

# Sustainable Finance Framework

Impact report

February 2021



YorkshireWater



**We're proud to play  
water's role in making  
Yorkshire a brilliant  
place to be –  
now and always**

*This is our purpose*





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# Foreword

I am delighted to bring you Yorkshire Water's first annual impact report from our Sustainable Finance Framework. This impact report is designed to be read alongside the main 'Our Contribution to Yorkshire' report, which uses our leading six capitals approach to estimate the impact of our business and its operations on society and the environment.

We have been a bold leader in sustainable finance, being the first company in the sector to announce the closure of our offshore financing companies and the first to launch a whole-business sustainable finance framework. We were also one of the first to embrace integrated reporting including the early adoption of the Task Force on Climate-related Financial Disclosures ("TCFD") guidelines three years ago.

Our ability to provide such broad and in-depth impact reporting stems from our innovative six capitals approach adopted in 2015, which is not just being used to better understand our impact, but also helps shape our strategy, operations and investment decisions. The new 'Our Contribution to Yorkshire' report and the comprehensive assessment behind it has further matured this approach, and we openly share this and the methodology underpinning it for transparency and to give a comprehensive and differentiating approach to investor impact reporting under the Sustainable Finance Framework. This will be an annual report and assessment moving forward to deliver on our commitment under this framework.

By increasingly applying the six capitals approach we put being purpose-led at the heart of decision making, and this makes a measurable difference in shaping what we do to grow positive outcomes for the region and to reduce our negative impacts on the environment. The assessment shows that our investments and operations are growing our net contribution across the capitals, for example by reducing carbon emissions, pollution incidents and leakage, and by growing total wages and affordability support.

Our business relies on the debt markets to finance and refinance its operational and capital expenditures, and we understand that sustainable finance is key to delivering our ambitious strategy, including our commitment to be net zero by 2030, and to maximise our contribution to the UN Sustainable Development Goals ("SDGs"). We are committed to keeping investors informed of our progress and provide detailed and transparent views of our impact.

As well as discussing the progress we've made in establishing a sustainable finance platform for Yorkshire Water, this report also highlights areas for improvement across our impact reporting as we strive to uphold best practice.



**Chris Johns**

Chief Finance Officer

# Glossary of terms

## **AECOM**

AECOM are the consultants we have used to develop TIVA and the OCR Report.

## **Assurance Report**

This is a report provided by DNV that provides a level of assurance over some of the information presented in both the Impact Report and OCR Report.

## **Committee**

The Sustainable Finance Committee made up of representatives from the finance and sustainability teams at Yorkshire Water, involved in assessing the eligibility of expenditures for inclusion in the Portfolio.

## **DNV**

DNV GL are the assurance providers under the Assurance Report.

## **Excluded Budgetary Categories**

Those expenditure categories specifically excluded from inclusion in the Portfolio.

## **Framework**

Yorkshire Water's Sustainable Finance Framework that underpins our sustainability debt and this report.

## **Impact Report**

This report designed for investors in our sustainability debt.

## **OCR Report**

The Our Contribution to Yorkshire report is the main impact report for Yorkshire Water that gives an estimate of the various impacts our business has across the six capitals.

## **Ofwat**

Our principal regulator that sets Yorkshire Water's allowed return, expenditure levels and the amounts we can charge customers.

## **Portfolio**

The Eligible Sustainable Portfolio contains assets and expenditures defined under the Framework as being.

## **Public Interest Commitments**

A set of six targets that the UK water sector committed to achieving, including being net zero by 2030 and improving social mobility.

## **Six capitals**

These represent the resources which a company relies on and impacts. The capitals are Financial, Human, Intellectual, Manufactured, Natural and Social.

## **TIVA**

Total Impact and Value Assessment, which is an assessment applying the six capitals across the whole of the business to create a holistic view of impact for Yorkshire Water.

# Introduction to our Sustainable Finance Framework

Yorkshire Water Services Limited (“Yorkshire Water”, “we” or the “Company”) is the regulated water and wastewater company operating in the Yorkshire Region, serving over 5 million people and 130,000 businesses. We provide some of life’s most essential services – the treatment, supply and safe removal of clean and wastewater.

To provide these services reliably, now and in the future, sustainability has to be in the very fabric of how the Company operates, which is why in 2015 we adopted the six capitals approach to underpin our corporate strategy. The six capitals represent the resources on which we rely and impact, and expands the Company’s understanding of risk and value to drive more informed and sustainably focused decision making. For example, considering blue-green infrastructure solutions for flood mitigation in Hull rather than a traditional hard engineering approach which tends to be very carbon intensive and financially costly.

In 2019, we championed the sector-wide Public Interest Commitments with Water UK, committing Yorkshire Water and other companies in the water industry to addressing challenges on leakage, affordability, plastic waste, social mobility and achieving net zero by 2030.

Yorkshire Water has a Sustainable Finance Framework (the “Framework”) that is fully aligned with its corporate strategy and allows sustainable debt to be raised in a variety of formats to finance and refinance nearly all of its capital (“capex”) and operational (“opex”) expenditure. In FY20 97% of opex and 99% of capex spend from Yorkshire Water was eligible for inclusion in the Framework.

Yorkshire Water’s leading approach is based on its award winning six capitals approach to show the Company has a growing net positive impact to society and the environment. This is comprehensively demonstrated in our latest Our Contribution to Yorkshire report (the “OCR Report”) which is being released alongside this impact report and can be found at [www.yorkshirewater.com/capitals](http://www.yorkshirewater.com/capitals).

With the risks presented by climate change and population growth, and the continuing impact of the Covid-19 pandemic, it is now more important than ever to understand our impacts on the people and places in our region, and to change the way we make decisions to take these impacts into account.

# Sustainable Finance Developments at Yorkshire Water

Since launch, £850m has been raised under the Framework across both bond and loan formats, of which £513m (61%) had been allocated by 31st March 2020.

In early 2019 Yorkshire Water raised £450m from the Framework in bond and loan formats, followed in November 2019 by another £400m in bond format. Going forward, nearly all debt raised by Yorkshire Water will be sustainable finance as the Framework allows most debt instruments or facility to be included.

For more details on the outstanding debt instruments and allocations, please see the Allocations section on page 15.

## Yorkshire Water's Contribution to the UN Sustainable Developments Goals

The SDGs are a set of 17 goals set by the global community, through the United Nations, which define and drive towards sustainable development – shown in the diagram below. The 17 SDGs are underpinned by 169 targets (more information can be found at: <https://sdgs.un.org/>).

We support the SDGs and are ensuring our strategy and activities grow our contribution to them. We have summarised the 8 SDGs where we feel we have the biggest impact. In our Integrated Annual Report & Financial Statements ("ARFS"), which can be found at <https://bit.ly/2YPdbZX>, we summarise the 8 SDGs where we feel we have the biggest impact on page 8, and have highlighted where many of our activities align with the SDGs and provided examples of where we have made a notable contribution. We also discuss how we incorporate the SDGs into our business model on pages 16 and 17 of the ARFS.



# Helping our Stakeholders during Covid-19

Yorkshire Water's priority has always been the safety of its customers and colleagues, and we have sought to work closely with stakeholders in the Yorkshire region to ensure we play a full part in both the immediate and longer-term response to the pandemic. To help our stakeholders through this difficult period, Yorkshire Water:

- Stopped all non-essential customer home visits
- Installed street-based logging devices to detect leaks without having to enter homes
- Enacted home working for all office-based staff
- Introduced new safe working practices for field and operations teams
- Procured more vehicles to ensure only one person per vehicle
- Put all SME suppliers on one day payment terms
- Extended interest free loans of up to £1,000 to our colleagues
- Extended existing support options to customers who have been financially impacted

You can find more on our responses to the pandemic in the OCR Report.





# Use of proceeds

Yorkshire Water uses debt raised from the Framework to finance and refinance assets and expenditures that fall within the Eligible Sustainable Portfolio (the “Portfolio”). The Portfolio includes assets and expenditures that benefit societies and communities (Social) and the natural environment (Green), and we recognise that many expenditures will have both Social and Green benefits, such as planting trees to slow the flow of water and to mitigate flood risk and sequester carbon.

Sustainability goes hand in hand with being able to provide one of life’s most essential services now and in the future, and as such the majority of our activities and expenditures meet (and are expected to continue meeting) the requirements of this Framework.



# Process for project evaluation and selection

Expenditures are assessed for their eligibility in the Portfolio by individuals from the finance and sustainability functions (the “Committee”).

Whilst the components of the Portfolio will change over time depending on Yorkshire Water’s expenditure priorities, the majority of the Company’s assets and expenditures will be included in the Portfolio going forward, taking into account Excluded Budgetary Categories (see below). Over the last three years 98% of the Company’s opex and capex has been eligible for inclusion under the Framework.

All assets and expenditures follow the Company’s strict risk management framework and procurement policies (through the following pillars: set objectives, identify, measure, monitor, report)

Selection of Eligible Sustainable Investments by the Committee, in line with the Sustainable Eligible Categories, excluding Excluded Budgetary Categories

Eligible Sustainable Portfolio



## Excluded Budgetary Categories

The following assets and expenditures will not be included in the Portfolio of eligible expenditures under the Framework:

- Personal expenditures
- Financing costs
- Landfill assets and expenditures
- The Company's remaining fossil fuel fleet
- Assets and expenditures linked to the incineration of waste (excluding activities to such assets to Anaerobic Digestion or other renewable energy generation technologies)
- Potential fines and legal costs associated with pollution incidents

## Reducing Excluded Expenditures

YWS has permanently closed its waste incinerators by investing in Anaerobic Digestion, which converts waste to heat and electricity. We also continue to invest in electrifying the Company's 'silver fleet' of light commercial vehicles and trialling hydrogen-based innovations for our tankers. These initiatives form part of our public commitment to have net zero carbon emissions by 2030, which is underpinned by our Carbon Strategy as discussed in the natural capital section of the OCR report.

We are committed to reducing pollution incidents. We demonstrate some of the ways we are doing this in the natural capital section of the OCR report.



# Management of proceeds

The net proceeds of any finance raised under the Framework will be managed by the Treasury team to fund various operations and capital expenses of Yorkshire Water, except for Excluded Budgetary Categories. This includes (a) paying down existing drawings under the Company's revolving credit facility; (b) refinancing upcoming debt maturities; or (c) placing on short-term deposit and drawn upon when required. Yorkshire Water will hold or invest, at its discretion, any unallocated net proceeds as per its internal treasury policy.

Yorkshire Water already monitors its assets and expenditures on a regular basis to a high degree of granularity. A data set of all the Company's capital and operational expenditures is prepared annually.

The Committee will make sure that the amounts represented by the Eligible Sustainable Portfolio will exceed, or at least be equal to, the amount of finance raised under the Framework by confirming this to the relevant governance group ahead of any such finance being raised.

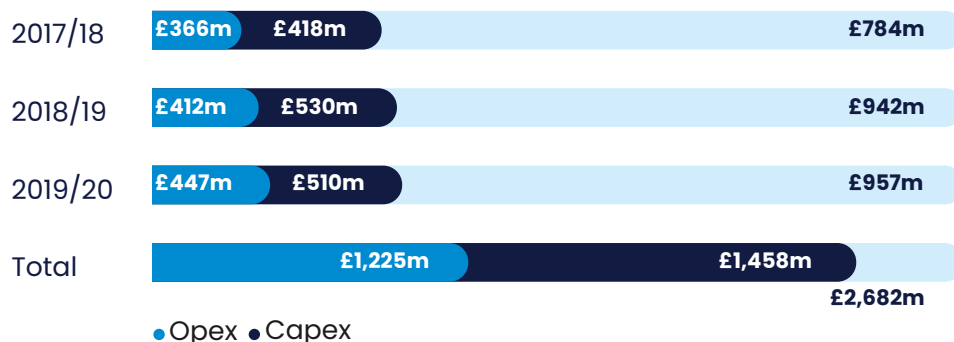
Whilst we endeavour to place any unallocated net proceeds in Sustainable Liquidity Investments (see Framework for definition), we have found there are still very few such investments available to corporates like Yorkshire Water. There are no eligible GBP-denominated bonds issued by the UK Government, and very few banks offer green deposits on terms suitable for our needs, especially during periods of uncertainty like the one we are facing currently. We continue to discuss potential products with our banks, and look forward to developments in UK sovereign green debt and sustainable money-market funds.



# Our Eligible Sustainable Portfolio

## The portfolio

The Portfolio comprises eligible operational and capital expenditures from the latest year ending 31 March 2020 (2019/20) and the two prior years ending 31 March 2018 and 2019 respectively (2017/18 and 2018/19).



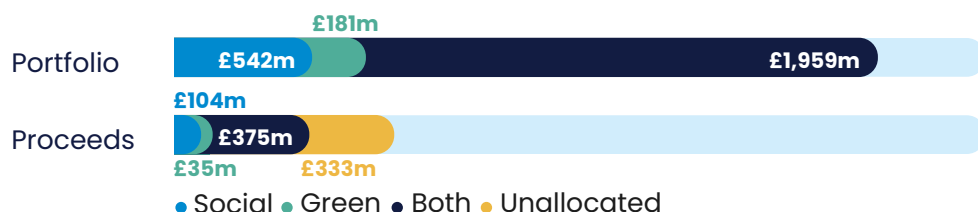
We group our expenditures by core business functions as below. The Committee then categorise each grouping as either 'Green', 'Social' or 'Both/Sustainable' by taking a view on the impact the business activities and assets represented in each grouping. This categorisation is an estimate to the impacts of the Portfolio and allocated proceeds. The OCR Report, details of which can be found below, is a much more detailed and comprehensive look at how our business impacts society and the environment.

We are looking at ways to improve this categorisation process by aligning it to a six capitals assessment of the different business functions.

Price control	Impact		Category
	Social	Green	
Water resources	Medium	High	Green
Raw water distribution	High	Medium	Social
Water treatment	High	High	Both
Treated water distribution	High	High	Both
Sewage collection	High	Medium	Social
Network plus sewage treatment	High	High	Both
Sludge transport	Low	High	Green
Sludge treatment	High	High	Both
Sludge disposal	Medium	High	Green

As at 31st March 2020:

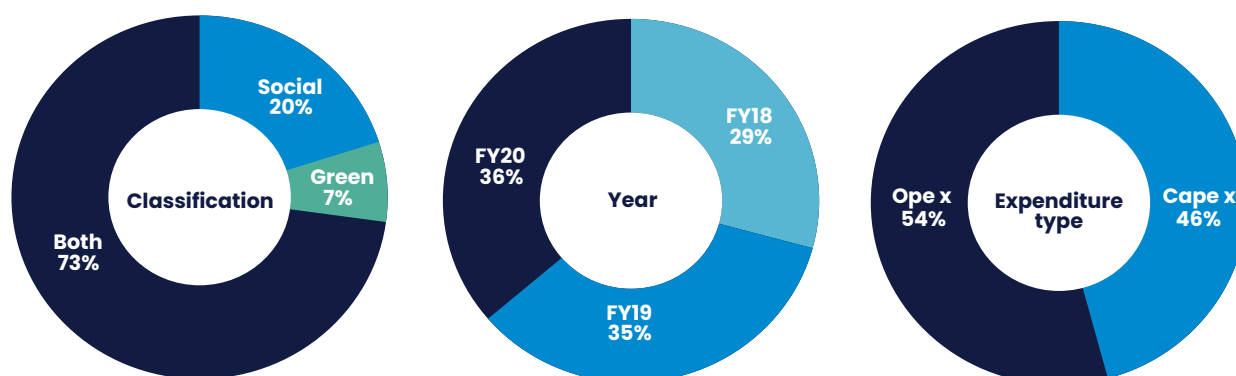
- The Portfolio stood at £2,683m; with
- £850m of notional debt outstanding issued off the Framework; and
- £513m of net proceeds allocated; leaving
- £333m unallocated (to be addressed in FY22).



Our Portfolio includes expenditures from the latest and previous two years and is dynamic, in that expenditures are not fixed and do not continue to accumulate past the three-year calculation period.

The amount of debt raised under the Framework will also change in a similar way but will be less than the Portfolio at any one time. For example, the £100m CPI-linked sustainability loan issued in the 2018/19 financial year will not be allocated against the future Portfolio for the financial year 2021/22, as the expenditures in this Portfolio will only cover the financial years 2019/20 to 2021/22.

As amounts are allocated proportionally according to how much each expenditure category contributes to the Portfolio, both the Portfolio (£2,683m) and allocated proceeds (£513m) have the following characteristics:



## Unallocated Proceeds

In light of uncertainties caused by Covid-19 and the Company's decision to refer its Final Determination to the Competition and Markets Authority, Yorkshire Water has been holding more short-term liquidity than it would in more normal circumstances.

Although the Portfolio of eligible expenditures was large enough to cover the total debt raised off the Framework, this meant a large amount of the money lent by investors from the November 2019 bond raising was still held in cash and short-term investments at 31 March 2020. This has continued to be the position through 2020/21 but the level of short-liquidity is expected to fall in 2021/22.



# Allocations

The table below summarises the debt raised off the Framework included some key terms and the amount of net proceeds allocated from each debt issuance.

Sustainability debt	Loan 1	Bond 1	Bond 2	Bond 3 (tap)
ISIN	n/a	XS1984257029	XS2084420582	XS1984257029
Maturity	Mar-29	Apr-41	Nov-26	Apr-41
Coupon	CPI-linked	2.75%	1.75%	2.75%
Nominal O/S	£100m	£350m	£300m	£100m
Net Proceeds	£100m	£341m	£299m	£106m
Issued	Mar-19	Apr-19	Nov-19	Nov-19
Allocated at 31/02/20	£100m	£341m	£46m	£15m
<b>Allocated (%)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>18.00%</b>	<b>16.9%</b>
<b>Allocated as a % of portfolio</b>	<b>3.73%</b>	<b>12.72%</b>	<b>2.00%</b>	<b>0.67%</b>

We made strong progress in the first full year after launching the Framework (2019/20), increasing the proportion of sustainability debt from 0% to 15%. We expect this to continue increasing as new expenditures and maturing debt is financed and refinanced with sustainable finance. The £333m of unallocated proceeds will be addressed in FY22.

<b>Total sustainability debt (A) (£m)</b>	<b>£850m</b>
Total YW debt (B)	£5,670m
<b>Sustainability bond ratio (A/B)</b>	<b>15.0%</b>
Total net proceeds	£846m
Total allocated	£513m
<b>Sustainability debt allocated (%)</b>	<b>60.6%</b>



# Understanding our impact

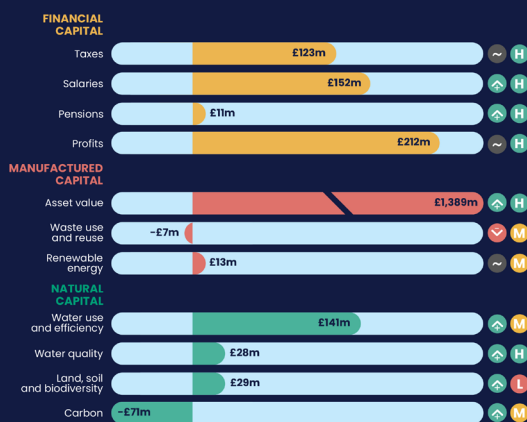
This Impact Report is intended to be read in conjunction with the OCR Report, which is based on leading work undertaken by Yorkshire Water and AECOM that applies the six capitals to the business to create a view of its holistic impacts across society and the environment. This process is called a total impact and value assessment ("TIVA").

TIVA estimates the impact of our business across the six capitals and represents these impacts not only as a suite of assured KPIs but also a monetary value. Using carbon emissions as an example, TIVA would take our carbon emissions and estimate the value, in pounds, to society and the environment that every tonne of those emissions represents.

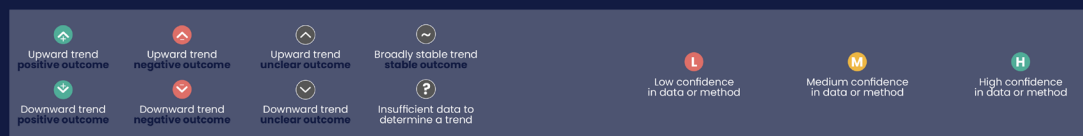
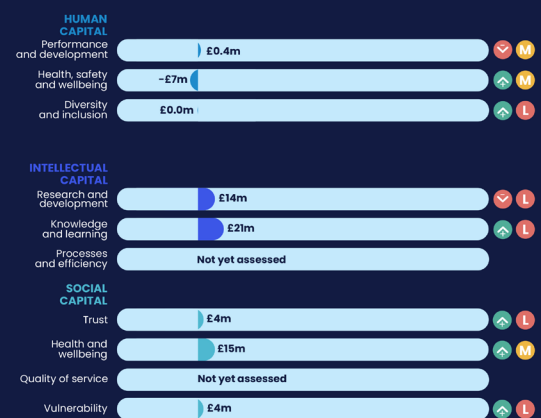
Below is a excerpt from the OCR Report that gives an overview of the estimated economic value of our impact in 2019/20. We would encourage readers to take a look at the OCR Report to get a better feel for the range of KPIs we use to measure our impact.

## 6. The economic value of our impact 2019/20

This diagram shows our estimate of the economic value of our impact in 2019/20. Overall, we deliver a strong and growing net-positive contribution to society. This shows our estimate of our total public value and how we are living our purpose to play water's role in making Yorkshire a brilliant place to be - now and always.



While not everything can be reliably valued in monetary terms, we are finding this a useful aid to our decision making by allowing us to compare very different issues. To strengthen our existing processes, we are maturing and embedding our impact quantification and economic valuation to help inform our strategic and investment choices. We show levels of robustness to recognise that economic valuation is only an estimate based on the best available information and in many cases we will not yet have captured the full impact, positive or negative. Our figures show the overall net estimate for the indicators which we have been able to value. The net position can mask important details in the positive and negative impacts within each indicator. There are gaps and weaknesses that we and others are improving as part of a growing global community working to mature the application of cutting-edge environmental and social economics. We provide more detail on each of the capitals later in this report and the full methodology is provided in an accompanying report [www.yorkshirewater.com/capitals](http://www.yorkshirewater.com/capitals).



# How a debtholder could estimate the impacts of their investment using TIVA

TIVA estimates the impacts of Yorkshire Water and its operations, and as the Portfolio represents a certain proportion of the Company's expenditures then the sustainable finance raised from the Framework directly enables some of these impacts.

An investor can estimate their contribution from the proportion of the Portfolio that they have financed, which takes account of the total amount invested by them in the various debt instruments in the table above on page 15 and the percentage allocation for each debt instrument. The total allocated amount can then be compared to the total Portfolio (£2,683m at 31 March 2020) to determine the proportion that has been effectively financed.

If at 31st March 2020 the Portfolio was equal to 98.0% of the total Capital and Operational expenditures of Yorkshire Water over the last three years, an investor can then apply the proportion of the Portfolio they've financed to the impacts detailed in TIVA to derive an estimate of the impact of their investment in Yorkshire Water's sustainability debt, noting that the Portfolio currently represents three years' worth of expenditure from 2017/18 to 2019/20 and so the TIVA impacts should only be taken from these years.

## Worked example – Investor contribution to water use & efficiency

£100m invested in either Bond 1 or Loan 1	A	£100m
% allocated	B	100%
£m allocated	C	£100m
Portfolio	D	£2,683m
% financed (C/D)	E	3.7%
Portfolio vs expenditure	F	98%
Proportion of impacts financed (ExF)	G	3.7%
Value to environment & society of water use & efficiency over last 3 years (P31 of OCR report)	H	£400m
<b>Investor contribution to this impact (GxH)</b>		<b>£15m</b>



# Summary conclusions

- The OCR Report demonstrates Yorkshire Water's net-positive contributions to society and the environment
- The £850m in sustainability debt raised from our Sustainable Finance Framework has helped deliver this net-positive impact
- Our largest impacts were on financial, manufactured and natural capital, and we have provided practical case studies to bring our findings to life
- The six capitals enable in-depth and leading impact reporting, and help us deliver real benefits

We have improved our approach to impact reporting however there are areas that we have targeted for improvement:

- Further change as a business will be required to ensure long term resilience of the communities we serve and services we provide
- We will continue to mature and embed our six capitals approach to help us to drive better decision making
- Improvements will be made in the categorisation of our expenditures under the Sustainable Finance Framework and from the development of a more robust impact measuring mechanism for investors

We would strongly encourage readers of this Impact Report to take a look at the OCR Report, which can be found at <https://www.yorkshirewater.com/capitals>. Both the OCR Report and this Impact Report have been assured by DNV GL. We have also released the methodology behind the findings presented in the OCR Report. Both the assurance report and methodology report can also be found at <https://www.yorkshirewater.com/capitals>.

We aim to be open and transparent with all our stakeholders and understand the lack of homogenous impact reporting standards may make it difficult for readers to compare and contrast between companies. We will continue to strive to ensure our reporting remains in-line with best practices and welcome constructive feedback from our investor community.



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