



Ofwat

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Strategy & Regulation

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25 February 2016

Dear Sir/Madam

Response letter to Ofwat's 'Consultation on how companies should demonstrate long-term financial resilience'

Thank you for inviting us to respond to the consultation on how companies should demonstrate long-term financial resilience. I am pleased to set out our responses to each of the three questions asked, together with some additional observations with respect to the look forward period. In summary, we support the proposed requirements, and agree with the proposal that there should not be a requirement to publish the results of the stress tests undertaken.

Question 1: Do you agree with the proposed approach to companies demonstrating their financial resilience will provide an appropriate level of assurance about each of the company's long-term financial resilience?

We agree that the proposed approach will provide an appropriate level of assurance about companies' long-term financial resilience. We also agree that companies should outline the considerations they have made and factors they have taken into account when applying the stress tests, although, we do not believe that these need to be quantified explicitly. We would welcome Ofwat's confirmation that the assurance we receive from our auditors (through their standard year-end audit procedures) is at an appropriate level that additional assurance over and above this would not be required.

Question 2: 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 recommended proposals, in conjunction with the requirements of the 2014 Corporate Governance code, are sufficient for users of the statutory and regulatory accounts to reach an informed opinion on companies' long-term viability.

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Question 3: Are there alternative approaches to companies demonstrating their long-term financial resilience that Ofwat should be considering?

The proposed approach appears to us to be reasonable, and we are not aware of other approaches that would be preferable.

As noted above, we agree that it should be for companies to specify how far forward they should look when assessing their long-term viability. Our current view is that a three year look forward period is likely to be most appropriate. We take this view for two reasons. First, increasing uncertainty about macroeconomic factors in the economy as a whole make quantification and operation/interpretation of financial stress testing more difficult for look forward periods greater than three years. Second, we believe a three year look forward would be consistent with the practices of other companies in the wider economy that make such statements.

I hope this response is helpful. If you have any queries, please do not hesitate to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read "Nick Fincham". The signature is written in a cursive, slightly slanted style.

Nick Fincham
Director of Strategy & Regulation