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Dear Ofwat

### **Response to Ofwat public value consultation**

I welcome Ofwat's continued exploration of its role in public value. This is a critical issue and an opportunity for attention and action across the sector. This is true, now more than ever with the impacts of the pandemic. Please find enclosed Yorkshire Water's response to the public value publication and consultation released in December. We would welcome the opportunity for further discussion and make specific suggestions on this towards the end of this letter. In this letter we set out Yorkshire Water's approach to public value and also deal with some of the specific points raised as questions in your paper.

### **Yorkshire Water – purpose and vision**

In the last year we have spent a great deal of time rethinking the purpose and vision of Yorkshire Water as part of a process which will lead to the publication of our new long-term strategy in the Autumn of this year. Our approach to this work was inclusive and collaborative. Customers, colleagues and stakeholders were all engaged in an exercise of co-creation which led us to a simple yet compelling proposition which is that we are proud to play water's role in making Yorkshire a brilliant place to be, now and always. Our approach to delivering public value sits within this purpose and is defined by our

contribution to Yorkshire and the way in which we work with other Yorkshire institutions to ensure that every pound spent on infrastructure, the environment and public service achieves best effect.

We set our ambitions for public value delivered in partnership at a very high level and this will be central to our contribution to the two main challenges facing the country: climate change and economic recovery from the impacts of Covid 19. In tackling these challenges, we have three approaches at our disposal: regional partnerships, behavioural and natural solutions and traditional engineering. Whilst traditional engineering will continue to have its place, its carbon impact means collaboration with the region and with our customers will need to play a much bigger part in the future and regulation will need to develop additional flexibility to make this possible

### **Yorkshire Water's approach to public value**

With this in mind, the main lens through which we view our public value is that of our role as a regional anchor institution. Anchor institutions are permanent fixtures in a regional economy which make a significant contribution to society, the economy, the region and the environment by the delivery of their core service and by the way in which they employ people, invest and procure goods and services. Added public value comes from the way in which anchors collaborate in these areas to generate inclusive and sustainable growth.

Traditionally, anchors tend to be public institutions: local authorities, schools, colleges, universities and hospitals. However, Yorkshire Water as a public service provider, large employer and significant investor, has all the characteristics of an anchor. Our culture and ethos are very close to other public service providers which makes collaboration with other anchors a natural and easy fit. The importance of public service came through very strongly from our colleagues in the development of our purpose and has been shown in the way our colleagues have collaborated with other key workers throughout the pandemic.

In Yorkshire we are part of a number of anchor networks, each with distinct objectives. In Leeds for example, the anchor network, convened by Leeds City Council, brings together the city's universities, teaching hospitals and further education establishments. Individual workstreams develop common approaches to skills, employment and procurement. This involves pooling of apprenticeship levies, shared work on Academy development and recruitment campaigns targeting areas of the city with multiple deprivation which are unrepresented in our collective workforces. Yorkshire Water takes a particular lead on a workforce diversity project and has also developed an innovative Kickstart scheme in partnership with the TUC and Unison

The Yorkshire Land Network, convened by Yorkshire Water, brings together the largest institutional landowners in the county to take a common approach to best practice in land

management and to develop a pool of carbon offset opportunities to ensure that Yorkshire organisations looking to offset can find a suitable source within the county.

Yorkshire's approach to climate change is based on collaboration and has resulted in most of the county's local authorities sharing the same net zero objective. We have worked to share carbon roadmaps with the devolved authorities to secure a unified approach and developed joint strategies to reduce the costs and increase the speed of delivery of mitigation and adaptation plans. This approach has led to the creation of the Yorkshire Climate Commission this year and we will be playing a significant role in that as it looks to launch itself with a distinct Yorkshire presence at COP26.

The Living with Water partnership in Hull brings together Hull City Council and the East Riding of Yorkshire Council, Yorkshire Water and the Environment Agency with a shared strategy towards flooding and resilience. Working together, we have harmonised investment, made joint bids for funding and collaborate our response to immediate incidents. A similar network is currently under development in the Don catchment, involving the local authorities, devolved Mayoral administration and the Environment Agency.

The anchor approach has measurement and impact evaluation at its heart. Through the Leeds anchor network, we have taken on board an anchor development framework produced by the Joseph Rowntree Foundation. This enables us to set ambition and measure progress across five dimensions: employer, procurer, infrastructure and assets, service delivery and corporate and civic. Crucially the framework enables us to compare our approach and progress against other anchor Institutions and we are committed to publishing the annual assessment which we will undertake.

## **Scope and Ambition**

Yorkshire Water sees no significant inhibitors to the maximisation of public value in the delivery of core services. Our board and investors recognise that legitimacy and public value are inherent parts of a water company's licence to operate. They also recognise that our partnership approach to the delivery of public value will often bring significant operational benefits. For example, collaboration with local authorities on social objectives or flooding and resilience builds relationships which can also assist with the development of shared digital infrastructure which is likely to be a significant driver of cost efficiency as well as a valuable social and economic asset.

As long as public value approaches are firmly rooted in the delivery of core services then we see little risk in the pursuit of greater public value. Instead, as our approach to public value is based on ever deeper partnerships with other service providers and with our customers, then this focus is likely to lead to more opportunities to change the way in which we provide services. This partnership led approach, with public value at its heart, will form a central part of our strategy for the long term.

## Incentives and barriers

If you take our approach to public value and service delivery in partnership with others to its logical conclusion then that inevitably leads to a point at which shared assets, staff and integrated operational and investment strategies become a reality.

The traditional approach to economic regulation and accounting significantly inhibits this. Should a shared blue green asset be part of a water company's RCV? How do we account for investment and maintenance of that asset? How does one determine the efficient cost of a leakage team working in partnership with a local authority's highways department? Water company investment in digital infrastructure will bring additional public value benefits for a community because of it's enabling of other services and yet current approaches to regulatory evaluation do not take account of these.

Additionally, catchment based solutions generate wider environmental and social benefits than those at the heart of Water Industry National Environment Programme (WINEP) activities and are supported by customers, yet traditional civil engineering solutions which offer fewer public value benefits are incentivised by the current economic and quality regulation regime. Although nature-based solutions are being increasingly mandated by government, regulators can see them as difficult to regulate because of their relative uncertainty of outcome.

Alignment in timescales and desired outcomes between government, regulators and key policy mechanisms is critical to securing best overall public value. We are pleased to see reference in the Ofwat paper to reform the WINEP. Our experience in planning for AMP7 demonstrates competing outcomes, an underlying bias in current legislative requirements and practical restrictions on the application of innovative approaches. Together, the WINEP for Yorkshire is dominated by a large and traditional capital programme which will add to affordability and sustainability pressures for decades. We will continue to strive for innovative approaches within the permitted regulatory timescales and we will use this example to encourage bold reform that supports delivery of the best long-term approaches. I would welcome the opportunity to explore with you how we might jointly support this goal for PR24.

Yorkshire Water's six capitals approach enables us to look at wider benefits than purely economic and value for money when making investment and operational decisions. Greater use of natural capital accounting in economic regulation would increase the incentive to take a broader public good perspective. Outcome focused regulation would also assist as would a modernising of the approach to assets and RCV.

## Understanding impact

The anchor measurement framework sets out clear markers of progress for an organisation to measure its progress against its public value ambitions and also to compare its progress with that of other public service organisations. The additional benefit of this is that our stakeholder partners have greater visibility of how effective we are being and also the chance to influence those objectives through a collaborative approach.

There is much to be said for an approach based on complete transparency in which a water company sets out its public value objectives to customers in a clear and accessible way and then reports on progress towards them. If this is to be achieved, then it is important that companies do not take an over complex approach to public value reporting which is often seen in corporate public impact reports. It is also important that this reporting goes beyond virtue signalling and has the humility to report on areas where less progress has been made.

Yorkshire Water's board social value committee holds the executive to account for its performance on social value. It sets the direction for our public value strategy and receives reports throughout the year demonstrating progress.

## Principles and frameworks to guide the sector's approach

It would be useful to collectively develop a set of principles to guide the water industry's approach. Within that set of principles, companies will wish to retain flexibility to tailor their approach to public value to reflect the regional priorities within the communities they serve.

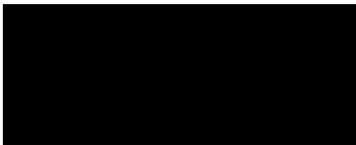
Although they were not highlighted as such, the Ofwat paper starts towards several principles that we would support. These would merit sector-wide development and discussion, and we would welcome the opportunity to work with your team and the sector on this. For example, water industry public value principles might include:

- Retaining focus on core duties as our biggest contribution to public value, and targeting how we can, and need to work differently to protect and grow public value.
- Ensuring measurable benefits and outcomes for society.
- Demonstrating alignment to regional institutions and priorities.
- Additional clear principles on openness and transparency including publication of all operational and performance data for public scrutiny.
- Reporting openly about our public value priorities, successes and learning.
- Ensuring diverse perspectives shape our decisions.
- Considering intergenerational fairness as a central theme of public value, ensuring the right balance for today's customers and future generations.
- Actively pursuing opportunities to grow public value where water companies are well placed to deliver good value and a strong return on investment.

### **Collaboration and exploration**

If the sector is to find an affordable, effective and sustainable approach to public value, this area merits open and active collaboration across companies, government, regulators and the full range of sector stakeholders. My team and I would welcome the opportunity to discuss this further and bring to life our points and ideas having for several years been actively focused in protecting, growing and carefully governing our own approach to public value. We look forward to hearing from you.

Yours sincerely,



Nevil Muncaster  
Chief Strategy and Regulation Officer