From the Chair

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Anglian Water and United Utilities defined benefit pension schemes

You will be aware that Anglian Water and United Utilities propose to close their defined benefit pension schemes to future accruals.

Both companies’ DB schemes have been closed to new entrants for a number of years and the benefits they offer have undergone changes to make them more affordable. The Anglian Water schemes currently have an £86 million deficit on an IAS19 accounting basis while the United Utilities pension scheme has a £220 million surplus on this basis.¹

Various factors have led to pension schemes across the defined benefit landscape experiencing well-documented funding pressures in recent years. The proposals of these two water companies should however be seen in the context of their considerable profitability and their munificent attitude to shareholders:

- Anglian Water’s last five sets of annual reports (covering the five years ending March 2017) show after-tax profits totalling £1.6 billion, of which over half (£0.8 billion) was paid out in dividends to shareholders;

- United Utilities also reported total after-tax profits of £1.6 billion over the same five-year period, and paid out £1.2 billion in dividends to shareholders.²

Water and sewerage companies are natural monopolies which are subject to no competition. They hold a privileged position as long-term licence-holders enjoying

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¹ Anglian Water Services Limited and United Utilities Group PLC interim results for the period ending 30 September 2017
² Anglian Water and United Utilities annual report and accounts
large and predictable cashflows from a captive consumer base. There appears to be no effective restraint on these firms' policy of distributing massive sums to shareholders while cutting the pension benefits that their employees are counting on for their retirement.

In the light of the above, might I please ask the following:

1) What is Ofwat's view of the proposals by Anglian Water and United Utilities to close their defined benefit pension plans while continuing to make large distributions to shareholders?

2) What requirements can Ofwat place on the companies it regulates in respect of their allocation of company resources to a) shareholder dividends; b) executive remuneration and c) pension scheme funding?

3) In 2014 Ofwat granted companies leeway to recover some of the costs of deficit repair contributions through customers' water bills until the early 2020s, but noted that "there are strong arguments for shareholders to bear these costs in future." What strong arguments are there for already well-rewarded shareholders to be spared these costs through the closure of the schemes?

Best wishes,

Rt Hon Frank Field MP
Chair

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3 Ofwat Information Notice IN13/17 Treatment of companies' pension deficit repair costs at the 2014 price review