

Michelle Sansom
ACCOUNTING STANDARDS BOARD
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Ms Sansom

Accounting Standards Board Board: Consultation on the proposals for the future of UK GAAP

I write on behalf of Wessex Water Services Ltd in response to the Financial Reporting Exposure Drafts (FREDs) setting out the revised proposals for the future of financial reporting in the UK and Republic of Ireland.

FRED 46 - 'Application of Financial Reporting Requirements' (draft 100)
FRED 47 – 'Reduced Disclosure Framework' (draft 101)
FRED 48 – 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (draft 102)

We welcome the opportunity to respond to the ASB's consultation.

We believe that the proposed framework meets its objective to enable high quality reporting which is proportionate to the size and complexity of the entity and its users' needs. However there are two issues that are material to the water industry and we think relevant to the users of the financial statements within the industry.

1. Does the proposed framework meet its objective to enable high quality reporting which is proportionate to the size and complexity of the entity and users needs?

Renewals accounting

Under current UK GAAP the water industry applies renewals accounting for infrastructure assets where the water and wastewater network is in a steady state and subject to an asset management plan. Expenditure on infrastructure assets which relates to increases in capacity or enhancements of the network are treated as capital expenditure. Expenditure on maintaining the operating capability of the network is treated as an addition to fixed assets termed 'infrastructure renewals expenditure'. Depreciation is charged in effect as the estimated, anticipated level of expenditure required to maintain the operating capability of the network as based on the independently certified asset management plan (the 'infrastructure renewals charge').

When applying the usual accounting for property, plant and equipment, over time depreciation erodes the net book value of infrastructure assets, however operating capability is maintained. Therefore in the long term, the financial statements would not reflect the economic substance of the assets. Renewals accounting is considered to best reflect the special nature of water industry

assets and we request that the language in FRS 15 on this is included in FRS 102.

Deferred tax

FRS 102 introduces a new version of deferred tax which is neither IFRS nor existing UK GAAP. This does not aid comparability between entity accounts. There appears to be no conceptual basis for requiring deferred tax to be provided on revaluations and rolled over gains, and these changes will not eliminate the differences between UK GAAP and IFRS.

In addition, we note that discounting deferred tax is not permitted whilst provisions other than deferred tax must be discounted, where the effect of the time value of money is material. We would welcome the option to discount deferred tax to recognise the time value of money and maintain consistency with other provisions of a long term nature.

Please contact Nigel Reed if you would like to discuss the contents of this letter

Yours sincerely

Nigel Reed
Financial Controller
Wessex Water Services Ltd
Claverton Down
Bath
BA2 7WW