

Via Email

25 February 2016

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Dear Sir/Madam,

SWW Response – Consultation on Companies Demonstrating Long Term Financial Resilience

Thank you for opportunity to respond to Ofwat's formal 'Consultation on Companies Demonstrating Long Term Financial Resilience'.

As noted in our response to Ofwat to the consultation of financial monitoring framework, on 3 August 2015, we support Ofwat's aim of ensuring information to stakeholders is transparent and the importance of the regulator to monitor corporate and financial resilience within regulated water companies.

As a private entity there is no obligation to follow the UK Corporate Governance Code (the code), however, we will be voluntarily adopting the code to provide confidence and demonstrate our willingness to be open and transparent to our Stakeholders, including Ofwat. In light of this we believe that the new viability statement, and processes required by the code for 2015/16, are sufficient to assess long term resilience and further prescriptive guidance and additional assurance is not necessary.

With regard to the specific questions being asked in the consultation we have provided our responses in Appendix A.

If you have any queries with regard to this response, please let me know.

Yours sincerely



Louise Rowe
Finance Director

Enc: Annex A – Commentary and Response

Appendix A

Commentary and Response

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 agree that it is appropriate for companies to demonstrate their long term financial resilience, and will continue to voluntarily adopt the UK Corporate Governance Code ('the code').

In complying with the code we will make a viability statement within the annual report at March 2016, which will include a broad assessment of the long term solvency and liquidity position, the long term plan and performance of the business, as well as the short term going concern requirements.

We believe this should provide sufficient assurance on the company's financial resilience as the process includes stress testing for the company, and feel that additional prescribed requirements or disclosures should not be made above and beyond the guidelines in the code.

For each element of the approach noted, we consider that the requirements of the viability statement are aligned with this:

'In making this type of statement we would expect each company's management to:

1. **prepare a forward looking plan;** This will be a key element of our review, but the elements would not be disclosed in detail due to the commercial sensitivity of future forecasts.
2. **to stress test that plan, using an appropriate set of sensitivities, including stating why they have selected the sensitivities that they have used;** The plan would be stress tested as a requirement of the code, (Provision C.2.2). *This would take account of the company's current position and principal risks, the directors 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.*

We do not feel that it would be appropriate to disclose the detail of the sensitivities used, again due to the potential commercial sensitivity of the plan and thus the composition of stress tests would also not be disclosed.

3. **to make a statement about how far forward they have looked and why they consider that period to be appropriate:** This is already a requirement of the code and will allow comparison between entities who may be using varying review periods.

4. **to outline any action that management would need to take in the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the company's financial metrics.** This would be considered in making the viability statement, but the disclosures of specific outcomes could be commercially sensitive.

We also feel that by adopting the code and the fact that this process and the disclosures are reviewed by external auditors, that no additional third party assurance is required.

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

A statement of compliance with the code should be sufficient.

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

We believe that compliance with the code is an appropriate approach for assessing financial resilience of companies. Ofwat can then assess the comparability of disclosures and approaches across companies to ensure the appropriate assurance is given.