

Information notice

IN 16/03 March 2016



This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

Expectations for companies demonstrating long term financial resilience

This information notice sets out the way in which we expect all companies in England and Wales to include a statement on long term financial viability, which demonstrates their financial resilience, in their statutory and regulatory accounts for the 2015-16 financial year and in subsequent years.

Background

Our vision for the water sector in England and Wales is one where customers, the environment and wider society have trust and confidence in vital public water and wastewater services.

Ofwat have a primary statutory duty in respect of enabling the industry to be resilient, including financially resilient, over the longer term.

We have already put in place a suite of financial monitoring tools, including the financial monitoring framework, and have developed a set of financial metrics which will enable us to more effectively monitor the financial position of the companies which we regulate.

These financial metrics have been designed so that companies publish information about their financial position in a transparent and consistent way and to enable both Ofwat and other interested stakeholders to more readily identify financial trends both within individual companies and across the industry.

The regulated water and waste water companies will publish these financial metrics for the first time as part of the annual performance reporting for 2015-16.

We also expect companies to include a statement in their annual report which confirms that they are financially viable over the longer term. This is consistent with the requirements of the UK Corporate Governance Code (September 2014) which applies for financial years commencing after 1 October 2014.

We have consulted widely on how companies should approach the preparation of this type of statement and on what it should include. This information notice confirms the requirements for the 2015-16 financial year.

The approach we expect companies to take

We expect all regulated water and wastewater companies to comply fully with section C.2.2 of the UK Corporate Code which requires that they should:

“explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.”

In meeting these requirements we expect companies to prepare and stress test a forward looking business plan in a robust manner and to consider the financial viability of the company over an appropriate forward looking period. Companies are responsible for determining the period over which they make their assessment, however justification for the choice will be required and it may be appropriate for companies to look beyond the end of the current price control period. We would not expect this to be a constraint.

For the 2015-16 financial year we do not intend to be more prescriptive than this.

Companies will be responsible for determining the appropriate level of stress testing they undertake and the length of the forward looking period they consider. Companies will also be responsible for determining the level of third party assurance that they believe to be appropriate.

What should companies publish

We expect companies to include a clear and unambiguous statement in their statutory and regulatory accounts which sets out the steps that company Boards have taken to assess the long term financial viability of the company.

If companies believe that the same statement is appropriate for both their statutory and regulatory accounts and if both sets of accounts are published simultaneously then it need only be included in the statutory accounts with a suitable reference in the regulatory accounts.

We do not expect companies to publish information that is commercially sensitive, but we do expect the statement that they make to clearly set out the approach that they have taken and to provide a suitably robust justification for the selection of the sensitivities that they have undertaken, the forward looking period that has been considered and the extent to which (if any) they have used third party assurance.

Next steps for Ofwat

Companies are required to assess their long term financial viability and to include the statement explaining how they have undertaken that assessment for the first time in their 2015-16 accounts.

We will review the statements that are made in the 2015-16 accounts and will consider the quality of those statements (including the processes that the companies have undertaken and the period that has been considered).

If, having reviewed the statements made by companies, we have concerns about the quality of the procedures that companies have undertaken or we do not consider that the procedures companies have followed are adequate then we will consider taking the following steps:

- Discussing with the companies concerned why they have taken the approach that they have used to understand the reasons why they have not in our opinion followed suitably robust procedures.
- Issuing further guidance to companies which sets out more prescriptive requirements in relation to the procedures undertaken, the period reviewed or the form and content of the statement included in the accounts,
- Mandating the use of third party assurance and directing the areas where additional assurance is required.

Inadequate compliance with the requirements of the UK Corporate Code could also lead us to review the company's categorisation within Ofwat's company monitoring framework.

We will make a further statement on our assessment of the quality of the approach that companies have used in autumn 2016 and will identify at that time whether additional guidance is required

Enquiries

If you have any questions about this information notice, please send them to FinanceAndGovernance@ofwat.gsi.gov.uk

More information

[UK Corporate Governance Code \(September 2014\)](#)

[IN 15/18 “Expectations for company annual performance reporting 2015-16”](#), December 2015

[Company monitoring framework – final position](#), June 2015

[Board leadership, transparency and governance - principles](#), January 2014

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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