
Financial Resilience

- LP feedback
- Initial revisions to proposed scoring approach
- Scoring ranges
- Mapping to prepayment period

LP Feedback - 1

LP Comment	LP Feedback/Proposal	Response
Contingent Liabilities / Cross Guarantees	Reduce or remove impact of contingent liabilities/cross guarantees on total score	Discount score by 25% instead of reverting to zero
	Assess financial resilience of group as a whole as this may provide more rather than less financial strength	Not practical given some complex group structures. Appropriate that assessment is based on contracting party (LP) rather than parent
Market Share	Penalises customer acquisition	Previous approach of discounting by market share band removed. Instead, LPs with >30% or <0.5% market share will default to 3 months prepayment from May 23, subject to review by Market Health Checker
	Disregards greater strength of larger organisations	
	Undermines level playing field	
	Banding approach introduces market share 'steps'	
Retained Cash Flow	Process of transition back to prepayment will itself worsen RCF, reduce score and increase required prepayment	LPs will reflect improvement in RCF at removal of prepayment and deterioration in RCF at restoration of prepayment. Overall effect neutral over time
	Could be impacted by clearance of debts or investment in a given year whilst core financial strength remains	Definition to be revised to exclude debt repayments

LP Feedback - 2

LP Comment	LP Proposal	Response
Credit Scores	Ratios based approach may provide significantly out of date assessment. Propose allowing use of Credit Scores instead of ratios based approach (LP chooses either/or) as more forward looking measure of resilience	Ratios based approach to be used for all LPs to ensure consistency across market
Full Audited Accounts	Cost of full audited accounts excessive for small LPs and potential barrier to entry, permit certified accounts from accountants instead	Full audited accounts still required but approach to be reviewed by Market Health Checker
	Time lag means that any improved funding position would take 15 months to feed through to resilience score. Permit submission of signed mgmt accounts as accepted by Credit Scoring agencies	Potential for more frequent reviews, taking account of other information, to be considered by Market Health Checker
Credit Period Given	Should include deferred or accrued income to give full picture of LP's revenue	Conflicting views from LPs. Deferred or accrued income to be included in calculation where available to provide clearer assessment of LP's billing and collection of available revenue. Scoring ranges also reduced
	Should not include deferred or accrued income as may include wholesale credits and as accrued revenue not yet billed does not truly reflect credit provided to customers	

LP Feedback - 3

LP Comment	LP Proposal	Status/Response
Impact of loss in particular year	COVID or one-off event could result in loss in one year impacting RCF and Interest Cover without consideration of LP's broader financial standing	Non-cash losses (e.g. write-downs) to be excluded from calculation of RCF and Interest Cover
Available Liquidity	Should include other funding sources as well as banking facilities	Agreed, subject to this being visible in accounts
Interest Cover	Interest payable should be net of interest paid on prepaid wholesale charges	Agreed, subject to this being visible in accounts

Proposed scoring approach (changes since previous version in red)

- For following 6 metrics, score of 1-5 awarded (1 bad/5 good) based on parameters:
 - RCF/Net Debt
 - Credit Period Given (a.k.a. Debtor Days)
 - Available Liquidity
 - Interest Cover
 - Payment history
- If insufficient information available (e.g. no full audited accounts available), 0 points awarded
- Overall score based on sum of individual metric scores – gives total out of possible 25
- **3 months prepayment applies if market share (by value) >30% or <0.5%**
- Risk category assigned based on overall score:
 - 1-5: E
 - 6-10: D
 - 11-15: C
 - 16-20: B
 - 20-25: A
- **If accounts are overdue, total score reverts to 0**
- **If any cross guarantees or contingent liabilities exist, raw score discounted by 25%**

Scoring Approach – initial revised

1. Score of 0-5 awarded against each of the 4 financial ratios and based on payment history

Score	RCF/Net Debt	Credit Period Given	Available Liquidity	Interest Cover	No. of late payments in last 12 months
5	> 40%	< 30 days	> 50 days	> 5	0
4	25-40%	30 - 60 days	40 - 50 days	3.5 - 5	1
3	15-25%	60 - 80 days	30 - 40 days	2 - 3.5	2
2	7.5-15%	80 - 100 days	20 - 30 days	1 - 2	3
1	< 7.5%	> 100 days	< 20 days	< 1	4-5
0	No data available				>5
Notes	If net debt negative, score 5 (as more cash than debt)	If no turnover data available score zero	If no turnover data available score zero	If no EBIT data available score zero	

2. Risk category based on total adjusted score

Overall Risk Category	Total Score across all 5 measures and after Market Share adjustment
A	21-25
B	16-20
C	11-15
D	6-10
E	0-5

Potential Prepayment Period mapping to Scoring

Prepayment/Credit Security Period	Financial Resilience Risk Category
1.5 Months	A
2 Months	B
	C
3 Months	D
	E