

The Rt Hon Alistair Carmichael MP
Chair
Environment, Food and Rural Affairs Committee
House of Commons
London
SW1A 0AA

Sent via email

3 June 2025

Dear Alistair,

Thank you for your letter of 13 May which asked for further information to support the Committee's ongoing inquiry into 'Reforming the Water Sector'.

With the intention of providing our response in as clear a manner as possible, I have structured this letter to address each question in turn. Following any reference to publications, there is a link in the footnotes.

Remuneration models and dividend policies

'How remuneration committees are selected and who sits on them'

The membership of our Remuneration Committee is made up of non-executive directors, who are selected by our Nomination Committee. The executive directors on the Board (Chief Executive and Chief Finance Officer) do not have a say in the membership or decision-making of the Remuneration Committee.

The Remuneration Committee contains a majority of independent non-executive directors. The Committee is chaired by Wendy Barnes, one of our independent non-executive directors. Our independent Chair, Vanda Murray, also sits on the Committee, along with two other independent non-executive directors and three of our investor directors, who represent our largest shareholders.

'Your company's current remuneration policy for senior executive bonuses'

Our approach to remuneration is intended both to reflect the external recruitment market, making it possible to attract and retain high calibre candidates, and also incentivise delivery for our region, moving us towards achieving our corporate vision of a Thriving Yorkshire, right for customers, right for the environment.

An overview of our remuneration policy is set out each year in our Annual Report and Financial Statements. This is published on our website and contains a detailed breakdown of the work of

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the Remuneration Committee, including how the Committee has reached its decisions on the level of senior executive director bonuses.¹

Our remuneration policy for senior executives consists of fixed pay, short-term variable pay which incentivises in-year performance, and a long-term incentive scheme that sets targets over a three-year period to drive longer-term performance. The policy is aligned with the UK Corporate Governance Code and other guidance. The current remuneration policy will be amended to reflect any new legislative or regulatory requirements.

'Your policies for paying dividends and how this relates to company performance'

An overview of our dividend policy is included each year in our Annual Report and Financial Statements. This is published on our website and contains a detailed breakdown of how dividend payments have been determined.²

Our policies for paying dividends align with the principles of condition P30 in our Instrument of Appointment. These principles are that:

- Dividends declared or paid will not impair our ability to finance the business, taking account of current and future investment needs and financial resilience over the longer term
- Dividends declared or paid take account of service delivery for customers and the environment over time
- Dividends declared or paid reward efficiency and the management of risks to the business.

Our policy states that *"distributions will only be made after an appropriate financial resilience analysis has been undertaken, and that dividends will be adjusted to reflect and recognise company performance and benefit sharing from service and efficiency performance."*

Prior to any dividend being declared, the Board reviews company performance in the round, both actual and forecast, specifically in relation to delivery for customers and the environment, and financial resilience.

'An outline of how these policies have changed over the past five years'

Over the past five years, both our remuneration policy and our dividend policy have evolved in line with our experiences and the direction of the business, as well as with further guidance and feedback received from Ofwat.

¹ [Yorkshire Water, Annual Report and Financial Statements 2024, published July 2024.](#) (pages 176-205)

² [Yorkshire Water, Annual Report and Financial Statements 2024, published July 2024.](#) (pages 145, 147-148)

On remuneration, the principle of having both fixed and variable pay has remained the same, but the implementation has changed. It was felt that the previous arrangements were overly complex and didn't align directly with our new strategy. The measures and metrics against which performance is measured have therefore changed to align with the evolving needs of the business and Ofwat guidance.

The Remuneration Committee has always had discretion to adjust any variable pay outcome as a result of performance and this has continued over the last five years, with downward adjustments being made in each of the last three years.

On dividend policy, the wording of the policy has evolved to respond to feedback and guidance. The Board continues to consider performance in the round prior to making any dividend decisions, as part of the duty of directors to consider the long-term success of the business in the decisions they make.

The Committee's concerns about bill payer money being spent on advertisements and legal action against Ofwat, the Environment Agency (EA) and the Drinking Water Inspectorate (DWI).

Breakdown and rationale for money spent on advertisements over the past five years

We conduct advertisement campaigns in areas where there is a need to communicate with customers to raise awareness and drive behavioural change. These include:

- Promoting our Priority Services Register
- Promoting financial support schemes
- Promoting campaigns to reduce blockages
- Promoting the value of water, linked to our performance commitment to reduce Per Capita Consumption.
- Seasonal campaigns linked to winter messages around protecting pipes from leaks
- Reservoir safety advice for customers

Over the course of the past 5 years we have spent just over £4.3 million on advertising, with major cost being caused by incidents which prompted the company to communicate at scale and depth with our operating region. This includes during the covid pandemic and a drought (with Temporary Use Ban introduced) in 2022-23, with both events costing the company around £1million in advertising costs.

Most planned advertising campaigns cost substantially less, however in the final years of AMP7 we have spent approximately £1million on advertising to reduce blockages on our network. Blockages can be caused by customers flushing items such as wet wipes into the network.

It is important that we engage with our customers on these topics, and advertisements are an important part of awareness campaigns. In Asset Management Period 8 we have a target to reduce household water use by 2%, and we will support this through behaviour change campaigns and promoting the use of water meters.

For clarity, we have not advertised against Ofwat, the EA or the DWI over the last five years.

Breakdown and rationale for money spent on legal action against Ofwat, the Environment Agency and the Drinking Water Inspectorate over the past five years

We have not taken any legal action against Ofwat, the EA or the DWI over the last five years.

Replacement rates of assets

'Your company's replacement rates for assets during Asset Management Period 7'

and

'How this will change under Asset Management Period 8'

Information on replacement rates for network assets during AMP7 and AMP8 is set out in Table 1 in the appendix to this letter.

For each asset category, the table shows for AMP7 and AMP8 (forecast)

- the total asset 'stock' in each year
- the actual value of assets replaced in each year
- the percentage of the asset stock replaced in each year

The replacement rates for large complex assets, such as treatment works or pumping stations, is more difficult to represent based on factors such as:

- At site level a name would be given (e.g. Chellow Water treatment Works), however within the site there are multiple different processes that sit within an asset hierarchy, within which different materials and asset lives are represented (e.g. long life concrete verse short life control equipment). On this basis an average life per site cannot easily be represented, and would need to be broken down into sub-processes and material types.
- Determining comparative life at a sub-process/material type is difficult based on historic investment (e.g. one site may have received investment to meet a new environmental or drinking water standards, but another site may not).

We therefore have various programmes to determine maintenance and replacement requirements at our complex assets, but we don't hold data in the same manner as our underground networks.

'What assessment has been made about the sufficiency of these rates'

With regard to what assessments have been made about the sufficiency of these rates, the answers differ depending on the asset in question.

Water meters, for instance, work on a 15 year asset cycle, derived through accuracy and battery life. In the AMP8 period, Yorkshire Water will be investing in all meters in which the asset life is due to expire between 2025 and 2030. This will result in the exchange of 1.4 million customer meters, which will be upgraded to Smart Meters. This will allow improvements in both leakage and per capita consumption. The profile of renewals will, however, create challenges, as we will need to work closely with customers to gain access to properties to exchange meters, with around 40% of meters being located internally.

For water mains, we highlighted throughout our PR24 business plan submission to Ofwat that the water mains replacement programme would need to be a 10-year strategy, with the same level of replacement and associated funding required in the AMP9 period as in AMP8.

For determining the length of sewer replacement needed to maintain a target sewer collapse rate, we ran our Infrastructure Deterioration model (IDET) for PR24 planning. The model assumes a mix of full-length replacements and proactive replacement of short lengths of individual sewers. The output shown in Table 2 suggests that our replacement rate should be an average 0.02% per annum.

In general terms, we advised Ofwat during the development of our strategic business plans that continuous performance improvements cannot be efficiently and sustainably achieved through a continuation of historic asset management approaches. A transition was required in AMP8 to deliver long-term health of our assets for current and future generations. We were successful in securing Ofwat support for an uplift in renewals expenditure for the water distribution system. However, Ofwat rejected an increased allowance for treated water storage tanks, clarifiers and filters, even though we had highlighted that 8% of these assets would be beyond their design life of 80 years and we needed to begin a managed programme of replacement. This is to ensure we had time to manage the network and protect resilience of water supplies during the replacement programme.

To inform our planning, we undertake asset deterioration modelling within corporate applications. This is to understand the risk our assets pose to loss of service to customers, ensuring our modelling approaches align to best practice with reviews undertaken at least quinquennially due to the long-life nature of the asset base.

Throughout the PR24 process, we have discussed with Ofwat the appropriate balance to strike when determining the level of expenditure on asset replacement and asset enhancement, given

the constraints associated with customer affordability and financeability. We are concerned that the level of expenditure required to meet environmental objectives is limiting the expenditure that Ofwat is allowing water companies to increase asset replacement rates through base maintenance expenditure. This is a matter of concern and was an issue that we raised in our recent response to the Independent Water Commission's Call for Evidence.

Tackling water poverty

'How your company measures the extent of water poverty in its area and how it measures its success in tackling it'

Ofwat recently clarified the water affordability calculation as part of the PR24 guidance. The calculation builds on industry research conducted by Cambridge Economic Policy Associates (CEPA) in 2020 and Frontier Economics in 2022, and is aligned to the Consumer Council for Water's Affordability Review.

To ensure consistency with the approach taken across water companies, we have adopted this measure of water affordability across the Yorkshire Water region. The measure focuses on households spending more than 5% of their income (after housing costs) on their combined water and wastewater bill.

The full calculation, taken from Ofwat PR24 guidance, is:

$$\text{Water Bill} / \text{Equivalised Net Household Income} > 5\% \text{ (for dual service), or } 2.5\% \text{ (for water only or wastewater only service)}$$

In this equation, Equivalised Net Household Income = (Gross income – government/council taxes and National Insurance – housing costs – disability benefits) / (Equivalisation Factors).

Housing costs include rent or mortgage, but do not include home insurance, energy costs, or service and maintenance charges.

Due to the complexity of this calculation, we have utilised Frontier Economics to ascertain the level of water poverty in the Yorkshire Water region. In 2025, using the above calculation, they forecasted the level of water poverty in FY26 at 13.6% (313,000 households) and 16.8% (386,000 households) by FY30 (without any bill support provided). This is higher than our PR24 business plan estimations due to lower forecasted income growth, higher forecasted inflation, and higher housing costs in the Yorkshire Water region, estimated by the FRS.

'What steps your company is taking to ensure that it meets this 2030 target'

We have taken several steps towards reaching the 2030 target of eradicating water poverty. In the next 5 years we are significantly increasing the level of help to customers to the value of over £375m worth of water bill support (vs £115m in AMP7). This will provide over 535,000 customers

help with income maximisation and/or water bill reductions with the aim to remove them from below the water poverty line. Customers have supported this approach in our PR24 research and have agreed to increasing cross-subsidy for our social tariff from £6 per customer per year to £24. Shareholders also continue to fund the social tariff, in addition to £6m per year for our debt schemes, providing £12.5m for this in AMP8 (25% increase from AMP7).

Our primary mechanism for removing customers from below the water affordability level is our company social tariff. From FY26, in response to the water poverty definition, we have transformed the tariff from a single bill reduction to a three banded tariff to aim to meet the measure. The three bands are designed to support low-income households across the region with a capped annual charge aiming to provide a less than 5% bill:income ratio. Designing in this way provided the only mechanism to fix the bill value of each tariff band at a level to remove customers from above the water poverty level.

To ensure customers who need support are accessing the bill reductions available we are working with external organisations across our region, such as councils and charitable organisations. In FY26 we forecast over 25,000 customers will access a water bill reduction via an external organisation and, where possible, these customers will be auto-enrolled to bill help without the need for directly applying.

Our latest water affordability research with Frontier Economics also proposed a material reduction in water poverty through increased adoption of water meters. We are targeting to switch 50,000 low-income households to metered charges over the next five years to remove them from below the water affordability threshold. This will be achieved through increased promotion of water meters to customers and working with local authorities across the region to increase uptake.

Data transparency

'My committee would like to know what data on water quality and security is routinely published by your company', where that information is placed and how often it is updated.'

We are committed to working with the rest of the industry and our regulators to open up access to our data in a manner that is both standardised and accessible. We have therefore collaborated with other water companies as a key member of Stream (streamwaterdata.co.uk), which is a sector sponsored initiative on open data and innovation.

Since the project began we have driven forward our open data capability. This has enabled us to release several datasets through the Stream website including:

- drinking water quality
- reservoir levels



- night flow
- domestic consumption
- our appointed boundaries and
- our annual performance data.

In addition, we have played a leading role in the creation of the WaterUK open data strategy which outlines the vision, principles, priorities and commitments of the sector as responsible stewards of data related to national infrastructure and the environment.

Yorkshire Water will continue to support Stream with their ongoing release process. We will fully participate in the use cases which are prioritised over the next 12 months, with this including Clean UK rivers, lakes, seas, sewer flooding and drinking water.

We recognise that sharing data with stakeholders is an important part of being transparent about our performance, and we are committed to working with the industry to publish appropriate datasets under an open license.

Our annual Event Duration Monitoring data is published on our website, as is a near-to-live storm overflow map showing our 2200 overflows and which are currently discharging or have discharged in the past 48 hours.

I hope that the information above has provided the level of information you require on the topics raised in your letter and will be of use to the Committee in their ongoing inquiry. Please do not hesitate to get in touch if you would like any clarification or further information.

If we have misunderstood any of the questions raised in respect of the responses provided, please do let us know and we are happy to provide anything further as required.

Kind regards,

A handwritten signature in dark ink that reads "N. Shaw".

Nicola Shaw CBE

Chief Executive, Yorkshire Water

Appendix

Table 1: Replacement rates for network assets during AMP7 and AMP8

				AMP7					AMP8				
				1	2	3	4	5	1	2	3	4	5
Water Mains	Asset stock value	Unit	Km	32,012.10	32,114.60	32,267.40	32,375.60	32,465.70	32,583.90	32,689.40	32,794.90	32,900.40	33,005.90
	Replacement value	Unit	Km	30.60	8.30	18.00	12.20	24.40	162.67	216.90	271.12	216.90	216.90
	Percentage replaced	%		0.10%	0.03%	0.06%	0.04%	0.08%	0.50%	0.66%	0.83%	0.66%	0.66%
Water Meters	Asset stock value	Unit	No.	1,350,128.00	1,383,773.00	1,422,701.00	1,451,898.00	1,471,695.00	1,496,695.00	1,521,695.00	1,546,695.00	1,571,695.00	1,596,695.00
	Replacement value	Unit	No.	3,573.00	3,379.00	7,156.00	37,893.00	42,267.00	161,016.00	332,146.00	352,146.00	352,146.00	182,591.00
	Percentage replaced	%		0.26%	0.24%	0.50%	2.61%	2.87%	10.76%	21.83%	22.77%	22.41%	11.44%
Sewers	Asset stock value	Unit	Km	51,103.00	51,148.00	51,245.00	51,315.00	51,382.46	51,387.36	51,439.22	51,491.08	51,542.94	51,594.79
	Replaced value	Unit	Km	25.70	21.30	14.80	22.20	52.90	6.25	10.05	15.40	18.05	18.10
	Percentage replaced	%		0.05%	0.04%	0.03%	0.04%	0.10%	0.01%	0.02%	0.03%	0.04%	0.04%
Rising Mains	Asset stock value	Unit	Km	1,280.00	1,283.00	1,288.00	1,292.00	1,295.35	1,307.21	1,313.58	1,319.95	1,326.32	1,332.69
	Replacement value	Unit	Km	0.20	4.06	2.80	3.50	1.70	4.00	5.00	5.00	6.00	6.00
	Percentage replaced	%		0.02%	0.32%	0.22%	0.27%	0.13%	0.31%	0.38%	0.38%	0.45%	0.45%

Table 2: Infrastructure Deterioration model (IDET) for sewers for PR24 planning

	2025/6	2026/7	2027/8	2028/9	2029/30
Collapses	619	619	619	619	619
Length(km)	4.437	6.865	9.521	12.687	16.049
% of total length modelled	0.01%	0.01%	0.02%	0.02%	0.03%