 customers helped in this way. This represents 25% of the 8,000 customers in debt with a high rateable value home (as at May 2018). Customers want Yorkshire Water to be transparent about the best tariff for them and this approach aligns with this. Yorkshire Water argues that whilst there are additional costs for installation and maintenance for meters, there are benefits in reduced consumption.

**Resolve** – Yorkshire Water's scheme to match payments made by customers for those in debt currently has an average £367 benefit to customers. The current target of 5,372 customers assisted is largely kept constant for the next price review, with a target of 6,000 customers.

**WaterSure** – The company is seeking to increase numbers on WaterSure (a government required social tariff) by around 3,000 customers (50%). It offers an average £400 off bills.

**Charity Awards** – Charity Awards provide on average £450 off a customers' charges. The company plans to help the same number of customers as currently.

**Temporary Help** – A new, Temporary Help scheme looking to introduce a partial bill reduction for those with a life changing event aims to reach 3,000 customers. This recognises some customers do not engage with the water company in the first instance but seek advice through agencies such as Citizen's Advice. This is being piloted so numbers are currently only estimated. This is giving customers a reduced tariff at times of difficulty – using the social tariff in a different way – so does not increase costs.

**Fresh Start** – A debt write-off scheme (Fresh Start) is being piloted, initially helping 1,000 indebted customers who are hard to reach.

## EFFICIENCY OF PROPOSED APPROACH

Yorkshire Water is working with data providers to target the right support at the right customers. This in turn should help keep the costs of managing unpaid bills (bad debt) down. Yorkshire Water is also looking to ensure that it lowers bills for all customers through the appropriate billing of all properties - reducing the number of empty or void properties on its billing system and identifying gap sites. The focus on reducing demand on the system through leakage and rainwater entering the sewerage system should also help keep bills down. Other efficiency measures include maximising the use of digital channels and more energy efficient wastewater recycling.

An important component of the affordability support which the company provides is a lower tariff for those customers who are most likely to struggle to pay their bills (i.e. social tariffs). As a result of customer engagement, the social tariff became more generous but with customers paying an increasingly large proportion of the costs. The Forum requested details of the funding arrangements across all of the support being provided in order to ensure consistency with Yorkshire Water's funding priorities and successfully challenged the company to increase its direct financial assistance. This has been doubled.

## ACCESSIBILITY OF ASSISTANCE

The company will also be continuing its engagement and partnership work with national charities, local third sector organisations and local public service organisations to ensure its services are inclusive, accessible and relevant. It has formed the Inclusive Service Group of local charities and organisations which will meet twice a year to assist with monitoring and engagement. The effectiveness of this approach will be enhanced by the integration of customer engagement into the development of services through annual Customer Engagement Sessions suggested by the Forum. The planned communications trials using data to help with targeted responses should also enhance the effectiveness of Yorkshire Water's approach.

Yorkshire Water's research into the impact of social tariffs on customers identified that the social tariff is simple to understand and apply - 97% found the scheme easy to sign up to. But with only 7% awareness of the social tariff, the Forum recommended that Yorkshire Water focus on improving accessibility and transparency in its communications for developing the next business plan.

As a result, Yorkshire Water is working with the Citizens Advice in Rotherham to identify customers who may not otherwise ask for help. This will help to use the social tariff funding more innovatively, providing help to 3,000 customers who may be going through temporary circumstances such as a significant medical diagnosis like cancer or caring for a terminally ill person. This can often be one of the earliest moments to address financial vulnerability.

Yorkshire Water also proposes to enhance the work it currently does with credit reference agencies to verify applications live on the telephone, rather than relying on paper applications, which can become a barrier to those who are most vulnerable.

Yorkshire Water is also to perform annual reviews of accounts to raise the level of take-up of the most beneficial tariffs and access to support schemes.





## BESPOKE PERFORMANCE COMMITMENT

Yorkshire Water initially proposed a range of bespoke PCs specifically related to affordability. These included:

- **Bill affordability** - The percentage of household customers who find their water and sewerage bill affordable.
- **Direct support** - The number of household customers who receive financial help each year.
- **Best tariff promise** - To review every account annually, refunding the difference in bills and engaging to reduce future bills.

The Forum did not support the proposed PC on bill affordability because the definition would lead to the consideration of only a narrow group of people. It was felt that Yorkshire Water's present approach to help "customers struggling to pay" was more inclusive of a broader spectrum of customers.

**Yorkshire Water's PC Direct support - The number of household customers who receive financial help each year received 78% support from customers. Whilst this was also supported by the Forum, it asked Yorkshire Water to consider setting itself more ambitious targets.**

The amount of support available is limited by what customers are prepared to pay.

Customers were prepared to pay more to tackle affordability but this amounts to less than the customers of other companies. The Forum suggested to Yorkshire Water that it should work harder to increase customers' understanding of affordability problems to help it secure more support for customers' future contributions.

The Forum felt that it was appropriate for shareholders to increase their contribution as customers had and challenged them to do so. In spite of Yorkshire Water being one of only a small number of companies who presently make a contribution to funding its social tariff beyond just covering administrative costs, it agreed to this and committed to doubling their initial contribution to a total of £1 million. As a result, it aims to move from the current position where 26,000 customers are assisted, to 50,000 customers. This should result in an improvement of affordability from the 76% of customers who consider their bills affordable to 81% in 2020/2021 and 85% in 2024/2025.

Yorkshire Water is committed to reviewing all customer accounts once a year in order to deliver on this. Whilst it has decided not to pursue a Best Value Tariff PC, annual reports on performance against this work will be brought to the Forum.

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# PROTECTING THE VULNERABLE



## UNDERSTANDING OF VULNERABILITY

As discussed in the previous chapter on affordability, the Forum provided robust challenge on Yorkshire Water's draft Vulnerability Strategy.

Yorkshire Water's research, Understanding our Customers in Vulnerable Circumstances, has helped the company to understand their social composition and their communication and interaction preferences.

The company also had regard to the recommendations from Ofwat's "Vulnerability focus report" and the "Vulnerability report practitioners pack". Yorkshire Water regards a customer as being vulnerable "when circumstances, temporary or permanent, reduce their ability to access or benefit from the company's services. This includes physical mobility issues, mental health, age, medical conditions and communication needs."

Yorkshire Water has taken on board robust challenges from the Forum on its draft Vulnerability Strategy. The Forum has a number of members who have extensive experience in this area and the sub-group, initially chaired by a representative of the Alzheimer's Society, was taken forward under the leadership of Janine Shackleton of CCWater who has oversight for this policy area within CCWater. The company has recognised that it will be dealing with customers who may be in significantly vulnerable positions and that people may not like the term 'vulnerable' or see themselves as needing help. It has addressed this by developing an Inclusive Customer Service Strategy to make its purpose clearer to customers and its own staff as part of efforts to develop a more customer-focussed culture. The objective for the company is to keep customers 'safe, well and free from worry'.

## WHAT DOES YORKSHIRE WATER NEED TO DO?

Yorkshire Water needs to demonstrate that it offers appropriate services for all of its customers. The company's customer research is already changing how it communicates its services effectively so that the right help reaches the right customers. The Forum is pleased with how the company has responded to its robust challenge to focus more on non-financial vulnerability. The company's new, inclusive approach to service design should help embed a customer-focussed culture and keep customers 'safe, well and free from worry'.

The focus on partnership working and the appointment of a Safeguarding Officer – a first for the industry – are both welcomed. The Forum will work closely with the company going forward to see that its partnership work delivers for customers.

The term 'Inclusive services' means that services can be accessed by all, the correct services are provided and that customers have a say in their development. Yorkshire Water's research demonstrated support for their definitions and understanding of vulnerability (78%) and the overall strategy (83%).

Yorkshire Water has created a Customer Inclusion Group made up of local partners, charities and organisations. Their purpose is to provide expert opinion on Yorkshire Water's service provision for those customers who it is traditionally harder to reach. A number of Forum members attended the first meeting and the Forum will integrate the findings of the Group with its own work going forward. Forum members will attend future meetings.

## EFFECTIVENESS OF APPROACH

Yorkshire Water's plan for 'Inclusive Services' focuses on three key areas:

- **Safeguarding** – safeguarding its customers and signposting support.
- **Inclusive service** – providing a fully inclusive service that is personalised, meaningful and effective.
- **Culture** – developing a company culture which identifies and supports those in vulnerable circumstances.







The Forum considers the work being carried out to embed the safeguarding of customers to be innovative. Through their work in people's homes, Yorkshire Water staff can often be the first to come across and identify people needing support. The Forum welcomes the appointment of a 'Safeguarding Officer' and understands this to be the first in the industry. The company is also training 'Safeguarding Champions' across the business. This role has further upskilled the company in the protection of its customers and should result in Yorkshire Water identifying, supporting and directing help to those at significant risk of harm or reduced quality of life. This is a pro-active response to Yorkshire Water's research finding that customers rarely identify themselves as vulnerable and in need of assistance. Those present at the stakeholder roundtable event hosted by Yorkshire Water welcomed the integration of Yorkshire Water's work with specialist providers. Attendees also recognised the need to protect staff in providing this kind of support.

The Forum felt that the business plan could be strengthened to truly demonstrate the work underway in the measures of success and future proposals. The company agreed to revisit the proposed wording of the business plan to more fully reflect this.

Yorkshire Water's Understanding our Customers research has had a direct impact on its communication's strategy, how it targets communications and the development of the company's digital strategy. The Forum was reassured that the digital strategy will ensure that Yorkshire Water will offer as many channels of communication as possible in the formats that work best for each user group. Additional services for vulnerable customers are to be designed into the digital platforms (e.g. ensuring that they work with website reading software). Customer journey mapping is helping to deliver innovative services such as permitting customers to decide who comes to visit them and when, and to track progress of their job online.

Increased effectiveness is also an aim through combining vulnerability activities with other business areas such as diversity and community engagement. For example, Yorkshire Water is using its community engagement activities from internal volunteers to promote the company's Priority Services Register<sup>11</sup> in deprived areas.

Other culture-changing interventions should also increase effectiveness. For example, the use of the proposal to use "is my customer safe and well" as a rhetorical question to sign off customer contact will encourage employees to think holistically about customer service. A Customer Vulnerability test has also been added to construction companies bidding to deliver work for Yorkshire Water. This is being done to ensure consistent customer service and is also considered to be innovative by the Forum.

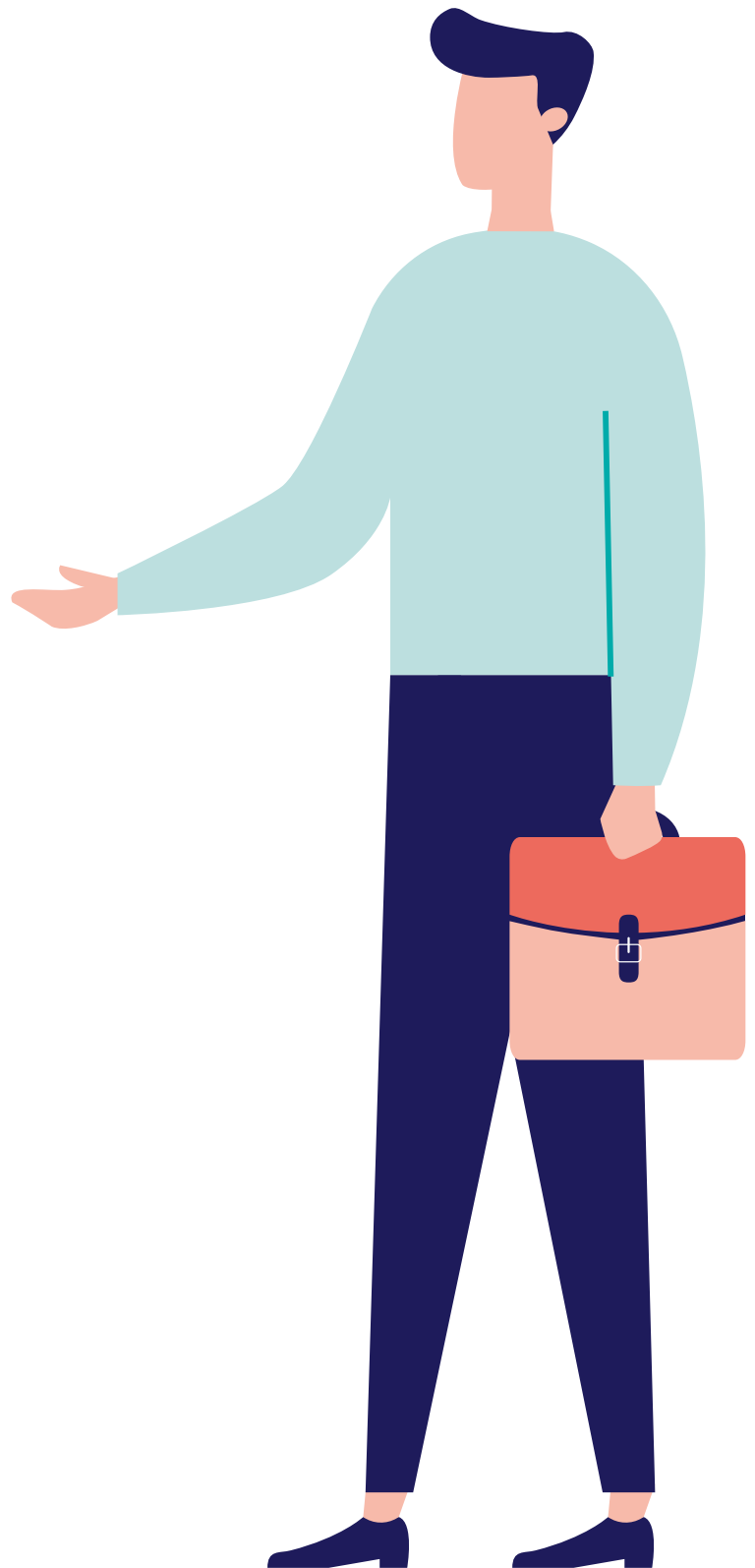
<sup>11</sup>Operating in line with legal requirements about the use of personal customer information, Yorkshire Water uses a Priority Services Register (PSR) to record a customer's need for particular services based on individual circumstances. This is required by Ofwat. Yorkshire Water has been using this over several years which gives the company the opportunity to understand more about its' customers, including those who need alternative communication methods or who may need extra assistance during a water supply disruption event. It offers tailored communication such as Braille bills or printed documents in a particular size print and can deliver bottled water in case of a supply disruption incident. To meet the needs of those people with reduced dexterity or strength Yorkshire Water has offered bottled water in different sized containers. Seeking to constantly improve this position, the company is testing alternatives to bottled water which may be easier for some customers to use.

## EFFICIENCY OF APPROACH

Yorkshire Water's partnerships should allow it to tailor its services to meet the specific needs of the communities it serves in the most effective and efficient way. The Forum endorses the company's approach to using partnerships and data to deliver efficiencies in its safeguarding work, including:

- Partners to support staff safeguarding training.
- Partners to promote Priority Services Register.
- Internal data analysis to identify vulnerability on metered accounts through consumption variation.
- Allowing formal data sharing with National Power Grid to ensure data accuracy and to reduce the need for customers to repeat the same information to a number of organisations.
- A trial to use proactive signposting to the Priority Services Register from incidents where water supplies have been affected and alternative supplies of water are deployed to a community.

Yorkshire Water's innovative use of data is also an efficient way of identifying customers in vulnerable circumstances. Work on data sharing with other agencies (e.g. other water companies, Northern Powergrid) should also deliver benefits to customers.



## BESPOKE PERFORMANCE COMMITMENT

Yorkshire Water shared with the Forum three potential bespoke PCs, all of which were supported:

**Awareness of the Priority Services Register** – The percentage households that are aware of the services provided within the PSR.

**Meeting the needs of customers on the Priority Services Register (PSR)** – The percentage of satisfaction for those customers on the PSR

**Inclusive service** – A measure of the overall service for customers in vulnerable circumstances based on the views of national third-party organisations or charities.

Awareness of the PSR PC received 71% support from customers. As with the PC on affordability, the Forum challenged Yorkshire Water to be more ambitious with targets for awareness of PSR. Yorkshire Water proposed a target of 44% of customers by 2025. The Forum considered this to be low and CCWater research indicates that 45% of Yorkshire Water customers are already aware of these services. The Forum challenged Yorkshire Water to increase this target to above 60% as a minimum in order to be amongst the sector leaders. Yorkshire Water has now committed to seeking 65% awareness as measured by CCWater.

Yorkshire Water decided to proceed with its new inclusive service PC based on 69% net customer support. Of these, 72% said Yorkshire Water should include it in its business plan. The Forum felt that it should be involved in discussing how the inclusive service PC review would work going forward. In particular, it concluded that it should have the

ability to contribute to discussions on the proposed organisations invited to the review panel and that the Forum should be represented on the panel. Yorkshire Water confirmed that it would welcome the Forum being involved in:

- Establishing which organisations would be appropriate on a vulnerability panel.
- Engagement on the design of the process.
- Engagement on the implementation of the process.
- Having a Forum member on the vulnerability panel.

The Forum raised a concern that the research could have been conducted on a group biased to those more conscious of issues and who may be more likely to benefit from the services proposed. Yorkshire Water responded by emphasising that the online community had also been surveyed on this. The Forum felt that more information was needed as to whether the research was adequate, and the numbers were substantial enough not to allow bias. Yorkshire Water has since confirmed this research was intended to be indicative only and it has been subject to robust acceptability customer research. Yorkshire Water is aiming for an ambitious 95% satisfaction.

The Forum will wish to monitor results in this area to see if any modifications need to be made but supports this in principle, subject to having a 'watching brief'.

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# PROTECTING FUTURE CUSTOMERS





## RESILIENCE PLANNING REQUIREMENTS

Ofwat requires companies to demonstrate that they are resilient and to show that they have the ability to cope with, and recover from, disruption and to anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future. This has become increasingly important to Defra and Ofwat because of increasing pressures on essential infrastructure and public services, particularly from the growing population and changing climate.

Ofwat wants companies to focus on the service impact to customers across three key systems: Corporate, Financial and Operational.

Ofwat lists seven principles for resilience planning that are being demonstrated in the company's plan for PR19:

- Resilience in the round, for the long-term.
- A naturally resilient water sector.
- Customer engagement.
- Broad consideration of intervention options.
- Delivering best value solutions.
- Outcomes and being customer-focused.
- Board assurance and sign-off.

Ofwat will use two 'initial assessments' on resilience to help classify PR19 plans:

- Identification, assessment and prioritisation of risks to systems and services.
- Determining mitigation options which are best value over the long term.

## WHAT DOES YORKSHIRE WATER NEED TO DO?

Ofwat and the Drinking Water Inspectorate (DWI) require companies to demonstrate they can continue to provide services and protect the environment in the face of challenges such as population growth and climate change. Yorkshire Water's financial resilience and previous approach to managing environmental challenges has been commended by Ofwat. The Forum welcomes the company's recognition of the benefits of consulting with the Forum on these matters in the future.

Customers' have been fully engaged on the bill uncertainties arising from mandatory environmental work. Their views are reflected in plans for quality drinking water which have now been approved by the Drinking Water Inspectorate.



Resilience is also of importance to the Drinking Water Inspectorate (DWI). The DWI expects companies to take a long-term view to ensure that they have the right resilience plans in place, that is, plans to secure reliable, good quality drinking water supplies for the next 25 years<sup>12</sup>. Companies were required to submit a concise statement of any new planned activities

before they were due to submit their draft business plans to Ofwat (May 2018). Yorkshire Water has since published its Long-Term Statement on Drinking Water Quality. The environment sub-group met with DWI a number of times and the DWI attended the full Forum meeting at which it confirmed support for Yorkshire Water's approach.

<sup>12</sup>Legislation requires Yorkshire Water and other water companies to supply 'wholesome' drinking water quality that is acceptable to consumers. "Wholesome" is defined by strict standards for a wide range of substances, organisms and properties of water, and by its' acceptability to customers. The standards are set to be protective of public health, and, the definition of wholesome reflects the importance of ensuring that water quality is acceptable to consumers, for example in terms of its appearance and taste and odour.

## YORKSHIRE WATER'S TRACK RECORD

A recent test of the sector's resilience plans was the Beast from the East - a period of exceptionally cold weather resulting in unprecedented levels of leakages and loss of water supplies to customers. Ofwat carried out a review of how well prepared each company was for such an environmental challenge and how well they responded<sup>13</sup>.

Ofwat judged Yorkshire Water as performing to a satisfactory level. Areas for improvement were relatively minor and included how well the company communicated with business customers. It emphasised the need to apply the lessons learned from this incident to long-term dry weather which also increases leakage. There was also a recommendation to all companies to improve how they collaborated with each other.

Ofwat is expecting companies to address lessons learned (e.g. distribution of water, communications with customers) in their PR19 business plans and customer engagement. The Forum is therefore pleased to note that Yorkshire Water has built in two performance commitments which reflect key learning points from this process – Events effecting the supply of water for more than 12 hours' and Working with Others.

Ofwat recommended that CCGs should be involved in a company's response as far as was practicable. The Forum agrees with this. Yorkshire Water missed a valuable opportunity to consult with the Forum – for example on the level goodwill payments for supply interruptions – in the way that other companies did.

Yorkshire Water was also mentioned by Ofwat in their CMF publication as carrying out extensive financial resilience forecasting. The company has significantly reduced the cost of debt to increase financial resilience.

## YORKSHIRE WATER'S APPROACH

The company has used its independent assurance partner Deloitte to review its integrated approach to resilience. The Forum expressed concern that Yorkshire Water does not risk its resilience by seeking to deliver overly-ambitious efficiency targets (see Chapter 4), a concern also expressed by Yorkshire Water's Board. The Forum was pleased to note that resilience has been independently assured with other high-risk areas.

As mentioned in Chapter 4, Yorkshire Water's Total Impact and Value Assessment (TIVA) could greatly improve the company's and the sector's resilience reporting. It's financial, social and natural (environmental) capitals reflects sustainable development goals. Reporting against these three is known as "triple bottom line reporting" and would be a welcome innovation in the sector. The additional internal goals or capitals (human, intellectual and manufactured) help Yorkshire Water measure and monitor its resilience.

<sup>13</sup>Ofwat's freeze thaw review (2018).  
Out in the Cold - [www.ofwat.gov.uk/out-in-the-cold/](http://www.ofwat.gov.uk/out-in-the-cold/)

## ENVIRONMENTAL REQUIREMENTS

The Water Industry National Environment Programme (WINEP) sets out the actions that companies will need to complete to meet their environmental obligations. As discussed earlier in this document, the decision about the designation of Yorkshire rivers under the Urban Waste Water Treatment Directive will not be decided until after the draft business plan has been submitted so Yorkshire Water has sought to demonstrate the approach it will take under different potential scenarios.

The Forum shares Yorkshire Waters concerns that the UWWTD legislation is driving significant expenditure levels, when greater environmental benefits could be achieved by a different approach (see Chapter 4).

The Forum suggested that Yorkshire Water test its Total Impact Valuation Approach on this particular challenge to help identify the impact on the Yorkshire region. It also recommended that Yorkshire Water 'drive' a more desirable approach through greater partnership working with other companies and Defra to deliver better results for Yorkshire. To assist with this the Forum suggested widening the membership of its environmental sub-group, for example by including the Forestry Commission.

## RECOMMENDATIONS TO OFWAT

The Forum hopes that Ofwat can make representations to Government to seek changes to the Urban Wastewater Directive (which is currently under review by the EU) and the way it is implemented so that lower cost, and more effective solutions, to environmental challenges can be used. (e.g. along the lines of Yorkshire Water's "Catchment Sense" document). It also hopes that Ofwat will add its weight in pressing legislative authorities to address current barriers.





## YORKSHIRE WATER'S PLANS FOR DRINKING WATER QUALITY

One of Yorkshire Water's Strategic Goals and a key commitment to its customers reflects customers' priority to have water that is clean and safe to drink, enough water and to stop failures in service from affecting their lives. Yorkshire has a large amount of lead pipework and the company is required to take action to reduce the amount of lead in drinking water and the chemical used to treat it and prevent it from entering the supply. The company and the Forum share concerns that the required solution i.e. The use of large amounts of chemicals to stop the lead entering the supply is not a good long-term solution, is bad for the environment, wastes a finite resource and is costly.

The Forum supports Yorkshire Water's overall plans in the area of drinking water quality, which include:

- Moving towards a catchment-based approach with new treatment processes being a last resort for delivering safe, acceptable water.
- An enhanced programme of asset management and maintenance activities. Amongst other things this responds to customer priorities by preventing service failures impacting on customers lives, improving water quality, and reducing leakage.
- Continuing with efforts to improve customer acceptability of water, especially in respect of discolouration and taste and odour.
- Implementing new data systems so that they can intervene proactively to mitigate problems such as leaks or bursts much earlier. The company will lay or adopt leak-free networks to plan for population growth.
- Continuing and accelerate activities to remove lead from the connections to customers' homes and businesses.
- Developing plans to use technology and innovation to enhance resilience across its catchments, treatment facilities, and water network whilst being mindful of the potential costs for customers.

The DWI subsequently approved the need for a scheme to reduce lead concentrations in treated water for water quality reasons to be included by the company in its Final Business Plan (see Chapter 4 – Environmental Commitments).





