Water today, water tomorrow

Statement on our approach for assessing financial viability of applications for new appointments and variations

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About this document

The Water Industry Act 1991 sets out a mechanism that allows a limited company to provide water, sewerage or water and sewerage services for a specific geographic area in place of the former provider. This is the framework for new appointments and variations (NAV).

Our role is to assess and grant applications for NAVs, making sure they meet the legislative criteria and our policy principles. This involves assessing the financial viability of applications.

In July 2012, we consulted on proposals to change our approach to assessing financial viability. We received 11 responses to the consultation, with most respondents supporting our proposed changes. Having considered the responses carefully, this document sets out our new approach for assessing the financial viability of NAV applications.

We will adopt a company-based assessment of financial viability, rather than a detailed site-based assessment, where it is appropriate to do so.

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1. Introduction

1.1 Background on new appointments and variations

Under the Water Industry Act 1991 (WIA91), the incumbent (or 'appointed') water and sewerage and water only companies in England and Wales were issued with licences that specified the area that each of them serves. The WIA91 also includes a mechanism that makes it possible for a new company to be appointed and replace the existing provider for a specific geographic area. This is the framework for new appointments and variations (NAV).

There are three criteria under which we may grant a NAV. These are where:

- the relevant area does not contain any premises that receive water, sewerage or water and sewerage services from an appointed water and sewerage or water only company (that is, it is 'unserved');
- a customer uses (or is likely to use) at least 50 million litres of water a year (in England) or 250 million litres of water a year (in Wales) at each of its premises and wants to change their supplier (a 'large user'); or
- the existing appointed company agrees to transfer part of its area to a different company (a 'transfer by consent').

A **new appointment** occurs when a new company is appointed for the first time to provide water, sewerage or water and sewerage services for a specific geographic area. A **variation** occurs when an existing appointed company asks to vary the geographic area of its appointment – that is, it asks to change the areas to which its statutory (legal) functions relate.

In July 2012, the UK Government published its Draft Water Bill. It proposed changing the legislation in England to allow – among other things – all non-household customers to choose their water and sewerage provider. The Draft Water Bill also recognises the importance of harnessing market forces to deliver greater benefits to consumers.

NAVs will continue to provide an element of choice to developers and some non-household customers that use a large volume of water. They also provide challenge to the existing appointed companies to be more efficient and innovative. Ultimately, this may result in lower prices and better quality of service to customers.

1.2 Our role

We have a statutory duty to protect the interests of consumers, wherever appropriate by promoting competition between companies providing – or connected with providing – water, sewerage or water and sewerage services. Ensuring a fair deal for consumers, harnessing market forces and making monopolies improve are all key elements of our strategy.

We have a role both before and after a NAV application is granted. We set this out below.

- Before we grant a NAV application we make sure that the NAV's customers are adequately protected. We do this by making sure that the applicant is financially viable and that its customers will be at least no worse off as a result of us granting the new application. Once we have granted a NAV, the new appointee is subject to a licence that will contain a series of conditions that are designed to protect its customers. For example:
  - condition B governs what the new appointee can charge its customers;
  - condition F requires new and existing appointees to provide us with an annual certificate stating that they have sufficient financial and managerial resources to fulfill their functions for the year;
  - conditions G, H and I concern the company's codes of practice in relation to how it should handle complaints and deal with customers in debt, and its procedure on leakage; and
  - condition J concerns the levels of service and service targets the new appointee must provide.

- After we have granted the application, we expect the new appointee to comply with its full range of statutory and regulatory obligations. For example, all NAVs must ensure that their customers are aware of:
  - what their procedures are for handling complaints or enquiries; and
  - what they should do in case of emergency.

We regulate the new appointees proportionately in the same way as we do the existing appointed companies. We may consider taking action on behalf of customers if companies fail to comply with their obligations.

1.3 How we have previously assessed NAV applications

In February 2011, we published the following documents. These set out our policy and process for assessing NAV applications.

- 'New appointments and variations – a statement of our policy'.
- 'New appointment and variation applications – a statement of our process'.
- 'New appointment and variation applications – the terms of reference for independent professional advisers providing site status reports'.

This allowed us to make sure that efficient companies could finance their functions. And it allowed us to make sure that customers were adequately protected. This reduced the risk of the new appointee's business becoming insolvent.

In its application for a NAV, we expected a company to demonstrate to us the:

- financial viability of each site it applied for;
- impact of each site on the company as a whole;
- risks it had taken into account in its application; and
- impact of those risks (if they were to happen).

In carrying out our checks, we focused on the assumptions that underpin an application and considered the risks associated with those assumptions. By applying sensitivity analysis in each case, we were able to consider the potential impact of relevant factors – including bad debt, leakage and occupancy levels – on the projected position of the site, and make a judgement on the level of risk associated with an application.

Because every application is unique, and because financial viability is complex, we did not consider it appropriate to base our decision on a single factor (such as the amount of profit). Instead, we assessed the overall financial risk associated with the application (and the appointee as a whole) and formed a view based on the overall business case presented to us.

2. Why have we changed our approach?

In our new appointments and variations policy statement, we committed to reviewing our policy and process to make sure they remain fit for purpose – and take account of developments in the new appointments market and the wider regulatory environment. We had been thinking about how the benefits of NAVs could be delivered, and considered that a change in approach might be the best way to achieve this. Our consultation confirmed that stakeholders supported our proposals.

There are a number of reasons why we have changed our approach for assessing financial viability. Among other things, we:

- want to deliver more targeted and proportionate regulation;
- have more experience of any better information about NAVs;
- want to make sure customers continue to have adequate protection; and
- want to encourage more innovation and choice for customers.

We set these out below.

2.1 Delivering more targeted and proportionate regulation

In March 2012, we published 'Delivering proportionate and targeted regulation – Ofwat's risk-based approach'. This confirmed our decision, following consultation, to make two significant shifts in the way we regulate.

- We will move away from detailed regulatory monitoring of compliance, putting companies firmly in charge of managing their risks.

- We will adopt a risk-based framework to allow us to focus the allocation of our resources and target our efforts.

Our new approach is based on an assessment of risks. It makes our decisions more transparent to customers, the companies and other stakeholders. It also ensures that we regulate in line with the better regulation principles, and take appropriate steps to minimise the burden we place on the companies we regulate.

By focusing our activities on the most significant risks to consumers, we can also make sure that regulatory scrutiny and burdens are targeted appropriately and proportionately. This provides more certainty and confidence to new and existing companies as they draw up expansion plans.

We want all appointed companies to be fully accountable to their customers. We also want them to take full responsibility for meeting their obligations and their customers' expectations. We want to be targeted and proportionate in our regulatory action – and be well placed to take a responsive approach to changing circumstances.

We consider it appropriate to apply the principles of our new approach to the way we regulate new appointees. Our proposed changes will put new and existing appointees firmly in charge of managing their risks. It will also allow us to focus our resources where there are material risks to customers.

2.2 More experience and better information

The market for NAVs is continuing to grow. For example, so far during 2012 we have received applications from three different applicants (to serve a total of 11 sites). Table 1 sets out the number of NAVs we have granted since 2007.

Table 1 The number of NAVs that Ofwat has granted in each year since 2007

Year	NAVs granted
2007	2
2008	2
2009	7
2010	7
2011	6
2012 (to date)	5
Total	**29**

This growth in NAVs has allowed us to understand the financial positions of new appointees better and gain experience of the business models they adopt.

As a result of our experience and knowledge, we consider that we can make our approach for assessing the financial viability of NAVs more targeted and proportionate by moving away from a site-specific assessment, where appropriate. We continue to protect consumers by placing controls at a wider company group level.

2.3 Encouraging innovation and choice

Currently, NAVs remain the main tool for delivering choice to customers in the water and sewerage sectors in England and Wales. They are also a valuable tool for encouraging all companies to be more efficient and innovative.

The customers of new appointees have experienced benefits such as price discounts and enhanced service levels. Some new appointees have brought with them innovative solutions to deliver environmental benefits. And, in other cases, the threat of a competitor entering the market has challenged existing appointed companies to improve what they deliver to customers. This can lead to indirect benefits for those customers that are unable to choose their supplier.

We expect our approach to result in more choice for customers because it increases the scope for new (or potential) appointees to expand their business. This, in turn, increases the potential for further benefits to be delivered to customers. At the same time, our approach will make sure that adequate safeguards are in place through the NAV application process – and by making sure NAVs comply with their statutory and regulatory obligations.

2.4 Our consultation into changes to our approach

In July 2012, we launched a consultation that proposed changes to our approach for assessing the financial viability of NAV applications. We received 11 responses – 7 of these were from existing appointees, 2 were from new appointees and there were 2 responses from consultants. Most respondents agreed with our proposals. The list of respondents is set out in appendix 1, while appendix 2 includes our detailed analysis of the responses we received.

We summarise some of the key points from the responses below.

Overall, ten respondents agreed with our approach. Of these, three respondents noted that our proposals have the potential to reduce the regulatory burden on both Ofwat and applicants for NAVs. Only one respondent disagreed with our proposals, saying that it would not be an appropriate time to make changes to our policy now, as the Draft Water Bill suggests eventually replacing NAVs.

In our view, the Draft Water Bill proposes to introduce a system of 'authorisations' for different activities for licensees. It is intended that once these proposals are enacted, the current NAV framework will largely fall away. But the Draft Water Bill envisages that existing providers will have the right to continue to apply for variations to their appointment if they choose to use the NAV framework rather than the extended licensing framework.

So, it is not correct that the NAV framework will fall away in its entirety. In any event, we do not know when the new proposals will come into effect. In the meantime, we have a primary duty to protect the interests of consumers, wherever appropriate by promoting competition, and we consider that the benefits of NAVs should continue to be delivered ahead of the legislation passing. Also, we do not wish to restrict the growth of new appointees.

One respondent said that we should be mindful that a less rigorous financial assessment may compromise consumer protection. But it is our view that customers of new appointees will continue to benefit from ex ante protection – for example, through licence conditions and the special administration framework – in much the same way as the customers of existing appointed companies do. We will still carry out a detailed scrutiny of the financial viability of a specific site if we consider there are material risks to consumers.

Two respondents said our current 110-day timescale to grant NAVs was too long. Our view is that the 110-day timescale is a target. As all applications are unique, and new and novel issues arise which, occasionally, may lead to a longer timescale being required. Likewise, we aim to grant applications more quickly if they are straightforward. Our recent experience is that 8 of the last 11 NAVs were granted in 110 days or fewer. We have committed to grant at least 80% of all applications within the 110-day timescale.

One respondent considered that developers may be put off applying for NAVs because the 110-day timescale is greater than the 90-day timescale for requisitions. We think that there is no legal correlation between the two timescales. As we have outlined above, the 110-day NAV timescale is only a target, whereas the 90-day timescale for requisitions is set out under section 44 of the WIA91. To date, the 90-day timescale for requisitions does not seem to have put off any NAV applications.

We did not receive any responses that proposed any alternative approaches we could adopt.

3. Our new approach

Our new approach for assessing the financial viability of NAVs is that we:

- adopt a company-based assessment of financial viability, rather than a detailed site-based assessment, where it is appropriate to do so;
- allow applicants greater flexibility when satisfying us that they can finance their functions; and
- give applicants more responsibility and accountability for their business and business risks.

This allows new appointees to meet their statutory and regulatory obligations. And it allows them to take full responsibility for ownership and management of their risks. It also allows us to make sure that we meet our statutory duties – in particular, our duties to promote competition and to ensure that efficient companies can finance their functions.

This, in turn, increases choice for customers by encouraging new companies to enter the NAV market – or encourage existing appointed companies to expand their business.

We explain each of our changes in more detail below. We also explain the impact of our approach on our process for approving NAVs.

3.1 A company-based assessment

We want to deliver targeted and proportionate regulation, while making sure customers are protected and are not exposed to the risk of an appointee's business failing.

We will continue to protect customers' interests by shifting our approach from assessing individual site viability to a focus on the position of the company as a whole. In certain circumstances, we will still carry out a detailed scrutiny of the financial viability of a specific site if we consider that there are material risks to customers.

For existing appointed companies, customers are adequately protected through us focusing on their business at the company level – for example, through:

- price controls;
- licence conditions; and
- the special administration framework (which sets out what happens when companies can no longer finance their functions) as a last resort.

We think that a company-level assessment is also appropriate to new appointees. And it is better than our previous site-by-site assessment approach as it does not involve us making judgements on the detailed commercial decisions of the applicant.

3.2 Applicants demonstrating their financial viability

Applicants for new appointments may bring innovative approaches, such as new business models, to the NAV market. To encourage this innovation, we consider that our approach to assessing financial viability must be flexible enough to take into account particular business models adopted and the circumstances of the applicant in question. For each application, the applicant should decide the most appropriate way for it to satisfy us that it is able to finance its functions.

The applicant is responsible for carrying the business risk of some of its sites not being financially viable and deciding the most appropriate way to manage these risks and protect customers. It is appropriate that this risk should sit with the company.

This change is consistent with our risk-based approach to regulation. It also does not affect our ability to protect consumers. Before deciding whether to grant an appointment, we scrutinise each applicant's business case, business model and corporate structure thoroughly. This means we grant appointments only when we are satisfied that the company is able to carry out all of the duties and obligations associated with being an appointed water, sewerage or water and sewerage company.

The applicant must:

- demonstrate that the site remains financially viable and that it will be able to finance its functions even if the risks it identifies happen; or
- provide additional financial safeguards so that we are satisfied the company will be able to finance its functions.

When attempting to satisfy us that it is able to finance its functions, it is important for the applicant to make sure that we understand its underlying business model.

The applicant should also consider any additional financial safeguards separately from the current financial security – such as guarantees and bonds from the new appointee's parent company – that are in place for all new appointees. Financial security measures put in place by applicants account for unforeseen cost pressures only, rather than day-to-day costs.

Any additional guarantees that applicants offer – in the context of applications for more risky sites – may be used for day-to-day costs. It is for applicants to decide how best to make sure that these safeguards are provided.

3.3 Making new appointees more accountable

Upon their appointment, new appointees are treated in the same way as existing appointed companies. This means that they are subject to the same licence conditions as existing appointees, although some are currently suspended in whole or in part.

By placing the responsibility on new appointees for ensuring they comply with their licence conditions, we make sure that their customers receive secure and reliable water, sewerage or water and sewerage services. We have the powers to take appropriate action if the new appointees fail to do this.

Also, if an appointee's business does fail, the special administration process that applies to all appointees will come into force. This will either rescue the business or transfer it to another appointed company. This ensures that customers will continue to receive secure and reliable water, sewerage or water and sewerage services.

3.4 The impact of our approach on the process of granting a NAV

In our new appointment and variation applications process statement, we said that, in most cases, we expect the application process to take up to 110 working days. We committed to grant at least 80% of all applications within this timescale.

We have not changed our published process and timescales at this stage. But we expect that we can be flexible in the level of scrutiny we apply to each case. As a result, we may be in a position to process some applications more quickly.

Appendix 1: List of consultation respondents

Existing appointed companies

Anglian Water

Dŵr Cymru

Northumbrian Water

Portsmouth Water

Sembcorp Bournemouth Water

Southern Water

Thames Water

New appointees

Albion Water

SSE Water

Other stakeholders

T Martin Blaiklock

David Heath

Appendix 2: Summary of consultation responses

Below, we summarise and consider the responses we received to our consultation.

A2.1 Responses to specific questions

Q1 Do you agree with our proposal to adopt a more flexible, targeted and proportionate approach when assessing financial viability? In particular, do you agree with our proposal to move away from assessments of specific sites to a company based assessment, where appropriate?

Ten respondents agreed with our proposal. Of these, three existing appointed companies said adopting this proposal would help to reduce the regulatory burden on both Ofwat and new appointees.

Only one respondent (an existing appointed company) disagreed with this proposal. It did not think that it was appropriate for us to change our new appointments policy at the current time, as it considered that the Draft Water Bill suggested replacing new appointments eventually.

While agreeing broadly with our proposal, one existing appointed company stressed that moving from a site-by-site assessment to a company-wide one would depend on the company in question. The same respondent said it is critical that we continue to assess the financial viability on a site-by-site basis for smaller applicants that may not have a large parent company.

Two respondents (one new appointee and one consultant) said the information requirements were too onerous for applicants, and thought that applicants did not need rigorous repetitive vetting.

One existing appointed company, although agreeing with our proposal, said we should be mindful that a move to a less vigorous assessment could compromise customers being adequately protected.

One consultant said there is no need for any financial assessment if an existing appointed company applies for a variation outside of its area.

Our view

The Draft Water Bill proposes extending the current water supply licensing framework so that it also applies to sewerage. The new framework will also introduce a system of 'authorisations' for different activities for licensees. It is intended that once these proposals are enacted, the current NAV framework will largely fall away. But the Draft Water Bill envisages that existing appointed companies will have the right to continue to apply for variations to their appointment if they choose to use the NAV framework rather than the extended licensing framework. So, it is incorrect to suggest that the NAV framework will fall away in its entirety.

In any event, we do not know exactly when the new proposals in the Bill will come into effect. In the meantime, we do not wish to restrict the growth of new appointees – particularly at a time when this approach is the primary means by which competitive pressures can be placed on existing appointed companies, and choice to be presented to developers and some non-household customers that use large volumes of water.

In line with our strategic goal of harnessing market forces, we consider that our proposal to adopt a more flexible, targeted and proportionate approach to financial assessment may reduce the regulatory burden on new applicants. This may, in turn, streamline the application process, which could encourage more applications for NAVs from current and potential appointees.

We agree that moving from a site-by-site to a company-wide assessment would depend on the applicant's circumstances. We will only move to a company-wide assessment if it is appropriate to do so and if it is in line with our primary duties to protect the interests of consumers and ensure that efficient companies can finance their functions. So, we could continue to carry out a site-by-site financial viability assessment if it was appropriate to do so.

Also, we think that it is up to individual applicants to provide us with the information they consider sufficient to satisfy us that they will be able to finance their functions and customers will be protected, and to justify this accordingly. By adopting a more flexible approach, we consider that the application process will become more streamlined and efficient.

To ensure that a less rigorous process should not result in less protection to consumers, the NAV customers will continue to benefit from ex ante protection – for example, through licence conditions and the special administration framework – in much the same way as the customers of existing appointed companies do. We will still carry out a detailed scrutiny of the financial viability of a specific site if we consider there are material risks to consumers.

We think that a company-level assessment is a proportionate approach because it involves us moving away from making judgements on the detailed commercial decisions of the applicant.

We disagree that existing appointees should be exempt from any financial assessment if they apply for NAVs outside of their areas. We have a primary duty to ensure that efficient companies can finance their functions and this does not distinguish between new and existing appointees. So, we have no discretion but to apply some form of financial viability test. But any test we do apply will follow the better regulation principles of being transparent, proportionate and appropriate to the applicant in question.

Q2 Do you consider there to be other alternative approaches we may be able to adopt? If so, please set out what that approach is and why you believe it would be better?

We did not receive any substantive responses to this question.

A2.2 Additional comments received from respondents

Timescales

One new appointee and one consultant considered that the 110-day target is too long. They said because it exceeds the 90-day requisitioning timescale set out in section 44 of the WIA91, developers may be dissuaded from following the new appointment route if existing appointed companies could potentially provide water, sewerage or water and sewerage services at the site more quickly than we could grant a new appointment.

Our view

We understand that developers often choose between requisitioning a main from the existing appointed company and the services offered by a potential new appointee that applies to us to serve the development site. We recognise that if a developer requires water within 90 days, it may choose the existing appointed company over a new appointee because there is no guarantee that the new appointment will be in place when the water, sewerage or water and sewerage services are required.

There is no legal correlation between the 90-day requisitioning timeframe under section 44 of the WIA91 and our 110-day timeframe for assessing applications for new appointments. But we realise there may be practical implications for the developer regarding when water is needed on site. A common attraction of the NAV route is the ability of some new appointees to provide multi-utility service offerings to the developer. So, developers are able to choose whether to go down the NAV route or to requisition supplies from a provider at unserved sites to suit their individual circumstances.

Section 44 deals with requisitions for water mains from existing appointed companies by an owner, occupier or local authority. The existing appointed company is required to provide the main requisitioned within 90 days. The 110-day period is a maximum target within which we consider we will be able to process most applications for a new appointment. To a large extent, our ability to process NAV applications has often depended on the quality of the information and supporting evidence submitted to us, and those cases that have exceeded the 110-day deadline have generally entailed a highly iterative information gathering process with the applicant.

Of the 11 NAVs that we have granted since the beginning of 2011, 8 were granted in 110 days or fewer. The applicant can influence the timescale by providing a complete and well-explained application. Table A2.1 below shows how long it has taken to grant these NAVs. Based on this evidence, the average it has taken to grant a NAV is 110 days.

Table A2.1 Time taken to grant NAVs since March 2011

Date	Applicant	Site name	Number of days
March 2011	SSE Water	Great Western Park	104
May 2011	SSE Water	New South Quarter	96
June 2011	SSE Water	Barking Riverside	107
July 2011	SSE Water	Farndon Road	99
October 2011	SSE Water	Kennet Island Phase 7	97
December 2011	SSE Water	Abbotswood	145
March 2012	SSE Water	Brewery Square	116
April 2012	SSE Water	Marine Wharf	82
May 2012	SSE Water	Riverlight	96
July 2012	SSE Water	Norwich Common	110
August 2012	IWN	Oakham Phase 1	154

Conditions of Appointment

In response to our consultation, one existing appointed company considered that condition F should not be suspended for new appointees.

Our view

Condition F sets out details of the accounting and financial information that appointed water companies are required to produce. Every year, new and existing appointees must provide us with a certificate stating that, in their Board's opinion, it has sufficient financial and managerial resources to enable it to fulfil its functions for the following year. Condition F also requires each company to tell us about any new business ventures (diversifications) and any impact on its ability to finance and manage the regulated business as a result. Condition F requires companies to trade at arm's length with associates.

New appointees are only partially exempt from condition F. Certain paragraphs are suspended initially, but only those relating to current cost accounting and segmental reporting. Such information would represent a significant data burden for a small company. We reserve the right to introduce the suspended paragraphs at a later date, if appropriate. This ensures that the information we ask for is proportionate to the small size of a new appointee.

Our assessment of financial viability

One consultant stated that there is no description in the consultation of how we currently assess financial viability.

Our view

We do not define how we assess the financial viability of applications because in our experience every application is unique and it is not appropriate for us to use a single 'hurdle rate' in our assessment. By this, we mean that we do not state a specific figure – the amount of profit, for example – that an application must meet in order for us to consider it financially viable. We would lose the flexibility to make judgements about proposals that inevitably involve factors not apparent from consideration of a single measure of an applicant's financial performance and position.

Instead, we refer to a number of factors when we assess financial viability. We assess the overall financial risk associated with the application (and the appointee as a whole) and form a view based on the total package presented to us. This includes assessing both the specific characteristics of each proposal and the applicant's underlying business model.

In doing so, we require the applicant to provide commentary to us that fully explains how it proposes to recover its likely start-up costs and over what period. We look closely at the assumptions underpinning financial projections in an application and the interaction and relationship with the applicant's business model. We expect an applicant to provide explanatory commentary to explain why its assumptions are reasonable.

We would encourage new applicants to enter into discussions with our Casework team before they submit their applications. This is to ensure that we obtain a better understanding the business. It also allows us to explain our processes, approach and the level of information we expect in their submissions.

Concerns with the NAV framework

One existing appointed company expressed concerns with our current approach to NAVs. It said that our framework:

- does not offer customers choice; and
- replaces one monopoly with another.

It also suggested that there is no evidence NAVs lead to greater innovation or efficiency.

Our view

Although household customers may not be able to choose their supplier as they can in other utility sectors, the NAV framework introduces an element of choice and competition into the water and sewerage sectors for developers and large users.

For example, developers can choose whether to go down the NAV route or to requisition supplies from an appointed company at unserved sites. Non-household customers that use at least 50 million litres of water in England or 250 million litres in Wales ('large users') can ask to be supplied by a new appointee rather than the existing appointed company.

New appointees have provided benefits to household customers in terms of price and service. For example, many customers served by new appointees enjoy a discount on the price that they would have paid had they been served by the existing provider rather than the new appointee. And new appointees have provided customer service benefits to customers such as improved Guaranteed Standards Scheme (GSS) payments and free leak repair services.

As well as the benefits outlined above, we have seen NAV applications with innovative proposals that benefit developers, the environment and household customers such as:

- the multi-utility approach, where a single company provides a package of gas, electricity, telecommunications, and water, sewerage or water and sewerage services;
- greywater recycling;
- adopting and maintaining existing on-site sewage treatment works rather than connecting to remote sewage treatment works;

- using an existing on-site borehole to provide its own supply of water rather than taking a bulk supply of water; and
- educating customers about their water use in order to reduce consumption.

The competitive impact of new entry and the threat of new entry at new sites can lead existing appointed companies to raise their game and seek to become more efficient.

Definition of appropriate

We say we will move away from specific site assessment to a company-based assessment where appropriate. One new appointee asked us to clarify what tests we will use to determine what is 'appropriate'.

Our view

When deciding if it is appropriate to move from a site-by-site assessment to a company-wide one, we consider:

- the financial position of the applicant;
- the applicant's access to financial resources; and
- any funding the applicant may receive from its parent company.

We consider it is for the applicant to provide us with information and justification that it can finance its functions and that customers will be protected. We will take a view based on the quality of the information that is presented to us. We will adopt a more detailed assessment of the application if we are concerned about the financial position of the applicant. We take a risk-based approach, and we may ask the applicant to offer solutions to mitigate any risks we identify with its financial position.

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