



LOVING EVERY DROP

Anglian Water group treasurer Jane Pilcher turned her back on a career in banking to help make the cash flow for a regional utility company

Words: **Sally Percy** / Photos: **Nick Dawe**

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Jane Pilcher's first taste of treasury came while she was working as a relationship manager within NatWest's international banking division in the 1980s. In her job she worked closely with corporate treasurers. "I thought, that's what I really want to do," she says. "I want to go to the other side of the table. Their job sounds more interesting than mine."

Fortunately, a chance to break into treasury presented itself, a few years later, in 1990. Pilcher was asked to come into Cambridge-based inkjet printing company Domino Printing Sciences to set up its treasury function. She had previously known the company when she had been its bank relationship manager, but actually working within it brought a new – and interesting – perspective. "Before, I had sat across the table with my banking hat on and asked the FD questions," she recalls. "Then, when I went to work for the company, I spent the first six months delving around and putting it together through my own eyes. I came out looking at it in a different way in terms of risks and exposures."

She also had to adapt to the fact that she didn't approach accounting issues from quite the same angle as her colleagues in the finance function. "I had fights with the auditors because I looked at things differently. Bankers tend to challenge rather than just take guidelines and follow them. I probably challenged the auditors a bit more than an accountant would have done."

In 1996, Pilcher moved to utility company Anglian Water as group treasurer where she headed up a team of four. That team has since grown to 13, including her, with a front-office staff of five and a back-office staff of seven. The team's remit has widened to include pensions investment and risk management, as well as wholesale energy management. Pilcher, who is an ACT fellow, is a great advocate of the ACT's qualifications and encourages her team to study for the AMCT. "It teaches them to practise rather than just learn on the job," she explains. "It means they have a better understanding of why they do what they do."

Over the years, Pilcher has seen a lot of change at the company, which has made her job interesting. "When I first joined, it was as group treasurer of a growing, international business that was listed. The water industry goes through five-yearly price reviews and following what was seen as a particularly harsh price review in 1999/2000, I ended up working on a small team looking at the future of the organisation. As a consequence of that, we did a significant financial restructuring of the group and put in place a major securitisation and funding agreement. So the next part of my career at Anglian Water was as group treasurer of a water business with a whole business securitisation in place. Then, in 2007, a consortium of pension funds and long-term investors acquired Anglian Water. They wanted us to focus on being a pure water company again, so I went back to being group treasurer of the whole business."

Treasury on tap

In 2012, Anglian Water published its *Love Every Drop* manifesto, which outlined its commitment to increasing water efficiency, stopping pollution, cutting carbon and eliminating waste. Within the manifesto, it set out 10 clear goals, including being the leading employer in the East of England region and achieving 100% customer satisfaction. "We set big, audacious goals to make significant changes to the organisation," Pilcher explains. "We're not publicly quoted any longer, so we're not a company that is focused on our share price. Investors who have a long-term outlook own us, so we don't have to meet the short-term needs of the public markets. Falling share prices and changing dividends can have an impact on a publicly quoted company but, for Anglian, the dividend fluctuates every year. What is the amount of cash left after we have been able to meet all the other priorities that we have set for ourselves? And how much do shareholders choose to receive as a dividend rather than invest back into the business for long-term sustainability?"

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VITAL STATISTICS

£5.5bn

the amount of Anglian Water's net debt as of 31 March 2014

114,263km

the total length of water and sewer pipes that are owned by Anglian Water

£160m

the amount of Anglian Water's pre-tax profit for the financial year ending 31 March 2014

6 million+

the number of customers that are supplied by Anglian Water

£167m

the amount of Anglian Water's total indirect tax contributions in 2013-14

4,173

the number of people who are employed by Anglian Water

£1.2bn

the value of Anglian Water's revenue from continuing operations for the financial year ending 31 March 2014

£427m

the amount Anglian Water invested in infrastructure in 2013-14

78%

the percentage of Anglian Water's customers that have a meter fitted

5.06m³

the amount of water that Anglian Water lost per kilometre of main each day due to leakages in 2013-14

She continues: "A lot of the ethics the company has are similar to those you would see in a mutual – caring for customers, caring about the environment and being a sustainable business while also meeting the needs of the shareholders. It's difficult to ask: What are the financial objectives? Because our objectives are to balance those three areas."

Like most utility businesses, Anglian Water is heavily focused on cash. Therefore, treasury is "right at the heart" of the organisation, according to Pilcher. "Cash is king and that enables us to have a lot of involvement throughout the business," she explains. "We need to do a lot of strategic planning in terms of how we position ourselves. What's the amount of money that we need to spend? And how do we spend that money in the best way?"

Although Anglian Water's treasury is always busy, it isn't overly troubled by seasonality. But it did feel the impact of the 2012 drought, which was the consequence of some prolonged dry spells between 2009 and 2012, particularly in the spring, autumn and winter seasons. "It didn't feel like a drought because, from the point all the water companies declared it was a drought and imposed water restrictions, it didn't stop raining," notes Pilcher. "But dealing with a drought, spending additional sums of money and customers potentially using less water because they were using it more wisely – that was probably an area where we were most affected by the weather. In a drought, it costs more to provide water." In this respect, East Anglia is at a disadvantage compared with other UK regions, such as the North, which get more rain. "For Anglian to extract water, it costs us more than it would somewhere where it's naturally replenishing because it rains a lot," says Pilcher. "We therefore focus on managing our leakage levels and encouraging our customers to use water wisely."

Business challenges

Droughts are not the only challenge that Anglian Water's treasury faces. Bad debt is also a concern, especially as water companies are not able to cut off someone's water supply. "We've certainly seen the level of bad debt increase since the financial crisis," says Pilcher. "So we've developed our collection techniques and we've seen the level of bad debt come off its highest levels. The worry that we have is that, once people realise we can't disconnect them, why would they start paying?"

"So we've got good systems to help us focus on identifying those people who won't pay, as opposed to those who are in financial difficulty. If people genuinely can't pay, there's plenty we can do to help them, and we usually find that they want to meet their obligations. It's those people who have got the assets, but choose not to pay, that we focus on. With them, we will use every legal method we can to collect our debts. It's about fairness for all our customers."

Regulation is something that treasurers working in the utility sector tend to be very familiar with. Not only do they have to worry about the financial services regulation that other treasurers are concerned about, they also have their own industry regulators to satisfy. This year, the UK water industry's economic regulator,



Ofwat, is overseeing the 'price review' process, which will set price limits for utility companies providing water services over the next five years. The role of Anglian Water's treasury in this is to manage debt investors through a period of change, says Pilcher. The team is less involved with the UK water industry's other two regulators – the Drinking Water Inspectorate, which monitors the safety of drinking water; and the Environment Agency, which regulates the industry's interactions with the environment.

On the financial side, the requirement to report derivatives under the European Market Infrastructure Regulation has significantly affected Anglian Water's treasury over the past year. "It has changed our working practices," says Pilcher. "It means that when deals get done, we have to act swiftly." Reporting of derivatives to a central trade repository has been a burden, Pilcher confirms. "Everyone knew it was coming, but the infrastructure wasn't ready for the avalanche of organisations that needed to use it. There has been a cost in terms of time, training and systems development."

Anglian Water has a 25-year plan in place to manage its business over a long-term horizon. "Looking forward 25 years enables us to plan for the future growth of the region we serve, and take a long-term view as to what we are going to need and when," explains Pilcher. East Anglia is a rural area that is also very dry and flat, which presents particular obstacles when it comes to planning. "We have to pump water and waste water around the region more than other companies do, which uses a lot more energy," Pilcher explains. "Another challenge comes from the

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chemicals that farmers rely on to keep their crops healthy and their farms productive, but which can end up in water courses, and which can potentially end up in our water network.”

Funding

Anglian Water primarily funds itself by debt and Pilcher looks to arrange debt from a diverse mixture of sources and with different maturities, with the aim of achieving a balance between fixed, floating and inflation-linked debt. Besides the capital markets, it uses loans from global banks and the European Investment Bank. It also taps the US private placement market, most recently raising over £300m in 2013. The US water market is regulated differently from the UK water markets – in the US, water companies tend to be in local authority ownership, whereas in the UK they are privatised. So Pilcher initially had to work hard to get the US investors up to speed with Anglian Water’s story and covenant structure.

Prudence is an important feature of Anglian Water’s debt policy and, for covenant purposes, the company needs to make sure it has enough working capital to see it through a 12-month period. For this reason, it keeps a significant amount of cash, which is held in a mixture of bank deposits, money market funds, commercial paper and certificates of deposit. Going forward, this cash pile will be reduced, though. “We will not hold so much cash on the balance sheet to meet maturing debt,” Pilcher explains. “Through the financial crisis, we had a policy of refinancing debt 12 months in advance and holding cash on the balance sheet because we were in such a volatile period in the financial markets. We are now shortening that to six months, so there will be greater use of bank facilities as opposed to raising debt 12 months in advance.”

Now one of treasury’s most senior female figures, Pilcher has come a long way since her time at NatWest bank. But her

JANE’S TOP TIPS FOR SUCCESS

◆
“Have an open mind and push to open doors. If you have a view, make sure you express it to the right people.”

◆
“The MCT is an excellent qualification. It is recognised as a post-degree professional qualification.”

◆
“My favourite gadget is my iPhone. I like being able to have everything available in one place.”

◆
“The secrets to my success are working hard, being able to get on with people and having good people working for me.”

◆
“The hardest question my FD could ask me is: Can you explain the benefits of IAS 39, *Financial Instruments: Recognition and Measurement*, for our shareholders?”

◆
“The best way to unwind after a stressful day is to walk my dogs and have a glass of wine.”



JANE’S CURRICULUM VITAE

1996-present

Group treasurer, Anglian Water Group

2006-present

Non-executive director, Cambridge Building Society

1990-1996

Group treasurer, Domino Printing Sciences

1988-1990

Credit analyst, Hill Samuel

1981-1988

Assistant relationship manager, NatWest

Qualifications

FCT (2007), MCT (1995), AMCT (1993), ACIB (1992)

days in financial services are not entirely behind her. That’s because she is a non-executive director at Cambridge Building Society, which complements her main job nicely. “I learn things from Cambridge that I can take back to Anglian,” she explains. “At Cambridge, I spend a significant amount of time focusing on financial regulation. It’s good practice that’s essential for a financial institution, but which I can also take back to a corporate.” It seems that she still sees the appeal of life on the other side of the table, after all. ◆

Sally Percy is editor of *The Treasurer*