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Our ref

Demonstrating Financial Resilience Consultation Response
Ofwat
Centre City Tower
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19th February 2016

Dear Ofwat

Ofwat consultation on how companies should demonstrate long term financial resilience

We are pleased that Ofwat has considered stakeholders' responses to its first proposals on this issue. We believe the new proposals represent a more proportionate obligation on companies.

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 are fully supportive of the 2014 Corporate Governance Code and guidance as an appropriate level of assurance for each company's long term financial resilience. We agree with the thrust of the Ofwat consultation, but believe the Corporate Governance Code and Guidance provides sufficient information about long term financial viability. It is not clear why companies in the water sector should go beyond the requirements of the Code. Additional protection is already provided for water customers by the Special Administration regime which provides for services to customers to be continued in the event of company failure.



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Registered in England
No. 2366656.

an AWG Company

We have the following specific concerns:

- Assurance - We question what level of third party assurance Ofwat are expecting in regard to the statement. For example, under the Corporate Governance Code, external auditors will normally review such statements and ensure the board have seen the evidence to support the statement, but would not perform a detailed review of the underlying plans and sensitivities as this is outside their scope. As such, compliance with the terms of the corporate governance code and our own internal assurance processes will provide sufficient assurance.
- The requirement to include a long term viability statement in both the statutory and regulatory accounts seems unnecessary where companies produce a single combined document. We recommend a cross-reference in the regulatory accounts to the viability statement in the statutory accounts in order to avoid repetition.

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

We believe that section C of the 2014 Corporate Governance code and guidance is far reaching and positive on this matter and will, therefore, be adequate for our stakeholders.

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

We have no further suggestions

Yours sincerely

A handwritten signature in black ink that reads "Jean Spencer". The signature is written in a cursive, flowing style.

Jean Spencer
Regulation Director