

Demonstrating Financial Resilience Consultation Response
Ofwat, Centre City Tower
7 Hill Street
Birmingham
B5 4UA

25 February 2016

By e-mail: FinanceAndGovernance@ofwat.gsi.gov.uk

Consultation on how companies should demonstrate long-term financial resilience

Dear Sir/Madam

Please find attached Welsh Water's response to the consultation on how companies should demonstrate long-term financial resilience.

We believe that the requirements of the UK Corporate Governance Code should be sufficient to provide Ofwat and other stakeholders with an appropriate level of assurance and companies' long-term financial resilience.

Yours faithfully



Peter Bridgewater
Finance Director

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 concur with Ofwat's view that the requirements of the UK Corporate Governance Code (the Code) for premium listed companies to make a Long-Term Viability Statement in their annual report and accounts, along with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the Guidance), could be used to provide stakeholders with the assurance needed that the company's management has satisfied itself that the company is financially resilient and viable over the longer term.

We firmly agree that regulated companies should stress-test their business plans in order to demonstrate financial resilience over the longer term and are pleased that, following feedback on the consultation on the financial monitoring framework (July 2015), Ofwat is no longer proposing to require publication of the results of these tests. However, the current consultation refers to an expectation that management would "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" (page 10). We consider that this goes beyond the requirements of the Code and may be commercially sensitive.

The consultation does not specify the precise nature of third party assurance required, except to state an expectation that assessments of financial resilience will be "appropriately assured" (page 10). In the annual report and accounts of Glas Cymru (our statutory, consolidated group accounts) we comply voluntarily with the Code, and we request that our independent auditors review the parts of our Corporate Governance Statement relating to compliance with the provisions of the Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the parent company were a premium listed company. Our auditors report on this review on a 'by exception' basis, ensuring that they are comfortable that the review is "not inconsistent with" the audited financial statements and the audit work they have carried out on those statements. We believe this level of third-party assurance to be appropriate given the necessarily subjective and speculative nature of forecasts and perceived risks.

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

We consider that the requirements of the Code along with application of the FRC's Guidance will provide stakeholders with an appropriate level of assurance about the company's level of long-term financial resilience.

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

We consider that the requirements of the Code along with application of the FRC's Guidance will provide stakeholders with an appropriate level of assurance about the company's level of long-term financial resilience.