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[second revision 28 January 2022 with updated calculations, minor corrections, simplifying edits and a new section on UK Water and company strategies to conceal dividend payments]

Water and sewerage company finances 2021: dividends and investment - and company attempts to hide dividends

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This paper draws on, and updates some of the data in, previous papers, including

- Yearwood, Karol (2018) *The privatised water Industry in the UK. An ATM for investors.* PSIRU working paper.
- Bayliss, Kate and Hall, David (2017) *Bringing water into public ownership: costs and benefits.* PSIRU working paper
- Hall, David. (2019). "Benefits and Costs of Bringing Water, Energy Grid and Royal Mail into Public Ownership." Monograph. PSIRU. https://gala.gre.ac.uk/id/eprint/25938/.
- Armitage, Seth. (2012). Demand for Dividends: The Case of UK Water Companies. *Journal of Business Finance & Accounting* 39 (3–4): 464–99.

1. Summary

The English regulated water and sewerage companies (WASCs) have paid shareholders a total of £ £18.9 billion in dividends since 2010 to 2021 – an annual average of £1.6billion.

Dividends paid out dipped in 2019, but rose again in 2020 to £1.4bn, in line with the average over the period. Figures for 2021 so far suggest another dip, to £0.5bn., but final figures for the year may be significantly higher.

There is evidence that the companies are using three simple devices to try and conceal the true level of dividends: deferring the payment of dividends, claiming that they are not paid to 'ultimate parents' and so somehow less significant, or by the illusory argument of 'round-tripping'. The true level of dividend payments is estimated to be over £0.5bn., using company data tucked away in footnotes and elsewhere: more than double the 'headline' figures publicised by the companies.

These dividend payments significantly reduce the money available for investment by the WASCs. Dividends extracted by the companies' shareholders since privatisation were equivalent to almost half (46%) of total capital expenditure up to 2018: £57bn compared with £123bn (1991-2018, in 2018 prices). Figures from 2019-2021 show this impact continues.

These dividends have increased the cost of water and sewerage to consumers by an average of £69 per household per year over the last 12 years – over £1.30 per week from every household in England.

The promise of privatisation was that private shareholders would make the investments needed, but the reverse has happened. In 2019 the English companies had a total of £14.7 billion in shareholder equity on their balance sheets – less in value than the money they had put into the companies in 1991.

In reality, investments have been entirely financed from customer payments, almost every year. Investments have been paid for by consumers, and not involved any finance from shareholders.

The companies have nevertheless borrowed large amounts of money, building up a large pile of debt and large annual bill for interest. This debt has not been taken on to finance investment, but to finance the payment of dividends.

The evidence from Scotland shows that public ownership by contrast can deliver more investment at a lower cost to consumers: "Scottish Water invested nearly 35% more per household since 2002 (average £282 per household per year vs England's £210 per year). Had the English companies invested at that rate, £28bn more could have gone into the infrastructure." (Karol Yearwood 2018)

And the public sector can raise money far more cheaply. It costs £2.1 billion per year more in England for private dividends and interest than if the companies were in the public sector - £93 per household.

2. Introduction

This paper was originally published in October 2021 as a contribution to the debate around the Environment Bill, in relation to the widespread problem of sewage flooding in households and raw sewage pollution of rivers and coastal waters. It focuses on and updates data on the English private water and sewerage companies, in particular the scale of dividends paid.

This paper reinforces the urgent need to radically change the system of privatised water and sewerage. Three general points should be made.

A. Failed system of private ownership and undemocratic regulator

200 years ago John Stuart Mill said natural monopolies such as water should be publicly owned, because private companies would exploit captive consumers by making excessive profits. The private English water companies, which are all privately owned regional monopolies, have successfully demonstrated how right he was.

They have also shown how to avoid effective public scrutiny by encouraging us to rely on a regulator, OFWAT, which is a classic example of a 'captured' regulator- supporting the interests of the companies it is supposed to regulate - rather than the public interest. It also escapes political supervision by being a 'non-ministerial government department' - despite being staffed by over 200 civil servants.

The system has failed badly as a public service if it takes an opposition amendment to force the government to take action on a major issue such as sewage flooding.

B. Exaggerated costs of dealing with the problem of sewage flooding

The companies and the government argue that action to deal with sewage flooding would cost between £150bn and £650bn. These figures are apparently based on a guess at the cost of constructing a completely new, separate storm water drain system throughout England.

Investment is certainly required in the many areas suffering from sewage flooding into homes or rivers, but this is far short of a new nationwide network. If the private companies took this issue at all seriously, each of them should have a properly costed programme of specific measures.

If the companies do not have such figures on such an important issue which has been a problem for decades, then the system – including the regulator - is failing to deliver its basic public function.

C. Public ownership needed to solve the problem

As it has done with rail, the government should find a way of bringing the water and sewerage systems back into public ownership under public authorities. As this paper shows, publicly owned systems – like Scottish Water – have a proven track record of higher investment and lower costs to consumers.

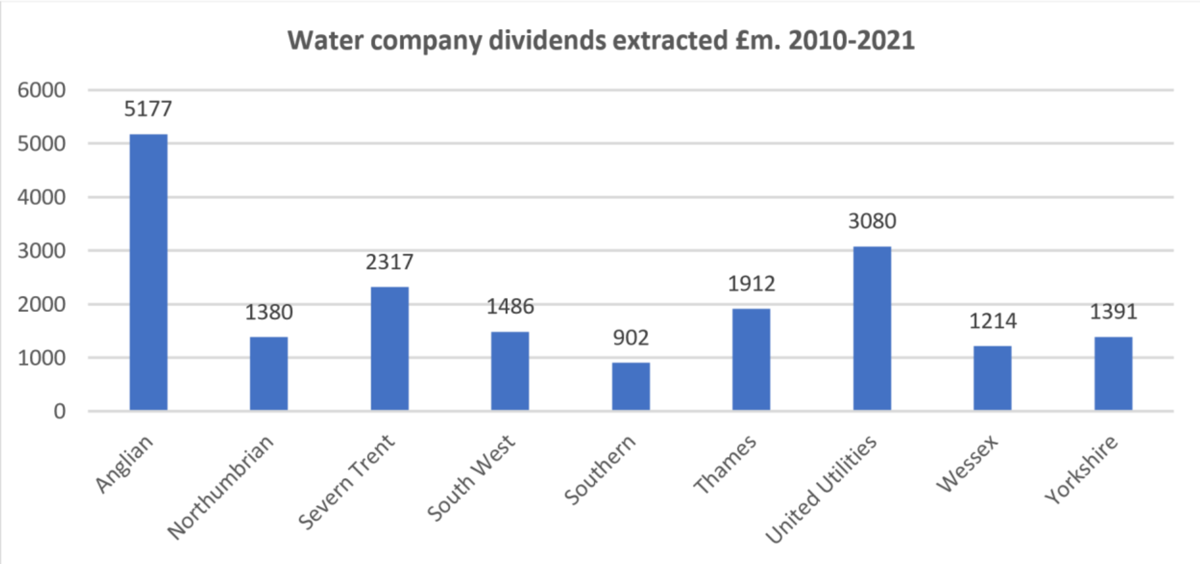
No other country in the world has adopted the English system of private companies owning and running regional water and sanitation systems. The overwhelming majority of the world – including the USA – runs water and sanitation services through the public sector. Only a small minority of cities – less than 10% - subcontract private companies to run water services, always on a fixed-term contract, and under the scrutiny of an elected public authority - and the trend is away from such outsourcing. Sewerage is very rarely outsourced to private companies.

3. Dividends extracted by private shareholders

A. Dividends since 2010

- the water and sewerage companies have paid shareholders a total of £18.9 billion in dividends since 2010 – an annual average of £1.6 billion. See chart below, and see annexe for full table.
- the highest annual averages are for Anglian water (£557m. per year), United Utilities
- (£284 million per year) and Severn Trent (£223million per year)
- dividends paid out dipped in 2019, but rose again in 2020 to £1.4bn, in line with the average over the period. Figures for 2021 so far suggest another dip, to £0.5bn., but final figures for the year can be expected to be significantly higher.

Table/chart 1. Dividends paid by water and sewerage companies 2010-2021



Source: Yearwood 2018, company annual reports

B. Dividends in relation to investments (1991 -2018 (£ 2018 prices)

In total the shareholders of the water and sewerage companies extracted about £57 billion in dividends up to 2019 - about £2 billion per year.

Dividends extracted by the companies' shareholders since privatisation are equivalent to almost half (46%) of total capital expenditure in that time.

Table/chart 2. Dividends and capital expenditure 1991-2018 (£ 2018 prices)

Water and sewerage companies England	Total dividends paid	Total capital expenditure
	£57.0 billion	£123.2 billion

The pattern varies from year to year and between companies. For example, in 2020:

- United Utilities paid out £522m. in dividends, compared with capital expenditure of £617m., and £143m. for infrastructure renewal. (p. 52, 153)
- Severn Trent paid £244m. in dividends, compared with £790m. in capital expenditure (p.35, 146)
- Wessex Water paid dividends of £88m., compared with capital expenditure (including renewals) of £272m. (p.54)

C. Cost to consumers:

These dividends are money taken out of the water and sewerage companies by the owners. They have increased the cost to consumers by an average of nearly £69 per household per year over the last 12 years – over £1.30 per week from every household in England.

Table/chart 3. Annual cost per household of water and sewerage company dividends

	Total 2010-2021 £m.	Annual average total 2010-2021 £m.	House-holds (m.)	Average annual cost per household £
Anglian	**5177**	**431**	3.3	131.7
Northumbrian	**1380**	**115**	1.1	100.4
Severn Trent	**2317**	**193**	3.7	52.7
South West	**1486**	**124**	0.9	137.5
Southern	**902**	**75**	2.0	37.9
Thames	**1912**	**159**	5.0	32.0
United Utilities	**3080**	**257**	3.1	83.0
Wessex	**1214**	**101**	1.5	68.8
Yorkshire	**1391**	**116**	2.3	49.8
Total	**18858**	**1572**	22.8	**68.8**

Source: company annual reports, PSIRU analysis

4. UK Water and companies: concealing dividend payments

A. Unsupported claim by UK Water

The Independent carried a news story on 22nd January 2022 referencing some of the information in this paper. It included an assertion by Water UK, the body representing the private English water and sewerage companies, that *"the University of Greenwich report "builds on work that has previously been discredited, with water companies' accounts misread, and the dividend numbers quoted for some companies simply wrong, and massively overstated".*

We welcome comments and discussion of our findings, including critical comments. But UK Water do not publish or reference any evidence for their aggressive claim, both parts of which are demonstrably incorrect.

Far from being discredited, PSIRU's analysis of water company dividends as excessive and financed by increased debt has been endorsed by other academics, accepted as authoritative by mainstream media, and is part of what political commentators have called a new 'political consensus'.

- The most prominent UK utilities academic, Dieter Helm, an original advocate of privatisation, now broadly echoes our analysis: "In water, dividends roughly equal profits since privatisation. There has therefore been no net reinvestment by shareholders. Indeed, worse, the water companies (and the electricity distribution companies too) have engaged in massive financial engineering to take out equity and leverage up the businesses."[1]
- Salvador Bertomeu of the ECARES institute[2], in an econometric analysis of financialisation in the English water sector, cites PSIRU's work, noting that the WaSCs are"paying higher-than-profit dividends and demanding debt as an additional financing source. ….high dividends are identified as the main drivers of leverage levels (Helm, 2018) and (Yearwood, 2018)".
- the most serious media outlets in the UK – the Financial Times, the Guardian, and now the Independent - have all published detailed reports citing and/or extending PSIRU's analyses. The most recent FT report in December 2021 was succinctly subtitled 'Providers urged to clean up act after paying out £72bn in dividends and raising bills by 31% while cutting infrastructure spending'
- city analysts too have identified the same problems: one has recently warned that a water company paying out dividends which absorb 94% of cash flow, and nearly 4 times as great as its profit "might become unsustainable" and suggest that "something is happening other than the usual distribution of profits to shareholders"
- Even Conservative politicians use our analysis: Michael Gove, when Environment Secretary in 2018, used PSIRU data in a speech to the UK water companies annual meeting, (though without acknowledging that Hall/Bayliss 2017 was his source): "over £18.1billion was paid out to shareholders of the nine large English regional water and sewerage companies between 2007 and 2016….But the £18.1 billion paid out in dividends was actually almost all of the profit made by water companies after tax – the total profit was £18.8billion over the same period."
- PSIRU's analysis is also reflected in the public support, by a 3-1 majority, for bringing the water companies back into public ownership – even amongst Conservative voters there is a clear majority in favour of public ownership. [3]

UK Water offer no evidence to support their second assertion, that our reading of company reports is wrong. The only attempt at a critique did not challenge our data, all of which has been drawn from company reports. [4]PSIRU has much experience of analysing company accounts, publishing reports

[1] Helm, Dieter. 2018. "XFN-The-Dividend-Puzzle.Pdf." December 2018. http://www.dieterhelm.co.uk/assets/secure/documents/XFN-The-Dividend-Puzzle.pdf.

[2] Bertomeu, Salvador. 2019. "On the Effects of the FInancialization of Private Utilities: Lessons from the UK Water Sector." 2019–29. *Working Papers ECARES*. Working Papers ECARES. ULB -- Universite Libre de Bruxelles. https://ideas.repec.org/p/eca/wpaper/2013-297676.html.

[3] *Hall, David (2020) The UK 2019 election: defeat for Labour, but strong support for public ownership.*

[4] A few months after Gove's speech, his department, DEFRA, commissioned a report 'Fair rate of return for the regulated water industry' (Vivideconomics 2018). This report did not question the accuracy of the data used by Hall/Bayliss 2017 for dividends actually paid: rather, it argued that various elements should be ignored in order to assess whether the returns were 'fair'. The biggest single deduction it argued for was to ignore 'round-tripping' payments, amounting to £3bn of the £18.1bn dividend payments we identified – even though the

and data over the last 25 years, in energy and other sectors as well as water, internationally as well as in the UK. These reports have proved robust in the face of an extremely high level of public and corporate scrutiny, as we have often challenged corporate versions of finances. Those reports included a critique of Enron's finances in early 2001 before it collapsed (when it still owned Wessex Water), written for trustees of the largest pension fund in the USA. Yearwood's 2018 paper was scrutinised by a number of OFWAT economists, who could not fault the data he had used, or his methodology, which was the same as that used by Armitage.

For 2021, we do present the companies' dividends data differently from the way the companies and UK Water would like it to be presented. All the data we use comes from the companies' own reports, but much of it is hidden in footnotes, or presented so as to obscure the actual payments. An analysis of the companies reports, presented in the next section, shows the recurrent use of three rhetorical devices to conceal the true level. This hiding of data, and repeated use of the same stories, may be best understood as part of a concerted attempt by the WASCs, and indeed UK Water, to conceal the actual level of dividends paid. It is thus important not to accept at face value the presentations made by the companies.

We therefore use different data from the companies' 'official' figures in presenting the 2021 dividend payments – but, to emphasise once again, all the data we use is taken from the annual reports of the regulated water and sanitation companies of England for 2020-21. Links to these reports can be found in the final table in this report, embedded in the companies' names.

The companies and UK Water would clearly prefer us not to publish this data, but they cannot say that it is wrong: all of it is their data. The accounting practices of the English WASCs in relation to dividends should be subject to the most critical scrutiny, remembering the retrospective question analysts now ask about Enron: how "its leadership managed to fool regulators for so long" .

We welcome any informed comments or response from UK Water or the companies on this and other papers and their analysis, methodology and data.

B. Concealing dividends through corporate stories

The annual reports and public statements of the WASCs use some combination of three different stories to try and conceal or obscure the actual level of dividend payments taken out of the water and sanitation service companies.

- The 'no payments to ultimate shareholders' story

This says that no dividends were paid directly to the private equity firms (or other ultimate parent) did not receive dividends. The silent implication is that the money was not taken out of the system,

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report acknowledged that 'historical regulatory accounts do not allow a full adjustment' of such round-tripping' (p.18) (rightly so: see comments below on this device). This can hardly be described as 'discrediting' Bayliss and Hall – indeed, Vivideconomics treat share values the same way, arguing that'the inferences that can be drawn from valuation premia [shown by the price of shares on the stock market] are limited'. They also claimed that 'There is no evidence that holding company structures raise investor returns at the expense of other stakeholders' (p.36), which was unfortunately shown to be wrong a year later by Bertomeu's econometric study of the effects of private equity ownership, which he defines as financialisation, concluding that "financialization of the water sector in England and Wales has had a positive impact on the average consumer price, increasing it by an average 32.1 GBP to 38.4 GBP," (p.25), and that the financial investors who own the companies are not benefitting from dividends. It is used to make journalists and commentators feel they are wrong to focus on dividends

This story has some basic flaws. The first is that any company can only pay dividends to its actual immediate shareholders – not to the distant investors who own those shareholding companies. The water companies just do what all companies do – give dividends to their shareholders. And the dividends are taken out of the regulated water and sewerage company, instead of being reinvested or used to finance operations – and so represent a loss to the service – regardless of whoever receives them.

- The 'deferred and disappeared' story

This shows zero dividend payments in the financial year by not paying dividends during the financial year itself, but instead paying dividends to shareholders a few weeks or months after the end of the financial year. These dividends are honestly reported, but in footnotes, while the company is allowed to show zero dividend payments in its accounts for the year.

The flaw is obvious – the dividends are taken out of the company, whether that happens in March or April. And what is concealed as a footnote this year will surely feature in the retrospective cashflow statement about 2020/21, when the annual report for 2021/22 is published. But these dividends are taken from our water bills in 20202/21 and set aside to pay out to shareholders, so should be clearly reported as money lost to the business – not as a zero.

- The 'round-tripping' story

The 'round-tripping' story is used where dividends are paid out, and the holding company is then said to use the money to pay off a loan from the operating company to its immediate owner. An OFWAT report in 2020 describes these as "dividends paid to a holding company to enable that company to pay interest on and/or make a repayment on intra-group loan from the appointee" [the actual water and sewerage company]. It stated that this story had been used by the WASCs Anglian, Southern, Thames and Yorkshire (and also by four of the water-only companies: Bristol, Portsmouth, South East, and South Staffs).

The basic flaw in this story can be seen by applying it to a different context. You might get a £100k loan from a bank; then you could try asking the bank to give you £50k – and reassure the bank that it would not lose anything, because you would use the £50k to repay half your loan, so the money would go straight back to the bank. The bank might not be persuaded that it was no worse off.

The technique is only plausible if the regulated water company has actually made a loan to its immediate parent company. This is in itself a strange and parasitic transaction, why does the licensed utility to which we pay our bills make a loan to its holding company? . But if the shareholders use dividends to pay off other interest or loans – as seems to be the case with Thames water in 2020/21, see below – then it cannot be presented as a round trip of any kind

C. Companies' stories about dividends in annual reports for 2020-21.

These stories can be found in the latest annual reports of the regulated water and sanitation companies of England for 2020-21. Links to these reports can be found in the final table in this report, embedded in the companies' names.

- Anglian Water's annual report uses both the deferral device, and the 'ultimate parent' story. It claims boldly that: "No dividends were paid by the company or out of the Anglian Water Services Financing Group for the year ended 31 March 2021 (2020: £67.8 million)" (p. 176). The report itself then refers to note 31 'for details of dividends declared after the end of the year', which states that "On 26 May 2021, the Board agreed to recommend a final dividend **for** 2020/21 of £96.3million" (p.219). Which is very different from the headline claim of 'no dividends'. It is not even a reduction, but an increase of more than 40% compared with the payout for the previous year, 2019/20. Anglian also claims that "No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2020: £nil)." (p. 176). But AWGL of course owns the intermediate company, and so gets all the benefit of that £96.3million.
- Northumbrian Water tries to use deferral to conceal the dividends paid. The cash flow table shows no dividends paid during the year ending March 2021 and the report says that "no dividends were approved or paid during the year ended 31 March 2021". But it then adds: "After the balance sheet date, the Board approved the payment of a final dividend of £123.3m in respect of the year ended 31 March 2021." (Note 8, page 130).
- Severn Trent reports dividend payments of £64million for the year 2021, without using any of the three devices of concealment. It remains to be seen if extra deferred dividends are paid for the year.
- South West Water report dividend payments of only £43.5m. in 2020-21 (p.145), but this is trebly misleading. As SWW admits, in a table in an explanatory note, there was another £58.1m. paid out as a 'cumulative outperformance dividend' which "the Company is obligated to pay, therefore £58.1m has been recognised as a transaction with owners during the year ended 31 March 2021." The company has also – innovatively - paid its owners extra dividends on the basis of customer rebates: "A dividend payment of £1.2m was made to Pennon Group Plc in October 2020 as part of the Watershare+ customer rebate scheme" (p.162) . So dividends of £102.8m. have been paid out so far – more than double the company's headline claim – and even this probably underestimates the final result for 2021. In 2019/20 an extra "special dividend" of £130m. was paid after the 'base' dividend and the 'cumulative outperformance dividend', so it is possible that SWW will do the same again.
- Southern Water uses both the 'round-trip' story, and the 'ultimate parent' rhetoric, even though it actually paid only £4m. in dividends to its immediate holding company SWSG during year ending 2021. Nevertheless it claims that (a) the dividend payment to SWSG just enables it to pay some of the £9.5m. interest it owes to Southern Water – which for unexplained reasons has lent £130m to SWSG – and so "this dividend payment is instantly offset by a corresponding interest receipt from SWSG and is therefore immediately repaid to the company in a 'dividend loop', resulting in no net cash outflow for the company" (p.109) (b) despite the payment of £4million "no interest or dividends have been paid to investors" (p.117) , because the dividend was not paid directly to the ultimate parent group, but to an intermediate holding company.
- Thames Water uses the 'not to external shareholders' rhetoric, and an awkward version of the 'round-trip' story. The annual report has a summary table on finances which shows dividends of £32.9m. paid out to its shareholders, but then a second line showing "Dividends to external shareholders" in 2021 as zero (p.6). It later re-iterates that: "No distributions were paid to external shareholders of the group, who own shares in our ultimate parent company, Kemble Water Holdings Limited." (p.55). But these external shareholders own, through Kemble, the intermediate companies to which the dividends have been paid, so

they get the full benefit of all these dividends. The report includes a further misleading suggestion of self-sacrifice by claiming that "our external shareholders have supported the decision to not pay dividends in the four years to 20202/21" (p.37): despite its own accounts recording dividend payments of a total of £204m. in dividends over that period (see table at end of this paper). Thames also gives strange emphasis to how its owners spend the dividends. Its opening summary describes its dividends of £32.9m. as "dividends to service debt obligations" (p.6). The report later repeats that the dividends are used to cover "interest costs for 3rd party debt" (p.51), and that "The dividends are all to service debt obligations and working capital requirements of other companies within the wider Kemble Water Group". (p.55) But this simply describes how the ultimate parents, who own the intermediate companies, choose to spend the £32.9m. they have taken out of TWUL – including, as Thames unintentionally emphasise, paying interest owed by 'other companies' in the group. It doesn't show that the dividends were not really taken out of TWUL. It seems that Thames have misunderstood the 'round trip' rhetoric: these payments are not made to Thames Water Utilities Ltd (TWUL), which pays the dividends, so they cannot even be presented as a 'round trip' – they simply take the money further away from the public water and sanitation services .

- United Utilities relies on deferral: it records £513.2m. ordinary dividends paid out in 2020, but shows zero dividends in 2021. However, this does not mean no dividends will ultimately be paid, indeed the company states that it has simply been 'deferred'; "the payment of the 2020/21 'base' dividend of 4 per cent (nominal) on the actual equity portion of the shadow regulatory capital value, would be deferred until prevailing uncertainties had been determined." (p.21). The uncertainty cleared sufficiently for the parent company UU Group plc to pay out a dividend of 43p in August 2021. Investment analysts at Simply Wall Street noted that this continued the average annual rise of 3.9% in dividend payouts over the last decade, a trend which is confidently expected to continue up to 2024. The analysts also noted that "The company paid out 94% of its free cash flow over the last year" – confirming Yearwood's analysis – and that this amounted to "an unusually high payout ratio of 393% of its profit", which the analysts suggest means "something is happening other than the usual distribution of profits to shareholders".
- Wessex do not use any of the 3 concealment stories. Unfortunately their annual report gives two contradictory figures for the dividends paid for 2021: they are recorded as £59.5m. in the cash flow table (p.91) but only £50m in the notes (p.109).
- Yorkshire Water just uses the 'ultimate shareholders' story. The annual report notes that "During the year, the Board of Yorkshire Water has approved the payment of £45.2m in dividends" (p.83)" , but then feels able to claim, in the next sentence, that "There were no dividends paid in the year for distribution to the ultimate shareholders" who of course own the whole of the intermediate company which has just received an extra £45.2million.

The table below shows the difference between the company's 'headline stories' about dividends paid, and PSIRU's estimate – using company data – of actual dividend payments made so far – which is more than twice as great. The final actual figure is certain to be higher as further deferred dividends are paid out in relation to the 20-21 financial year.

Table/chart 4. Table: Actual and claimed dividends paid for 2021

Company	2021 PSIRU estimate of actual dividend payments using company data	2021 company 'headline' claim of dividends
Anglian	96.3	0
Northumbrian	123.3	0
Severn Trent	64.0	64
South West	101.6	43.5
Southern	4.0	4
Thames	32.9	0
United Utilities	4.6	0
Wessex	59.5	59.5
Yorkshire	45.2	45.2
Total	531	216

Source: company reports and accounts for 2021: see text above

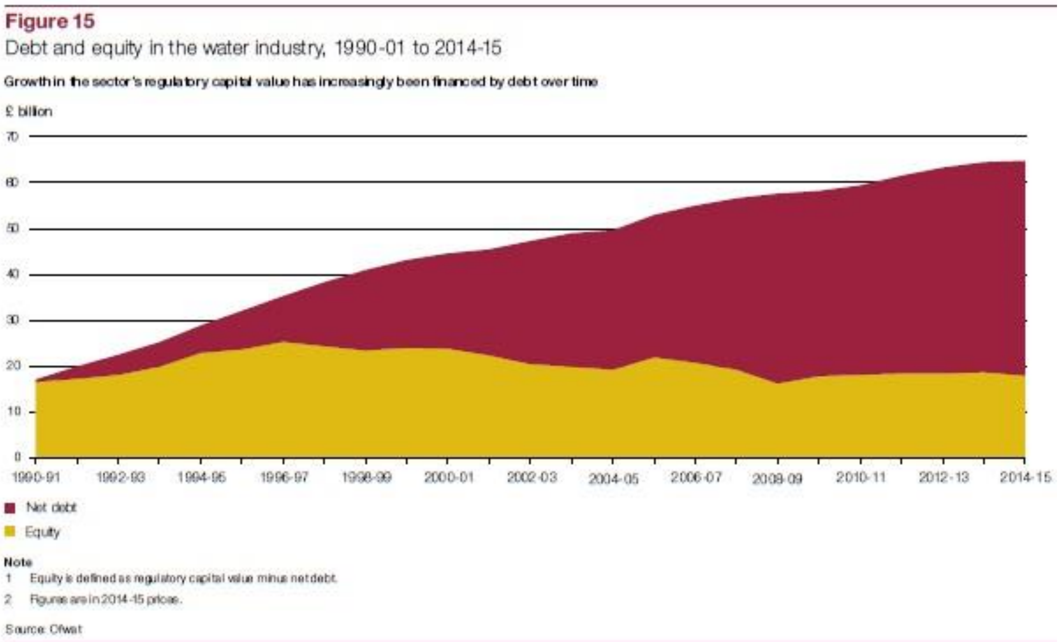
5. Who pays for investment?

A. No private shareholder investment

The main rationale offered for water privatisation in the 1980s was that private shareholders would inject the capital needed to make the costly investments necessary to improve the system. But they have not done so: money has been taken out, not put in.

The companies have invested no net additional shareholder funds (equity) since privatisation. In 2019 the English companies had a total of £14.7 billion in shareholder equity on their balance sheets – less than the £17.5billion they put into the companies in 1991. The NAO chart shows this has been a long-term trend (yellow shows shareholder equity)

Table/chart 5. NAO chart 2015 of debt and equity on water company balance sheets



B. Debts build up but do not finance investment

The government wrote off all the debt of the water companies at privatisation, so the water companies were all debt-free in 1991. But the companies have borrowed more every year and now have debts of nearly £52 billion (£51.928m.) and a large annual bill for interest.

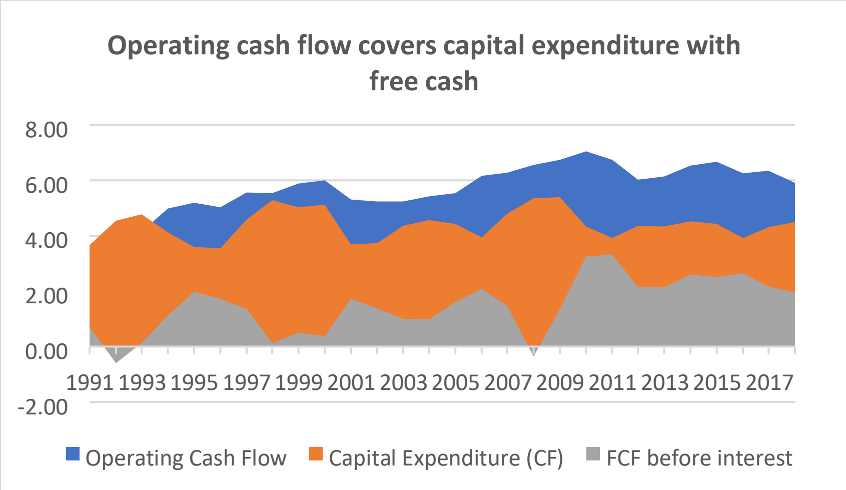
Table/chart 6. Debt and investment levels 1991-2021 (England and Wales WASCs, 2021 prices)

Source: [Financial Times 28 Dec 2021](https://www.ft.com) Note this graphic includes Welsh water as well as the 9 WASCs in England. See FT article for individual company figures.

C. Consumers pay for the investment

Karol Yearwood's analysis in 2018 showed that, in almost every year, investment has been entirely financed through the income from customers, usually with sufficient cash remaining to cover interest payments. Investments have been paid for by consumers, and not involved any finance from shareholders.

Table/chart 7. Operating cash flow covers capital expenditure of water companies



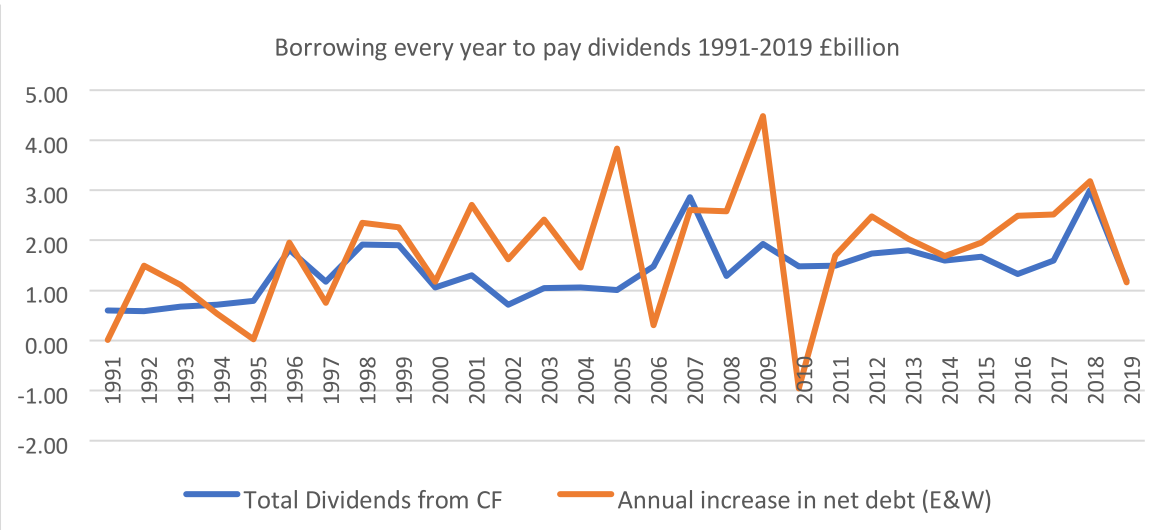
Source: Yearwood 2018

D. Extra borrowing finances dividends

This debt has not been required because of investment: all investment has been covered by cashflow from customer payments every year. But the dividends paid every year have exceeded the cash available. So the debt has been taken on to finance the dividends each year.

The chart shows how the borrowing each year follows a similar pattern to the dividends paid out

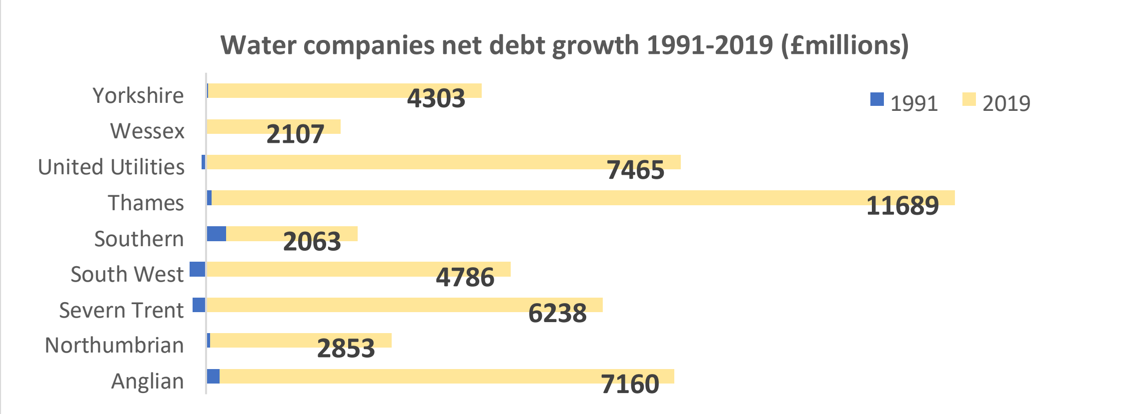
Table/chart 8. New borrowing and dividends paid 1991-2019



Source: Yearwood 2018

Consumers have also paid the cost of Interest payments on these debts cost £1.3 billion (net) in 2019. This is additional to the cost of dividends.

Table/chart 9. Growth of company debt 1991-2019



Source: Yearwood 2018

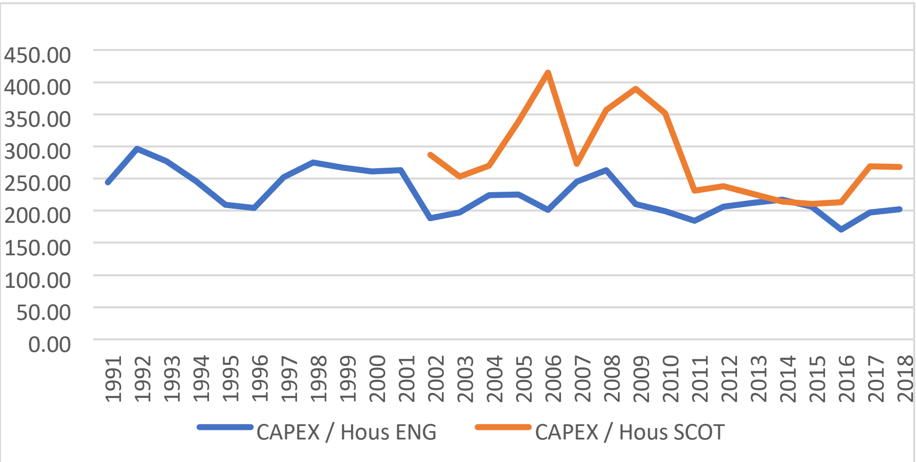
6. Public ownership: more investment at lower cost

A. Evidence from publicly owned Scottish Water

The English water companies have invested about £140billion since 1991 (OFWAT) but the question is whether they have invested enough. Comparison with Scottish Water, which is publicly owned, shows the public sector company has made a higher level investment, at lower cost to consumers.

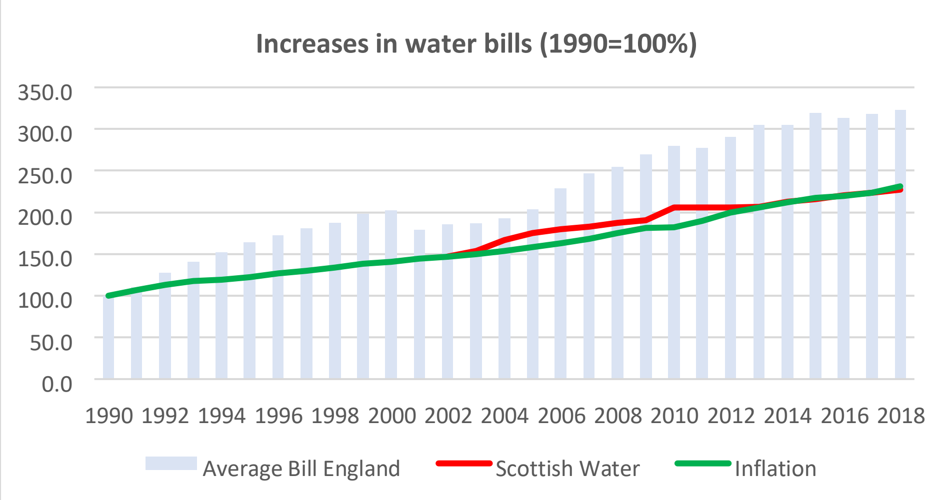
> "Looking at regulatory capital investments, Scottish Water invested nearly 35% more per household since 2002 (average £282 per household per year vs England's £210 per year). Had the 10 English companies invested at that rate, £28bn more could have gone into the infrastructure." (Karol Yearwood 2018)

Table/chart 10. Capital expenditure per household, England and Scotland



As well as investing more, Scottish Water charges its users about 14% less than the English companies, has reduced its level of debt since 2009, and does not pay out dividends.

Table/chart 11. Water bills (private) England and (public) Scotland 1990-2018



B. Savings from lower public sector interest costs

- The cost of dividends, and interest rates on private company debt, is much higher than the public sector could deliver, because of low rates of borrowing available to the public sector.
- Overall it costs £2.1 billion per year more for private dividends and interest than if the companies were in the public sector (using average dividends over last 13 years)
- The average household in England would save an extra £93 per year from public ownership. The highest saving would be in Northumbrian (£172), Southern (£168) and Anglian (£159)

Table/chart 12. Potential savings from public ownership of water in England (2019 data)

Company	Households m.	Average annual cost of dividends and interest 2007-2019 £m	Public ownership interest cost refinanced @ 1.81% £m	**Total annual saving from public ownership £m**	**Annual saving per household £**
Anglian Water	3.3	680.5	158.8	**521.7**	**159.2**
Northumbrian Water	1.1	262.6	65.7	**196.9**	**171.9**
Severn Trent Water	3.7	402.4	159.2	**243.1**	**66.4**
Southern Water	0.9	253.1	101.8	**151.3**	**168.1**
South West Water	2.0	132.3	48.9	**83.4**	**42.1**
Thames Water Utilities	5.0	479.3	262.0	**217.3**	**43.7**
United Utilities Water	3.1	421.7	178.9	**242.8**	**78.6**
Wessex Water	1.5	200.0	53.3	**146.7**	**99.8**
Yorkshire Water	2.3	323.3	95.4	**227.8**	**98.0**
Sub-total WASCs	22.8	3155.1	1124.1	**2030.9**	**89.0**
Sub-total 6 water-only companies		176.5	74.7	**101.8**	
TOTALS	22.8	3331.6	1198.8	**2132.8**	**93.4**

Source: company reports, Yearwood 2018, OFWAT interest rates, PSIRU calculations

Annexe I Dividend payments by English water and sewerage companies 2010-2021

Table/chart 13. Dividends paid out by WASCs 2010-2021

Year end Company	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2010-2021 £m.	Average annual cost 2010-2021 £m.	House-holds (m.)	Average annual cost per household £
Anglian	281	448	483	310	442	373	345	320	**1943**	68.0	67.8	96.3	**5177**	**431**	3.3	**131.7**
Northumbrian	67	70	282	144	69	159	53	108	**110**	130.0	65.0	123.3	**1380**	**115**	1.1	**100.4**
Severn Trent	161	171	160	323	186	198	197	190	**197**	225.1	244.0	64.0	**2317**	**193**	3.7	**52.7**
South West	54	58	78	133	112	256	75	213	**120**	34.8	249.7	101.6	**1486**	**124**	0.9	**137.5**
Southern	55	99	53	54	55	56	136	120	**130**	123.1	16.1	4.0	**902**	**75**	2.0	**37.9**
Thames	308	271	280	231	209	170	82	157	**55**	60.0	56.5	32.9	**1912**	**159**	5.0	**32.0**
United Utilities	243	226	209	224	238	249	259	263	**267**	375.6	522.3	4.6	**3080**	**257**	3.1	**83.0**
Wessex	108	106	129	130	119	115	88	91	**92**	88.0	88.0	59.5	**1214**	**101**	1.5	**68.8**
Yorkshire	211	47	63	257	166	94	91	139	**89**	79.5	110.0	45.2	**1391**	**116**	2.3	**49.8**
Total	**1489**	**1497**	**1737**	**1805**	**1595**	**1669**	**1326**	**1602**	**3003**	**1184**	**1419**	**531**	**18858**	**1572**	**22.8**	**68.8**

Note: all data for 2021 is taken from WASC annual reports, including all dividend payments actually made from the regulated WASCs, and so may differ from totals selected by the companies for the main tables: see text above for the reasons for these differences.

Sources: (a) Armitage 1991-2009 (b) Yearwood 2010 to 2018 (c) DH (this paper)for 2019, 2020 and 2021. All data in this table and in all three sources are taken from the annual reports of the companies themselves. The links to these annual reports for 2020-21 are embedded in the company names in the table above.