

# Financial performance and expenditure of the water companies in England and Wales 2009-10

Water today, water tomorrow



## About this report

This report examines the operating profits, cash flows and balance sheets of the regulated water and sewerage companies and water only companies in England and Wales for the financial year 2009-10. It also provides information about each company's day-to-day running costs (operating expenditure) and the investment it carries out to maintain and upgrade the pipes, sewers and treatment works (capital investment).

As 2005-10 was the final year of the period for which we set price limits in 2004, we provide a summary of how the companies have performed over the period.

The information in this report is drawn from the June returns and regulatory accounts that each company submits to us. Copies of the regulatory accounts are available from individual company websites. The regulatory accounts include an independent accountant's report, which explains the responsibilities of the independent accountant.

Most of the regulated companies are part of larger groups. Each company is legally required to trade at arm's length with its associate companies and parent company. This report considers only the regulated businesses. However, we have included an analysis of the trade that each company carried out with its associate companies in 2009-10.

We provide the information in this report on a current cost basis. We have rebased historic information to 2009-10 prices using the Retail Price Index (RPI).

This year, for the first time, each company has collected reported costs and asset values for nine separately identified parts of its business ('business units'). This is part of our accounting separation project.

We have not included the performance of six small companies, with a combined turnover of less than £3 million, in this report. This has no material impact on the information in the report.

**Supporting information, including details of each company's financial performance, will be available on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk) later in the year. A glossary of the financial terms used in the report is also available.**

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## **Monitoring the companies' financial performance**

### **Balancing the needs of consumers with those of the companies**

As the economic regulator of the water and sewerage sectors in England and Wales, it is our role to protect the interests of consumers while enabling efficient companies to carry out and finance their functions.

This is a delicate balancing act. On the one hand, we must be sure that customers continue to receive the services that they expect – at a price they are willing to pay – now and over the long term. On the other, we must ensure that the companies have sufficient resources to deliver services efficiently and remain attractive to investors – who continue to fund a large proportion of the capital investment that the companies carry out.

One of the ways we achieve this balance is to set the price, investment and service package that customers receive from their water company. This package is designed to encourage the companies to deliver the services that customers want and are willing to pay for. They are also designed to enable the companies to deliver their other legal obligations, including their social and environmental duties.

However, we also monitor the companies' performance each year and check that they are delivering the services for the price limits they receive, and are meeting their legal obligations on an ongoing basis. In this way, we mimic the effect of competitive pressure on the companies – giving them the incentives to finance their functions as efficiently as possible while comparing their performance relative to the other companies within the sectors.

This report covers the final year of the five-year period for which we set price limits in 2004 and includes a summary of how the companies have performed over that time.

We completed the most recent price review in November 2009, which covers the period 2010-15. We will report on the first year of this period next year.

### **Regulating for the long term**

Since privatisation, the sectors have invested more than £90 billion (in today's prices) in maintaining and improving the water infrastructure in England and Wales. Over the next five years, they will invest another £22 billion. This has helped deliver significant improvements to services for customers and the environment. These improvements have also been delivered more efficiently, with customers' bills about a third lower than they would have been.

However, the water and sewerage sectors now face a number of new challenges, including:

- a changing climate;
- population growth; and
- an uncertain economic future.

The scale and complexity of these challenges – and the uncertainties associated with them – will make the planning and delivery of sustainable water and sewerage services increasingly difficult over the long term. It means we need to consider new regulatory approaches, particularly if we are to maintain the balance between bills, services and investment.

As part of this, we have launched a new programme of work. The aim is to carry out a fundamental review of what we do and why we do it, and provide recommendations on what our future approach should be.

One of the projects within this programme is on regulatory compliance. The objective of this project is to create a risk-based framework that protects consumers' interests by:

- developing incentives to encourage the companies to take full responsibility for complying with their obligations to customers and the environment;
- reducing the regulatory burden;
- strengthening the reliability of company reporting;
- targeting examination of contractual, compliance or performance concerns about companies; and establishing the principles we use to carry out investigations into company compliance.

We want the companies to be fully accountable to customers for their performance and compliance with standards. As part of this work, we are considering the mechanisms that we use to monitor company performance. This includes the financial information that we collect, and the way that we monitor and report on company performance. As our thinking develops, we will consult on our proposed approach. And we would welcome your views.

## Summary of the companies' performance 2009-10

### Financial performance

- The companies' operating profits rose to £3.5 billion in 2009-10, an increase of 7%. This is because of higher revenues, which were only partly offset by increased operating costs and capital maintenance charges. This has caused the interest cover ratios to rise slightly.
- The companies' overall return on capital for 2009-10 was slightly higher (7.2%) than in 2008-09 (6.8%), but lower than the 7.5% assumed when we set price limits in 2004.
- The companies' pre-tax profits increased significantly from £1.8 billion to £2.8 billion in 2009-10. The financing adjustment contributed about £0.8 billion of this increase in profits. This adjustment was atypically low (only £12 million) in 2008-09, because the RPI in March 2009 was lower than in March 2008.

### Operating expenditure

- Total operating expenditure for the sectors in 2009-10 was £3.7 billion (excluding exceptional items). This was £61 million more than in 2008-09 and represents a 1.7% increase in real terms. It is £60 million (1.6%) more than we assumed in price limits for 2009-10.
- There has been continued upward pressure from energy costs, despite recent falls in unit prices. This is because some companies locked into forward contracts in 2007 and 2008, when prices were higher than they are now.

### Investment

- Overall, the companies invested £4.0 billion in 2009-10. This is 11% more than we assumed in the 2004 price limits, although it is 14.9% lower than in 2008-09. Of this total, maintenance spend fell by 13% to £2.1 billion and expenditure on improvements fell by 16.9% to £1.9 billion.

## Five-year summary 2005-10

### Financial performance

The companies' pre-tax return on capital for 2005-10 has averaged 6.7%. Our assumption when we set price limits for the sectors in 2004 was 7.0%. The companies' actual revenues were lower than our assumptions and infrastructure renewals charges were higher. These two factors contributed most to the variance over the five-year period. Financial indicators at a sector level have been in line with the assumptions we made at the 2004 price review.

### Operating expenditure

Over the five-year period, expenditure was £33 million, or 0.2% less than we assumed in price limits. Base service provision accounts for most of operating expenditure. The companies have spent £132 million, or 0.8% more on this. Enhancement operating expenditure accounts for a smaller amount of the total. Here, the companies spent £165 million, or 23% less than we assumed when we set price limits. This was because the companies found lower cost solutions for enhancement schemes.

### Investment

When we set prices in 2004, we expected the sectors to deliver a large programme of capital investment over the period 2005-10 to improve and maintain assets. The companies invested £22.3 billion in this period, which is broadly in line with our expectations.

At the 2009 price review, we reviewed whether the companies had delivered the outputs required during the 2005-10 period. We also reviewed the additional or reduced outputs that were not anticipated when we set price limits. We identified a net reduction of about £0.5 billion and adjusted prices from 2010-11 to reflect this.

Capital maintenance expenditure is about 7% higher than that projected in price limits. The increased investment mainly reflects the companies' successful efforts to ensure they are maintaining their above-ground assets.

Total supply/demand balance expenditure is in line with our projections. An overspend in the water service required to meet the outputs balances an underspend on the sewerage service. This is related mainly to Thames Water's planning delays and several companies delivering their required outputs more efficiently.

Cumulative expenditure on quality enhancement is 13% lower than we assumed when we set price limits in 2004. Most of this is the result of the companies finding more efficient ways of delivering the required outputs. There are still some delayed projects, which means that expenditure will continue into the next price review period. Despite these delays, the companies report that they will be able to deliver their improved outputs.

Enhanced service level cumulative expenditure (that is, all investment associated with improving service to consumers) is 23% higher than our assumptions and is mainly the result of higher investment to alleviate flooding from sewers.

The companies' final business plans for 2010-15 show that they expect to continue investing more in improving their assets. As a result of our final decisions on price limits, we also expect the companies to deliver a similar-sized investment programme in 2010-15 to maintain their assets and continue to deliver service to customers.

### **Capital maintenance charges**

The five-year cumulative current cost depreciation charge was 1% (£127 million) lower than the level we allowed for in price limits.

The infrastructure renewals charge was 12%, or £415 million greater than we allowed in price limits. It exceeded the actual amount spent by about 1%. A number of companies changed the basis of their IRC calculation in the period to reflect a forward-looking view as required by our regulatory accounting guidelines.

We will publish data comparing individual company performance with our expectations for the five-year period on our website later this year.

## 1. Financial performance

When we set price limits in 2004, we expected that the companies' revenue in 2009-10 would need to increase by inflation plus an average of 2.0%, compared with the previous year. In 2009-10, revenue growth was 3.3% higher, in real terms, than in 2008-09.

The companies' current cost operating profits were 7% higher compared with 2008-09. They increased by £222 million to £3.5 billion. This reflects increased revenues, which were only partly offset by increased operating costs and capital maintenance charges. Although the companies' profits are at the highest levels for the past five years, they are still lower, after taxes, than the peak level seen in 1999-2000 (after adjusting for inflation).

The companies' pre-tax profits increased significantly, from £1.8 billion to £2.8 billion in 2009-10. The financing adjustment contributed to about £0.8 billion of the increase in profits. This adjustment was atypically low (only £12 million) in 2008-09 because the RPI in March 2009 was lower than in March 2008. The size of the financing adjustment in 2009-10 is similar to that seen in 2005-08.

Table 1 shows the industry aggregate current cost profit and loss account for 2009-10 and the previous four years.

**Table 1 Current cost profit and loss account**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	2008-09 to 2009-10 change
	£m	£m	£m	£m	£m	£m
<b>Turnover</b>	<b>9,195</b>	<b>9,351</b>	<b>9,558</b>	<b>9,781</b>	<b>10,103</b>	<b>322</b>
Operating expenditure	(3,572)	(3,724)	(3,642)	(3,642)	(3,722)	(80)
Capital maintenance charges:						
– Current cost depreciation	(2,046)	(2,094)	(2,133)	(2,109)	(2,193)	(84)
– Infrastructure renewals charge	(719)	(750)	(834)	(796)	(760)	36
Working capital adjustment <sup>1</sup>	(3)	42	22	7	5	(2)
Other operating income	25	68	76	21	51	30
<b>Current cost operating profit</b>	<b>2,880</b>	<b>2,892</b>	<b>3,047</b>	<b>3,262</b>	<b>3,484</b>	<b>222</b>
Other income	12	10	9	8	24	16
Net interest	(1,441)	(1,257)	(1,463)	(1,478)	(1,529)	(51)
Financing adjustment <sup>1</sup>	619	956	693	(12)	780	792
<b>Current cost profit before tax</b>	<b>2,070</b>	<b>2,601</b>	<b>2,286</b>	<b>1,780</b>	<b>2,759</b>	<b>979</b>
Current taxation	(332)	(396)	(521)	(447)	(398)	49
Deferred taxation	(283)	(0)	226	(187)	(94)	93
Dividends reported	(1,836)	(3,377)	(1,517)	(2,286)	(1,726)	560
<b>Current cost profit retained</b>	<b>(380)</b>	<b>(1,171)</b>	<b>473</b>	<b>(1,140)</b>	<b>541</b>	<b>1,681</b>

**Note:**

1. The working capital adjustment accounts for the impact of general inflation on the real value of working capital to the business. The financing adjustment accounts for the impact of general inflation on the real value of net finance for the business.

Table 2 shows some of the key financial indicators for the sectors as a whole for each year over the five years between 2005 and 2010, including those that we considered as part of our 2004 price review. These indicators provide a snapshot of the companies' financial health. Two ratios in particular (cash flow:capital expenditure and retained cash flow:debt) increased in 2009-10. This is because capital expenditure and special dividend payments were lower in 2009-10. Current cost dividend cover, the long-term measure of the security of dividends, recovered (from 0.7 to 1.5) for the same reasons.

**Table 2 Financial indicators**

	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Cash-based indicators</b>					
Cash interest cover (net) <sup>1</sup>	3.6	4.5	3.8	4.6	4.6
Cash interest cover (gross) <sup>2</sup>	3.2	3.7	3.3	3.6	3.7
Adjusted cash interest cover I <sup>3</sup>	1.5	1.7	1.6	1.8	1.9
Adjusted cash interest cover II <sup>4</sup>	2.0	1.9	1.8	2.2	2.5
Debt payback period (years)	4.9	5.3	5.5	5.8	5.7
Cash flow to capital expenditure	67.0%	28.7%	67.2%	55.1%	86.5%
Funds from operations:debt	14.3%	13.2%	12.5%	12.5%	13.0%
Retained cash flow:debt <sup>5</sup>	8.0%	2.6%	8.2%	6.2%	8.2%
<b>Accounting-based indicators</b>					
Historic cost dividend cover <sup>6</sup>	1.0	1.5	1.3	1.2	1.4
Current cost dividend cover <sup>6</sup>	1.0	1.7	1.3	0.7	1.5
Interest cover	2.5	2.3	2.1	2.2	2.3
<b>Gearing<sup>7</sup></b>					
Gearing – net debt/RCV	58.5%	62.2%	66.0%	71.8%	69.3%

**Notes:**

1. Cash interest cover (net) is calculated as net cash flow from operating activities/net interest.
2. Cash interest cover (gross) is calculated as funds from operations/gross interest.
3. Adjusted cash interest cover I is calculated as (funds from operations less capital maintenance charges)/gross interest.
4. Adjusted cash interest cover II is calculated as (funds from operations less capital maintenance expenditure)/gross interest.
5. Retained cash flow:debt is calculated as (funds from operations less dividends paid)/net debt.
6. Dividend covers exclude capital restructuring dividends. Dividend covers will not reconcile to those reported in table 12. Dividend covers in the table above additionally exclude all special dividends, thereby eliminating distortions to the industry trend.
7. Net debt and gearing excludes loans to group companies for the purposes of capital restructuring.
8. Indicators exclude the effect of arrangements where inter-company payments of dividends are made effectively in lieu of interest.

Table 3 shows current cost turnover and operating profit by service for each year over the period 2005-10. The proportion of revenue collected from metered customers (including large users) rose from about 42% in 2005-06 to 48% in 2009-10. This reflects the increase in the number of households with meters.

Current cost operating profits in 2009-10 were higher for the sewerage service than for water, with profit margins of 38% and 31% respectively. The profit margins reflect the relative size of the asset base for each service.

**Table 3 Current cost turnover and operating profit by service**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	2008-09 to 2009-10 change
	£m	£m	£m	£m	£m	£m
<b>Water service</b>						
Turnover:						
– Metered water revenue	1,677	1,788	1,896	1,986	2,120	135
– Unmetered water revenue	2,475	2,441	2,448	2,432	2,448	16
– Large users	312	259	257	254	255	1
– Other	114	153	151	140	127	(14)
<b>Total turnover – water</b>	<b>4,578</b>	<b>4,641</b>	<b>4,752</b>	<b>4,812</b>	<b>4,950</b>	<b>138</b>
Operating expenditure	(1,968)	(2,057)	(1,995)	(2,004)	(2,077)	(73)
Capital maintenance charges:						
– Current cost depreciation	(866)	(875)	(897)	(880)	(875)	5
– Infrastructure renewals charge	(472)	(473)	(522)	(524)	(504)	21
Working capital adjustment	(2)	21	13	4	5	1
Other operating income	20	25	44	11	46	34
<b>Current cost operating profit</b>	<b>1,289</b>	<b>1,281</b>	<b>1,395</b>	<b>1,418</b>	<b>1,544</b>	<b>126</b>
<b>Sewerage service</b>						
Turnover:						
– Metered sewerage revenue	1,677	1,796	1,913	2,048	2,207	159
– Unmetered sewerage revenue	2,553	2,543	2,544	2,578	2,616	38
– Large users	238	230	221	224	218	(6)
– Trade effluent revenue	92	91	91	84	79	(5)
– Other	57	50	37	35	33	(2)
<b>Total turnover – sewerage</b>	<b>4,617</b>	<b>4,710</b>	<b>4,806</b>	<b>4,969</b>	<b>5,153</b>	<b>184</b>
Operating expenditure	(1,604)	(1,667)	(1,648)	(1,638)	(1,645)	(7)
Capital maintenance charges:						
– Current cost depreciation	(1,179)	(1,219)	(1,236)	(1,229)	(1,318)	(89)
– Infrastructure renewals charge	(247)	(277)	(312)	(272)	(256)	16
Working capital adjustment	(1)	21	9	4	0	(4)
Other operating income	5	44	32	10	5	(5)
<b>Current cost operating profit</b>	<b>1,591</b>	<b>1,612</b>	<b>1,651</b>	<b>1,844</b>	<b>1,940</b>	<b>96</b>

Tables 4a and 4b show the turnover and current cost operating profit for each company for each year over the period 2005-10.

**Table 4a Turnover by company**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m	£m
<b>Water and sewerage companies</b>					
Anglian	957.4	979.8	989.9	1,029.5	1,086.4
Dŵr Cymru	608.8	613.3	635.4	653.4	681.8
Northumbrian	594.6	604.1	615.9	617.3	623.5
Severn Trent	1,260.0	1,288.2	1,300.2	1,315.6	1,370.2
South West	380.0	402.8	427.5	426.6	438.5
Southern	596.7	610.6	630.9	670.8	671.5
Thames	1,510.2	1,493.0	1,504.6	1,544.2	1,593.1
United Utilities	1,363.1	1,411.4	1,467.1	1,503.4	1,549.8
Wessex	377.1	389.4	404.2	418.5	434.6
Yorkshire	775.5	798.2	812.1	832.1	859.3
<b>Total WaSCs</b>	<b>8,423.3</b>	<b>8,590.8</b>	<b>8,787.8</b>	<b>9,011.3</b>	<b>9,308.7</b>
<b>Water only companies</b>					
Bournemouth & W Hampshire	38.6	37.6	38.2	37.7	38.3
Bristol	89.1	90.1	90.8	93.8	96.5
Cambridge	19.6	20.1	21.4	19.4	21.5
Dee Valley	20.4	19.9	19.6	20.0	20.7
Portsmouth	35.8	35.3	35.0	35.5	37.3
South East	175.4	165.2	169.7	168.9	176.4
South Staffs	77.7	78.4	79.1	78.9	82.3
Sutton & East Surrey	51.3	51.2	51.5	51.6	52.5
Veolia Central	230.7	229.2	232.1	231.1	235.3
Veolia East	16.0	15.4	14.5	14.5	15.0
Veolia Southeast	17.2	17.6	18.2	18.1	18.4
<b>Total WoCs</b>	<b>771.9</b>	<b>760.1</b>	<b>770.0</b>	<b>769.5</b>	<b>794.2</b>

**Table 4b Current cost operating profit by company**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m	£m
<b>Water and sewerage companies</b>					
Anglian	287.9	338.9	326.9	352.9	343.0
Dŵr Cymru	189.2	177.0	179.5	170.9	210.2
Northumbrian	191.7	188.3	186.0	186.6	180.9
Severn Trent	400.6	426.2	329.4	419.0	479.8
South West	109.1	140.0	153.8	163.2	164.5
Southern	182.1	205.8	181.4	241.0	216.2
Thames	431.5	350.4	475.8	516.0	587.6
United Utilities	460.6	493.1	543.1	570.8	671.2
Wessex	149.5	156.4	173.6	181.4	190.9
Yorkshire	261.6	231.5	309.2	283.5	250.0
<b>Total WaSCs</b>	<b>2,663.8</b>	<b>2,707.7</b>	<b>2,858.9</b>	<b>3,085.4</b>	<b>3,294.4</b>
<b>Water only companies</b>					
Bournemouth & W Hampshire	10.1	12.1	12.9	10.8	11.1
Bristol	19.9	17.3	17.5	21.4	18.8
Cambridge	4.4	4.9	4.6	4.0	4.2
Dee Valley	3.7	2.8	3.1	3.5	4.6
Portsmouth	6.3	8.5	5.7	5.4	6.8
South East	62.8	47.7	50.1	50.1	54.0
South Staffs	18.4	17.4	17.6	17.1	17.3
Sutton & East Surrey	11.0	11.1	10.5	9.9	9.2
Veolia Central	67.4	51.6	54.7	46.4	53.9
Veolia East	6.5	5.4	5.2	3.8	5.2
Veolia Southeast	5.8	5.6	6.0	4.3	4.8
<b>Total WoCs</b>	<b>216.2</b>	<b>184.5</b>	<b>187.8</b>	<b>176.8</b>	<b>189.9</b>

The cash flow statement in table 5 shows the industry aggregate cash position for 2009-10 and the previous four years, while table 6 shows the key cash flows by company.

The companies' cash outflow on capital investment was £3.9 billion for 2009-10. This is 17% lower than in 2008-09. Interest represents about 18% of net cash flow from operations. This in turn reflects the companies' continued large borrowing requirements to fund their capital programmes.

**Table 5 Cash flow statement**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	2008-09 to 2009-10 change
	£m	£m	£m	£m	£m	£m
<b>Net cash flow from operating activities<sup>1</sup></b>	<b>5,391</b>	<b>5,541</b>	<b>5,825</b>	<b>5,930</b>	<b>6,098</b>	<b>168</b>
Returns on investment and servicing of finance:						
– Net interest	(1,203)	(950)	(1,239)	(1,033)	(1,083)	(50)
– Dividends paid on non-equity shares	(29)	(27)	(21)	(30)	(21)	8
	(1,232)	(976)	(1,260)	(1,063)	(1,104)	(41)
Taxation paid	(216)	(396)	(430)	(412)	(445)	(33)
Investing activities:						
– Purchase of fixed assets <sup>2</sup>	(2,850)	(3,402)	(3,868)	(3,889)	(3,165)	723
– Infrastructure renewals expenditure	(608)	(807)	(885)	(797)	(721)	76
– Disposal of fixed assets	62	105	189	36	71	36
– Movements on long-term loans to group companies	N/A	(34)	(1,188)	(25)	1	26
	(3,396)	(4,138)	(5,752)	(4,675)	(3,814)	861
Dividends paid on equity shares	(1,882)	(3,387)	(1,498)	(2,307)	(1,696)	612
<b>Net cash flow before financing</b>	<b>(1,336)</b>	<b>(3,356)</b>	<b>(3,116)</b>	<b>(2,527)</b>	<b>(961)</b>	<b>1,567</b>
Financing:						
– Net loans	454	4,736	2,995	3,679	(80)	(3,759)
– Finance lease capital payments <sup>3</sup>	60	(153)	(9)	(86)	(100)	(14)
– Proceeds of share issues	419	(0)	5	38	(2)	(40)
	933	4,583	2,991	3,631	(182)	(3,813)
Management of liquid resources	100	(1,137)	451	(442)	875	1,317
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(304)</b>	<b>90</b>	<b>327</b>	<b>662</b>	<b>(268)</b>	<b>(930)</b>

**Notes:**

1. Net cash flow from operating activities is calculated by adjusting the current cost operating profit shown in table 1 for items that are not direct cash flows, that is depreciation, and the change in the components of working capital, which are mainly debtors and creditors. It is also adjusted for infrastructure renewals expenditure (IRE), which is shown as an investing activity.
2. The timing of cash payments means that the amounts shown in the cash flow statement for purchase of fixed assets cannot be directly reconciled to the gross capital expenditure amounts discussed later in this report. This line includes any purchases of subsidiaries.
3. This includes the draw down of finance lease facilities net of finance lease repayments.

Table 6 Key cash flows by company

2009-10 prices	Net cash flow from operating activities					Net cash flow before financing					Net increase/(decrease) in cash				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Water and sewerage companies</b>															
Anglian	587.1	597.7	608.9	627.7	652.6	(4.9)	(324.8)	(150.5)	(90.0)	(51.4)	(5.5)	29.1	(0.8)	162.5	(64.8)
Dŵr Cymru	343.3	354.6	373.0	423.8	408.5	(46.1)	11.0	(111.6)	(57.1)	(52.2)	0.0	(0.4)	(0.8)	(0.1)	0.7
Northumbrian	330.6	324.6	344.6	355.8	362.6	(59.1)	(77.9)	(85.9)	(75.4)	(49.4)	(3.5)	(0.2)	(6.5)	(8.3)	(1.0)
Severn Trent	710.4	749.6	694.5	764.9	807.1	(127.4)	(609.5)	(334.4)	(195.7)	(155.4)	(257.3)	(178.8)	236.6	397.5	(7.6)
South West	206.5	249.7	268.9	235.4	283.4	(302.9)	(90.4)	(45.7)	(105.4)	22.9	18.4	9.6	81.4	(73.7)	15.7
Southern	365.9	361.9	375.0	439.7	384.3	(91.0)	(327.4)	(225.1)	(117.7)	12.8	(11.9)	(115.3)	83.5	159.8	(71.7)
Thames	845.7	810.9	956.0	914.1	974.3	(220.3)	(645.2)	(1,504.8)	(516.6)	(193.2)	15.3	83.4	(24.4)	139.0	(198.3)
United Utilities	877.6	975.3	991.1	998.4	1,066.8	(162.3)	(140.0)	(336.2)	(854.9)	(90.7)	(7.3)	38.4	(64.7)	78.7	5.3
Wessex	247.5	253.4	274.0	286.4	294.9	(21.7)	(84.6)	(126.9)	(162.7)	(9.9)	(64.5)	244.8	35.6	(251.7)	(28.9)
Yorkshire	485.2	462.8	535.0	504.8	484.7	(252.6)	(927.3)	(118.7)	(252.7)	(213.5)	2.2	(5.3)	(2.5)	20.5	40.4
<b>Total WaSCs</b>	<b>4,999.9</b>	<b>5,140.5</b>	<b>5,420.9</b>	<b>5,551.0</b>	<b>5,719.2</b>	<b>(1,288.4)</b>	<b>(3,216.2)</b>	<b>(3,039.6)</b>	<b>(2,428.3)</b>	<b>(780.1)</b>	<b>(313.9)</b>	<b>105.2</b>	<b>337.3</b>	<b>624.1</b>	<b>(310.3)</b>
<b>Water only companies</b>															
Bournemouth & W Hampshire	20.2	19.0	22.9	20.9	21.4	(18.3)	(35.3)	33.9	0.4	1.6	5.1	(5.8)	4.3	(4.9)	1.0
Bristol	37.4	45.6	49.4	47.2	47.6	(26.6)	(8.1)	(17.3)	1.0	8.4	(0.6)	1.9	(2.6)	1.0	0.6
Cambridge	11.9	8.1	6.2	9.5	10.4	2.1	(0.5)	(1.5)	(0.9)	1.3	0.5	0.7	(0.2)	(1.6)	1.2
Dee Valley	8.6	11.5	8.8	8.8	9.1	(0.2)	(3.0)	(2.1)	2.5	1.5	(0.0)	0.2	(0.5)	(0.7)	(0.7)
Portsmouth	18.1	19.6	16.3	16.7	16.5	5.0	1.3	(2.6)	0.2	(3.8)	0.1	2.8	(0.1)	0.2	(0.7)
South East	92.4	96.3	96.2	97.0	94.5	(43.9)	(44.3)	(33.7)	(18.7)	(13.7)	(23.5)	6.4	(3.6)	37.0	39.6
South Staffs	38.9	39.1	37.4	38.2	37.3	13.3	(14.2)	(7.5)	(23.8)	0.6	28.7	(15.2)	(8.3)	10.5	0.4
Sutton & East Surrey	22.7	26.8	29.3	22.4	17.4	2.7	(16.2)	(4.2)	(3.5)	(7.6)	1.9	(4.7)	0.3	(0.5)	(0.1)
Veolia Central	122.6	116.5	118.8	101.4	107.5	24.4	(15.6)	(38.0)	(51.7)	(167.2)	(1.3)	(0.8)	0.2	(3.5)	1.1
Veolia East	8.9	9.0	8.1	7.8	8.0	(0.3)	(1.3)	(2.3)	(1.6)	(0.8)	(0.3)	(0.9)	0.2	0.0	(0.1)
Veolia Southeast	9.5	9.4	10.8	9.5	9.6	(7.1)	(2.6)	(0.7)	(3.0)	(0.8)	(1.0)	0.6	(0.5)	0.1	(0.3)
<b>Total WoCs</b>	<b>391.3</b>	<b>400.9</b>	<b>404.1</b>	<b>379.4</b>	<b>379.2</b>	<b>(48.8)</b>	<b>(139.8)</b>	<b>(76.0)</b>	<b>(99.1)</b>	<b>(180.6)</b>	<b>9.4</b>	<b>(14.8)</b>	<b>(10.8)</b>	<b>37.5</b>	<b>42.0</b>
<b>Industry</b>	<b>5,391.1</b>	<b>5,541.4</b>	<b>5,824.9</b>	<b>5,930.4</b>	<b>6,098.4</b>	<b>(1,337.2)</b>	<b>(3,356.0)</b>	<b>(3,115.6)</b>	<b>(2,527.4)</b>	<b>(960.7)</b>	<b>(304.4)</b>	<b>90.4</b>	<b>326.6</b>	<b>661.7</b>	<b>(268.2)</b>

Table 7 sets out the sectors' aggregate current cost balance sheet at 31 March for each of the past five years. In 2009-10, the value of fixed assets increased significantly compared with 2008-09. This is because as part of the 2009 price review we required the companies to revalue their asset base. Nine companies have reflected this increase in this year's accounts; the remainder will do so in 2010-11.

**Table 7 Current cost balance sheet at 31 March**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	2008-09 to 2009-10 change
	£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>						
Tangible assets	257,840	259,308	261,152	262,885	296,538	33,652
Third party contributions since 1989-90	(5,134)	(5,404)	(5,670)	(5,964)	(6,150)	(186)
<b>Net fixed assets</b>	<b>252,706</b>	<b>253,904</b>	<b>255,481</b>	<b>256,921</b>	<b>290,388</b>	<b>33,467</b>
Total working capital	(504)	(715)	(604)	(321)	(65)	256
Cash	2,053	3,244	2,608	3,330	2,349	(981)
Borrowings	(28,633)	(32,604)	(34,686)	(38,835)	(36,982)	1,853
Non-trade debtors less creditors	2,111	2,942	4,257	4,928	3,995	(933)
Provisions for liabilities and charges	(172)	(303)	(326)	(1,138)	(1,472)	(334)
Deferred tax provision	(3,795)	(3,562)	(3,168)	(3,364)	(3,270)	94
<b>Net assets employed</b>	<b>223,766</b>	<b>222,907</b>	<b>223,562</b>	<b>221,521</b>	<b>254,943</b>	<b>33,422</b>
<b>Capital and reserves</b>						
Called-up share capital	6,450	6,153	5,915	4,866	4,672	(194)
Share premium	971	926	887	890	801	(89)
Profit and loss account	(730)	(1,884)	(1,456)	(2,082)	(1,971)	111
Current cost reserve	216,674	217,287	217,797	217,392	250,602	33,209
Other reserves	402	425	421	455	840	384
<b>Total capital and reserves</b>	<b>223,766</b>	<b>222,907</b>	<b>223,563</b>	<b>221,521</b>	<b>254,943</b>	<b>33,422</b>

Net debt for the sectors now stands at £34.6 billion, a decrease of £0.9 billion (3%) on last year. In 2009-10, the companies have overall reduced debt levels, as higher profits have been retained rather than being used for capital expenditure or dividends. The level of debt is still some 30% higher than at 31 March 2005 and reflects the considerable cash outflows from both the capital investment and financial restructuring of the companies since then. This has driven a rise in gearing levels over the five-year period. Table 8 sets out each company's net debt and gearing for this period.

**Table 8 Net debt and gearing by company at 31 March**

2009-10 prices	Net debt					Gearing – net debt/RCV				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m	£m	%	%	%	%	%
<b>Water and sewerage companies</b>										
Anglian	4,004.6	4,427.9	4,669.7	4,833.5	4,395.9	78.6	85.5	88.1	89.8	81.0
Dŵr Cymru	2,538.5	2,654.7	2,616.3	2,728.9	2,654.2	73.7	74.3	71.2	73.1	70.7
Northumbrian	1,721.7	1,736.3	1,779.4	1,892.4	1,858.0	58.0	57.1	57.5	60.4	59.3
Severn Trent	2,812.3	3,368.7	3,621.2	3,861.0	3,869.4	47.2	55.1	57.8	60.6	59.6
South West	1,449.4	1,457.2	1,462.3	1,645.4	1,551.6	61.2	59.6	58.4	64.0	59.2
Southern	2,730.2	2,969.2	3,136.1	3,331.7	3,188.9	95.8	94.4	92.8	94.8	89.4
Thames	2,957.4	3,494.2	4,939.0	5,552.9	5,549.4	44.4	49.8	67.9	74.1	71.9
United Utilities	3,692.4	3,643.7	4,065.3	5,280.2	5,127.6	51.3	48.8	52.9	68.3	66.7
Wessex	1,309.6	1,334.1	1,413.4	1,587.8	1,530.1	63.1	62.2	64.3	71.2	68.4
Yorkshire	1,755.6	2,604.1	2,668.3	2,955.7	2,988.0	42.2	60.6	60.4	65.5	65.6
<b>Total WaSCs</b>	<b>24,971.6</b>	<b>27,690.2</b>	<b>30,371.1</b>	<b>33,669.6</b>	<b>32,713.1</b>	<b>58.4</b>	<b>62.3</b>	<b>66.3</b>	<b>72.1</b>	<b>69.3</b>
<b>Water only companies</b>										
Bournemouth & W Hampshire	73.1	107.5	72.3	75.1	68.5	52.3	78.0	52.6	54.5	50.1
Bristol	200.5	202.3	200.4	223.8	204.1	75.6	71.9	70.2	81.2	75.1
Cambridge	29.3	28.4	29.0	30.0	27.5	51.9	50.1	50.7	52.3	48.0
Dee Valley	30.1	32.5	33.9	38.5	34.6	48.6	49.7	53.8	64.5	60.7
Portsmouth	79.4	79.5	82.3	86.6	84.5	73.2	69.9	71.2	76.2	77.3
South East Water	658.8	689.8	718.6	709.8	675.1	80.8	81.5	85.0	84.4	81.0
South Staffs <sup>1</sup>	166.5	147.3	153.1	183.8	180.7	80.5	69.9	71.7	86.1	84.6
Sutton & East Surrey	95.8	112.6	117.8	128.7	129.5	59.4	68.2	71.4	77.3	78.1
Veolia Central	237.2	230.8	259.8	313.2	469.4	32.5	30.3	33.4	39.7	59.0
Veolia East	9.3	10.1	11.7	13.9	14.5	15.6	17.4	19.6	22.7	23.9
Veolia Southeast	28.2	28.8	28.4	31.6	31.1	42.4	40.4	40.6	46.2	46.2
<b>Total WoCs</b>	<b>1,608.1</b>	<b>1,669.6</b>	<b>1,707.3</b>	<b>1,835.1</b>	<b>1,919.4</b>	<b>60.2</b>	<b>60.3</b>	<b>61.2</b>	<b>65.9</b>	<b>69.3</b>
<b>Industry</b>	<b>26,579.7</b>	<b>29,359.8</b>	<b>32,078.4</b>	<b>35,504.7</b>	<b>34,632.5</b>	<b>58.5</b>	<b>62.2</b>	<b>66.0</b>	<b>71.8</b>	<b>69.3</b>

**Note:**

1. Net debt was £180.7 million at 31 March 2010. This includes an index-linked loan. For covenant compliance reporting purposes, net debt amounted to £162.1 million, equivalent to gearing of 73.9% (net debt/RCV).

During the 1994 price review, we established the regulatory capital value (RCV) as a new measure of each company's capital base. This uses the companies' market valuation (including debt) at privatisation. We then adjust this to take account of the net new capital expenditure assumed at the time of initial price setting and at each subsequent price review (after allowing for current cost depreciation).

Table 9 shows each company's RCV and its return on capital measured by its RCV for each year over the period 2005-10. The pre-tax return on capital in 2009-10, based on the current cost operating profit and RCV, was 7.2%, compared with the 6.8% achieved in 2008-09. The pre-tax return assumed in price limits for 2008-09 was 7.5%. Operating expenditure is the single biggest cost variance compared with our expectation.

**Table 9 Return on capital measured by regulatory capital value by company**

2009-10 prices	Average regulatory capital value					Return on capital employed				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m	£m	%	%	%	%	%
<b>Water and sewerage companies</b>										
Anglian	4,975.6	5,022.1	5,123.0	5,222.2	5,285.7	5.8	6.7	6.4	6.8	6.5
Dŵr Cymru	3,293.6	3,430.7	3,542.4	3,620.8	3,659.7	5.7	5.2	5.1	4.7	5.7
Northumbrian	2,850.0	2,939.4	3,001.6	3,044.6	3,063.5	6.7	6.4	6.2	6.1	5.9
Severn Trent	5,786.1	5,897.8	6,050.6	6,177.1	6,287.6	6.9	7.2	5.4	6.8	7.6
South West	2,265.1	2,352.7	2,420.9	2,481.8	2,538.1	4.8	6.0	6.4	6.6	6.5
Southern	2,721.9	2,932.1	3,190.1	3,370.5	3,461.9	6.7	7.0	5.7	7.1	6.2
Thames	6,363.9	6,691.6	6,987.9	7,222.0	7,440.8	6.8	5.2	6.8	7.1	7.9
United Utilities	6,948.2	7,167.2	7,405.9	7,534.4	7,535.8	6.6	6.9	7.3	7.6	8.9
Wessex	1,991.6	2,063.5	2,124.6	2,166.3	2,184.6	7.5	7.6	8.2	8.4	8.7
Yorkshire	3,978.9	4,134.8	4,260.0	4,365.7	4,434.1	6.6	5.6	7.3	6.5	5.6
<b>Total WaSCs</b>	<b>41,175.0</b>	<b>42,631.9</b>	<b>44,107.0</b>	<b>45,205.2</b>	<b>45,891.7</b>	<b>6.5</b>	<b>6.4</b>	<b>6.5</b>	<b>6.8</b>	<b>7.2</b>
<b>Water only companies</b>										
Bournemouth & W Hampshire	137.4	135.7	134.5	134.6	134.3	7.3	8.9	9.6	8.0	8.3
Bristol	257.2	267.2	277.1	275.7	268.4	7.7	6.5	6.3	7.8	7.0
Cambridge	55.1	55.4	55.7	56.0	56.0	7.9	8.9	8.3	7.2	7.5
Dee Valley	58.2	62.2	62.7	60.5	57.3	6.3	4.5	4.9	5.8	8.0
Portsmouth	106.3	108.6	112.2	112.2	109.0	5.9	7.8	5.1	4.8	6.3
South East	778.8	812.5	827.5	825.1	818.9	8.1	5.9	6.0	6.1	6.6
South Staffs	199.8	204.2	207.5	208.8	208.9	9.2	8.5	8.5	8.2	8.3
Sutton & East Surrey	155.4	159.6	161.4	162.1	162.5	7.1	7.0	6.5	6.1	5.7
Veolia Central	704.3	728.8	752.3	765.4	774.1	9.6	7.1	7.3	6.1	7.0
Veolia East	58.5	57.4	57.6	58.9	59.5	11.2	9.4	9.1	6.5	8.7
Veolia Southeast	62.8	67.4	69.1	67.7	66.3	9.2	8.3	8.6	6.4	7.2
<b>Total WoCs</b>	<b>2,573.8</b>	<b>2,659.0</b>	<b>2,717.6</b>	<b>2,727.0</b>	<b>2,715.3</b>	<b>8.4</b>	<b>6.9</b>	<b>6.9</b>	<b>6.5</b>	<b>7.0</b>
<b>Industry</b>	<b>43,748.8</b>	<b>45,290.9</b>	<b>46,825.3</b>	<b>47,932.2</b>	<b>48,607.0</b>	<b>6.6</b>	<b>6.4</b>	<b>6.5</b>	<b>6.8</b>	<b>7.2</b>

Table 10 shows the returns that investors and lenders received (for example, dividends and interest as a percentage of the RCV). Returns on this basis are 6.7% this year. This is lower than the 7.9% seen in 2008-09, as special dividends paid in 2009-10 were lower (see table 13).

Table 11 shows the returns on capital based on the average net modern equivalent asset (MEA) values for each year over the period 2005-10. An MEA value is the cost of replacing an old asset with a technically up-to-date asset with the same service capability, but allowing for the remaining service potential of the old asset compared with the new one. As part of the 2009 price review, we asked the companies to revalue their assets to give an up-to-date assessment of their MEA values.

**Table 10 Dividend and interest payments as a percentage of regulatory capital value**

2009-10 prices	Dividend payments					Net interest payments					Dividends and interest payments as a percentage of capital value				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
<b>Water and sewerage companies</b>															
Anglian	336.6	474.5	295.4	290.9	276.4	69.9	62.9	105.5	132.7	67.4	8.2	10.7	7.8	8.1	6.5
Dŵr Cymru	0.0	0.0	0.0	0.0	0.0	169.1	164.3	195.5	168.0	104.2	5.1	4.8	5.5	4.6	2.8
Northumbrian	37.3	73.9	75.1	77.3	78.9	98.1	99.2	89.6	102.4	86.6	4.8	5.9	5.5	5.9	5.4
Severn Trent	170.8	702.3	269.9	152.6	166.4	144.6	154.8	172.6	188.2	201.6	5.5	14.5	7.3	5.5	5.9
South West	221.2	80.8	71.1	104.3	54.4	107.9	62.7	67.1	70.2	64.1	14.5	6.1	5.7	7.0	4.7
Southern	46.7	63.7	67.0	116.6	37.5	140.9	139.4	150.1	173.1	115.2	6.9	6.9	6.8	8.6	4.4
Thames	302.0	566.4	96.9	216.1	281.2	148.9	182.6	177.4	179.7	255.2	7.1	11.2	3.9	5.5	7.2
United Utilities	249.0	286.6	306.8	845.8	228.6	267.1	148.4	200.3	207.5	349.3	7.4	6.1	6.8	14.0	7.7
Wessex	58.3	94.4	107.6	81.5	138.9	76.3	70.0	71.8	85.1	63.8	6.8	8.0	8.4	7.7	9.3
Yorkshire	299.8	890.9	115.1	313.1	211.0	91.3	104.4	149.6	77.2	167.0	9.8	24.1	6.2	8.9	8.5
<b>Total WaSCs</b>	<b>1,721.7</b>	<b>3,233.6</b>	<b>1,404.9</b>	<b>2,198.0</b>	<b>1,473.3</b>	<b>1,314.2</b>	<b>1,188.8</b>	<b>1,379.5</b>	<b>1,384.1</b>	<b>1,474.4</b>	<b>7.4</b>	<b>10.4</b>	<b>6.3</b>	<b>7.9</b>	<b>6.4</b>
<b>Water only companies</b>															
Bournemouth & W Hampshire <sup>3</sup>	4.5	6.1	5.9	5.3	5.3	19.9	4.2	4.8	5.9	1.6	17.8	7.6	8.0	8.3	5.1
Bristol	11.2	6.5	12.0	8.5	9.9	7.2	6.7	8.7	11.7	5.0	7.2	5.0	7.5	7.3	5.6
Cambridge	0.0	2.5	2.5	2.5	3.8	1.5	0.6	2.0	3.3	1.2	2.6	5.6	7.9	10.2	9.1
Dee Valley	1.4	1.4	1.4	1.4	1.3	2.1	2.2	2.4	3.8	1.3	6.1	5.7	6.1	8.7	4.5
Portsmouth	4.0	4.7	4.2	4.6	4.6	(0.6)	(1.0)	(1.0)	1.1	(0.2)	3.2	3.4	2.8	5.2	4.1
South East	40.7	49.4	29.8	11.7	23.6	36.2	26.2	36.4	30.3	12.5	9.9	9.3	8.0	5.1	4.4
South Staffs <sup>4</sup>	6.7	19.8	12.3	7.4	8.1	38.4	7.0	7.5	9.7	8.7	22.6	13.1	9.6	8.2	8.0
Sutton & East Surrey	5.6	15.7	5.6	3.1	2.2	7.2	8.0	9.1	10.8	3.3	8.2	14.9	9.1	8.6	3.4
Veolia Central	31.4	29.6	31.9	35.9	186.3	13.2	12.3	11.8	15.7	19.2	6.3	5.7	5.8	6.7	26.6
Veolia East	3.9	4.1	3.3	3.8	4.1	0.4	0.5	0.5	0.7	0.7	7.5	7.9	6.5	7.6	8.1
Veolia Southeast	4.3	3.4	3.6	3.5	3.6	1.0	1.2	1.5	1.2	1.4	8.5	6.7	7.4	6.9	7.5
<b>Total WoCs</b>	<b>113.9</b>	<b>143.1</b>	<b>112.5</b>	<b>87.6</b>	<b>252.9</b>	<b>126.7</b>	<b>68.0</b>	<b>83.8</b>	<b>94.2</b>	<b>54.8</b>	<b>9.3</b>	<b>7.9</b>	<b>7.2</b>	<b>6.7</b>	<b>11.3</b>
<b>Industry</b>	<b>1,835.5</b>	<b>3,376.7</b>	<b>1,517.5</b>	<b>2,285.7</b>	<b>1,726.3</b>	<b>1,440.9</b>	<b>1,256.7</b>	<b>1,463.2</b>	<b>1,478.3</b>	<b>1,529.2</b>	<b>7.5</b>	<b>10.2</b>	<b>6.4</b>	<b>7.9</b>	<b>6.7</b>

**Notes:**

- Dividends reported include special dividends.
- Dividends are reported according to UK accounting standard FRS 21. Under this standard, any dividend declared post-year end, even if it relates to that year's performance, should be recognised in the accounts for that year. Therefore, the 2005-06 dividend figure includes amounts relating to 2004-05 that were declared and paid in 2005-06.
- In 2005-06, interest payable includes £14.9 million relating to the premium paid on the redemption of the company's preference shares. If this was excluded, the return would be 6.6%.
- In 2005-06, interest payable includes £29.9 million relating to exceptional refinancing loss. If this was excluded, the return would be 7.1%.

**Table 11 Return on capital by service measured by average MEA – sectors**

2009-10 prices		2005-06	2006-07	2007-08	2008-09	2009-10
<b>Water service</b>						
Current cost operating profit	£bn	1.29	1.28	1.40	1.42	1.54
Average net MEA – infrastructure	£bn	78.11	78.60	78.84	76.79	87.02
Average net MEA – non-infrastructure	£bn	13.76	13.84	14.09	13.89	14.48
<b>Average net MEA value – all assets</b>	£bn	<b>91.88</b>	<b>92.44</b>	<b>92.94</b>	<b>90.68</b>	<b>101.50</b>
<b>Return on capital employed</b>	%	<b>1.42</b>	<b>1.39</b>	<b>1.50</b>	<b>1.56</b>	<b>1.52</b>
<b>Sewerage service</b>						
Current cost operating profit	£bn	1.59	1.61	1.65	1.84	1.94
Average net MEA – infrastructure	£bn	140.21	141.57	143.54	139.40	155.90
Average net MEA – non-infrastructure	£bn	20.30	21.13	22.25	21.92	22.31
<b>Average net MEA value – all assets</b>	£bn	<b>160.51</b>	<b>162.69</b>	<b>165.79</b>	<b>161.32</b>	<b>178.21</b>
<b>Return on capital employed</b>	%	<b>0.87</b>	<b>0.97</b>	<b>1.00</b>	<b>1.14</b>	<b>1.09</b>
<b>Total</b>						
Current cost operating profit	£bn	2.88	2.89	3.05	3.26	3.48
Average net MEA – infrastructure	£bn	221.32	222.20	222.38	216.19	242.91
Average net MEA – non-infrastructure	£bn	35.57	35.81	36.34	35.81	36.80
<b>Average net MEA value – all assets</b>	£bn	<b>256.89</b>	<b>258.01</b>	<b>258.72</b>	<b>252.00</b>	<b>279.71</b>
<b>Return on capital employed</b>	%	<b>0.92</b>	<b>1.12</b>	<b>1.18</b>	<b>1.29</b>	<b>1.25</b>

## Dividends

Dividends represent the companies' largest cash flow after capital expenditure. Each company is required to set out its dividend policy in its regulatory accounts.

Dividends declared in 2009-10 (excluding special dividends) were broadly stable at £1.56 billion. One company paid a special dividend of £168 million in the year. Table 12 shows the related dividend covers on a current cost and historic cost basis. Table 13 sets out an analysis of special dividends the companies paid over the period 2005-10.

Table 12 Dividend covers by company

	Dividend cover (current cost basis)					Dividend cover (historic cost basis)				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Water and sewerage companies</b>										
Anglian	0.7	0.5	0.7	0.7	0.9	0.8	0.7	1.0	1.0	1.2
Dŵr Cymru	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Northumbrian	2.3	1.9	1.3	0.9	1.7	2.4	1.6	1.4	1.7	1.5
Severn Trent	1.4	0.5	0.8	0.7	2.1	1.2	0.4	0.6	1.1	1.5
South West	0.2	1.5	1.8	0.6	2.9	0.1	1.0	1.4	0.8	1.9
Southern	1.3	2.0	1.6	0.1	2.7	1.4	1.5	1.3	0.8	3.4
Thames	0.9	0.4	3.7	1.3	0.8	0.9	0.3	4.0	1.4	1.1
United Utilities	0.7	1.5	1.0	0.3	1.9	0.7	1.2	1.2	0.4	1.8
Wessex	1.4	1.4	1.0	0.8	0.9	1.2	1.0	0.9	1.1	0.8
Yorkshire	0.5	0.2	1.9	0.3	0.9	0.6	0.2	1.5	0.5	0.6
<b>Total WaSCs</b>	<b>0.8</b>	<b>0.6</b>	<b>1.3</b>	<b>0.5</b>	<b>1.4</b>	<b>0.8</b>	<b>0.6</b>	<b>1.3</b>	<b>0.8</b>	<b>1.4</b>
<b>Water only companies</b>										
Bournemouth & W Hampshire	(2.6)	1.5	1.6	0.5	1.9	(1.9)	1.4	1.3	0.9	1.8
Bristol	0.8	2.2	0.9	0.5	1.7	1.1	2.3	1.1	1.1	1.7
Cambridge	n/a	2.0	2.4	(0.2)	0.9	n/a	1.5	2.1	0.0	0.7
Dee Valley	(0.1)	(1.1)	1.3	(0.2)	1.6	1.6	1.0	2.5	0.8	2.8
Portsmouth	1.1	1.5	1.6	0.6	0.9	1.3	1.8	2.0	0.9	1.2
South East	0.5	0.5	(0.9)	1.0	2.4	0.6	0.6	0.8	2.3	1.8
South Staffs	(1.8)	0.3	0.6	0.6	0.6	(1.7)	0.5	1.0	1.1	1.1
Sutton & East Surrey	0.7	0.1	0.3	(0.2)	1.5	0.6	0.3	0.6	0.2	1.9
Veolia Central	1.4	1.2	1.6	0.3	0.2	1.3	0.9	1.5	0.6	0.1
Veolia East	1.1	0.9	1.1	0.5	0.9	1.1	0.9	1.2	0.7	0.9
Veolia Southeast	0.8	1.3	1.5	0.6	1.1	0.9	1.2	1.4	0.9	1.0
<b>Total WoCs</b>	<b>0.7</b>	<b>0.9</b>	<b>1.2</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>1.2</b>	<b>0.9</b>	<b>0.5</b>
<b>Industry</b>	<b>0.8</b>	<b>0.7</b>	<b>1.3</b>	<b>0.5</b>	<b>1.3</b>	<b>0.8</b>	<b>0.6</b>	<b>1.3</b>	<b>0.8</b>	<b>1.2</b>

**Table 13 Analysis of special dividends**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	Total
	£m	£m	£m	£m	£m	£m
<b>Increased gearing</b>						
South West	162	59				221
Anglian		228				228
Severn Trent		621				621
Thames		360				360
Yorkshire		772		181		953
Sutton & East Surrey		13				13
United Utilities				553		553
Veolia Central					168	168
<b>Efficiency savings</b>						
Yorkshire	180					180
<b>Proceeds from land sales</b>						
South East	8					8
<b>Total</b>	<b>350</b>	<b>2,053</b>	<b>0</b>	<b>733</b>	<b>168</b>	<b>3,305</b>

**Note:**

Numbers may not add because of rounding.

**Accounting charges**

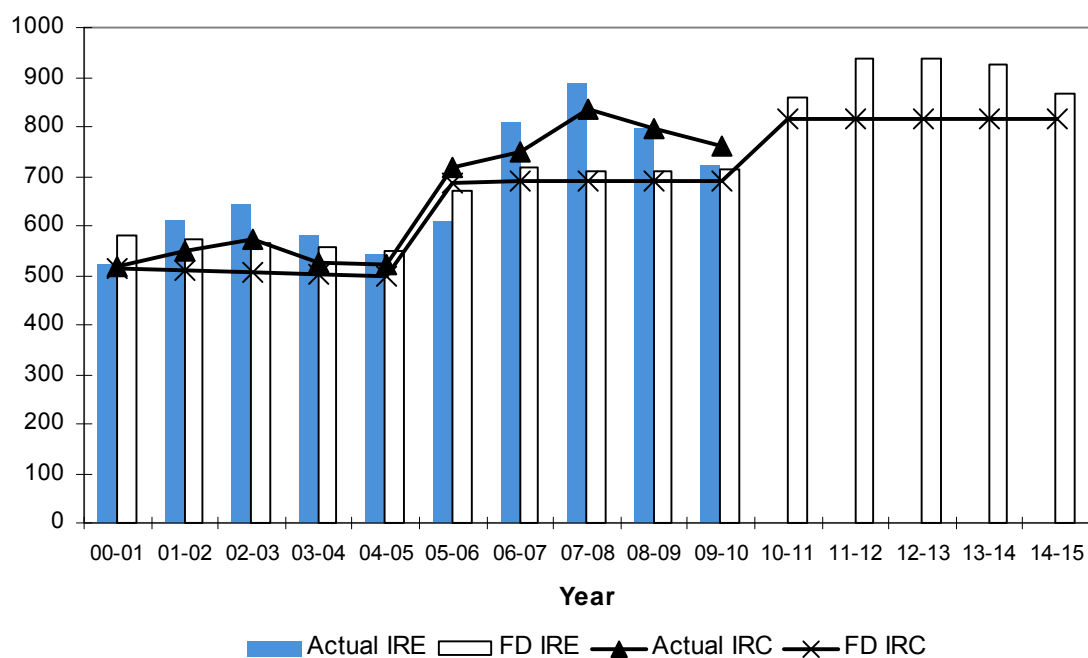
We use current cost depreciation (CCD) to derive the appropriate accounting charge in customers' bills to cover the capital maintenance needs of each company's above-ground assets. For underground assets, we use an infrastructure renewals charge (IRC).

CCD is the most significant component of capital maintenance charges. Over the long term, the CCD charged should be comparable with the capital expenditure required to maintain and replace the assets. In 2009-10, the CCD charge was 4% higher than in 2008-09. This is broadly in line with what we assumed when we set price limits in 2004, as is the cumulative charge over the past five years.

The sectors adopted infrastructure renewals accounting before privatisation. This is because it more accurately represents the manner in which infrastructure assets are managed, operated and maintained than conventional depreciation policies. Table 14 shows the infrastructure renewals expenditure (IRE) and infrastructure renewals charges (IRC) by service for each year for the period 2005-10. Figure 1 sets out the actual IRE and IRC that the sectors reported for each year over the period 2000-10, together with our assumptions when we set price limits in 1999 and 2004.

**Table 14 Comparison of infrastructure renewals expenditure and charges**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	2008-09 to 2009-10 change
	£m	£m	£m	£m	£m	%
<b>Water service</b>						
Infrastructure renewals expenditure	382	528	578	518	458	-11.5
Infrastructure renewals charge	472	473	522	524	504	-3.9
Difference	(90)	55	55	(6)	(46)	
<b>Sewerage service</b>						
Infrastructure renewals expenditure	226	279	308	279	263	-6.0
Infrastructure renewals charge	247	277	312	272	256	-5.9
Difference	(21)	2	(4)	7	7	
<b>Total</b>						
Infrastructure renewals expenditure	608	807	885	797	721	-9.6
Infrastructure renewals charge	719	750	834	796	760	-4.6
Difference	(111)	57	51	1	(39)	

**Figure 1 Comparison of infrastructure renewals expenditure and charges (£m)**


We would expect a fairly constant IRC under infrastructure renewals accounting if networks are stable. But, if the network required higher levels of expenditure on a long-term basis, then we would expect this to be reflected in higher IRC levels. The companies' IRCs should equal their medium- to long-term views of their IRE.

There was a further decrease in IRC in 2009-10 to £760 million. Some companies that reported decreases explained that their future projections of IRE had been revised downwards following our final decisions on price limits for 2010-15 in November 2009. These are based on IRE from 2010-25. In our final decisions for 2010-15, we assumed an average IRC for 2010-15 of £817 million.

## 2. Operating expenditure

Total operating expenditure for the sectors in 2009-10 was £3.7 billion (excluding exceptional items). This was £61 million more than in 2008-09 and represents a 1.7% increase in real terms. It is £60 million (1.6%) more than we assumed in price limits for 2009-10 and £445 million (12%) less than the companies set out in their 2004 business plans. Total operating expenditure in 2009-10 was £259 million higher than in 2003-04 (8% in real terms). This was the year we used at the 2004 price review to establish the base level of costs.

Table 15 shows the trend at the industry level by service, while table 16 shows the performance of individual companies.

**Table 15 Total operating expenditure by service**

2009-10 prices	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2008-09 to 2009-10 change
	£m	£m	£m	£m	£m	£m	£m	£m
Water service	1,883	1,828	1,953	2,013	1,936	1,989	2,042	53
Sewerage service	1,509	1,538	1,584	1,625	1,571	1,602	1,610	8
<b>Total</b>	<b>3,392</b>	<b>3,367</b>	<b>3,537</b>	<b>3,638</b>	<b>3,507</b>	<b>3,591</b>	<b>3,651</b>	<b>61</b>

**Notes:**

1. The numbers above do not reconcile to table 1, because exceptional items, excluded from the above, are as reported in June returns and do not correspond to those stated in table 1, which are reported under Ofwat regulatory accounting guidelines. Table 1 operating costs are net of operating income.
2. Numbers may not add because of rounding.

**Table 16 Total operating expenditure by company**

2009-10 prices	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Change since 2003-04
	£m	£m	£m	£m	£m	£m	£m	%
<b>Water and sewerage companies</b>								
Anglian	341.3	330.2	347.1	349.1	339.8	360.4	379.7	11.2
Dŵr Cymru	250.7	240.6	229.3	237.0	235.1	261.7	259.7	3.6
Northumbrian	246.4	243.3	248.6	257.3	245.5	262.3	268.8	9.1
Severn Trent	457.3	483.8	494.2	509.1	489.4	498.0	488.0	6.7
South West	123.9	132.2	142.0	147.8	148.9	148.1	150.8	21.7
Southern	203.2	195.6	192.9	202.6	205.4	197.2	197.9	(2.6)
Thames	575.6	560.4	662.2	688.9	589.4	588.9	604.8	5.1
United Utilities	464.7	476.6	475.8	476.2	488.1	479.5	497.6	7.1
Wessex	104.7	110.3	116.5	120.0	116.7	124.0	120.1	14.8
Yorkshire	259.7	249.5	274.9	283.7	280.0	294.4	297.4	14.5
<b>Total WaSCs</b>	<b>3,027.5</b>	<b>3,022.6</b>	<b>3,183.5</b>	<b>3,271.6</b>	<b>3,138.3</b>	<b>3,214.4</b>	<b>3,264.9</b>	<b>7.8</b>
<b>Water only companies</b>								
Bournemouth & W Hampshire	16.1	15.6	15.1	15.1	15.0	16.8	16.2	0.6
Bristol	41.3	41.0	42.0	43.4	44.2	45.2	48.3	16.9
Cambridge	10.5	9.9	10.2	10.9	12.5	11.7	13.1	25.6
Dee Valley	10.0	9.5	9.8	10.7	10.5	11.0	10.9	9.5
Portsmouth	18.4	18.0	21.2	19.5	20.5	20.9	21.2	15.0
South East	78.2	72.4	74.6	74.9	71.9	72.3	71.6	(8.5)
South Staffs	39.1	36.8	40.9	40.7	40.2	40.3	42.8	9.5
Sutton & East Surrey	25.1	23.6	25.1	24.3	25.9	26.7	28.8	14.7
Veolia Central	111.0	103.6	100.5	112.3	112.8	115.4	117.5	5.8
Veolia East	6.7	6.2	5.9	6.4	6.3	7.2	7.2	7.2
Veolia Southeast	8.4	7.8	7.9	8.5	8.5	8.7	8.7	3.9
<b>Total WoCs</b>	<b>364.8</b>	<b>344.4</b>	<b>353.2</b>	<b>366.7</b>	<b>368.2</b>	<b>376.2</b>	<b>386.4</b>	<b>5.9</b>
<b>Industry</b>	<b>3,392.4</b>	<b>3,366.9</b>	<b>3,536.7</b>	<b>3,638.3</b>	<b>3,506.5</b>	<b>3,590.6</b>	<b>3,651.3</b>	<b>7.6</b>

**Notes:**

1. Numbers may not add because of rounding.
2. Excludes exceptional items, but includes third party expenditure.

Table 17 shows operating expenditure by functional service and by type of expenditure within each function for 2003-04 and 2009-10.

There has been continued upward pressure from energy costs, despite recent falls in unit prices. This is because some companies locked into forward contracts in 2007 and 2008, when prices were higher than they are now. The companies have also faced increased costs for bad debts and for consumable items such as chemicals.

**Table 17 Sectors' total operating expenditure by service by function**

2009-10 prices	2003-04								2009-10							
	Water service			Sewerage service					Industry total	Water service			Sewerage service			
	Water resources and treatment	Water distribution	Water service total	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewerage service total	Water resources & treatment		Water distribution	Water service total	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewerage service total	
	£m	£m	£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m	£m	£m
Employment costs	90	126	215	45	91	49	185	401	81	113	194	53	95	49	197	391
Power	61	81	142	24	81	28	133	276	124	134	258	42	150	17	209	467
Hired and contracted services	43	155	198	80	59	106	245	443	44	186	230	82	67	123	271	501
Materials and consumables	54	19	73	6	30	34	70	143	72	14	86	8	39	47	94	181
Service charges	106	0	106	15	38	0	53	159	120	0	120	14	36	0	50	170
Other direct costs	32	23	56	6	6	19	31	87	35	24	59	7	5	2	14	73
<b>Total direct costs</b>	<b>387</b>	<b>404</b>	<b>791</b>	<b>176</b>	<b>305</b>	<b>236</b>	<b>718</b>	<b>1,509</b>	<b>477</b>	<b>470</b>	<b>948</b>	<b>205</b>	<b>392</b>	<b>237</b>	<b>834</b>	<b>1,782</b>
General and support expenditure	155	199	354	71	156	91	319	673	138	183	321	64	132	68	264	585
<b>Functional expenditure</b>	<b>542</b>	<b>603</b>	<b>1,145</b>	<b>248</b>	<b>462</b>	<b>327</b>	<b>1,036</b>	<b>2,181</b>	<b>616</b>	<b>653</b>	<b>1,269</b>	<b>269</b>	<b>524</b>	<b>305</b>	<b>1,098</b>	<b>2,367</b>
Customer services			200				164	364			207				171	378
Scientific services			83				38	121			67				27	93
Other business services			31				21	52			34				25	59
<b>Total business activities</b>			<b>314</b>				<b>222</b>	<b>536</b>			<b>308</b>				<b>222</b>	<b>530</b>
Local authority rates			237				122	359			254				131	386
Doubtful debts			90				102	192			134				145	279
<b>Total operating expenditure less third party services</b>			<b>1,787</b>				<b>1,482</b>	<b>3,269</b>			<b>1,965</b>				<b>1,597</b>	<b>3,561</b>
Third party services operating expenditure			96				27	123			77				13	90
<b>Total operating expenditure</b>			<b>1,883</b>				<b>1,509</b>	<b>3,392</b>			<b>2,042</b>				<b>1,610</b>	<b>3,651</b>

**Note:**

Numbers may not add because of rounding.

### 3. Capital investment

Since privatisation, the sectors have invested about £90 billion in water and sewerage infrastructure in England and Wales. In 2009-10, the sectors' capital investment was equivalent to 40% of its turnover. This is high when compared with other industries. The sectors invested £22.3 billion pounds over the 2005-10 price review period. This is in line with the price limits that we set in 2004.

The aggregate gross capital investment in 2009-10 was £4.0 billion, compared with £4.7 billion in 2008-09. About 80% of this was for new fixed assets. We expected the companies to invest £3.6 billion (gross) in 2009-10, which means that the companies invested 11% more than the assumptions we made in our final decisions for 2009-10. This was driven mainly by the companies catching up with delays experienced earlier in the five-year period.

Table 18 shows capital investment at industry level in the period 2005-06 to 2009-10.

**Table 18 Gross capital investment by service – industry**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	Five-year total
	£m	£m	£m	£m	£m	£m
Water service	1,841	2,358	2,553	2,350	2,018	11,120
Sewerage service	1,951	2,317	2,534	2,386	2,012	11,200
<b>Industry total</b>	<b>3,792</b>	<b>4,675</b>	<b>5,087</b>	<b>4,736</b>	<b>4,030</b>	<b>22,320</b>

**Notes:**

1. All investment is stated gross of capital contributions including IRE, which was previously reported as net of capital contributions. Because of this, expenditure in this table does not match previously reported data.
2. This table has been adjusted into 2009-10 prices using year-average RPI.
3. Assets adopted at nil cost are excluded from gross capital investment in tables 18-22.

- Investment in the water service in 2009-10 decreased by almost 14% compared with 2008-09.
- Investment in the distribution system has continued to make up the majority of expenditure in the water service. This represents the investment in companies' mains renewal and relining activities and efforts to meet leakage targets.
- Investment in the sewerage service for the same period showed a decrease of about 16%. This is in line with our final decisions.

Table 19 shows the expenditure breakdown by purpose for the industry, while tables 20a and 20b shows the breakdown at company level.

**Table 19 Gross capital investment by purpose category – industry**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	Five-year total
	£m	£m	£m	£m	£m	£m
<b>Water service</b>						
Base service:						
– IRE Maintenance of underground assets	408	552	605	539	484	2,587
– MNI Maintenance of above-ground assets	517	684	676	627	570	3,075
Improving and maintaining the supply/demand balance	485	578	704	757	575	3,099
Quality enhancement programmes	429	536	561	418	368	2,311
Enhanced service levels	2	8	7	9	21	48
<b>Water service total</b>	<b>1,841</b>	<b>2,358</b>	<b>2,553</b>	<b>2,350</b>	<b>2,018</b>	<b>11,120</b>
<b>Sewerage service</b>						
Base service:						
– IRE Maintenance of underground assets	249	305	336	304	280	1475
– MNI Maintenance of above-ground assets	814	1027	1041	952	772	4607
Improving and maintaining the supply/demand balance	103	151	181	182	193	810
Quality enhancement programmes	640	635	760	761	617	3412
Enhanced service levels	144	198	216	186	150	895
<b>Sewerage service total</b>	<b>1,951</b>	<b>2,317</b>	<b>2,534</b>	<b>2386</b>	<b>2012</b>	<b>11,200</b>
<b>Industry total</b>	<b>3,792</b>	<b>4,675</b>	<b>5,087</b>	<b>4,736</b>	<b>4030</b>	<b>22,320</b>

**Notes:**

1. All investment is stated gross of capital contributions, including IRE, which was previously reported as net of capital contributions.
2. This table has been adjusted into 2009-10 prices using year-average RPI.
3. Assets adopted at nil cost are excluded from gross capital investment in tables 18-22.
4. In the water service, security of supply expenditure has been reported in the supply/demand balance category to align with the PR04 final determination assumptions. Historic expenditure has been updated to allow a comparison to be made.

**Table 20a Gross capital investment by purpose category 2009-10 – water and sewerage companies**

2009-10 prices	Base service: maintenance of underground assets	Base service: maintenance of above-ground assets	Improving and maintaining supply/demand balance	Quality enhancement programmes	Enhanced service levels	Total investment
	£m	£m	£m	£m	£m	£m
<b>Water service</b>						
Anglian	37.0	64.8	56.7	13.6	0.0	172.1
Dŵr Cymru	45.0	44.1	6.7	72.1	0.0	167.9
Northumbrian	32.9	40.2	27.4	14.1	0.0	114.5
Severn Trent	56.1	133.5	45.9	29.4	15.3	280.2
South West	13.4	24.4	21.1	22.6	0.6	82.1
Southern	22.9	11.6	13.1	1.3	-0.2	48.8
Thames	50.2	72.2	282.8	62.9	0.0	468.1
United Utilities	90.1	45.5	38.4	93.3	0.0	267.3
Wessex	14.3	14.7	8.3	7.1	0.0	44.3
Yorkshire	32.1	41.0	7.8	25.8	5.2	111.9
<b>Total</b>	<b>394</b>	<b>492</b>	<b>508</b>	<b>342</b>	<b>21</b>	<b>1,757</b>
<b>Sewerage service</b>						
Anglian	27.3	74.2	7.2	59.6	9.8	178.1
Dŵr Cymru	25.1	90.8	10.7	59.5	7.4	193.4
Northumbrian	20.8	42.4	21.9	20.7	0.8	106.6
Severn Trent	50.0	191.6	33.6	86.9	0.8	363.0
South West	10.5	31.7	7.2	19.2	1.4	70.0
Southern	12.5	54.6	24.7	61.4	32.0	185.2
Thames	41.5	103.9	22.2	97.7	81.2	346.5
United Utilities	66.3	100.1	47.2	131.3	9.8	354.7
Wessex	8.8	20.2	5.9	23.2	6.4	64.4
Yorkshire	17.7	62.2	12.3	57.7	0.1	150.0
<b>Total</b>	<b>280</b>	<b>772</b>	<b>193</b>	<b>617</b>	<b>150</b>	<b>2,012</b>

**Notes:**

1. All investment is stated gross of capital contributions, including IRE, which was previously reported as net of capital contributions.
2. Assets adopted at nil cost are excluded from gross capital investment in tables 18-22.
3. In the water service, security of supply expenditure has been reported in the supply/demand balance category to align with the PR04 final determination assumptions. Historic expenditure has been updated to allow a comparison to be made.

**Table 20b Gross capital investment by purpose category 2009-10 – water only companies**

2009-10 prices	Base service: maintenance of underground assets	Base service: maintenance of above-ground assets	Improving and maintaining supply/demand balance	Quality enhancement programmes	Enhanced service levels	Total investment
	£m	£m	£m	£m	£m	£m
<b>Water service:</b>						
Bournemouth & W Hampshire	2.2	4.0	4.1	0.6	0.0	11.0
Bristol	8.5	5.1	6.0	4.8	0.0	24.4
Cambridge	1.3	1.1	1.7	0.2	0.0	4.3
Dee Valley	1.5	2.0	1.7	0.4	0.0	5.6
Portsmouth	7.0	2.4	1.9	2.8	0.0	14.1
South East	15.9	14.6	22.1	7.6	0.0	60.2
South Staffs	7.3	7.2	8.6	0.0	0.0	23.1
Sutton & East Surrey	4.7	9.8	4.5	0.0	0.0	19.1
Veolia Central	37.6	27.4	13.1	8.6	0.0	86.9
Veolia East	2.3	2.2	0.7	0.0	0.0	5.2
Veolia Southeast	1.5	2.4	2.5	0.4	0.0	6.7
<b>Total</b>	<b>90</b>	<b>78</b>	<b>67</b>	<b>25</b>	<b>0</b>	<b>260</b>

**Notes:**

1. All investment is stated gross of capital contributions, including IRE, which was previously reported as net of capital contributions.
2. Assets adopted at nil cost are excluded from gross capital investment in tables 18-22.
3. In the water service, security of supply expenditure has been reported in the supply/demand balance category to align with the PR04 final determination assumptions. Historic expenditure has been updated to allow a comparison to be made.

Table 21 sets out the capital investment trends by service area at industry level for the period 2005-06 to 2009-10, while table 22 shows each company's expenditure by service area in 2009-10.

**Table 21 Gross capital investment by service area – industry**

2009-10 prices	2005-06	2006-07	2007-08	2008-09	2009-10	Five-year total
	£m	£m	£m	£m	£m	£m
<b>Water service</b>						
Resources	89	128	142	125	93	576
Treatment	361	550	558	509	418	2,397
Distribution	1,190	1,462	1,628	1,468	1,285	7,032
General	202	219	225	248	222	1,115
<b>Water service total</b>	<b>1,841</b>	<b>2,358</b>	<b>2,553</b>	<b>2,350</b>	<b>2,018</b>	<b>11,120</b>
<b>Sewerage service</b>						
Sewerage	782	936	939	912	863	4,431
Sewage treatment	991	1,206	1,388	1,247	931	5,762
Sewerage general	179	175	208	227	218	1,006
<b>Sewerage service total</b>	<b>1,951</b>	<b>2,317</b>	<b>2,534</b>	<b>2,386</b>	<b>2,012</b>	<b>11,200</b>
<b>Industry total</b>	<b>3,792</b>	<b>4,675</b>	<b>5,087</b>	<b>4,736</b>	<b>4,030</b>	<b>22,320</b>

**Notes:**

1. All investment is stated gross of capital contributions, including IRE, which was previously reported as net of capital contributions.
2. This table has been adjusted into 2009-10 prices using year-average RPI.
3. Assets adopted at nil cost are excluded from gross capital investment in tables 18-22.
4. In the water service, all IRE grants and contributions have been accounted for in the distribution category (although it is acknowledged that a small proportion of them may relate to water resources).
5. In the sewerage service, all IRE grants and contributions are included in the sewerage category.
6. Industry totals do not exactly match tables 18-20 because of rounding.

Table 22 Gross capital investment by service area 2009-10 – by company

2009-10 prices	Water resources	Water treatment	Water distribution	Water general	Water total	Sewerage	Sewage treatment	Sewerage general	Sewerage total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Water and sewerage companies</b>									
Anglian	16.9	55.9	85.4	13.9	172.1	72.1	85.1	20.9	178.1
Dŵr Cymru	8.2	67.0	76.9	15.7	167.9	73.5	88.4	31.6	193.4
Northumbrian	15.3	16.9	65.2	17.1	114.5	62.8	34.5	9.3	106.6
Severn Trent	0.3	67.6	145.1	67.1	280.2	121.3	169.9	71.8	363.0
South West	1.7	12.3	55.5	12.7	82.1	23.2	35.9	10.9	70.0
Southern	1.1	5.6	29.6	12.5	48.8	92.8	78.3	14.1	185.2
Thames	11.8	77.4	367.6	11.3	468.1	195.1	135.1	16.3	346.5
United Utilities	18.1	20.8	210.2	18.3	267.3	147.7	187.3	19.8	354.7
Wessex	2.0	10.3	29.6	2.5	44.3	26.4	34.0	4.0	64.4
Yorkshire	9.7	30.9	51.8	19.5	111.9	48.4	82.1	19.5	150.0
<b>Total WaSCs</b>	<b>85</b>	<b>365</b>	<b>1,117</b>	<b>191</b>	<b>1,757</b>	<b>863</b>	<b>931</b>	<b>218</b>	<b>2,012</b>
<b>Water only companies</b>									
Bournemouth & W Hampshire	0.9	2.2	5.7	2.1	11.0				
Bristol	1.0	4.0	16.5	2.8	24.4				
Cambridge	0.0	0.4	3.3	0.6	4.3				
Dee Valley	0.2	0.4	4.6	0.5	5.8				
Portsmouth	1.6	0.7	10.3	1.5	14.1				
South East	2.5	13.4	37.7	6.6	60.2				
South Staffs	0.2	2.1	17.0	3.7	23.1				
Sutton & East Surrey	0.4	8.5	9.3	0.9	19.1				
Veolia Central	0.3	20.2	57.9	8.5	86.9				
Veolia East	0.3	0.3	2.9	1.5	4.9				
Veolia Southeast	0.4	1.4	2.8	2.4	7.0				
<b>Total WoCs</b>	<b>8</b>	<b>54</b>	<b>168</b>	<b>31</b>	<b>260.6</b>				
<b>Industry total</b>	<b>93</b>	<b>418</b>	<b>1,285</b>	<b>222</b>	<b>2,018</b>	<b>863</b>	<b>931</b>	<b>218</b>	<b>2,012</b>

**Notes:**

1. All investment is stated gross of capital contributions, including IRE, which was previously reported as net of capital contributions.
2. Assets adopted at nil cost are excluded from gross capital investment in tables 18-22.
3. In the water service, all IRE grants and contributions have been accounted for in the distribution category (although it is acknowledged that a small proportion of them may relate to water resources).
4. In the sewerage service, all IRE grants and contributions are included in the sewerage category.

## 4. Transfer pricing

The companies are legally required to trade at arm's length with associate companies in their group and with their parent company. This is to make sure that price limits are set on the basis of the actual costs of providing water and sewerage services to customers and not inflated by cross-subsidy. It also stops transactions taking place on preferential terms, which would potentially distort markets and could be anti-competitive.

Table 23 shows each company's expenditure with its associates in 2009-10. It also includes our assessment of compliance with our transfer pricing guideline, 'Regulatory Accounting Guideline 5.04' (RAG 5.04). Our assessment lags by one year to allow us to review and discuss issues with the companies. This ensures we make our assessment after a thorough analysis of issues.

In 2009-10, the level of expenditure with associates in the sectors increased slightly to £211.3 million, compared with £199.1 million (at 2009-10 prices) in 2007-08. The slight increase in the companies' expenditure with associates is at variance with the downward trend of recent years. This largely reflects less group restructuring activity that in previous years has led to services being brought in-house or associates being sold.

In some instances where we have assessed companies' compliance with RAG 5.04 as being 'some improvement required', we are aware that they have taken steps to address our concerns. We envisage that, subject to any new issues being identified, many of these companies will be able to demonstrate full compliance in 2009-10. We continue to work with the companies to suggest ways in which compliance can be improved.

In addition to monitoring the companies' transactions with associates, we also monitor the interactions between the regulated and unregulated businesses of companies as these are also subject to the requirements of RAG 5.04. This includes ensuring that shared costs are allocated robustly and costs are fully recovered when regulated assets are used for unregulated activities.

We also ensure that new appointees comply with transfer pricing guidelines. We continue to closely monitor transactions at one new appointee, in particular, where we have ongoing concerns about a trading arrangement.

We will continue to monitor the companies to make sure that trade with associate companies is at arm's length.

**Table 23 Trade with other companies within the group**

2009-10 prices	Total value of expenditure with other group companies 2009-10	Trade as a % of appointed business turnover		Compliance with RAG 5.04
		£m	2009-10	2008-09
<b>Water and sewerage companies</b>				
Anglian	4.0	0.4	0.4	●
Dŵr Cymru	–	–	–	●
Northumbrian	7.8	1.3	1.4	●
Severn Trent	21.0	1.5	1.9	●
South West	5.2	1.2	1.2	●
Southern	–	–	–	●
Thames	6.6	0.4	0.5	▸
United Utilities	69.3	4.5	5.1	▸
Wessex	25.6	5.9	2.7	●
Yorkshire	26.5	3.1	3.2	●
<b>Total</b>	<b>166.0</b>	<b>1.8</b>	<b>1.8</b>	
<b>Water only companies</b>				
Bournemouth & W Hampshire	0.8	2.2	2.3	●
Bristol	4.6	4.8	3.4	▸
Cambridge	0.4	1.6	1.8	▸
Dee Valley	–	–	–	●
Portsmouth	0.1	0.4	0.4	●
South East Water	0.8	0.5	1.2	●
South Staffs	17.2	20.9	23.3	●
Sutton & East Surrey	0.2	0.3	0.3	●
Veolia Central	17.2	7.3	2.5	●
Veolia East	2.2	14.5	13.4	●
Veolia Southeast	1.8	9.8	8.5	●
<b>Total</b>	<b>45.3</b>	<b>5.7</b>	<b>4.4</b>	
<b>Industry total/average</b>	<b>211.3</b>	<b>2.1</b>	<b>2.0</b>	

**Key:**

- Satisfactory compliance with RAG 5.04.
- Some areas to be improved.
- Significant improvement required.

**Note:**

Numbers may not add because of rounding.

## 5. Accounting separation

Each appointed water company is a vertical monopoly in its area, and controls the:

- supply and treatment of water and sewerage;
- network of water supply pipes and sewers; and
- sale of water and sewerage service to customers.

The costs and revenue associated with these are currently accounted for and regulated together. This means that it is difficult to get accurate information about the costs involved for each stage of the delivery of water and sewerage services.

Eventually, accounting separation would mean that the accounts (costs, revenues, assets and liabilities) for the different stages would be reported to us separately.

All companies have recently submitted their first set of accounting separation tables, reporting costs against nine separately identified parts of their business ('business units'). As this is the first year, we are unable to comment on performance at an individual business unit level but it does provide a useful first view of the split of operating costs and assets across the value chain.

Figure 2 shows the disaggregation of assets between the business units at an industry level. In general, the largest proportion of asset values are within the treated water distribution and sewerage collection business units, with only a small proportion of assets allocated against the retail function.

However, across the companies there is a range of values for each business unit in the value chain. The details can be found in each company's June return.

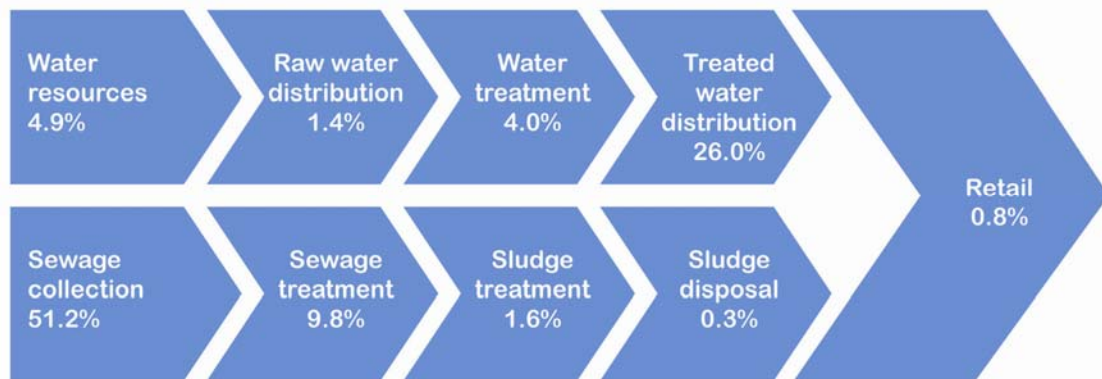
Figures 3a and 3b show the disaggregation of total operating expenditure per connected property between business units on an individual company basis for the water and sewerage services respectively.

As we expected, there is a range of costs in each business unit across the companies. These could be the result of several factors, for example the geographical characteristics of the region. We consider these factors when analysing the companies' returns.

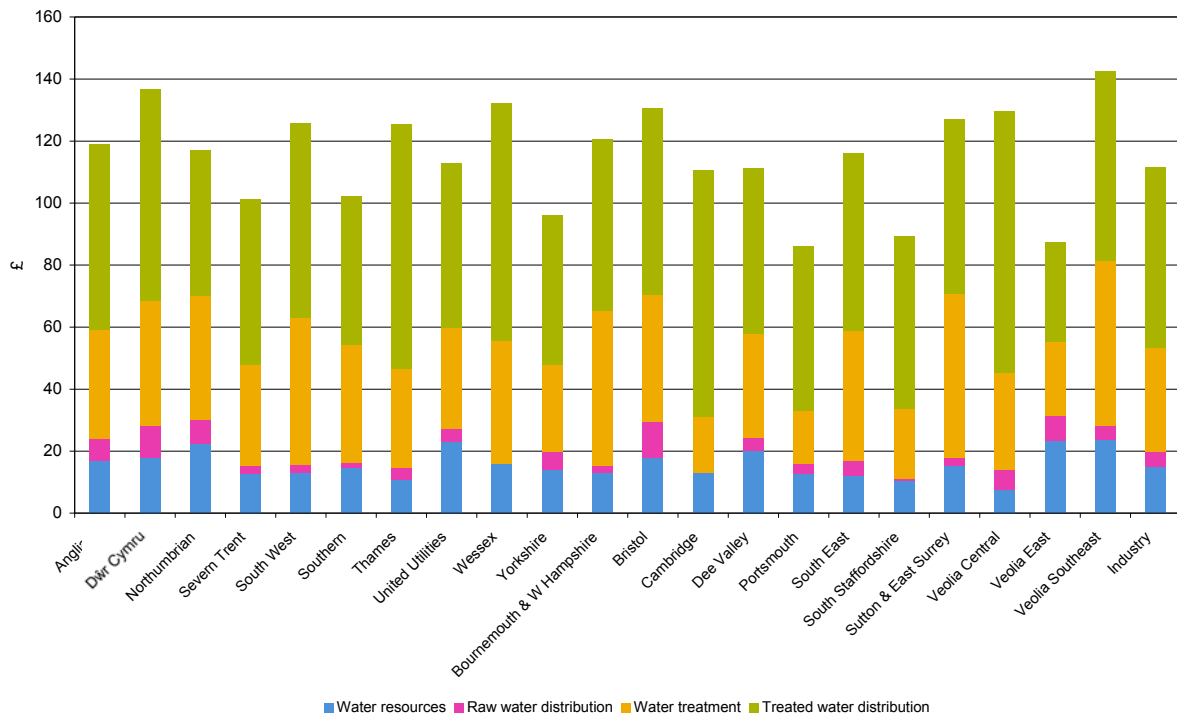
Figure 3c shows the average cost per connected property for the total retail service. Again, we would expect to see variances in the costs the companies submitted, for several reasons. For example, a large proportion of the household retail operating cost is bad debt, which will be affected by each company's customer base.

Because this is the first year for which the companies have submitted this data, we are aware of some inconsistencies in how they have allocated costs and assets across the business units. We are currently reviewing company, reporter and auditor reports to understand those variances that are because of a difference in application of the reporting requirements. We will work with stakeholders to improve the consistency of reporting in future years.

**Figure 2 Percentage of assets allocated to each business unit at industry level (GBV at 31 March)**

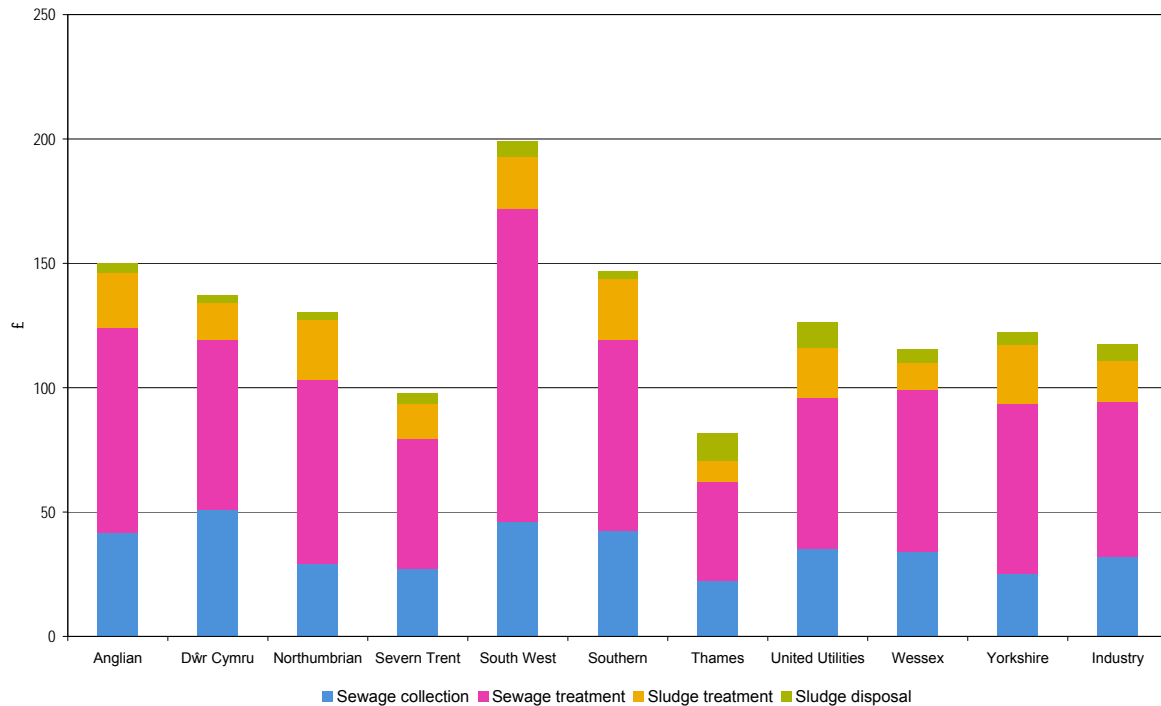


**Figure 3a Average operating expenditure per connected property by business unit – water service**



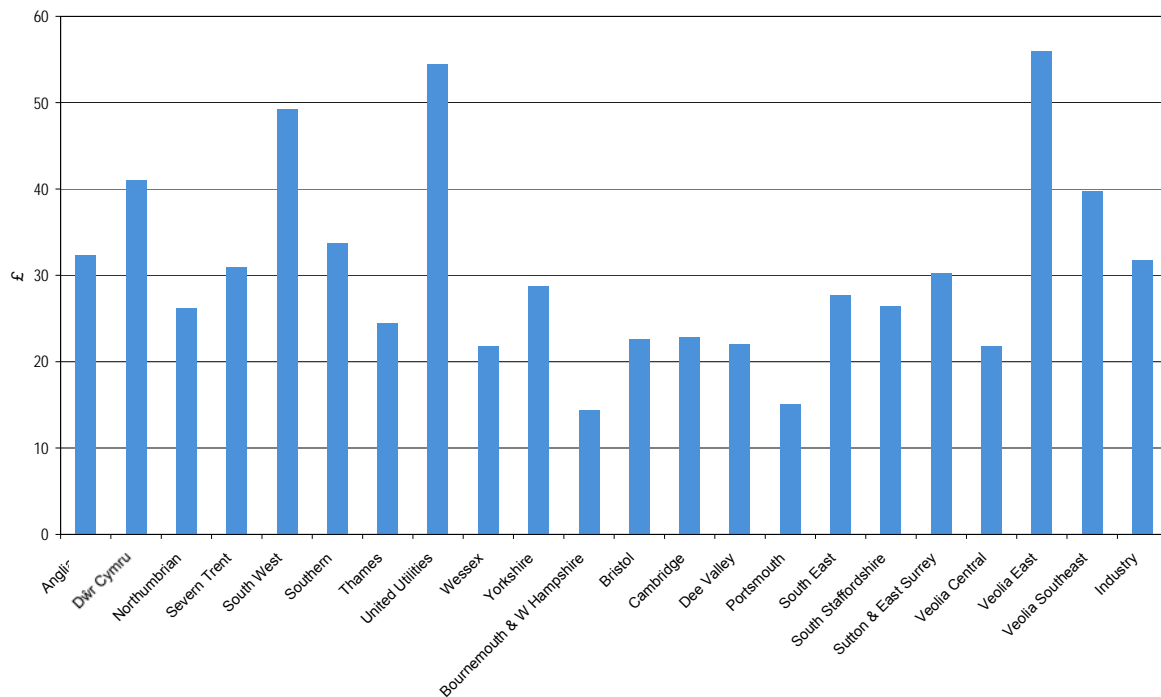
**Note:**  
The expenditure figures exclude exceptional items.

**Figure 3b Average operating expenditure per connected property by business unit – sewerage service**



**Note:**  
The expenditure figures exclude exceptional items.

**Figure 3c Average operating expenditure per connected property – total retail service**



**Ofwat** (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide customers with a good quality and efficient service at a fair price.



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