

South East Water's
response to Ofwat's
consultation on how
companies should
demonstrate long-term
financial resilience

25 February 2016

1 INTRODUCTION

This is South East Water's response to Ofwat's consultation on how companies should demonstrate long-term financial resilience.

2 GENERAL COMMENTS ON THE APPROACH

South East Water supports Ofwat's proposal to rely on companies' viability statements and related reporting in their annual reports to demonstrate their long-term financial resilience.

3 ANSWERS TO SPECIFIC CONSULTATION QUESTIONS:

Below are responses to the specific questions in the consultation.

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 believe that following the requirements set out in the UK Corporate Governance Code of September 2014 (the "UK Code"), which companies incorporate into their own governance codes, in line with the revised guidance on risk management, internal control and related financial and business reporting (the "FRC Guidance") will provide appropriate disclosure on financial resilience.

The viability statement has been designed to complement the existing requirements of the strategic report in Chapter 4A of the Companies Act 2006 establishing a more coherent framework for the reporting on the position of companies, their principal risks and their long term prospects.

This framework provides an appropriate level of disclosure that Ofwat will be able to rely on without imposing additional requirements. We also support the pragmatic approach of leaving the choice of stress testing and sensitivities to the Board of companies which is also the solution the FRC adopted when designing the viability statement and revising their guidance.

We believe that the steps and the type of statements outlined at page 10 of the consultation document summarise the approach companies are likely to follow in line with the UK Code and the FRC Guidance (in particular paragraphs 4 to 7 of Appendix B).

The FRC Lab is also undertaking a project on business model reporting which will include work on risk and viability statement reporting and will provide further guidance and information on good practice that companies will be able to incorporate into their own reporting.

Our understanding of the consultation in respect of external assurance is that this will be carried out by companies' financial auditors.

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 the existing requirements of the Strategic Report and the UK Code on risk reporting and viability statement provide a comprehensive and appropriate framework for reporting on financial resilience.

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

Considering that a comprehensive reporting framework on financial resilience is defined by the Companies Act 2006 and the UK Code, we question the need for a statement in the regulatory accounts in addition to the statement in the statutory accounts as they would necessarily be the same. The statement in the annual report will be presented in the context of the presentation of the business model and of the board's assessment of the principal risks and their mitigation and companies are likely to include all this information in the same section of the strategic report.

We therefore believe that Ofwat should rely on the viability statement and related information provided in the annual report and that another statement in the regulatory account would not be necessary.