Corporate governance report
Tax policies and objectives

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

– only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
– do not engage in aggressive or abusive tax avoidance;
– are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
– maintain a robust governance and risk management framework to ensure that these policies and objectives are applied at all levels.

In line with the above, we expect to fully adhere to the new HMRC framework for co-operative compliance.

Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers via reduced bills.

In any given year, the group's effective cash tax rate on underlying profits may fluctuate from the standard UK rate due to the available tax deductions on capital investment and pension contributions. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to taxation.

Consistent with the group's general risk management framework, any tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the group and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The group is committed to actively engaging with relevant authorities in order to actively manage any such risk.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK (other than the group's 35 per cent holding in Tallinn Water which typically generates around £5 million profit before tax with around £1 million Estonian tax paid).

In addition to corporation tax, the group pays and bears further annual economic contributions, typically of around £130–140 million per annum, in the form of business rates, employer's national insurance contributions, environmental taxes and other regulatory service fees, such as water abstraction charges.

We expect the above details, which apply for both financial years ended 31 March 2016 and 31 March 2017, to fully comply with the new legislative requirements for 'Publication of Group Tax Strategies' for UK groups.