

Briefing on Financial Resilience

Agenda

- Financial Resilience
- Notifying about changes
- Score/Prepayment Term changes

Financial Resilience

- Financial Resilience Statement
- Licensed Provider's level of financial resilience
- Payment terms for the Provisional Monthly Charge
- Approved by Water Industry Commission for Scotland on 14 March 2023



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	Minimum Credit Security
21-25	A	1.5 months	1.5 x Monthly Adjusted Charges
16-20	B	2 months	2 x Monthly Adjusted Charges
11-15	C	2 months	2 x Monthly Adjusted Charges
6-10	D	3 months	3 x Monthly Adjusted Charges
0-5	E	3 months	3 x Monthly Adjusted Charges

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



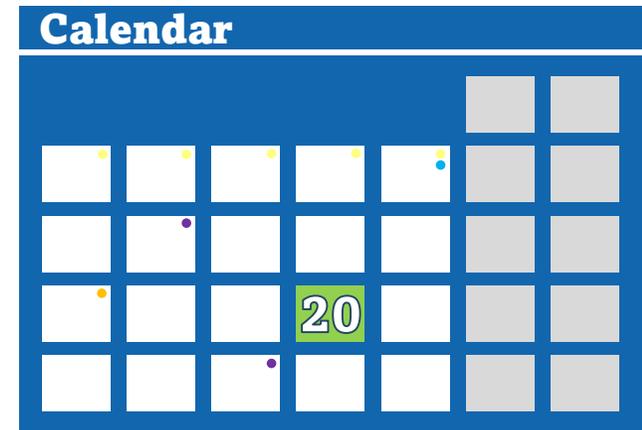
Risk Categories and Prepayment

- Financial Resilience Score – basis of Financial Resilience
- Based on the final Financial Resilience Score, a Financial Resilience Risk Category and Prepayment Period will be assigned to Licensed Providers.

Total Score across all 5 measures and after Market Share adjustment	Financial Resilience Risk Category	Prepayment Period
21-25	A	1.5 Months
16-20	B	2 Months
11-15	C	
6-10	D	3 Months
0-5	E	



Financial Resilience Assessment



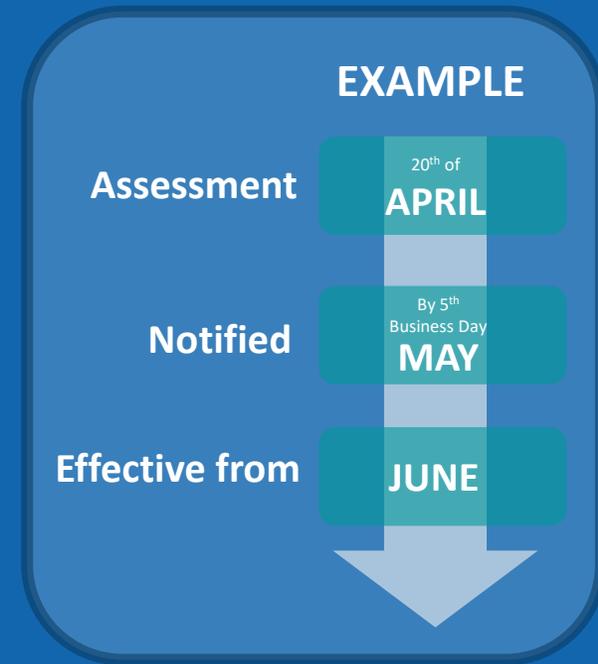
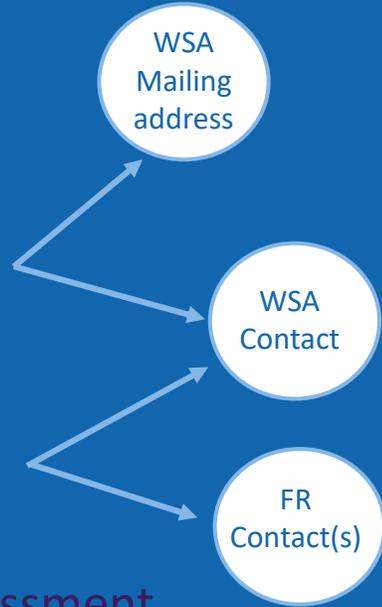
- 20th calendar day
- Based on latest information at that date
- Information on or after 21st of month will NOT be considered

Score Notification

Calendar						
			NOTICE PERIOD			



- Score Notification via:
 - Letter(s) *
 1. Change in Financial Resilience Score
 2. Change in Prepayment Terms
 - E-mail
 1. Electronic version of Official Notice(s)
 2. Financial Resilience Score updates – monthly
- By 5th Business Day of month following assessment
- Billing adjusted month after notification



* Official Notices will only be sent to Licensed Providers, where change in either the Financial Resilience Score or the Prepayment Terms is observed.

Billing

Calendar						
		P1/P2 REPORTS		P1/P2 INVOICES		
P1/P2 INVOICES						

- Invoices issued 'as usual' according to timetable available on LP portal
- For Licensed Provider on **3 months** or **2 months** prepayment, the provisional invoice will be issued on the 14th business day prior to the start of the Month
- For Licensed Providers on **1.5 month** prepayment provisional invoices are issued on the 3rd Business Day prior to the start of Month X-1
- During a transition period between prepayment terms, the number of invoices may vary.

NOTE 1

- Invoicing dates are indicated for services provided in Month X
- E.g., Month X-1 is the month prior to Month X

NOTE 2

- P1 Settlement Report for LPs on 3 Month Prepayment
- P2 Settlement report for LPs on 1.5 or 2 Months Prepayment
- Further info: [Settlement Timetable & Reporting](#)

Billing – Transitioning Arrangements

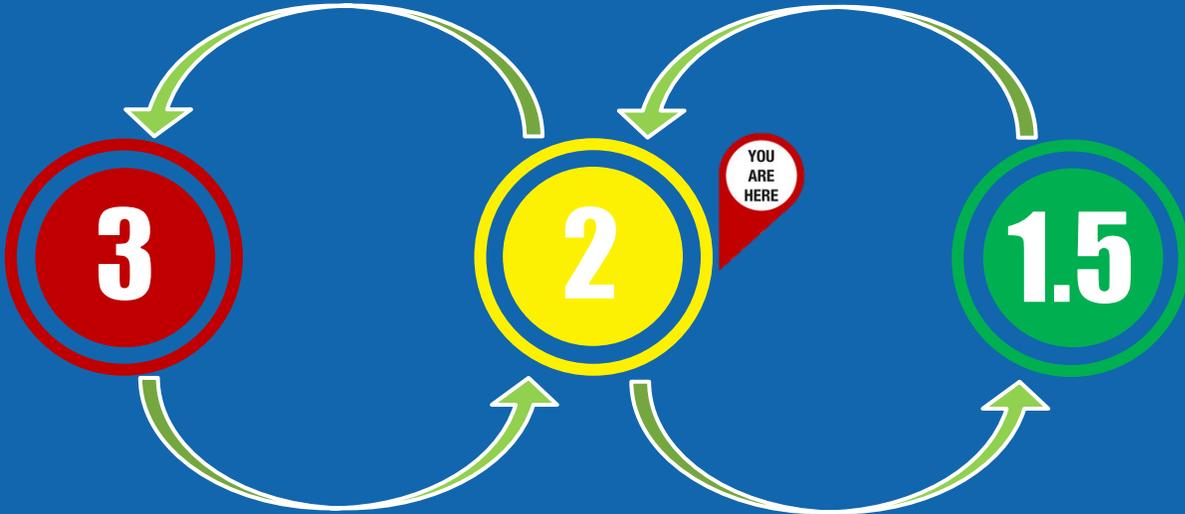
Calendar						
		P1/P2 REPORTS		P1/P2 INVOICES		
P1/P2 INVOICES						

2 Provisional Invoices in Total

- 1 Provisional invoice for Month X-1
- 1 Provisional invoice for Month X-2

1 Provisional invoice on the 14th business day prior to start of Month X-1

PREPAYMENT TERM



0 Provisional invoice for Month X-1

1 Provisional invoice on the third business day prior to the start of Month X-1

Calendar						
		P1/P2 REPORTS		P1/P2 INVOICES		
P1/P2 INVOICES						

Where no changes in the prepayment terms are notified, billing continues as previously notified..



1 Provisional invoice per month

Financial Resilience



For More Information, please visit:

Page on Financial Resilience
[Financial Resilience - Scottish Water](#)

Financial Resilience Statement
[14032023FinancialResilienceStatementV10.pdf \(scottishwater.co.uk\)](#)

Contact:

Your Account Manager

or

Marie Paton, Revenue Manager Marie.paton@scottishwater.co.uk

Look here



Annex I – Worked Examples

Review of Financial Resilience Scores – worked examples

1. Increase in scoring due to improved financial ratios
 - 8 June – new financial accounts published
 - 20 June – monthly review of Financial Resilience scoring commences
 - 7 July – LP notified of improved Financial Resilience score, resulting in move from 3 months to 2 months prepayment
 - Change takes effect in August so:
 - October P1 invoiced and paid as usual in July (3 months ahead)
 - No P1 invoice in August (as LP transitions from 3 months to 2 months prepayment)
 - November P1 invoiced and paid in September (2 months ahead)
2. Decrease in scoring due to late payment
 - 15 February – P1 invoice paid late
 - 20 February – monthly review of Financial Resilience scoring commences
 - 7 March – LP notified of reduced Financial Resilience score, resulting in move from 2 months to 3 months prepayment
 - Change takes effect in April so:
 - May P1 invoiced and paid as usual in March (2 months ahead)
 - June P1 and July P1 both invoiced and paid in April (as LP transitions from 2 months to 3 months prepayment)

NB: Examples above relate to scenarios where the change in financial resilience score is sufficient to result in a change of risk category and prepayment period (e.g. increase in score from 9 to 11). Not all changes in financial resilience score will result in a change in prepayment period.

Review of Financial Resilience Scores – worked examples

3. Decrease in scoring due to change in market share
 - Aug R1 published in Sep – market share (by value) of 29%
 - Sep R1 published in Oct – market share (by value) of 30.5% (no change in scoring as less than 2% swing)
 - Oct R1 published in Nov – market share (by value) of 31%
 - Nov R1 published in Dec – market share (by value) of 31% (triggers change in scoring as 3 consecutive months above 30%)
 - 20 Dec – monthly review of Financial Resilience scoring commences
 - 9 Jan (business day 5) – LP notified of reduced Financial Resilience score, resulting in move from 2 months to 3 months prepayment
 - Change takes effect in February so:
 - March P1 invoiced and paid as usual in January (2 months ahead)
 - April P1 and May P1 both invoiced and paid in February (as LP transitions from 2 months to 3 months prepayment)

NB: Examples above relate to scenarios where the change in financial resilience score is sufficient to result in a change of risk category and prepayment period (e.g. increase in score from 9 to 11). Not all changes in financial resilience score will result in a change in prepayment period.

Review of Financial Resilience Scores – worked examples

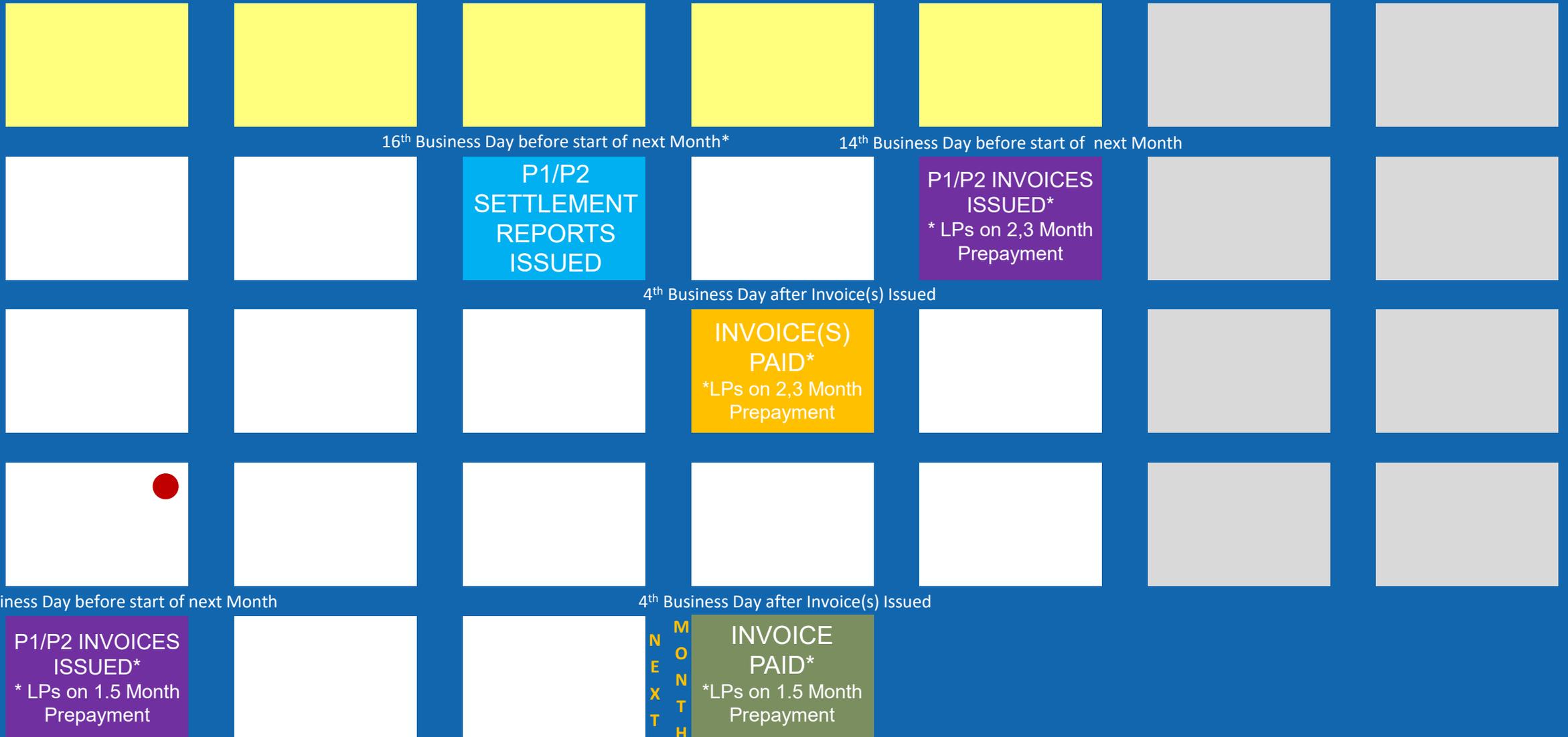
4. Increase in scoring due to change of payment history score
 - 20 January – monthly review of Financial Resilience scoring commences – 5 late payments in previous 12 months
 - 20 February – monthly review of Financial Resilience scoring commences – 3 late payments in previous 12 months
 - 7 March – LP notified of improved Financial Resilience score, resulting in move from 3 months to 2 months prepayment
 - Change takes effect in April so:
 - June P1 invoiced and paid as usual in March (3 months ahead)
 - No P1 invoice in April (as LP transitions from 3 months to 2 months prepayment)
 - July P1 invoiced and paid in May (2 months ahead)

NB: Examples above relate to scenarios where the change in financial resilience score is sufficient to result in a change of risk category and prepayment period (e.g. increase in score from 9 to 11). Not all changes in financial resilience score will result in a change in prepayment period.

Annex II – Event Calendar

Notice, Invoice & Payment Month

← NOTICE(S)/SCORE UPDATES →



* CSD0201 Settlement Timetable and Reporting (cmascotland.com)