

Fair charges, fair returns

Our monopoly status and rising living costs make it particularly important that both our charges and our profits are fair.

To meet this outcome...

We must be an efficient company, quick to address challenges of affordability, make long-term prudent investment choices and embrace development of markets that benefit our customers. To keep investing for our customers, we need to raise money at competitive rates and pay a fair return to our investors.

Since privatisation, our customers have had the lowest percentage increase in average household bills of any company; our bills have increased just 10 per cent, compared to an industry average of 46 per cent. At PR14, our Business Plan for 2015–2020, our bills fell by more than twice the industry average.

Performance highlights:

- Six Green Bonds now issued, providing £876 million funding for around 850 projects
- Nearly 197,000 customers supported by ExtraCare team
- 83 per cent of customers receive metered bills
- £165 million of efficiencies reinvested across AMP6
- Committed to make bills affordable as a minimum for all households where water and sewerage bills constitute more than 5 per cent of their disposable income by 2030

Fair
financing



**£876
million**

raised in
Green Bonds
since 2017

Bills and affordability

Each year CCW – the voice for water consumers – asks if customers think our water and water recycling services offer value for money. This shows how our score has changed against our baseline performance



Water

-1%

Water recycling

-1%

CCW also asks whether our bills are fair and affordable. Again, score is against our baseline performance

Fair

2%

Affordable

1%



500,000 engagements with customers informed our Business Plan for 2020–2025

Operating responsibly

Our position as a monopoly provider of essential public services makes it essential that we maintain the trust and confidence of our customers. That means running our business in a responsible and transparent way so people can clearly see that:

- we act in the public interest
- their bills are fair, affordable and value for money
- we are responsible with their money
- we run our business efficiently, sharing any savings fairly between them and our shareholders
- our profits are fair and not excessive
- we pay our fair share of tax.

Sharing the rewards

The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination. Any regulated wholesale revenue raised over and above the agreed amount is returned to customers through something called the revenue correction mechanism.

Any profits, and returns to investors, that we make in excess of those derived from allowed pricing come from:

- increasing efficiency – running the business more cost-effectively than was funded at the time of the Final Determination
- any rewards for meeting our ODI targets.

Efficiencies are either reinvested to improve service for customers or shared with customers, helping to keep bills down. In addition, our focus on sustainable savings that can be maintained over the long term will help reduce our cost base in 2020–2025. The Board invested an additional £100 million in services and an extra £65 million in resilience schemes over the AMP period.

Responsible financing

We have always raised our debt through UK-registered companies, and our debt is listed on the London Stock Exchange. We also seek to raise our finance sustainably, and in 2017 became the first European utility to issue a sterling Green Bond. Over the course of AMP6, we have now raised a total of £876 million in Green Bond finance to investors in the UK and the United States in accordance with the ICMA Green Bond Principles, funding some 850 projects. We also use liquidity bank facilities that incentivise or impose penalties for delivering agreed environmental and social goals. Our approach to the payment of dividends to shareholders is covered on page 63.

In line with our social and environmental purpose we propose to raise the majority of our future finance as sustainable finance. Find out more about our approach in 'Sustainable finance', pages 32–33.

Fair charges

Our customers want services that provide value for money, and are fair and affordable. Our PR19 Business Plan, created following engagement with more than half a million customers and stakeholders, includes a significant increase in investment for our customers while reducing bills and returns to our investors.

The average bill in 2019/20 was £438, the equivalent of £1.20 per day. Excluding the effect of inflation, bills have remained flat across the last five years.

Following the two-year price review process led by our economic regulator Ofwat, average bills in 2020/21 will reduce to £412 a year, or £1.13 a day. Customers with a water meter will pay even less, with the average metered bill dropping to £385 a year. While tariffs set by the regulator apply for the first year, and they have been implemented in line with the Final Determination, the Company has asked the regulator to refer its decision to the Competition and Markets Authority (CMA). The CMA will now redetermine prices and this process is expected to be complete by March 2021.

Each year we find out what our customers think about our charges through four independent surveys, carried out by CCW – the voice for water consumers. These cover perceptions of fairness, affordability and whether our water and water recycling services offer value for money. At the start of the current AMP, survey scores for the industry were used to calculate an average for each measure and our score in relation to each of the four averages was set as a baseline. Each year the surveys are repeated and new averages are worked out. Our score in relation to the new averages is compared with the baseline to understand our performance. We are committed to at least maintaining levels of satisfaction in each area. Having exceeded our baseline on two of the four measures, we have earned an ODI reward of £25,000 for 2019/20 (see page 43).

We understand that customers who don't feel our bills are fair and affordable are more likely to be in lower income or larger occupancy households where the water/sewerage bill is probably a higher proportion of the household budget, and therefore creates a greater risk of affordability problems. We have committed to make bills affordable as a minimum for all households where water and sewerage bills constitute more than 5 per cent of their disposable income by 2030 and to develop a strategy to end water poverty. This is one of five Public Interest Commitments made jointly with our fellow water companies in England in April 2019.

Help for those who need it

We also understand that affordability will vary across time for the same household and can be driven by different circumstances. For many customers it is an occasional or infrequent event, often materialising due to the timing of the bill creating short-term budgeting issues. Other customers face a more fundamental, perhaps longer-term problem where household income doesn't match outgoings.

The different nature of each problem requires us to develop combined solutions that are tailored to individual needs. We recognise that we cannot solve wider affordability problems alone, but by linking into and helping mobilise the wider support available we can make a big difference in customers' lives.

We are transforming the service that we offer customers with affordability concerns, applying experience from across our business in order to target support most effectively.

Using data analytics we now route customer contacts with high affordability risk through to our ExtraCare team, where we can firstly check to see if they are claiming all benefits to which the household is entitled. On occasion this review results in customers receiving thousands of pounds in extra benefits.

We then look to see what help we can provide to customers in managing their payments to us with schemes including payment holidays, affordable instalment plans and settlement agreements. Through these schemes we have been able to assist nearly 197,000 customers over the last 12 months.

Assistance also includes the tariff schemes we operate for customers, including the Aquacare Plus and WaterSure concessionary tariffs, and our social tariff called LITE, for all of which eligible applicants receive a lower bill.

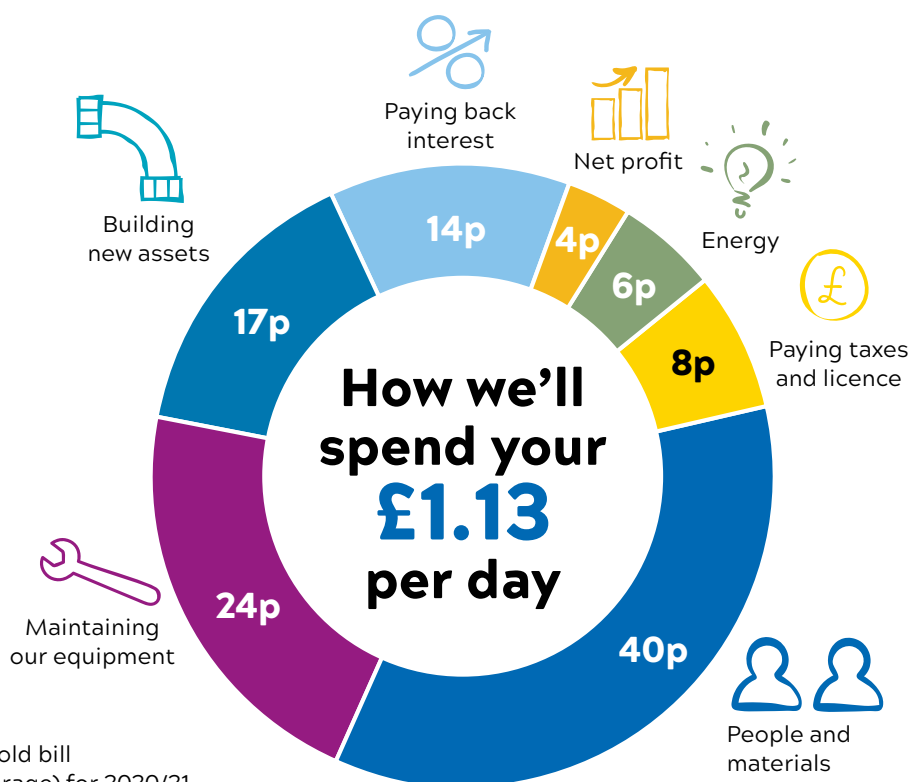
Altogether, these schemes provided assistance to more than 345,000 customers during 2019/20.

All this support is captured under our WaterCare banner, to help customers identify the help available and to promote our services directly to target groups.

The Covid-19 outbreak has had a serious impact on many of our customers' household finances, and we recognise our responsibility to help and advise those who are struggling to pay. We have highlighted the support available to customers prominently on our website and in all of our communications about the outbreak, encouraging those in difficulty to contact us to discuss their circumstances. That help will continue for those impacted by the Covid-19 outbreak, or any other financial issues, throughout AMP7 and beyond. Find out more on pages 10 and 59.

Where does customers' money go?

Keeping bills low while maintaining investment in the things our customers value most was, and remains, a key goal in the Business Plan we submitted for AMP7. We are committed to delivering value for money, efficiency and transparency about how we spend the money that comes into our business through customers' bills. Based on the average household bill in 2020/21, water and sewerage charges will cost £1.13 per day. Below is a breakdown of how we spend that money.



Average household bill
(water plus sewerage) for 2020/21

Metering and water efficiency

Metering is the fairest way to charge for water, encourage water saving and ensure our customers only pay for what they use. Typically, customers save over £100 a year and use up to 15 per cent less water when they switch to metered charging, and 83 per cent of our customers already receive a metered bill.

Last year our Integrated Metering and Developer Services alliance continued work on our programme to install 86,000 new meters, upgrade another 412,000 and visit 120,000 customers to offer efficiency tips and install water-saving devices.

Our Wave programme – where we combine all the elements of metering and water efficiency in defined geographical areas – has made good progress, installing 11,800 new meters and proactively replacing 72,000 more across our region.

Alongside this proactive approach, customers can also request a meter. Our target is to have visited 48,000 such customers over the five years to 2020; we have visited 45,907.

We assess our success in encouraging water-efficient behaviour by measuring average water consumption per household. This is one of our ODIs. Our target was to reduce the average per household consumption by seven litres a day between 2014/15 and 2019/20, by continuing to transfer customers to meters and supporting them to use water more efficiently. Unfortunately, although demand reduced in 2019/20 following the exceptionally hot summer of 2018/19, we have not met this target (see page 45).

This year sees the start of our smart metering roll-out, where we will begin upgrading all of our customers' meters. The meters remotely collect hourly consumption data, which helps customers understand their water use and helps us to better understand how our water network operates.

Our online MyAccount customer portal will be enhanced to let customers view their own consumption data and see where they could save water.

Attracting investment

Profits are essential to attract private investment, as customers' bills alone could only fund a fraction of what we invest each year. We have to provide investors with a reasonable return on their investment. We also believe excellent performance should be reflected in higher profits. However, profits can rise or fall due to factors not directly related to excellent performance – for instance, the level of interest rates, the rate of inflation or unexpected new legal obligations.

When inflation outturns at a significantly lower rate than assumed at a price determination, this can adversely affect our finances as we are under-recovering our costs. Conversely, when inflation outturns at a higher rate, it can benefit companies, and this may be perceived as unfair. We look to manage this inflation risk to minimise the impact for us and our customers, and the link to inflation is a key driver of the relatively low costs of capital from which customers benefit.

Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset. We currently have a strategy to reduce the percentage of debt compared to our regulatory capital value. This means shareholders will forego potential dividends and allow that money to be used to reduce the amount of new borrowing required to fund our capital investment programme.

Our dividend policy

The Company's dividend policy is to identify the cash available for distribution, allowing for the business' liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also designed to ensure that there is adequate headroom in relation to all of the Company's financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows.

The Directors consider this cash-based approach provides a more appropriate consideration of the needs of our customers, employees, pensions schemes and other stakeholders while ensuring the liquidity requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and, in practice, will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition F of the Company's Licence.

As part of its PR19 process, Ofwat has introduced a mechanism that penalises more highly geared companies (such as Anglian Water) and therefore provides these companies with an incentive to reduce their level of gearing. Anglian Water is challenging this mechanism (together with many other aspects of Ofwat's AMP7 determination) by way of an application to the CMA for a redetermination. The Company's approach to de-gearing will be reviewed in the light of the CMA's decision, which is expected no later than March 2021.

Tax

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. We support moves towards greater transparency that increase understanding of tax systems and the building of public trust. We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Our taxable profits are less than the profits shown in our accounts, and our effective rate of corporation tax is in line with the statutory rate of corporation tax. This is because of the huge amount of investment we bring into our region and the HM Revenue & Customs (HMRC) rules on interest payments and capital allowances designed to encourage that investment.

We have one of the largest levels of private investment in the region, worth more than £2 billion over five years. This is central to underpinning the growth of the regional economy.

That investment is largely paid for by borrowing, and we have to pay interest on that borrowing. HMRC rules say companies only pay corporation tax on the profits they have remaining after any interest payments are made.

Our taxable profits are also reduced by capital allowances, which the Government grants us to encourage infrastructure investment. Accounting profits are reduced by depreciation – the drop in the value of equipment and plant due to wear and tear over their useful life. HMRC does not take account of depreciation when it comes to determining taxable profits. Instead, it grants companies capital allowances. These encourage investment by letting a company recoup the cost of an asset at a faster rate than depreciation.

This also means some of our corporation tax liabilities are deferred until later. The corporation tax is not avoided, it is simply deferred. All this encourages investment and allows us to make a real contribution to infrastructure development, environmental protection and customer engagement in our region.

An open and constructive approach

Our commitments on tax are underpinned by the Anglian Water Group tax strategy, which is based on a number of principles.

Tax planning and compliance

- We engage in efficient tax planning that supports our business and reflects commercial and economic activity. We are registered for tax in the UK and do not engage in artificial tax arrangements.

- We conduct transactions between Anglian Water Group companies on an arm's-length basis and in accordance with both current Organisation for Economic Co-operation and Development (OECD) principles and regulatory accounting guidelines.
- We adhere to relevant tax laws and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.
- We believe we are compliant with UK tax legislation and pay the right taxes at the right time.
- Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.
- Due consideration will be given to the Group's reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of Directors and employees of the Group, and will form part of the overall decision-making and risk assessment process.

Relationships with tax authorities

We are committed to the principles of openness and transparency in our approach to dealing with tax authorities. All dealings with the tax authorities and other relevant bodies are conducted in a collaborative, courteous and timely manner. Our aim is to strive for early agreement on disputed matters and to achieve certainty wherever possible.

Tax risk management and governance

- We have a comprehensive, multi-layered risk management system, which consists of risk registers for all areas of the business. These registers are subject to both internal and external review. We have a specialist tax team who identify, assess and manage tax risks and account for them appropriately. We implement risk management measures, including controls over compliance processes, and monitor their effectiveness.
- On a periodic basis, the Board reviews how risks are managed, monitored and assured, and any improvements being made. In this way the Board provides governance and oversight of significant risks.
- Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice that takes into account the facts and risks may be taken from third-party advisors to support the decision-making process.

Our tax contribution

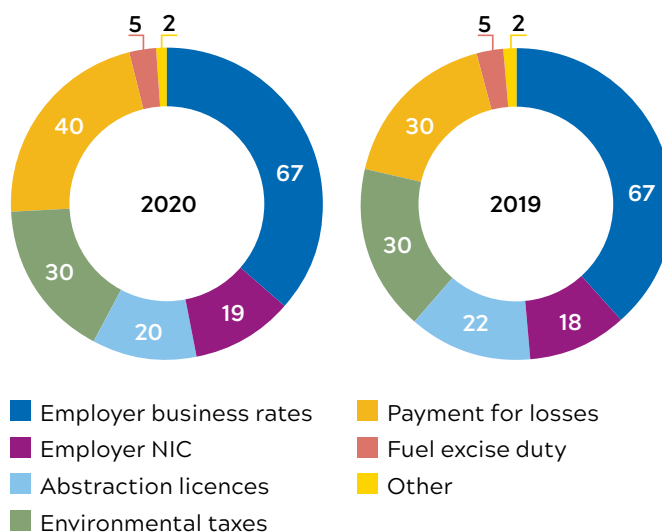
Our total tax contribution for the year extends significantly beyond the payment for corporation tax. Total tax paid or collected in the year to 31 March 2020 amounted to £270 million (2019: £256 million), of which £87 million was collected on behalf of the authorities for value-added tax (VAT) (£43 million) and employee payroll taxes (£44 million).

The most significant taxes involved, together with their profit impact, were:

- business rates of £67 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax
- employment taxes of £63 million, including £44 million of employee Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £19 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets
- VAT of £43 million collected and paid to HMRC. VAT has no material impact on profit before tax
- payments of £40 million made to other Anglian Water Group companies to compensate them for tax losses surrendered to Anglian Water. This has no impact on profit before tax
- abstraction licences and direct discharges of £20 million. This is a direct cost to Anglian Water and reduces profit before tax
- fuel excise duty of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- environmental taxes of £30 million charged to operating costs, reducing profit before tax.

Taxes incurred directly

Figures in £ million



Taxes collected

Figures in £ million

