IN FULL FLOW

Shaun Kennedy, group treasurer at Affinity Water, talks leaks, bond issues and five-year reviews

Words: **Liz Loxton** / Photography: **Will Amlot**

Like many postgraduates, Shaun Kennedy came out of university, Warwick and then Lancaster, with a grand plan – in his case to become a computer programmer.

And like many other tech aspirants at the time, his early ambitions fell victim to the dotcom crash of 2001, when he was made redundant from a job with a financial trading software company "along with a load of other people", he says.

Looking round for a temporary job, Kennedy started working at a housing association, Circle 33. "That's how I got my start in treasury," he explains. "It wasn't planned and I went in knowing very little about what treasury involved." The head of treasury, Nathan Dunton (now group treasurer at Virgin Atlantic), was leading a growing team, however, and proved to be a persuasive and supportive mentor. And there was a lot going on. As treasury officer to begin with, Kennedy gained experience of day-to-day cash-flow management. The organisation merged with Anglia Housing Group in 2005 and, by then treasury manager, Kennedy worked on debt and investment portfolios, banking relationships, intercompany lending and treasury accounting. He also began work on his ACT qualifications.

In 2006, he moved to Notting Hill Housing Trust as treasury manager. Again, this was an organisation in transition. The trust had been in difficulties with the regulator and had little in the way of treasury infrastructure. Kennedy built up the treasury function and, as well as finishing his AMCT there, he secured the trust's first credit rating with Moody's, issued its first capital markets bond for £180m in 2010 and a subsequent £120m tap a year later. He also set up the trust's first joint ventures.

At this point, having spent most of his career to date in housing, Kennedy realised it was time to do something different, so he joined SmartestEnergy, a subsidiary of Japanese multinational Marubeni and an independent electricity buyer. "It was a very different business to ones I'd worked in. Housing associations make a lot of long-term investments. SmartestEnergy was much more short term in its focus, so I'd gone from having loan facilities and debt stretching out 40 years ahead to an environment where loans were typically 18 months."

In it for the long term

While he enjoyed his two years at SmartestEnergy, Kennedy missed the capital markets work and the different interaction he'd had with banks in the housing sector. Seeking out a new opportunity with those characteristics led him to his current role at Affinity Water. He joined as group treasurer in 2013, a year after the utility's French owners, Veolia Water, sold the company to a group of infrastructure investors. His remit was to build up the treasury function of the now renamed water company.

Apart from some local cash management, most treasury work had previously been carried out centrally by Veolia's Paris head office. "It had a bond outstanding, but that was it. All the funding came from central intercompany sources," Kennedy says.

Today, the company has a whole business securitisation structure in place, similar to other water-industry players, such as Anglian and Thames. Soon after joining, Kennedy issued a number of bonds and refinanced bank debt. "I joined to manage what had been put in place, but also look to raise new debt in the future, raise other loan facilities. There was a huge process of setting everything up from scratch," he says.

A brush with regulation

Last year, the UK water industry's financial regulator finalised its latest five-year price-review process. Water companies submit their business plans to Ofwat, which looks at spending plans, measures them against an industry average for cost of capital and then sets limits to customer prices and revenues. It's an onerous process with reputations on the line. Affinity came out of the exercise with an 'enhanced status' rating – an endorsement of the company's engagement work with customers and its asset and financial management. But the pressure remains. "If we outperform in the next five years, the company gets to keep more of the over-performance. If it underperforms, the penalties are greater, so money goes back to the customer," says Kennedy.

Treasury has a direct link to the price-review process. The weighted average cost of capital that Ofwat looks for when it evaluates business plans is inextricably tied to the cost of equity and debt.

"Once bills are set, we are always looking to make sure we manage our debt well, but we also have a set cost of debt for the industry that you need to make sure you perform well against. Otherwise the costs will flow through to our shareholders directly. There's no way to pass on higher cost of debt. It gives treasury quite a high profile," he says.

One year into this asset management period and Affinity has some big numbers to chase. Like a lot of water companies, it's

replacing existing infrastructure. For Affinity, that represents a £500m investment for the period while also looking to improve water quality and encourage customers to use less water in a hard-pressed area.

"A large proportion of what we're spending this £500m on is what we call the water-saving programme, which includes water metering. We're metering 280,000 households over the next five years to reduce water use, to reduce demand," he says. Once a meter is installed, a householder has two years to change their habits if they're using too much water before they are moved to a metered bill, or they can switch to a metered tariff before this if they see a saving. "There's a big education piece that sits alongside the metering process: the South East is a water-stressed area. We have invested in new plants to ensure high water quality and a huge amount of new infrastructure to reduce leakage. If we can reduce leakage, we can extract less and leave more water in the environment, which is an important part of our plan."

Affinity has undertaken to reduce leaks by 14% over the next five years and has committed to a 5% reduction in the price its customers pay for their water.

Payments

Payments is an area where the treasury function comes close to its domestic customers. The public is far less traditional in its payment choices now, which means more digital payment methods are needed alongside the traditional ones. Direct debit is still very important, he says, but not all customers like it. Cheques, cash and Transcash still play their part, as well as payment apps like Pingit. Kennedy sits on the Payments Strategy Forums' end user working group, representing corporate treasurers (after accepting an invitation from the ACT) and keeps a close eye on developments. "There might be other new technologies that come along and there is a trade-off in terms of costs. We've also got to be mindful of people's preferences – we still accept cheques, for instance. And there's a huge amount of change coming in terms of cheque processing with digital imaging. It's been really interesting to get more involved in that."

VITAL STATISTICS

900 million litres a day – average demand	**3.5 million** customers	**98** treatment works
1.1 billion litres a day – peak demand	**160** litres per person per day – average water use	**192** service reservoirs and water towers
1.5 million domestic and commercial properties served	**4,500km²** supply area	**121** boreholes
	16,500km water mains	**1.39 million** household connections

Raising funds

The fundraising underpinning the investment programme is a core responsibility and focus for Kennedy. His first foray into capital markets after joining Affinity came in July 2014 via a reverse auction, which raised £50m. "We wanted to try something a bit different in terms of discovering the best price when issuing the bond. It takes it out of our hands and the banks' hands, and says to investors: you bid what you're willing to pay for on our credit and we'll see where we end up," he says.

Affinity also raised £40m a year later via a private placement with a single investor. The opportunity arose through investor

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engagement, he says, which is an area he devotes much more attention to in this role than in previous ones.

How the private placement came about was that regulatory and accounting changes meant that some of Affinity's financial covenants didn't make sense any more and prompted a round of investor engagement. "We went to see a lot of our bondholders through a roadshow process and talked to them about the changes. We needed a vote to change all the documentation we had in place to put in new covenants," he explains.

Private placement in the UK is an area with a great deal of potential, he says. There are certainly opportunities with Affinity's existing bondholders – corporate investors such as M&G, Standard Life and Legal & General. "UK investors are looking for opportunities; they're looking to invest. It's easy for me to say with a UK-regulated utility with a good credit rating, but I think there are probably more opportunities for us."

The roadshow opened up discussions and questions on whether Affinity Water would issue more debt. "So we ended up privately placing the deal with a single investor. Following on from that [engagement] process, we tapped another existing bond, but placed it privately with a single investor on a delayed basis. Again it was quite different the way we structured it," he says.

The revisions to the covenants, the roadshow, the bond issue and the private placement all came together to treasury's benefit. As a result, treasury – Kennedy and treasury analyst Poonam Depala – was nominated for a company award for outstanding commercial acumen, which it won. "For the business to recognise that we're making a contribution to what the company is trying to deliver was very rewarding."

Affinity is likely, he says, to go back to the bond market one more time in this asset management period. "We've got enough cash to see us through for the next 18 months. We have loan facilities as well, but we try and pre-fund as much as we can and lock into rates, without trying to carry too much cash.

"We're not a huge issuer compared to some other corporates. We do quite small deals more frequently – so this £50m reverse auction or the deal we did placing £40m with one investor, for instance, rather than running a £250m benchmark deal," he says.

The water industry's regulatory framework is a core focus for investors, who are keen to talk about any developments on that front. The big talking point currently is inflation and the move to the consumer price index (CPI) from the retail price index (RPI). "Investors are incredibly aware of it because the way that the water sector regulation has been built has been around real cost. We have a lot of RPI debt outstanding as do a lot of our peers, so transition to CPI throws up a lot of interesting questions. It's another risk to manage. We have an RPI-linked bond out to 2045. [Our investors] are committed to us for quite a long time. They should quite rightly be interested."

But while the engagement with bondholders and the successful rounds of fundraising have been rewarding, the company award has been a genuine highlight for Kennedy.

"To win an award and be able to tell people what we're up to is really satisfying. Just to have the wider company know that we in finance are doing innovative things – that's been incredibly satisfying to have that feedback."

Liz Loxton is editor of *The Treasurer*

SHAUN'S TOP TIPS FOR SUCCESS

1

"Hard work."

2

"Read *The Treasurer* magazine and engage with the ACT where you can. The ACT runs so many events and ways for members to interact, there's no excuse."

3

"The AMCT qualification ensures I have the core skills to do my job properly. Without it I can say for certain that I'd not have had a chance of securing any of the roles that I have in the past few years. It is considered a minimum requirement for most senior treasury roles these days."

4

"My favourite gadget? The thought of not having my dishwasher wakes me up in a cold sweat. Inevitably, though, the miracle that is my mobile phone provides me with more joy, so it probably pips it to the tag of favourite."

5

"The most difficult question my CFO is likely to ask is: tell me what inflation will be next month/quarter/year – my forecast is always caveated and nearly always wrong."

6

"The best way to wind down after a stressful day is my walk to the station from the office – it gives me around 25 minutes of fresh air and a chance to work through any issues. Once I'm home, it's great to then spend time with the family; seeing my kids takes my mind off the stresses of the day and reminds me how important it is to make the most of life. And once they are asleep, a cold beer completes the job."

SHAUN'S CV

2013–present
Group treasurer, Affinity Water

2011–2013
Treasury manager, SmartestEnergy

2006–2011
Group treasury manager, Notting Hill Housing Trust

2005–2006
Treasury manager, assistant treasury manager, Circle Anglia

2003–2005
Treasury analyst, treasury officer, Circle 33

QUALIFICATIONS

Maths, operational research, statistics and economics BSc, **University of Warwick**; MSc Operational research and management science, **Lancaster University**; AMCT (2009)