The voice for water consumers
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

Water companies' financial performance 2018-19: Potential implications for customers

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Abbreviations and acronyms

ANH	Anglian Water
APR	Annual Performance Report
AFW	Affinity Water
BWH	Bournemouth Water
BRL	Bristol Water
HFD	Hafren Dyfrdwy[1]
ECA	Economic Consulting Associates
NES	Northumbrian Water
ODI	Outcome Delivery Incentive
PR14	Price Review 2014
PR19	Price Review 2019
PRT	Portsmouth Water
RCV	Regulatory Capital Value
RoRE	Return on Regulatory Equity
SES	SES Water
SEW	South East Water
SRN	Southern Water
SSC	South Staffs Water
SVT	Severn Trent
SWT	South West Water
TMS	Thames Water
totex	Total expenditure
UU	United Utilities
WaCC	Weighted average cost of capital
WaSC	Water and Sewerage Company
WoC	Water Only Company
WSH	Dŵr Cymru Welsh Water
WSX	Wessex Water
YKY	Yorkshire Water

[1] Hafren Dyfrdwy was launched on 1 July 2018 for customers in Wales who were previously supplied by Severn Trent Water Limited and Dee Valley Water Limited.

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1. Introduction

This report presents our analysis of the 2018-19 financial performance of the water companies in England and Wales. It is produced from a customer perspective and is consistent with our:

- statutory duties under the Water Industry Act 1991.
- aim to secure the best outcomes for all consumers – present and future.

Our report focusses on issues where we think that the interests of customers could be served better. In particular, that customers should share in the benefits when companies outperform regulatory price controls. This is particularly the case when no regulatory mechanisms exist to share that outperformance. The report uses information collected from water companies' published Annual Performance Reports (APRs) in the period 2015-19.

We are pleased that, in response to our earlier work on this issue, some water companies have taken steps to implement benefit sharing with customers and Ofwat is introducing a more formalised approach for the next price review period. We welcome these developments.

We recognise that the timing of this year's report, with price limits now announced for the 2020-25 period, leaves little opportunity for companies to respond immediately to the issue of benefit sharing. We believe that the value of this report is to highlight lessons learned from the current five-year period and to identify aspects where more can be done to benefit customers going forward.

2. Executive Summary

Companies make financial gains by:

- outperforming regulatory assumptions for expenditure and financing costs
- taking advantage of regulatory incentives for achieving good outcomes – output delivery incentives (ODIs)
- presenting good business plans.

We continue to think that companies' should share financial gains with their customers as well as shareholders. This could be through bill rebates, reinvestment or customer assistance schemes. We have found that some companies, but not all, do this and they do so to a varying extent. In some cases, notably debt costs, customers have received virtually no benefit.

We understand the regulatory framework incentivises companies to be more efficient and outperform regulatory assumptions. We do not wish to weaken this framework.

We think that all companies should explain their approach to benefit sharing in their APRs, identifying the factors that they have considered, how they have quantified those benefits and how long those benefits would remain with customers. To date a relatively small number of companies have explained their position/approach. We think that all companies should be more transparent with their customers. This could improve the reputation of both the company and the sector.

Section 5 of the report shows those areas of financial performance, which, in some cases, call into question whether the balance between shareholder and customer is appropriate. We think that there is scope for some companies to be doing more for their customers. Our areas of focus are: financing costs, expenditure savings, ODI rewards, gearing and dividends.

Our analysis shows that eight companies outperform overall RoRE of which seven outperformed on the financing element. There is no regulatory mechanism to share this with customers. Three of these seven companies (SVT, SWT and UU) reported outperformance sharing with customers over and above what would be automatically shared through regulatory mechanisms. We think there is scope for other companies to do more - both in terms of sharing outperformance and the transparency of that outperformance sharing.

With regard to dividends two companies (AFW and NES) have reported cumulative dividend yields in excess of RoRE over the 2015-19 period. In the case of AFW this is against a backdrop of relatively low customer satisfaction for both service and value for money.

We recommend that:

- companies explain their position on outperformance sharing in their APRs – whether it has shared benefits, the factors taken into account, the value shared with customers and its quantification
- companies be more transparent with their customers about their outperformance sharing.

We will continue to monitor companies' financial performance through their interim and full year results and future APRs. In particular we will:

- identify those companies outperforming RoRE but with relatively poor performance on service and customer satisfaction.
- monitor companies' dividends. Where dividend yields and/or dividend covers appear at odds with companies with similar risk profiles, we will challenge companies to explain how their dividend policies are in the customer interest.
- monitor companies' gearing levels and seek to understand from companies how they are in the public interest.
- look for early signs of debt outperformance.

3. Financial gains

3.1 How companies can make financial gains

The regulatory model incentivises companies to drive outperformance. This can lead to financial gains - through an additional return on regulatory equity (e.g. totex, financing costs (cost of debt) and ODIs) - for the company. These financial gains can be through:

- direct management action e.g. innovation leading to doing things more cheaply or financial rewards for ODIs where companies do better than performance commitments.
- indirect e.g. through differences between prevailing market/economic conditions and regulatory assumptions made when Ofwat set price limits.

At PR14 companies could also achieve further benefits by having what Ofwat viewed as an ‘enhanced’ business plan. This gave South West Water and Affinity Water a financial reward and access to a slightly higher WaCC. The RoRE performance in this report is relative to the higher regulatory assumption about RoRE that this enhanced status brings.

There also needs to be an awareness of what truly is outperformance as the regulatory model can create perverse incentives to cut costs e.g. capital maintenance. While short-term cost cutting could go unnoticed, this could be unsustainable in the long term.

3.2 How the regulatory model shares outperformance

In some cases the regulatory framework shares companies’ financial performance between shareholders and customers. Typically, this is when Ofwat takes this into account at a subsequent price review.

For example, in the case of wholesale totex, any out or underperformance relative to the regulatory assumption is shared roughly 50:50 between customers and shareholders. This is taken into account at the subsequent price review. The sharing rates between shareholder and customer are a function of the ratio of the companies’ forecast totex with Ofwat’s view of efficient costs when it sets price limits. This mechanism should provide incentives for companies to both submit efficient costs and to outperform the regulatory assumption. This in turn can benefit customers of all companies when Ofwat assesses relative efficiency at the subsequent price review.

In the case of ODIs, financial rewards/penalties can result from out or under performance respectively. Where a company outperforms it can benefit all customers (not just those of the specific company) because it could push performance boundaries that Ofwat uses to assess relative company performance.

3.3 What companies can do with their financial gains

Where companies outperform regulatory assumptions, they have a number of options. They could:

- Share benefits with customers
- Pay dividends to shareholders
- Retain money in the business

<u>Sharing benefits with customers</u>

The most transparent way companies can share benefits with customers is to reduce bills in the price control period. Alternatives could include additional investment (outside of the RCV), contributions to social tariffs and other forms of assistance. We know from our research[2] that customers favour additional investment i.e. companies spending more on the services that customers think are important.

In the current price control period there is no requirement for companies' delivery against performance commitments to result in in-period ODI rewards/penalties. But at PR14 Ofwat agreed that three companies (Severn Trent, Anglian and South West) could apply ODI rewards or penalties in bills from 2017-18 onwards. During the 2015-20 price control period, all other companies will aggregate their ODI rewards and penalties at the end of the five years. Ofwat has taken this into account in the price limits it set at PR19 for the 2020-25 period.

For the next price control period 2020-25 Ofwat has proposed to require sharing outperformance of higher gearing and to encourage sharing benefits of a lower cost of debt than Ofwat assumed when it set price limits. Nothing precludes companies sharing outperformance now, be that driven by choice of gearing, cost of debt or anything else.

<u>Paying dividends to shareholders</u>

We think that companies, which are largely monopoly providers in a low risk sector, should show restraint on dividend levels.

To increase trust in the sector Ofwat has required[3] companies to explain their dividend policies, and how they relate to performance, in the Business Plans that they submitted to Ofwat in September 2018. Ofwat's guidance explained that:

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[2] https://www.ccwater.org.uk/wp-content/uploads/2016/06/CCWater-Water-Matters-Report-to-client-FINAL20.pdf

[3] https://www.ofwat.gov.uk/wp-content/uploads/2018/07/Benefit-sharing-decision-statement-FINAL-for-publishing.pdf

> 'Where companies propose base dividend yields that are higher than 5% in their business plans, they should explain, transparently for customers and wider society, why such higher dividends are in customers' interests'.[4]

Retaining money in the business

Where companies do not distribute the entirety of profit as dividends, it retains this cash in the business. All things being equal this would reduce the companies' gearing, increase its liquidity and provide some headroom for any unforeseen cost shocks without the need to borrow. This could have the effect of lowering the financial risk of the company and improve consumers' perception of the legitimacy of the sector. Dŵr Cymru has these features. As a not-for-profit company any financial surplus is used for customer benefit and customers have had a say in how those surpluses are used.

4. Have companies shared outperformance?

We note and welcome the evidence in some companies' APRs that they are sharing outperformance with customers beyond that which would be shared automatically through the existing regulatory mechanisms. However, we think that there is scope for companies to do more. What we are particularly keen to understand is:

- How companies determine whether to share outperformance with customers
- How companies decide how any such outperformance is shared with customers (e.g. by bill reduction, reinvestment, social tariffs)
- The envisaged consequences of reinvestment e.g. ODIs and/or implications for the RCV

To this end we think companies can also be more transparent about what they are doing in this regard and reporting through the APR would seem to present such an opportunity.

Examples of what companies are doing for customers, based on their performance to date in the 2015-20 period, include:

SVT — The company indicates that it expects to deliver around £480m efficiency on its 2014 Plan. SVT has committed to reinvest around £220m of its outperformance to improve the service it provides to customers of its wholesale water business.

A consequence of this reinvestment may be to improve performance commitments such that additional rewards are earnt which accrue to the company. Customers may also pay should this additional, and discretionary expenditure, be added to the company's RCV.

We will engage with all companies to understand the customer implications of reinvestment of outperformance.

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[4] The 5 per cent is neither an Ofwat target nor control. Ofwat expects companies to explain why dividend yields in excess of 5 per cent reflect performance delivery to customers and are in the customer interest.

SWT	SWT has put in place its WaterShare scheme which aims to share outperformance with customers through reinvestment, lower bills and service improvements. The company indicates that this initiative takes account of totex outperformance, financing outperformance and ODIs (the benefits of which would typically go to the company in its entirety). As we highlighted in last year's report, £5.5m are being passed back to customers either through reinvestment to improve services or through bill reductions: • performance in 2015-16 resulted in £3.1m being reinvested in 2016-17; • in 2016-17 South West used £2.1m of the benefit to reduce bills in 2018-19 by around £3; • 2017-18 performance resulted in £0.3m – the in-period ODI benefit - being passed back to customers through reduced bills in 2018-19. • 2018/19 identified a further £6m of customer benefits SWT indicates that since 2015 it has identified £110m of benefits to share with customers. Of this £80m of totex benefits would be shared back by virtue of existing regulatory mechanisms. £11m is associated with ODI rewards and £19m of other benefits including financing outperformance. We will engage with companies to understand the rationale for the balance between customer and shareholders in sharing outperformance. In this regard SWT's APRs indicate that outperformance has contributed over £200m to its dividend between 2015/16 to 2018/19
UU	The company's APR indicates that it is sharing outperformance through re-investment in resilience having committed £250m in 2015-20. In addition, the company outlines that it has committed an extra £100m to provide an early start on the work to deliver performance commitments in the 2020-25 period.

5. Performance against regulatory allowances/assumptions

5.1 Overview

In this section we have focussed on RoRE as a key metric in how companies are performing against regulatory assumptions. This is underpinned by performance on totex, ODIs and financing.

We have also considered indicative outperformance that customers would benefit from if the proposed benefit sharing mechanisms that Ofwat has implemented in the 2020-25 period had been introduced at PR14. This shows that there is significant outperformance which has typically benefitted companies rather than customers.

We have also considered companies' dividends both in 2018-19 and cumulatively over the 2015-19 period.

5.2 Return on regulatory equity

The return on regulatory equity is a key metric Ofwat introduced at PR14. It is intended to measure the returns available to shareholders over the course of a price control period. It is based on Ofwat's assumed notional capital structure (62.5 per cent gearing at PR14) rather than companies' actual capital structures. As a result, RoRE may not be equivalent to actual returns. Ofwat has used a 60 per cent notional gearing at PR19.

In their APRs companies have reported how a number of factors have contributed to their out- or underperformance of RoRE relative to the regulator's assumptions. These are outlined in table 1.

Table 1: Areas where companies can outperform regulatory assumptions

Expenditure	• The company's share of totex out- or under-performance (excluding any differences arising from the re-profiling of totex within the period) • The company's share of out- or under-performance against retail costs • The impact on RCV run-off (i.e. slow money) of any totex out- or under-performance
ODI	• The impact of ODI or Service Incentive Mechanism rewards or penalties
Financing	• The difference between the actual average interest rate paid on debt and the allowed interest rate (both in real terms)[5]
Other	• other factors, including the ongoing effect on earnings from cessation of activities e.g. sale of non-household business

Figure 1 shows that eight companies have reported outperformance of the regulator's RoRE assumption. The range in outperformance was between +1.2 per cent (South East Water) to +5.6 per cent (South West Water) and averaged +2.7 per cent (on a weighted average basis). Six companies reported outperformance on each of expenditure, ODI and financing. These were Anglian, Northumbrian, Severn Trent, South West, Wessex and South Staffs. Only two companies did not report outperformance on any of these three measures. These were Portsmouth and Dŵr Cymru.

Underperformance ranged from -0.3 per cent (Southern) to -1.2 per cent (Dŵr Cymru) and averaged -0.9 per cent[6].

Overall the average outperformance across all companies was +1.1 per cent[7]. It is apparent that the scale of outperformance is significantly higher than companies' underperformance.

[5] https://www.ofwat.gov.uk/wp-content/uploads/2016/08/prs_web20160817regrep406.pdf
[6] Reflects a weighted average. Simple average is -0.8 per cent
[7] Reflects a weighted average. Simple average is +0.9 per cent

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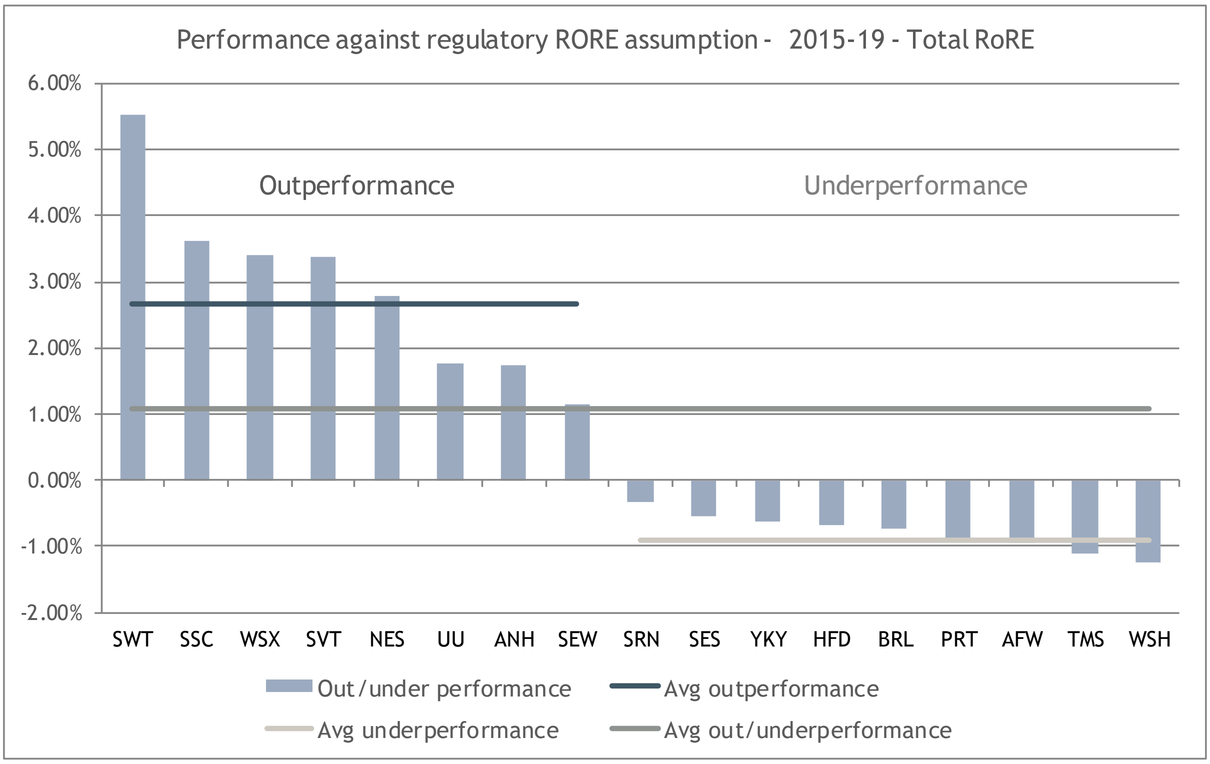
Figure 1: Return on Regulatory Equity (RoRE) cumulative performance 2015-19



5.2.1 *Financing*

We have previously raised concerns that companies have been consistently able to outperform the regulator's cost of capital assumptions, in particular on the cost of debt. Indeed, an Ofwat-commissioned report from PWC at the 2014 Periodic Review to consider the weighted average cost of capital (WaCC)[8] reported that 'Looking back at previous price controls, Ofwat's record in setting the cost of debt has been generous ex-post'. Generosity in this context can stem from two factors:

- The assumed nominal debt was, in retrospect, too high with companies able to benefit at lower prevailing rates
- The inflation assumption used by Ofwat being lower than outturn which gives rise to a higher real cost of debt than would otherwise have been the case

[8]https://www.ofwat.gov.uk/wpcontent/uploads/2016/01/rpt_com201307pwccofc.pdf

In 2018-19 all companies' interest costs, with the exception of South Staffs and South East, are lower than Ofwat's PR14 assumption. Where companies' financial outperformance does not stem directly from companies' management action i.e. it is because of prevailing market/economic conditions and regulatory assumptions, there is a case for sharing these benefits with customers.

Ten companies reported outperformance on financing in the 2015-19 period, ranging from +0.07 per cent (Southern) to +2.81 per cent (South West) and averaging +1.2 per cent[9].

Seven companies reported underperformance on financing ranging from -0.2 per cent (Bristol) to -1.0 per cent (Portsmouth) and averaging -0.5 per cent[10].

The average outperformance was +0.9 per cent[11].

The financing element of outperformance reflects the difference between each company's real average interest rate and that allowed by Ofwat when it set 2015-20 price limits.

This outperformance can stem from a combination of prudent financial management, over generous assumptions and differences between forecast and outturn inflation. South West attributes its cost of debt outperformance to lower interest rates and RPI than assumed at the start of the regulatory period.

South West has quantified the outperformance in 2015-20 (and 2020-25) of embedded debt outperformance which is £25m and £20m respectively. With regard to embedded debt, companies can outperform by (a) having a higher proportion of embedded debt than Ofwat assumed (b) a lower interest rate on embedded debt or some combination of the two. South West has committed to sharing all of its embedded debt outperformance with customers.

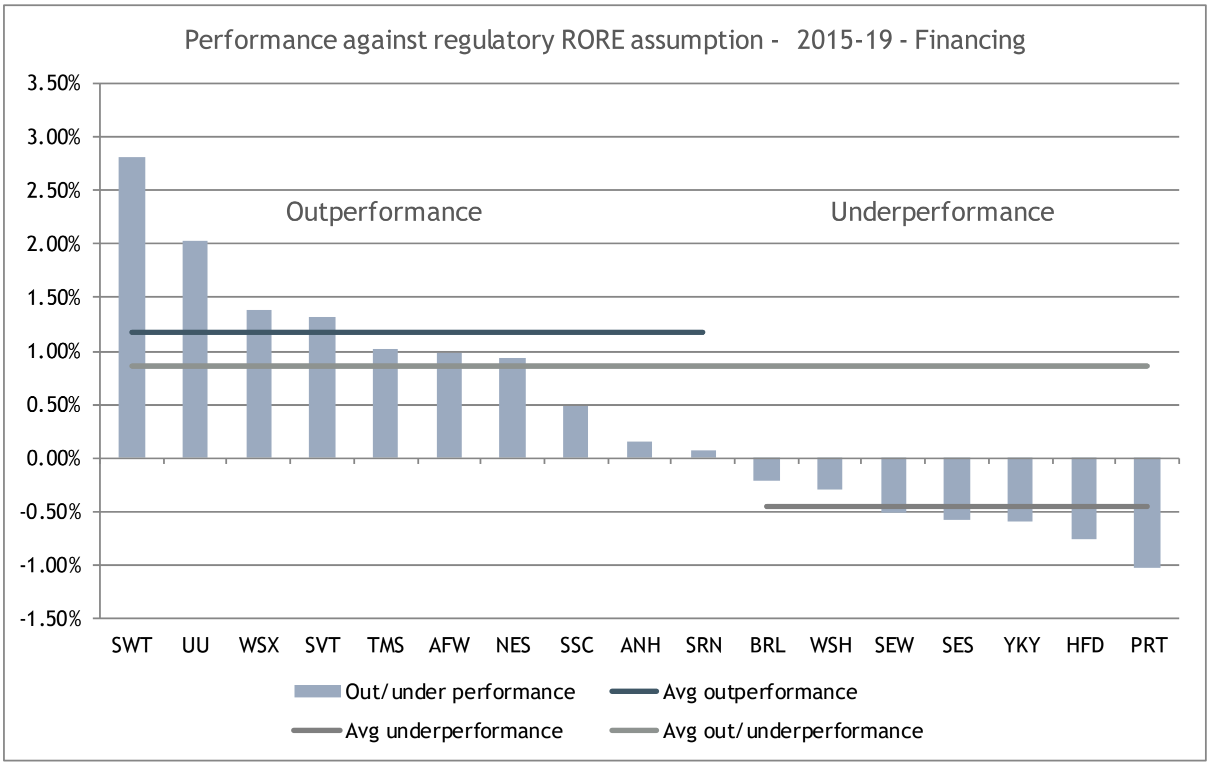
United Utilities explain that its financing outperformance results from:

- Higher outperformance in 2017/18 and 2018/19 relative to prior years mainly due to higher out-turn RPI resulting in increased outperformance on nominal debt.
- Raising new debt at relatively lower rates than Ofwat assumed.

Portsmouth Water's financing underperformance is because its effective interest rate is higher than Ofwat allowed in price limits. Hafren explains that its 2018-19 financing performance is worse than in 2017-18 owing to a higher cost of debt incurred. While Hafren reduced its net debt by £34m from an equity injection from Severn Trent[12], financing costs on average debt over the year exceeded Ofwat's allowance.

[9] Reflects weighted average. Simple average is +1.1 per cent
[10] Reflects weighted average. Simple average is -0.6 per cent
[11] Reflects weighted average. Simple average is +0.4 per cent
[12] Severn Trent acquired the Dee Valley Group in February 2017. Hafren Dyfrdwy was launched on 1 July 2018 for customers in Wales who were previously supplied by Severn Trent Water Limited and Dee Valley Water Limited.

Figure 2: Return on Regulatory Equity (RoRE) cumulative performance 2015-19: Financing



5.2.2 Expenditure

Expenditure outperformance reflects the companies' performance on retail and wholesale (totex) spend.

In PR14 Ofwat adopted a total expenditure (totex) based approach to assessing efficient expenditure for the wholesale price controls. This approach was intended to remove the perceived bias towards capital-intensive solutions that might arise from the separate assessment of operating and capital expenditure.

Ofwat introduced menu regulation for capital expenditure in PR09 and extended this to totex at PR14. Menu regulation is intended to incentivise companies to accurately forecast spend. It also gives companies flexibility in how they will share outperformance with customers. Any benefit sharing of outperformance is determined at the outset. If a company delivers its commitments at a lower cost than was included in price limits then this saving is shared between customers and the company. Conversely, where the company spends more, then both the company and customers contribute towards the additional expenditure. These variances are taken into account at the next price review.

Variance to the regulatory assumption can occur for a number of reasons including, for example, efficiencies (delivering the same scope but at a lower price) or profiling change (the phasing of spend differs to the regulatory assumption). Companies should take account of these timing differences when calculating RoRE as reported in section 4.2.

The outperformance reported reflects the companies' share of performance with customers' share being taken into account at PR19. The company and customer share is split roughly 50:50.

Ten companies reported outperformance on expenditure in the 2015-19 period, ranging from +0.11 per cent (Southern) to +2.53 per cent (South West) and averaging +1.20%[13].

Seven companies reported underperformance on financing ranging from -0.39 per cent (Yorkshire) to -1.83 (Thames) and averaging -1.0[14]%.

The average outperformance was +0.03[15]%.

South West outlines a number of factors driving its totex outperformance. These include:

- Strategic alliances (e.g. a new water distribution framework) generating efficiencies
- Optimising the mix of capital and operating cost solutions
- More efficient ways of working
- Realisation of synergies following taking ownership of Bournemouth

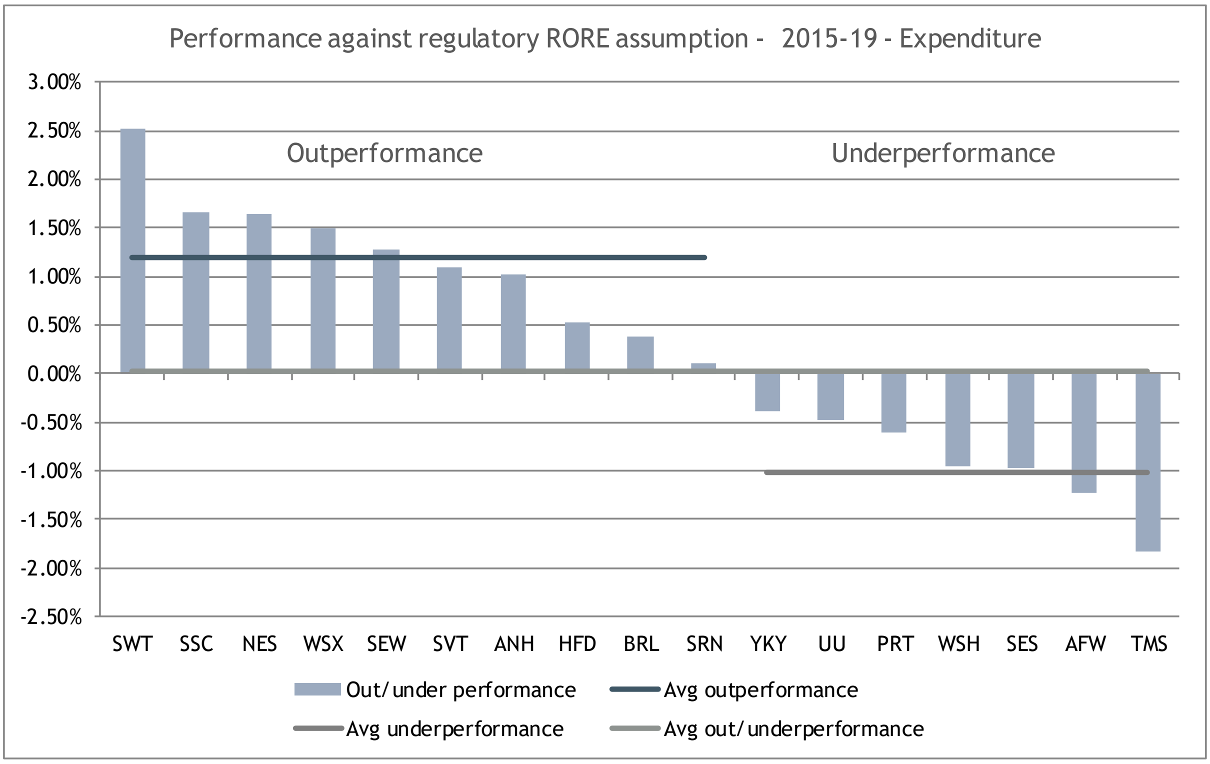
South Staffs expenditure outperformance is driven by its retail performance (+1.85 per cent) offsetting its underperformance on totex (-0.2 per cent).

Thames Water underperforms on both totex (-1.44 per cent) and retail (-0.39 per cent). Its totex underperformance is primarily on the water side of its business. The company identifies inefficient leakage costs and additional spend to improve leakage and resilience as key drivers for this underperformance. It also indicates that this additional spend reflects its commitment to prioritise customer interests through higher investment levels.

Affinity's overspend is split approximately 50:50 between totex and retail. On totex it attributes the overspend to leakage (investment in new technology and additional resources); market reform (ensuring full compliance as the market opened); supply chain management (change to its main supplier) and pension contributions (funding pension deficit repair costs at higher rate than assumed when Ofwat set price controls).

[13] Reflects weighted average. Simple average is +1.2 per cent
[14] Reflects weighted average. Simple average is -0.9 per cent
[15] Reflects weighted average. Simple average is +0.3 per cent

Figure 3: Return on Regulatory Equity (RoRE) cumulative performance 2015-19: Expenditure



5.2.3 ODIs

At PR14 water companies identified the outcomes their customers expect and report on delivery against these annually. This includes the outcome delivery incentives (ODIs) attached to these performance commitments.

Companies' failure to meet targets can result in financial penalties; performing better than target can lead to rewards. We challenge those underperforming companies, especially where performance commitments reflect customer priorities, to improve.

For most companies Ofwat will take account of these penalties/rewards at the next periodic review of price limits by adjusting revenue or companies' regulatory capital values. This means that their customers will therefore not be financially impacted by 2018-19 performance against ODIs in the 2015-20 price control period. But for three companies (Severn Trent, Anglian and South West) Ofwat agreed at PR14 that these rewards or penalties could apply in bills from 2017-18 onwards.

Nine companies reported outperformance on ODIs in the 2015-19 period, ranging from +0.20 per cent (Northumbrian) to +1.0 per cent (Severn Trent) and averaging +0.5%[16].

Seven companies reported underperformance on ODIs ranging from -0.05 per cent (South East) to -0.76 (Bristol) and averaging -0.5[17]%.

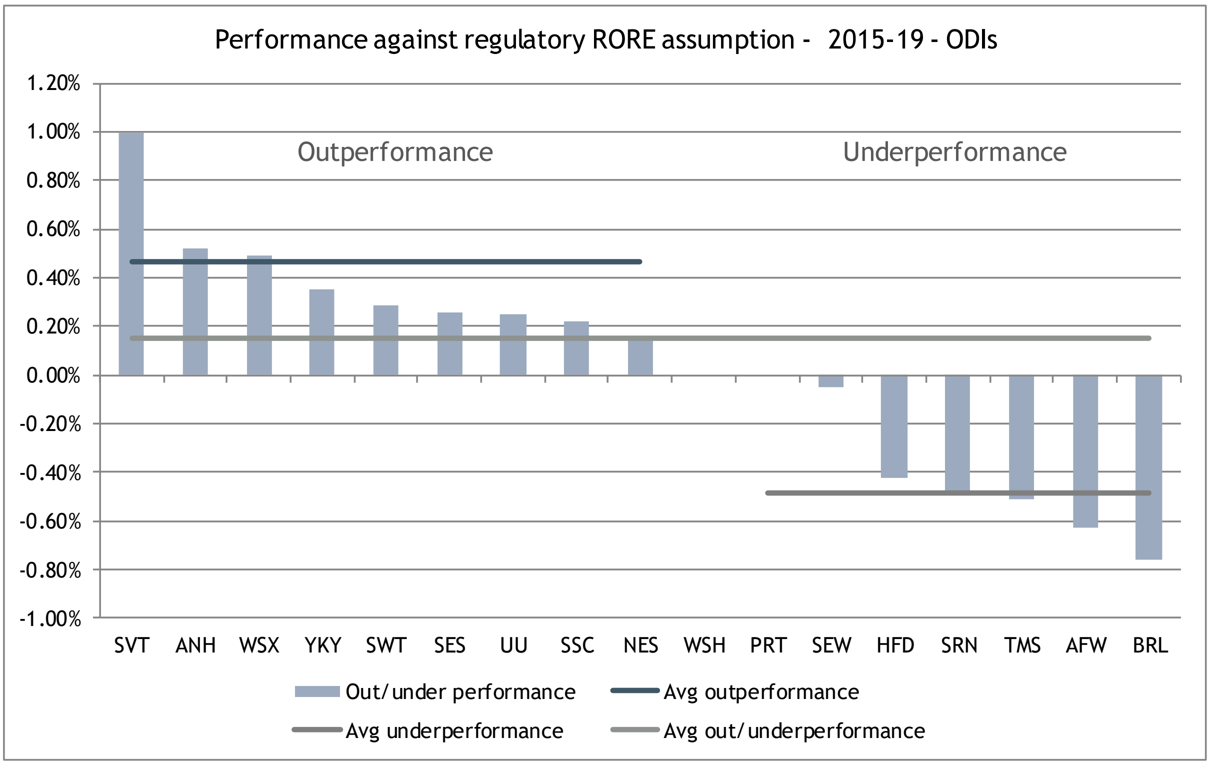
The average outperformance was +0.2%[18].

South West Water's outperformance to date stems from outperforming its commitments on water restrictions, internal sewer flooding and bathing water quality. South Staffs outperformance is primarily on interruptions to supply.

Thames Water's underperformance stems from failure to meet its leakage, supply interruptions, asset health and SOSI commitments.

Affinity's underperformance stems from its failure to meet its leakage target.

Figure 4: Return on Regulatory Equity (RoRE) cumulative performance 2015-19: ODIs



16 Reflects weighted average. Simple average is +0.4 per cent
17 Reflects weighted average. Simple average is -0.5 per cent
18 Reflects weighted average. Simple average is +0.04 per cent

5.3 Indicative outperformance calculations

5.3.1 Gearing benefit share

Ofwat announced on 3 July 2018 its proposed approach to benefit sharing for the next price control period 2020-25. In its draft determinations for the 2020-25 price control period[19] Ofwat announced that most companies had committed to adopt its proposed mechanism, though it had imposed its default mechanism on Thames and South Staffs.

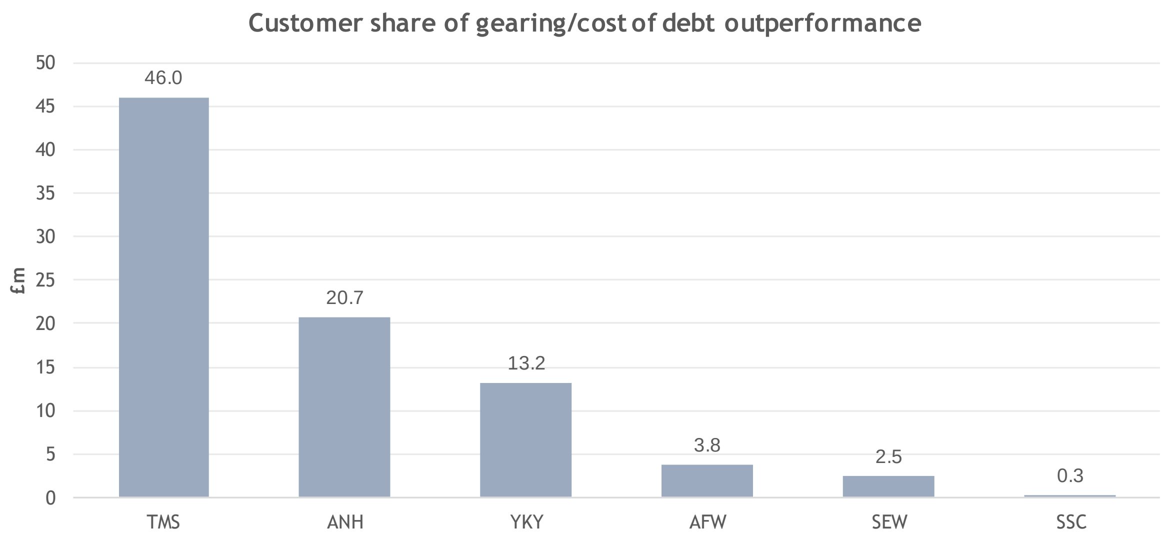
Companies with gearing over 70 per cent will be required to share financial outperformance between customers and investors.

Based on Ofwat's proposed methodology and companies' reported financials in 2018-19 (gearing, nominal cost of debt and RCV from the APRs) we have calculated that six companies could be required to share benefits with customers if this mechanism had been used in the 2015-20 period. We estimate that the overall value of this to customers could be around £86m[20]. This is shown in Figure 5.

Benefit sharing occurs if two conditions are met. First that the company's gearing exceeds 70 per cent and secondly that its actual, nominal cost of debt is lower than the nominal cost of equity Ofwat assumed when it sets price limits for the 2015-20 period.

[19] https://www.ofwat.gov.uk/wp-content/uploads/2019/07/PR19-draft-determinations-Overview-of-companies-draft-determinations-1.pdf
[20] Consumer share of the benefit is 50 per cent. Benefit is calculated on the level of gearing (%) above 65 per cent applied to the RCV (net debt and regulated equity from table 4H of companies' APRs). Nominal actual cost of debt versus nominal assumed cost of equity derived from PR14 real cost of equity of 5.65 per cent and 2.8 per cent inflation assumption.

Figure 5: Customer share of gearing/cost of debt outperformance (indicative)



While we support Ofwat's benefit sharing approach this will only address the risk of significant gains occurring in the future. However, high investor returns, achieved from higher gearing and lower cost debt financing, have occurred in the past.

With expectations that companies have more limited scope for financial outperformance post PR19 (Moody's report refers[21]), it could be considered a missed opportunity that customers have not benefited from significant historical gains in a similar manner.

Increased financial transparency and a share of the benefits when companies make gains from debt financing and higher gearing may help address trust issues in the sector.

5.3.2. Cost of debt outperformance

We have also estimated from companies' APRs that the value to companies of their cost of debt outperformance over the 2015-19 period is in the region of £800-1,000m. We have calculated this based on companies reported notional regulatory equity and the breakdown of their cumulative RoRE performance. Table 2 shows the breakdown of this outperformance. Seven companies have reported financing outperformance and that their overall RoRE is higher than the regulatory base assumption. A further three companies have reported financing outperformance but that their overall RoRE is lower than the regulatory base assumption.

[21] https://www.waterbriefing.org/home/regulation-and-legislation/item/15136-moody%E2%80%99s-warns-ofwat-plans-will-undermine-stability-and-confidence-in-water-sector

Table 2 – Quantification of cost of debt outperformance

	2017-18		2018-19	
	Number of companies	Financing outperformance	Number of companies	Financing outperformance
Financing and overall RoRE outperformance	6	£446m	7	£773m
Financing outperformance but overall RoRE underperformance	3	£124m	3	£212m
TOTAL	9	£570m	10	£985m

5.4 Dividends

Ofwat has no formal powers to control dividends. However, companies are required (through their licences) to declare or pay dividends only in accordance with a dividend policy which has been approved by its Board. This dividend policy also has to comply with both of the following principles:

- The dividends declared or paid will not impair the ability of the company to finance the regulated water and sewerage business.
- Under a system of incentive regulation, dividends are intended to reward efficiency and the management of economic risk.

Ofwat requires the regulated companies to report any dividend paid to their parent company in their regulatory accounts. They must also explain the basis of the dividend.

We are encouraging companies to explain to their customers, and to the public generally, what returns they have made in the regulated business and what they intend to do with them.

To increase trust in the sector Ofwat has required[22] companies to explain their dividend policies, and how they relate to performance, in the Business Plans that they submitted to Ofwat in September 2018. Ofwat's guidance explained that:

> 'Where companies propose base dividend yields that are higher than 5% in their business plans, they should explain, transparently for customers and wider society, why such higher dividends are in customers' interests'.[23]

[22] https://www.ofwat.gov.uk/wp-content/uploads/2018/07/Benefit-sharing-decision-statement-FINAL-for-publishing.pdf
[23] The 5 per cent is neither an Ofwat target nor control. Ofwat expects companies to explain why dividend yields in excess of 5 per cent reflect performance delivery to customers and are in the customer interest.

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In its Draft Determinations[24] Ofwat has explained that:

> 'All companies have made firm commitments around transparency of their dividend policies for 2020-25 and have said that their dividend policy will take account of obligations and commitments to customers. However, the majority of companies have not provided sufficient explanation or evidence to explain precisely how they will demonstrate they will meet our expectations. We expect all companies to continue to take steps to meet our expectations. In particular we expect companies to demonstrate transparently that their dividend policy for 2020-25 takes account of obligations and commitments to customers and other stakeholders, including performance in delivery against the final determination'.

Thirteen companies reported dividends to their shareholders in 2018-19. The exceptions were: Dŵr Cymru Welsh Water (a not for profit company that does not pay dividends), Southern (the only dividend paid was to service the interest payments on an inter-company loan), Affinity and Hafren.

Six companies reported lower dividends in 2018-19 than in 2017-18. These ranged from a 1 per cent reduction (Wessex) to reductions of over 50 per cent (Anglian, Affinity and South Staffs).

Anglian reported that its decision to reduce dividends was consistent with its aim to de-gear. Of the dividend paid around a third will come back to the appointed business by way of equity injection.

Affinity's decision not to pay a dividend in 2018-19 is in anticipation of a penalty for missing its leakage target. The company also explains that its 2017-18 dividend was atypical as it reflected the proceeds from the sale of its non-household business.

South Staffs' reduction reflected a relatively high dividend in 2017-18 which reflected a one off payment from the proceeds of the sale of the non-household retail business.

Increases in dividends paid ranged from 2 per cent (South West) to 63 per cent (South East).

South East does not explain the increase but explains that its dividend policy is to ensure it pays a suitable amount to shareholders ensuring the business can finance itself and comply with its licence. The company considers actual and forecast gearing, credit rating and allowed cost of capital when considering the appropriate dividend.

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[24] https://www.ofwat.gov.uk/wp-content/uploads/2019/07/PR19-draft-determinations-Aligning-risk-and-return-technical-appendix.pdf

5.4.1 Dividend yield

Six companies reported a dividend yield[25] in 2018-19 higher than the 5 per cent Ofwat regards as a reasonable return against which to assess companies' 2020-25 business plans. While Ofwat did not suggest this reasonable return at PR14 a comparable figure might be 5.65 per cent, based on the PR14 dividend yield assumption of 4 per cent and real dividend growth of 1.65 per cent. This is shown in figure 6. The same six companies have a dividend yield that exceeds the average dividend (4.97 per cent) for FTSE 100 companies. Eight companies have a dividend yield that exceeds the average of the FTSE 250 companies (3.19 per cent)[26].

South West Water explains its dividend stems from a base dividend which accounted for around 47 per cent, and an element of outperformance accounting for 53 per cent.

United Utilities explains that its dividend policy is to distribute a base return of 5 per cent of equity and an amount no greater than the cumulative outperformance it has made (the company's dividend will also reflect non-appointed business profit). The company indicates in its APR that 'Dividends were more than supported by the value created, as demonstrated through Ofwat's financial flows analysis'. United Utilities emphasises that its dividend policy is both responsible and sustainable with targeted growth of at least RPI inflation through to 2020. UU indicates that its dividends average 7% over the period with retained value at half of that.

Northumbrian indicate that when declaring dividends its Board 'takes a holistic view of business performance, the prospects of the Company and the principal risks facing the business, as well as having regard to levels of operational performance, investment requirements, customer service and our employee pension obligations'. Key considerations are the achievability of the targeted credit rating and gearing levels.

[25] Dividends in companies' APRs exclude any dividend to holding companies to pay interest on inter-company loans.
[26] FTSE 100 and 250 dividend yields as at 2 March 2020.
https://www.dividenddata.co.uk/dividendyield.py?market=ftse250

Figure 6: Companies' reported dividend yields

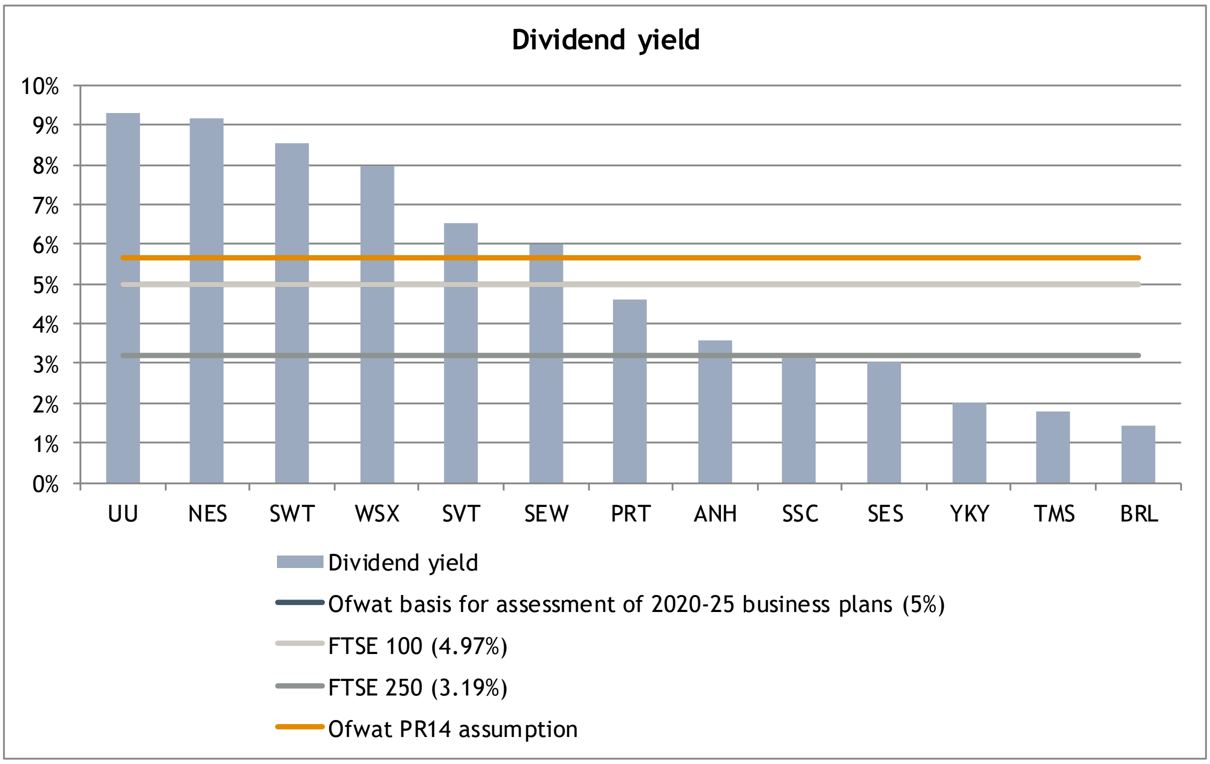
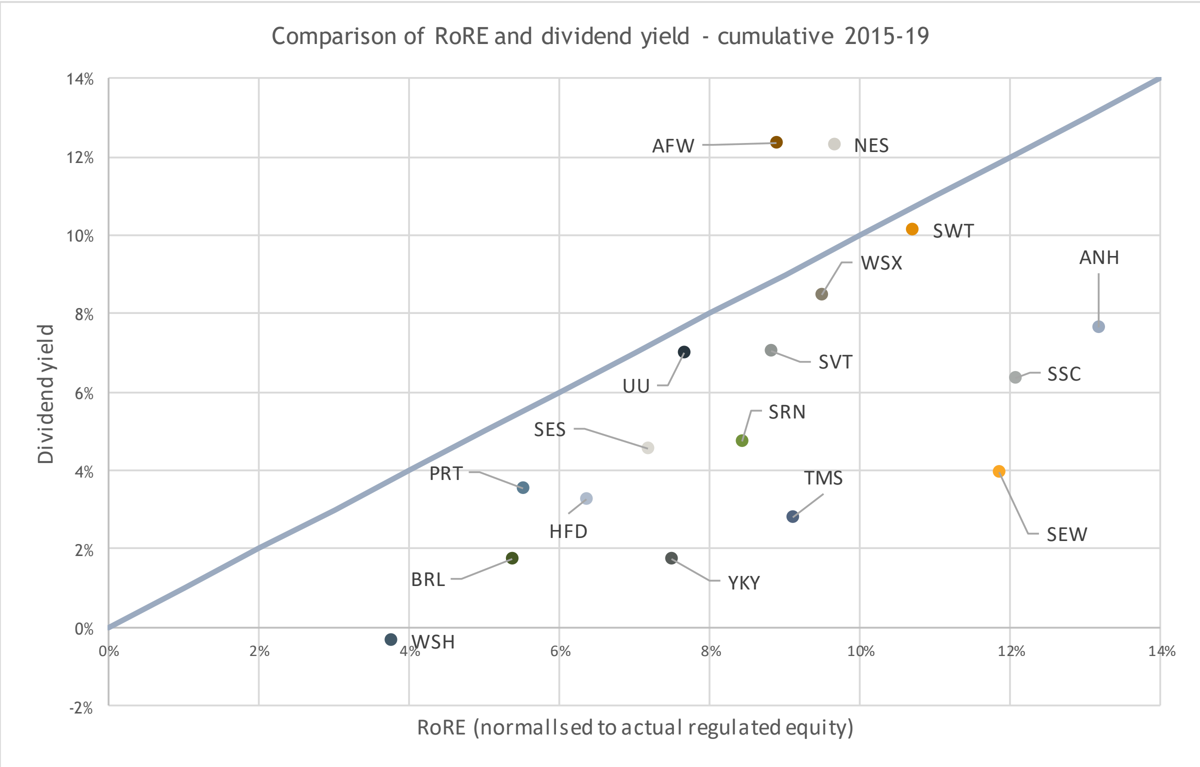


Figure 7 shows a comparison of companies' cumulative dividend yields 2015-19 with RoRE over the same period (both RORE and dividend yield relative to actual regulated equity). It is apparent that for some companies (Affinity and Northumbrian) their dividend yield exceeds RoRE. It also shows that eight companies' cumulative dividend yield in 2015-19 exceeded the 5.65 per cent threshold referred to above.

We will be looking to better understand companies' dividend policies in this light and how companies consider the balance between shareholders and customers. We recognise that in some cases dividends payable out of the appointed business service interest on debt raised by other companies within the group but loaned on to the appointed business.

Figure 7: Companies' cumulative dividend yields and RoRE 2015-19



5.4.2 Dividend cover

Dividend cover is the ratio of distributable profits to dividends. Dividend cover ratios can be categorised as:

Table 3: Dividend cover – what it means

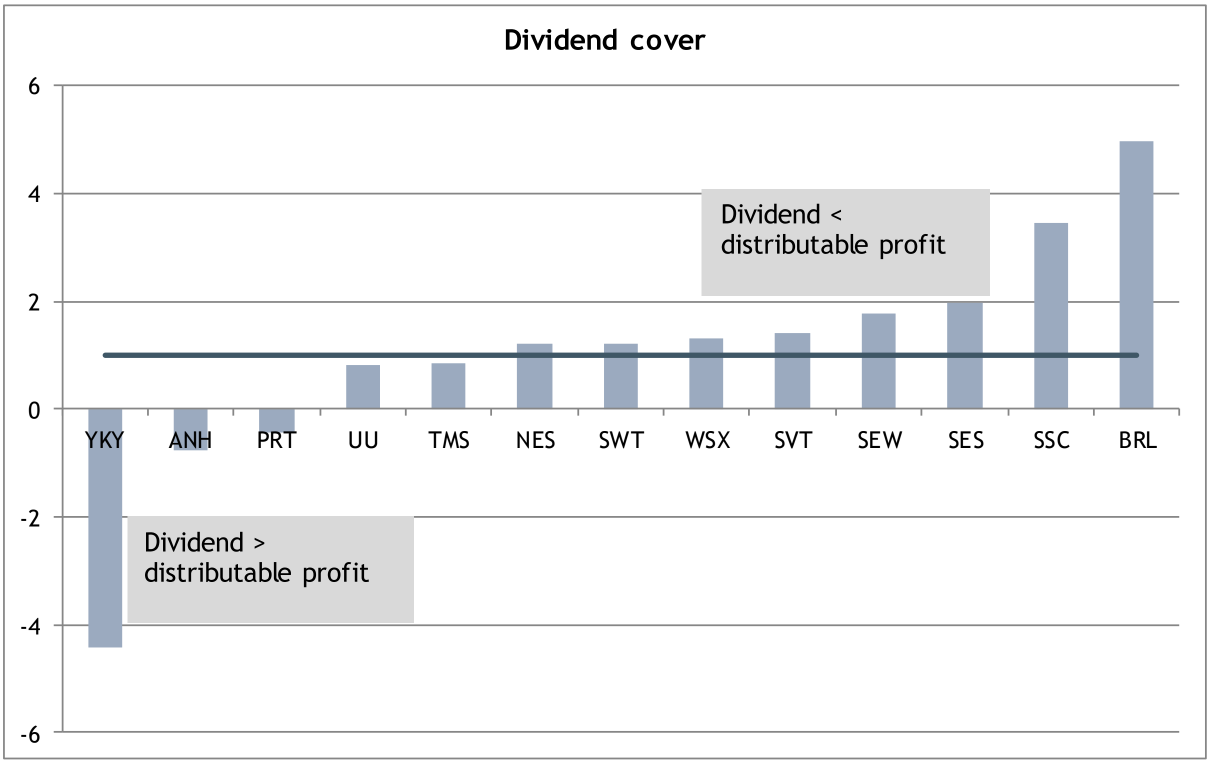
Dividend cover	What this means
>1	Some profit is retained in the business which could reduce the level of gearing
=1	All distributable profit is paid to shareholders
<1	The dividend paid to shareholders exceeds the distributable profit generated in the financial year. This will reduce the cash in the business and all things equal result in increased gearing

Figure 8 shows that in 2018-19 five companies had a dividend cover lower than ,1 which means the amount they paid in dividends exceeded the amount they had in distributable profits for the year. Anglian Water indicated that its free cash flow meant it could pay a dividend of up to £193m but reduced the dividend to £68m (of which £61.5m came from the appointed business) as part of its de-gearing target. Of this £68m, £22m came back to the company by way of equity injection from its shareholders. If this was excluded from the reported dividend the dividend cover would -0.5. United Utilities and Thames paid dividends marginally in excess of distributable profits. Yorkshire Water reported that its dividend of £33m was used to pay Head Office costs and Kelda Finance interest. No dividend was paid to the company's ultimate shareholders.

Thames Water's dividend cover was marginally below 1. However the company indicated that the dividend it paid up to its immediate holding company was all used to service debt obligations and working capital requirements in the wider group. No dividends were paid to external shareholders (consistent with the company's commitment to withhold external dividends until 2020-21).

Affinity Water indicated that its policy is to distribute earnings equal to the amount necessary to maintain net debt to RCV at or below its target. The company attributes its dividend increase to the increase in RPI on the RCV and proceeds from the disposal of the company's non-household retail business.

Figure 8: Relationship between dividends and distributable profit



6. Conclusions

1. Our analysis in this report shows that the three companies with the highest RoRE shared benefits with customers, as well as with shareholders. We welcome this. However, it is not clear from companies APRs whether all companies have considered benefit sharing beyond that automated through the current regulatory mechanisms.

2. We recommend that all APRs include a section commenting on this issue, explaining whether a company has shared benefit, what factors were taken into account, and the nature of the benefits passed back to customers. This should be expressed clearly and with figures.

3. We recommend that companies communicate the above when explaining what they are doing for customers, above and beyond the regulatory settlements. This is an area where companies can improve their reputation.

4. We think it would be helpful to compare companies' financial performance with other operational data to identify companies with significant financial outperformance but relatively poor operational performance. We will be considering how to develop this comparison. It will enable us to identify which companies are well placed for benefit sharing i.e. those with financial outperformance but relatively poor operational performance. We intend to use this to inform our conversations with companies.

5. We recognise that the timing of this year's report, with price limits recently announced for the 2020-25 period, leaves little opportunity for companies to respond immediately to the issue of benefit sharing. However, the report highlights lessons learned from the current five-year period and identifies aspects where more can be done to benefit customers going forward.

6. In the light of the findings in this report we will continue to press water companies to share the benefits of outperformance with their customers, in particular:
   - challenge companies who are outperforming RoRE assumptions, especially if there is underperformance on service and customer satisfaction.
   - monitor companies' dividends. Where dividend yields and/or dividend covers appear out of line, CCW will challenge companies to explain how their dividend policies are in the customer interest.
   - look for early signs of debt outperformance.
   - monitor companies' gearing levels.

Appendix 1 – Data Tables

This annex contains data underlying the figures presented in the main body of the report. All data are for 2018-19, unless otherwise stated.

Table A – Return on regulatory equity (RoRE) – cumulative 2015-19

All figures %	Base Case RoRE	Expenditure	Finance	ODIs	Other*	Total
Anglian	5.56	1.03	0.15	0.52	0.04	7.30
Dŵr Cymru Welsh Water	5.60	-0.95	-0.29	0.00	0.00	4.36
Hafren Dyfrdwy	6.01	0.52	-0.77	-0.42	0.00	5.34
Northumbrian	5.68	1.64	0.94	0.15	0.05	8.46
Severn Trent	5.67	1.10	1.31	1.00	-0.04	9.04
South West	6.00	2.53	2.81	0.29	-0.1	11.53
Southern	5.64	0.11	0.07	-0.49	-0.03	5.30
Thames	5.61	-1.83	1.02	-0.51	0.20	4.49
United Utilities	5.60	-0.47	2.03	0.25	-0.05	7.36
Wessex	5.64	1.49	1.38	0.49	0.05	9.05
Yorkshire	5.59	-0.39	-0.59	0.35	0.00	4.96
Affinity	6.14	-1.23	0.98	-0.63	-0.06	5.20
Bristol	5.80	0.38	-0.21	-0.76	-0.15	5.06
Portsmouth	5.79	-0.61	-1.02	0.00	0.72	4.88
South East	5.60	1.28	-0.52	-0.05	0.44	6.75
South Staffs	5.91	1.66	0.49	0.22	1.26	9.54
SES Water	5.80	-0.98	-0.58	0.26	0.74	5.24

Source: APRs

- Other can include sale of non-household business, etc

Table B: Gearing

All figures	Actual gearing			Change	
	2016-17	2017-18	2018-19	2016-17 to 2017-18	2017-18 to 2018-19
Anglian	79.1	78.5	78.6	-0.6	0.0
Dŵr Cymru Welsh Water	56.4	57.1	56.0	0.7	-1.1
Hafren Dyfrdwy	n/a	n/a	66.5	n/a	n/a
Northumbrian	68.4	66.0	66.8	-2.4	0.8
Severn Trent	60.7	61.5	63.7	0.8	2.2
South West	61.9	60.4	58.9	-1.6	-1.4
Southern	78.5	79.2	68.8	0.7	-10.4
Thames	83.3	82.9	81.9	-0.4	-1.0
United Utilities	61.4	64.7	64.8	3.3	0.1
Wessex	64.7	63.9	64.7	-0.8	0.8
Yorkshire	75.4	74.3	75.8	-1.0	1.4
Affinity	78.0	79.7	79.7	1.7	0.0
Bristol	64.6	64.0	64.6	-0.7	0.6
Dee Valley	70.2	67.2	n/a	-3.1	n/a
Portsmouth	68.6	63.6	66.3	-5.1	2.8
South East	78.4	77.7	78.5	-0.6	0.8
South Staffs	69.4	71.5	70.6	2.1	-0.9
SES Water	77.7	77.1	60.9	-0.7	-16.2

Source: APRs,

Table C – Cost of debt

All figures %	Allowed cost of debt (real)	Actual cost of debt (real)
Anglian	2.6	1.6
Dŵr Cymru Welsh Water	2.6	1.9
Hafren Dyfrdwy	2.6	1.1
Northumbrian	2.6	1.1
Severn Trent	2.6	0.8
South West	2.8	-0.4
Southern	2.6	2.4
Thames	2.6	1.4
United Utilities	2.6	0.2
Wessex	2.6	0.9
Yorkshire	2.6	1.8
Affinity	2.8	1.2
Bristol	2.6	1.6
Portsmouth	2.8	2.7
South East	2.6	2.7

All figures %	Allowed cost of debt (real)	Actual cost of debt (real)
South Staffs	2.6	2.8
SES Water	2.6	2.1

Source: APRs, Final Determinations,

Table D: Debt composition

All figures	Fixed rate debt	Floating rate debt	Index-linked debt
Anglian	35%	6%	59%
Dŵr Cymru Welsh Water	32%	6%	62%
Hafren Dyfrdwy	0%	54%	46%
Northumbrian	63%	1%	35%
Severn Trent	60%	17%	23%
South West	58%	20%	22%
Southern	28%	4%	68%
Thames	50%	1%	49%
United Utilities	46%	5%	49%
Wessex	45%	17%	37%
Yorkshire	40%	26%	34%
Affinity	50%	0%	50%
Bristol	27%	21%	53%
Portsmouth	0%	8%	91%
South East	15%	5%	80%
South Staffs	12%	3%	85%
SES Water	0%	8%	92%

Source: APRs

Table E: Debt maturity

	<1 yr	1 - 2 yr	2 - 5 yr	5 - 20 yr	> 20 yr	Average (yrs)
Anglian	3%	6%	21%	53%	17%	13.01
Dŵr Cymru Welsh Water	1%	2%	14%	77%	6%	12.33
Hafren Dyfrdwy	54%	0%	0%	46%	0%	5.97
Northumbrian	2%	1%	16%	56%	26%	13.50
Severn Trent	6%	4%	23%	44%	23%	12.27
South West	4%	2%	11%	41%	42%	19.95
Southern	13%	0%	17%	52%	18%	12.16
Thames	8%	2%	16%	44%	31%	15.4
United Utilities	5%	18%	15%	42%	21%	12.13
Wessex	2%	0%	31%	33%	33%	16.15
Yorkshire	6%	1%	23%	42%	28%	14.46
Affinity	0%	0%	1%	63%	35%	16.87
Bristol	0%	0%	6%	76%	18%	12.99

	<1 yr	1 - 2 yr	2 - 5 yr	5 - 20 yr	> 20 yr	Average (yrs)
Portsmouth	8%	0%	0%	91%	0%	13.00
South East	33%	0%	0%	51%	16%	10.00
South Staffs	0%	0%	14%	0%	86%	24.17
SES Water	0%	8%	0%	92%	0%	9.48

Source: APRs

Table F: Dividends

	Dividends (£m)				Change in dividends (£m)		
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2015-16 to 2016-17**	**2016-17 to 2017-18**	**2017-18 to 2018-19**
Anglian	145.2	121.9	140.9	61.5	-23.2	+18.9	-79.4
Dŵr Cymru Welsh Water	-	30.2	-	-	+30.2	-30.2	-
Hafren Dyfrdwy	n/a	n/a	n/a	-	n/a	n/a	n/a
Northumbrian	200.0	200.8	119.4	130.0	+0.8	-81.4	10.6
Severn Trent	306.0	190.4	199.7	217.0	-115.6	+9.3	17.3
South West	74.9	213.1	120.3	123.1	+138.2	-92.8	2.8
Southern	79.6	121.5	4.9	-	+41.9	-116.7	-4.9
Thames	57.6	109.1	43.5	46.5	+51.5	-65.6	3.0
United Utilities	180.4	242.7	311.1	372.1	+62.3	+68.4	61.0
Wessex	84.0	94.0	92.1	91.0	+10.0	-2.0	-1.1
Yorkshire	-	45.4	28.6	32.9	+45.4	-16.8	4.3
WASC sub-totals	***1,127.6***	***1,369.2***	***1,060.4***	***1, 074.1***	***+241.5***	***-308.7***	***13.6***
Affinity	32.0	43.0	50.5	-	+11.0	+7.6	-50.5
Bristol	-	5.5	3.7	-2.7	+5.5	-1.8	-0.9
Dee Valley	1.4	1.9	-	n/a	+0.6	-1.9	n/a
Portsmouth	1.4	1.5	1.3	2.3	+0.1	-0.2	1.0
South East	4.1	9.8	10.8	17.6	+5.7	+1.1	6.8
South Staffs	3.4	6.5	13.3	3.5	+3.1	+6.9	-9.4
SES Water	3.0	2.8	3.0	3.1	-0.2	+0.2	0.1
WOC sub-totals	*44.1*	*71.0*	82.7	29.3	*+25.8*	+11.7	-53.4
Industry totals	**1,176.8**	**1,440.1**	**1,143.1**	**1,103.3**	**267.3**	**-297.0**	**-39.8**

Source: APRs. Dividends paid to external shareholders.

Table G: Wholesale totex

All figures £m	2015-16			2016-17			2017-18			2018-19		
	Allowed	**Actual**	**Difference**	**Allowed**	**Actual**	**Difference**	**Allowed**	**Actual**	**Difference**	**Allowed**	**Actual**	**Difference**
Anglian	852.9	724.9	128.0	1,055.7	830.7	225.0	960.3	928.4	31.9	961.7	927.8	34.0
Dŵr Cymru Welsh Water	568.6	469.0	99.7	574.0	601.4	-27.3	585.9	662.4	-76.5	589.6	715.4	-125.8
Hafren Dyfrdwy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.1	142.5	-124.4
Northumbrian	505.7	457.0	48.7	533.8	446.0	87.8	570.8	518.8	52.0	541.9	560.7	-18.8
Severn Trent	1,064.6	1,030.3	34.3	1,236.7	1,088.0	148.7	1,344.0	1,235.0	109.0	1374.7	1460.1	-85.5
South West	363.3	288.9	74.4	410.1	350.5	59.7	406.5	343.8	62.7	378.4	329.6	48.8
Southern	563.1	453.6	109.5	627.3	533.1	94.2	639.4	651.8	-12.4	612.3	691.6	-79.3
Thames	1,590.4	1,644.2	-53.8	1,602.8	1,736.7	-133.9	1,689.4	1,783.6	-94.2	1,625.2	1,844.1	-218.9
United Utilities	1,080.9	1,248.0	-167.1	1,149.0	1,293.7	-144.7	1,254.5	1,313.1	-58.6	1,337.0	1,361.6	-24.6
Wessex	362.7	325.5	37.2	391.2	341.9	49.3	428.4	359.3	69.1	419.4	395.8	23.5
Yorkshire	789.4	600.7	188.7	768.3	746.5	21.8	766.3	793.5	-27.2	790.3	968.0	-177.8
WASC sub-total	*7,741.6*	*7,242.0*	*499.6*	*8,349.0*	*7,968.4*	*380.7*	*8,645.5*	*8,589.7*	*55.8*	*8,648.6*	*9,397.2*	*-748.6*
Affinity	259.5	229.4	30.1	267.6	268.7	-1.1	241.7	255.6	-13.9	222.7	244.6	-22.0
Bournemouth	30.2	25.0	5.3	n.a	n.a	n.a	n.a	n.a	n.a	n/a	n/a	n/a
Bristol	93.4	69.8	23.6	94.9	82.9	12.0	99.1	104.0	-4.9	101.3	109.1	-7.8
Dee Valley	22.4	16.3	6.1	27.2	21.4	5.7	24.5	27.9	-3.4	n.a	n.a	n.a
Portsmouth	28.8	27.5	1.4	31.8	31.7	0.2	33.0	28.0	5.0	32.4	37.4	-5.0
South East	159.9	155.8	4.1	171.9	158.4	13.5	189.1	172.1	17.0	187.3	183.2	4.1
South Staffs	84.6	80.7	3.9	87.2	85.6	1.6	90.8	95.3	-4.5	93.7	96.8	-3.1
SES Water	45.1	43.1	1.9	50.6	48.1	2.5	55.1	51.2	3.8	52.6	53.6	-1.0
WOC sub-total	*723.9*	*647.4*	*76.4*	*731.2*	*696.8*	*34.4*	*733.2*	*734.2*	*-0.9*	*690.0*	*724.8*	*-34.8*
Industry totals	**8,465.5**	**7,889.5**	**576.0**	**9,080.2**	**8,665.2**	**415.0**	**9,378.7**	**9,323.9**	**54.9**	**9,338.6**	**10,121.9**	**-783.4**

Source: APRs,

Table H: Retail

(£m, nominal terms)	2015-16			2016-17			2017-18			2018-19		
	Allowed	Actual	Difference	Allowed	Actual	Difference	Allowed	Actual	Difference	Allowed	Actual	Difference
Anglian	79.3	81.2	-1.9	82.1	81.5	0.6	83.7	76.1	7.6	85.3	75.0	10.3
Dŵr Cymru Welsh Water	58.6	68.8	-10.2	57.1	63.2	-6.1	55.4	64.8	-9.5	53.4	62.1	-8.8
Hafren Dyfrdwy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.7	3.2	-1.6
Northumbrian	56.1	51.0	5.1	56.8	52.8	4.0	57.5	50.2	7.3	58.0	56.7	1.3
Severn Trent	119.1	103.8	15.3	124.9	92.3	32.6	130.8	99.2	31.6	132.0	102.5	29.5
South West	30.3	33.3	-3.0	36.2	36.7	-0.5	36.9	31.1	5.9	37.2	27.7	9.5
Southern	62.9	86.9	-24.0	62.0	92.5	-30.5	57.6	71.9	-14.4	53.5	60.8	-7.3
Thames	168.1	190.0	-21.9	167.6	201.3	-33.7	168.6	177.9	-9.3	169.5	191.4	-21.9
United Utilities	142.2	156.2	-13.9	138.4	123.0	15.4	131.0	107.8	23.3	125.9	111.5	14.4
Wessex	32.8	30.3	2.5	33.5	30.5	3.0	34.5	30.3	4.2	35.2	33.3	1.9
Yorkshire	56.9	62.1	-5.2	58.5	63.0	-4.5	60.6	70.7	-10.2	61.6	77.6	-16.0
WASC sub-total	806.4	863.6	-57.2	817.3	836.9	-19.6	816.5	780.0	36.5	813.3	801.9	11.4
Affinity	29.8	34.5	-4.7	29.3	35.9	-6.6	28.7	31.7	-3.0	28.3	27.1	1.2
Bournemouth	4.8	5.3	-0.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bristol	10.4	9.9	0.5	10.8	10.3	0.5	11.1	10.0	1.1	11.6	11.6	0.0
Dee Valley	2.6	3.0	-0.3	2.7	2.7	0.0	2.7	2.5	0.2	n/a	n/a	n/a
Portsmouth	4.5	5.2	-0.7	4.6	5.4	-0.8	4.7	4.9	-0.2	4.8	4.6	0.2
South East	21.1	19.7	1.4	21.6	18.3	3.2	22.1	18.5	3.6	22.4	17.0	5.4
South Staffs	16.0	14.5	1.5	16.2	14.2	2.0	16.8	12.7	4.1	17.6	12.9	4.7
SES Water	5.8	6.8	-1.0	5.8	6.9	-1.1	6.0	7.2	-1.2	6.0	8.1	-2.1
WOC sub-total	95.0	98.9	-3.9	91.0	93.8	-2.8	92.1	87.5	4.6	90.6	81.2	9.4
Industry totals	**901.4**	**962.5**	**-61.1**	**908.2**	**930.6**	**-22.4**	**908.6**	**867.5**	**41.1**	**904.0**	**883.2**	**20.8**

Source: APRs,

Table I: Net ODI rewards

	2015-16		2016-17		2017-18		2018-19	
(£m 2012-13 prices)	**In period**	**End of period**	**In period**	**End of period**	**In period**	**End of period**	**In period**	**End of period**
Anglian	0.5	10.6	2.6	2.5	4.6	8.7	0	9.1
Dŵr Cymru Welsh Water	0.0	1.0	0.0	2.8	0.0	-3.4	0.0	-0.4
Hafren Dyfrdwy	0.0	-1.1	0.0	-0.2	0.0	0.0	-0.2	-0.1
Northumbrian	0.0	4.5	0.0	5.0	0.0	3.8	0.0	-3.2
Severn Trent	18.7	0	40.3	0.0	57.8	0.0	0.4	-3.7
South West	-1.7	3.6	-0.3	3.9	-0.3	2.9	-0.9	5.0
Southern	0.0	-1.5	0.0	0.0	0.0	-0.3	0.0	-0.3
Thames	0.0	-13.3	0.0	-15.0	0.0	-33.9	0.0	-51.7
United Utilities	0.0	2.4	0.0	6.7	0.0	-7.0	0.0	19.2
Wessex	0.0	5.1	0.0	5.5	0.0	6.6	0.0	2.5
Yorkshire	0.0	5.7	0.0	8.8	0.0	12.7	0.0	8.8
WASC sub-total	*17.5*	*17.1*	*42.6*	*19.9*	*62.2*	*-9.9*	-0.7	-14.8
Affinity	0	-1.6	0.0	-1.6	0.0	-0.4	0.0	-7.0
Bristol	0.0	0.0	0.0	0.0	0.0	-2.3	0.0	0.0
Portsmouth	0.0	0.0	0.0	0.0	0.0	-0.4	0.0	-0.4
South East	0.0	-0.3	0.0	0.0	0.0	-1.5	0.0	0.0
South Staffs	0.0	-0.1	0.0	0.4	0.0	-0.2	0.0	0.2
SES Water	0.0	0.5	0.0	0.8	0.0	0.3	0.0	-0.2
WOC sub-total	*0.0*	*-1.3*	*0.0*	*-0.2*	0.0	-4.5	0.0	-10.7
Industry totals	**17.5**	**15.8**	**42.6**	**19.7**	**62.2**	**-14.4**	**-0.7**	**-25.4**

Source: APRs,

Table J: Revenue

(£m, nominal terms)	2015-16			2016-17			2017-18			2018-19		
	Allowed	Actual	Difference (%)	Allowed	Actual	Difference (%)	Allowed	Actual	Difference (%)	Allowed	Actual	Difference (%)
Anglian	1,187.3	1,181.8	-0.5	1,213.8	1,222.3	0.7	1,247.1	1,251.1	0.3	1,289.1	1,285.8	-0.3
Dŵr Cymru Welsh Water	731.1	729.7	-0.2	738.6	747.2	1.2	743.5	745.0	0.2	768.2	773.1	0.6
Hafren Dyfrdwy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	24.9	26.2	5.0
Northumbrian	775.1	779.2	0.5	789.7	793.7	0.5	804.2	806.6	0.3	833.8	830.1	-0.4
Severn Trent	1,519.4	1,545.6	1.7	1,549.9	1,541.1	-0.6	1,591.1	1,563.6	-1.7	1,653.2	1,621.2	-1.9
South West	496.2	506.0	2.0	544.2	553.8	1.8	544.4	574.4	5.5	554.8	573.8	3.4
Southern	793.3	798.5	0.7	806.9	806.2	-0.1	817.6	813.1	-0.5	855.6	846.7	-1.0
Thames	2,011.7	2,035.7	1.2	2,037.7	2,038.0	0.0	2,047.7	2,020.5	-1.3	2,135.1	2,012.7	-5.7
United Utilities	1,705.0	1,712.5	0.4	1,742.9	1,710.4	-1.9	1,774.2	1,730.9	-2.4	1,852.3	1,812.6	-2.1
Wessex	507.2	519.5	2.4	517.1	524.1	1.4	521.9	535.9	2.7	546.2	541.3	-0.9
Yorkshire	965.0	980.9	1.6	989.2	979.8	-0.9	1,013.4	1,021.9	0.8	1,061	1,073.3	1.2
WASC sub-total	*10,691.3*	*10,789.4*	*0.9*	*10,930.0*	*10,916.6*	*-0.1*	11,105.0	11,062.9	-0.4	11,574	11,397	-1.5
Affinity	307.0	304.8	-0.7	310.6	311.8	0.4	310.3	311.6	0.4	315.5	315.7	0.1
Bournemouth	39.6	40.5	2.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bristol	114.0	111.8	-1.9	113.6	111.5	-1.9	118.5	115.3	-2.7	122.1	120	-2.0
Dee Valley	24.7	23.9	-3.4	25.6	25.2	-1.5	26.4	25.8	-2.0	n/a	n/a	n/a
Portsmouth	38.4	38.8	1.1	39.1	39.8	1.9	39.8	39.6	-0.4	41.1	41.0	-0.3
South East	221.1	219.1	-0.9	226.4	224.5	-0.8	235.0	229.5	-2.3	244.4	237.7	-2.7
South Staffs	119.6	123.0	2.9	119.9	123.0	2.6	122.2	123.4	1.0	126.5	127.3	0.6
SES Water	59.9	60.5	0.8	61.1	61.2	0.1	62.4	61.8	-1.1	65.3	63.7	-2.5
WOC sub-total	*924.4*	*922.3*	*-0.2*	*896.4*	*897.1*	*0.1*	914.6	907.0	-0.8	920.5	905	-0.5
Industry totals	**11,615.7**	**11,711.7**	**0.8**	**11,826.4**	**11,813.7**	**-0.1**	12,019.6	11,969.9	-0.4	12,494.7	12,301.9	-1.5

Source: APRs

Table K: Profits and margins

	2015-16				2016-17				2017-18				2018-19			
	Operating		Post-tax		Operating		Post-tax		Operating		Post-tax		Operating		Post-tax	
	£m	Margin (%)	£m	Margin (%)	£m	Margin (%)	£m	Margin (%)	£m	Margin (%)	£m	Margin (%)	£m	Margin (%)	£m	Margin (%)
Anglian	340	29.1	325	27.9	355	29.4	194	16.0	337	27.4	282	23.0	318	25.2	-48	-3.8
Dŵr Cymru Welsh Water	161	21.8	54	7.3	98	13.3	-53	-7.1	66	8.8	-52	-7.0	62	8.0	-106	-13.7
Hafren Dyfrdwy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-3	-9.1	-24	-77.9
Northumbrian	362	46.9	241	31.1	340	43.3	186	23.7	322	40.4	150	18.9	323	39.3	154	18.7
Severn Trent	515	33.6	319	20.8	517	33.8	309	20.2	496	32.0	218	14.1	537	33.3	303	18.8
South West	207	41.1	157	31.1	233	41.8	147	26.3	245	43.3	143	25.3	235	41.7	146	26.0
Southern	286	35.6	117	14.6	248	31.2	-180	-22.7	235	29.3	142	17.8	944	11.3	-250	-30.0
Thames	721	35.2	440	21.5	525	25.7	17	0.9	524	25.9	-2	-0.1	376	18.4	39	1.9
United Utilities	568	33.3	365	21.4	580	34.4	364	21.6	603	35.2	302	17.7	611	34.2	303	17.0
Wessex	238	46.4	152	29.6	230	44.6	142	27.5	264	50.1	135	25.6	231	42.9	115	21.4
Yorkshire	254	26.3	230	23.9	314	31.9	-267	-27.1	268	26.8	68	6.8	215	20.5	-145	-13.8
WASC sub-total	3,651	34.0	2,400	22.3	3,440	31.7	859	7.9	3,358	30.7	1,387	12.7	2,999	26.5	488	4.3
Affinity	70	23.5	52	17.3	56	18.5	23	7.7	51	17.1	22	7.2	36	11.8	3	1.1
Bournemouth	10	25.3	7	16.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bristol	35	32.3	28	25.4	29	26.2	19	17.6	26	22.9	11	9.5	27	23.1	13.5	11.4
Dee Valley	5	19.9	3	13.6	4	17.7	2	6.3	4	17.4	0	1.0	n/a	n/a	n/a	n/a
Portsmouth	9	21.6	5	11.3	6	15.3	3	7.4	6	16.4	0	0.1	3	7.3	-1	-2.5
South East	72	33.4	42	19.5	76	34.2	22	10.2	63	28.7	11	5.1	67	29.5	31	13.7
South Staffs	32	26.7	21	17.2	29	24.6	16	13.5	19	16.2	13	11.0	21	17.1	14	11.1
SES Water	19	31.6	14	23.4	18	29.6	11	18.7	16	27.2	8	13.9	17	26.6	6	9.7
WOC sub-total	252	27.8	170	18.8	218	24.9	97	11.1	187	21.3	65	7.4	170	19.5	67	7.6
Industry totals	3,903	33.5	2,570	22.1	3,658	31.2	956	8.2	3,545	30.0	1,453	12.3	3169	26	554.2	4.5

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