



Demonstrating Financial Resilience Consultation Response

Ofwat, Centre City Tower

7 Hill Street

Birmingham B5 4UA

24 February 2016

Dear Sirs

RE: Consultation on how companies should demonstrate long-term financial resilience

We welcome your consultation on how companies should demonstrate long-term financial resilience. In particular, we recognise that you have listened to the previous consultation responses and revised your proposals appropriately. We consider this to be an example of good regulation.

It is in the interests of all stakeholders that companies should be considering the long-term viability of their financial structures and we already have a number of mechanisms in place to ensure that this happens.

We note that you rightly point to the UK Corporate Governance Code and we are pleased to see that you have broadly aligned your proposals with the code.

We have also responded to the specific questions that you raise in your consultation as follows:

Q1 Do you agree that the proposed approach to companies demonstrating their financial resilience will provide an appropriate level of assurance about each company's long term financial resilience?

We think that it is entirely appropriate for companies to consider the long-term financial viability of their financial structure. Indeed we have been doing so for a number of years. As noted above, we think that Ofwat's proposals, to the extent they are specifically aligned with the UK Corporate Governance Code are now appropriate and fit well with the governance environment in which we operate.

However, we are concerned about the statement at the bottom of page 10 of the consultation document which states “We also expect the assessments of financial resilience to be appropriately assured”. To the extent that it is not entirely clear what form suitable assurance may take, we feel that this may be an onerous requirement which will provide little benefit other than to confirm mathematical accuracy of the models used for sensitivity testing.

Under the revised International Standards on Auditing, the external auditors of the Annual Statements are required to include a statement in the audit report as to whether they have anything material to add or to draw attention to in relation to any of the disclosures around principal risks, internal control, going concern and long term viability. This we consider should be sufficient and appropriate assurance.

Q2 Is there anything else that we should be recommending that companies explicitly include in their statement on long term financial viability

No, we think that the revised proposals put forward in this document in the context of the acceptance that “one size does not fit all” are both pragmatic and sensible.

Q3 Are there alternative approaches to companies demonstrating their long term financial resilience that Ofwat should be considering?

No. We think that any proposals which require companies to publish forecasts of financial performance are problematic. This is explicitly recognised on page 7 of your consultation.

Yours sincerely,



Duncan Bates
CFO, Affinity Water