



# FINANCIAL RESILIENCE STATEMENT

## Financial Resilience Assessment Framework

### 1 Introduction

Standard Licence Condition B4 requires a Licensed Provider to provide such evidence to Scottish Water as is required from time to time by Scottish Water to assess the Licensed Provider’s financial resilience with reference to the Financial Resilience Statement published from time to time by Scottish Water and approved by the Water Industry Commission for Scotland.

The purpose of this Financial Resilience Statement is to set out the criteria used by Scottish Water to determine a Licensed Provider’s level of financial resilience, the process for reviewing that assessment over time and how it will impact payment terms for the Provisional Monthly Charge payable to Scottish Water. This Statement was approved by the Water Industry Commission for Scotland under Standard Licence Condition B4 on 14 March 2023. This Statement may be amended by Scottish Water from time to time with the approval of the Commission.

### 2 Assessment Criteria

#### 2.1 Overall Risk Category and relationship with payment terms

Each Licensed Provider will be allocated a Financial Resilience score of between 0 and 25 which will be used to determine payment terms as follows:

Financial Resilience Score	Risk Category	Level of prepayment required
21-25	A	1.5 months
16-20	B	2 months
11-15	C	2 months
6-10	D	3 months
0-5	E	3 months

#### 2.2 Raw Financial Resilience Score

The Raw Financial Resilience Score will be the sum of points awarded for each of the following financial metrics:

- Retained Cashflow/Net Debt
- Credit Period Given
- Available Liquidity
- Interest Cover
- Payment History

*Raw Financial Resilience Score = Retained Cashflow/Net Debt Score + Credit Period Given Score + Available Liquidity Score + Interest Cover Score + Payment History Score*



# FINANCIAL RESILIENCE STATEMENT

## Financial Resilience Assessment Framework

For each financial metric a score will be allocated out of 5 based on the criteria set out in sections 2.4. A maximum Raw Financial Resilience Score of 25 will therefore be available.

### 2.3 Financial Resilience Score

The Financial Resilience Score will be derived as follows:

*Financial Resilience Score = Raw Financial Resilience Score x Market Share Factor x MHC Factor x Overdue Accounts Factor x Contingent Liability Factor*

Where:

Raw Financial Resilience Score is as defined in section 2.2

Market Share Factor is:

- 0 if Market Share (as defined in section 2.4.7) is greater than 30%,
- or otherwise 1.

MHC Factor is:

- 1 if the Licensed Provider is participating in the Market Health Check (as defined in section 2.4.8),
- or otherwise 0.

Overdue Accounts Factor is:

- 0 if the accounts are shown as being overdue at Companies House,
- or otherwise 1.

Contingent Liability Factor is:

- 0.75 if any contingent liabilities or cross guarantees are listed in the notes to the Licensed Provider's financial statements,
- or otherwise 1.

### 2.4 Definitions of Financial Metrics and Factors

#### 2.4.1 Source of data

The calculation of Retained Cashflow/Net Debt, Credit Period Given, Available Liquidity and Interest Cover will be based on information available from accounts filed at Companies House. Licensed Providers who are not required to file full statutory accounts at Companies House can provide additional audited accounts to Scottish Water to be considered in the assessment of Retained Cashflow/Net Debt, Credit Period Given, Available Liquidity and Interest Cover. Where no additional audited accounts are provided or the accounting period in additional audited accounts does not align with the last accounts made up to date, the assessment will be made based on the available accounts at Companies House.

#### 2.4.2 Retained Cashflow/Net Debt

Retained Cashflow is calculated as the movement between prior year and current year Cash & Cash Equivalent, less Dividend payments. Net Debt is calculated as:

*Net Debt = Short-Term Debt plus Long-Term Debt minus Cash and Cash Equivalents*

Points will be allocated based on the following parameters:

Score	RCF/Net Debt
5	> 40%
4	>25 and <=40%
3	>15 and <=25%
2	>7.5 and <=15%
1	<= 7.5%
0	Insufficient data available to calculate

If Net Debt is negative, a score of 5 will be allocated (as cash is greater than debt).

### 2.4.3 Credit Period Given

Credit Period Given is calculated as:

$$\text{Credit Period Given} = \text{Trade Debtors} \times 365 / \text{Revenue}$$

Points will be allocated based on the following parameters:

Score	Credit Period Given
5	<= 30 days
4	>30 and <=60 days
3	>60 and <=80 days
2	>80 and <=100 days
1	> 100 days
0	Insufficient data available to calculate

### 2.4.4 Available Liquidity

Available Liquidity is calculated as:

$$\text{Available Liquidity} = \text{Cash and Cash Equivalents} + \text{Borrowing Facilities} / (\text{Revenue} / 12) \times (365 / 12)$$

Points will be allocated based on the following parameters:

Score	Available Liquidity
5	> 50 days

<b>4</b>	>40 and <=50 days
<b>3</b>	>30 and <=40 days
<b>2</b>	>20 and <=30 days
<b>1</b>	<= 20 days
<b>0</b>	Insufficient data available to calculate

### 2.4.5 Interest Cover

Interest Cover is calculated as:

$$\text{Interest Cover} = \text{Earnings Before Interest \& Tax (EBIT)} / \text{Interest Payable}$$

Points will be allocated based on the following parameters:

<b>Score</b>	<b>Interest Cover</b>
<b>5</b>	> 5
<b>4</b>	>3.5 and <=5
<b>3</b>	>2 and <=3.5
<b>2</b>	>1 and <=2
<b>1</b>	<= 1
<b>0</b>	Insufficient data available to calculate

### 2.4.6 Payment History

Payment history will be assessed based on Primary Charges invoices from Scottish Water paid by the Licensed Provider after the due date within the 12 months preceding the Assessment Date. Where multiple invoices are due for payment on the same date, failure to pay any or all of the invoices in full on the due date will be treated as a single late payment.



# FINANCIAL RESILIENCE STATEMENT

## Financial Resilience Assessment Framework

Points will be allocated based on the following parameters:

Score	No. of late primary payments in last 12 months
5	0
4	1
3	2
2	3
1	4-5
0	>5

No points will be allocated if the Assessment Date is less than 12 months after the due date of the first Primary Charges invoice issued to the Licensed Provider by Scottish Water.

### 2.4.7 Market Share

Market Share is calculated as:

*Market Share = Total Primary Charges associated with Supply Points registered to the Licensed Provider / Total Primary Charges associated with all tradeable Supply Points*

Total Primary Charges will be those charges set out in the latest R1 Aggregated Settlement Report published by the CMA to Scottish Water at the Assessment Date.

### 2.4.8 Market Health Check Participation

To be defined following confirmation of Market Health Check scope and approach. In the meantime the MHC factor shall be 1 for all Licensed Providers.

## 3 Review Process

The assessment of a Licensed Provider's Financial Resilience will be revised on a monthly basis. Each assessment will be based on the latest available information on the 20<sup>th</sup> of the month (Month X), the Assessment Date. If there is any change to the Licensed Provider's Financial Resilience score since the last assessment, a Financial Resilience Scoring Notice will be issued to the Licensed Provider by the fifth business day of the following month (Month X + 1).

**Annex 1: Definitions**

<b>Term</b>	<b>Definition</b>
<i>Assessment Date</i>	The 20 <sup>th</sup> calendar day of each month
<i>Aggregated Settlement Report</i>	As defined in CSD0201 Settlement Timetable and Reporting
<i>Business Days</i>	As defined in the Wholesale Services Agreement
<i>CMA</i>	As defined in the Market Code
<i>Primary Charges</i>	As defined in the Wholesale Charges Scheme
<i>Provisional Monthly Charge</i>	As defined in the Wholesale Services Agreement
<i>R1</i>	As defined in CSD0201 Settlement Timetable and Reporting



# FINANCIAL RESILIENCE STATEMENT

## Financial Resilience Assessment Framework

### Annex 2: Version History

Version	Date	Comments
1.0	14/03/23	First approved version
1.1	27/03/23	Removal of references to Credit Security and Monthly Adjusted Charges