

Tax, plain and simple.

2023 Report



About United Utilities Group PLC

United Utilities Group PLC is a UK listed and headquartered company responsible for water and wastewater services in the North West of England.

We deliver 1.8 billion litres of water a day to more than 3 million homes and businesses in the North West, as well as taking away and treating the wastewater. Keeping the region flowing relies on a vast behind the scenes operation, involving hundreds of reservoirs, treatment works and pumping stations, thousands of kilometres of water pipes and sewers, and a workforce of nearly 6,000 colleagues.

Our purpose is providing water for a stronger, greener and healthier North West. It drives us to deliver our services in an environmentally-sustainable, economically beneficial and socially responsible manner. It is the reason we exist and it challenges us to look after the interests of the stakeholders with whom we interact by continually improving our performance and creating value.

We can make the North West:

Stronger – by helping customers in vulnerable situations, investing in local communities and supporting jobs and the economy, providing resilience in a challenging and changing world.

Greener – by protecting and enhancing land, rivers and coastline for wildlife and nature to thrive, using sustainable solutions to make the North West a better place to live now and for the future.

Healthier – by providing great quality water that people love to drink, safely removing and treating used water, and taking care of beautiful landscapes for people to enjoy, supporting the wellbeing of communities in the North West every day.

We are committed to delivering on our purpose, and our approach to tax plays a vital role in supporting this for all of our stakeholders.

Purpose of this report

The purpose of this report is to provide further information to complement the tax disclosures made in our financial statements as well as our tax policy – which is published [here on our website](#).

We want to provide our stakeholders with transparency and clarity regarding our approach to tax, how much tax we pay and how we ensure that we pay a fair amount of tax at the right time. As a proud recipient of the Fair Tax Mark, paying a fair amount of tax is core to our approach to tax and key to helping support the communities that we serve across the North West.



Introduction from our Chief Financial Officer



We recognise the important and privileged role we have in supporting individuals and businesses alike who continue to face very challenging and uncertain times, especially during this cost of living crisis. It is more important than ever that large businesses, such as ours, adopt a responsible approach to tax. The taxes we pay help fund vital public services nationally, as well as contributing to and supporting the north west communities we serve.

Our investment into key and critical infrastructure, as well as innovative solutions to deliver on our purpose to provide water for a stronger, greener and healthier North West, is vital in supporting jobs and services across the North West. We share customers' and other stakeholders' view of the importance of paying a fair amount of tax as part of this investment in support public services – therefore appropriate and transparent tax behaviour is one of our key elements of corporate responsibility.

Our total contribution to public finances for 2023 was around £230 million, which was in line with our contribution for 2022. This is fully broken down within this report. Our overall tax contribution has been lower in the previous two years, mainly due to a reduction in our corporation tax paid following from the temporary capital allowances ('super deductions') introduced by the Government in 2021 to encourage capital investment after the pandemic.

Going forward, we are committed to moving at pace to continue to invest in our region, particularly in areas that matter most, such as reducing spillages and achieving our net zero goal. We will make sure this investment is made in a responsible and affordable way, including adopting tax treatments in line with our robust tax governance framework.

In addition to the tax disclosure within our main, statutory Annual Report, we continue to also publish this separate annual tax report.

In producing this report we want to reach as many stakeholders as possible. The main body of the report presents a summary, but more detail can be found by following the **READ MORE** links. We have also included a glossary of key terms used.

Our report addresses three key themes:

1. **How much tax do we pay?**
2. **How do we ensure we pay the right amount of tax at the right time?**
3. **How do we ensure our tax affairs are transparent?**

As recognition of our commitment to tax transparency, we are delighted to continue to be awarded the Fair Tax Mark, having been only the second FTSE 100 company to receive the accreditation back in 2019.



We hope you find this year's tax report useful and informative.

Phil Aspin
Chief Financial Officer



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How much tax do we pay?

We are a UK business and we pay many different taxes that arise from our operations. [➔ READ MORE #7](#)

In 2023, this amounted to £229 million of taxes on property, employment taxes and environmental taxes, as well as licence and regulatory fees. This is broken down on the following pages. We did not have a corporate tax bill this year, which is down from 2022 when it was £9 million due to the continued impact of the ‘super deduction’ introduced by the UK Government to encourage investment post COVID-19. The super deduction accelerated tax relief for investment into certain plant and machinery between April 2021 and March 2023.

Business rates

£88m

Business rates are chargeable on all non-domestic property unless subject to a relief. To deliver our services, we have 56,000 hectares of land, 165 reservoirs, 86 water treatment works, 584 wastewater treatment works and many support buildings.

Corporation tax

£0m

The corporation tax paid for 2022 and 2023 was lower due to benefits accruing from the temporary capital allowances ‘super deductions’ rules, introduced in 2021.

Employment taxes

**Company
£29m**

**Employees
£59m**

We have around 6,000 employees and we support thousands of jobs via our supply chain, making us one of the biggest employers in the North West.



How much tax do we pay?

Environmental taxes/other duties

£13m

Our energy strategy is to use less and generate more renewable energy. We are subject to a number of taxes on our carbon footprint and the energy we use, including carbon emissions tax, climate change levy and fuel duty. As part of providing water and wastewater services, we produce waste such as sludge, excavated materials and general office waste. We are committed to managing this in a sustainable way, with around 2% of our waste going to landfill which is subject to the landfill tax.

Regulatory service fees

£40m

We hold licences with the Environment Agency that permit us to abstract water from the natural environment – we treat this and supply drinking water to seven million people in the North West every day. We also hold permits with the Environment Agency to enable us to discharge treated water back into the environment in a controlled manner.

“ **£173 million of the total represents a cost borne by the group with the balance of £59 million being taxes borne by employees and collected by the group on their behalf.** ”

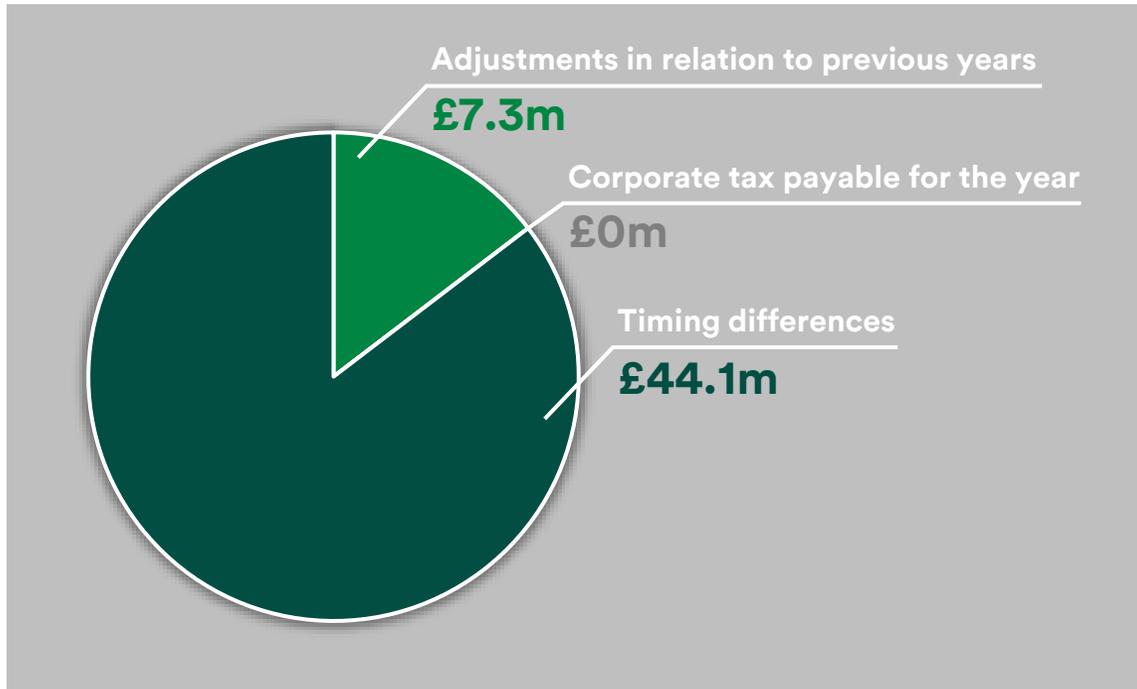
TOTAL
£229m



How much tax do we pay?

While we pay taxes across our operations as detailed in the previous pages, this is reflected differently in our financial statements. The other taxes we have paid in the year, such as business rates, employment taxes and licences/regulatory fees, are included in our general costs of operating the business within the financial statements and aren't shown in the tax disclosures. The specific tax disclosures show a tax charge on our profits for 2022/23 of £51.4 million. This is shown in [note 8 to our financial statements](#).

This is made up as follows:



Adjustments in relation to previous years

Each year we estimate the tax we will be due to pay in our financial statements. We then make adjustments in later years when we know the exact amount of tax due.

Corporate tax payable for the year

No cash tax liability is due for this year due to the impact of the super deduction introduced by the UK Government, which granted accelerated tax relief on certain plant and machinery.

Timing differences

These reflect amounts of tax that may be payable to HMRC in the future – for example, where tax relief has been received earlier than it would through the financial statements. There is more detail in our financial statements but these timing differences mainly relate to our capital investment.



How do we ensure we pay the right amount of tax at the right time?

We have a formal set of **tax policies and objectives** that are approved by the board of directors on an annual basis and have been fully complied with for many years, including 2023. They cover three main pillars:

We do not engage in aggressive or abusive tax avoidance; we do look to structure commercial activities efficiently both within the letter and spirit of the law.

[→ READ MORE #1](#)

We have a specialist tax team that monitors delivery against the tax policies and objectives, working with colleagues to ensure we have a sustainable approach to tax risk management.

[→ READ MORE #3](#)

We maintain a robust governance and risk management framework to ensure our tax policies are applied throughout the group.

[→ READ MORE #2](#)

We are subject to detailed regulation in terms of price and performance. More than 97% of group revenue comes from this regulated business.

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We are committed to open, transparent and professional relationships with all relevant tax authorities based on mutual trust and collaborative working.

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We monitor and claim relevant tax incentives and reliefs.

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How do we ensure our tax affairs are transparent?

We engage proactively and collaborate openly

Transparency starts well before the publication of reports. We engage actively to help shape the policy and regulatory framework within which we operate, covering customer, economic (including tax) and environmental factors. These require balancing and consideration over a short, medium and long-term horizon.

At a sector level, we engage on tax matters and our Head of Tax is a member of a number of groups, including Water UK, the industry-wide body.

We consult regularly and share information in real time

HMRC (tax) and VOA (business rates) oversee our tax affairs.

We are committed to an open, transparent and professional relationship with HMRC and VOA based on mutual trust and collaborative working.

We disclose what we believe is required and our stakeholders wish to see

We recognise many stakeholders turn first to our Annual Report for the information they need to decide whether to invest in, lend to, partner with, or work for our company.

Our Annual Report contains disclosures in line with the CBI statement of recommended principles and includes enhanced disclosure of our tax charge and factors affecting it. Our website discloses our **tax policy**.

We reflect on what we've heard and adapt our disclosures

Tax transparency is constantly evolving.

This report is one example of where we have monitored trends in transparency and acted on best practice to disclose more than required and to do so in a meaningful way.

For example, some stakeholders wish to understand how tax interacts with the detailed regulatory environment within which we operate. So, we have disclosed additional details here:

 [READ MORE #5](#)



We know the question of tax, and paying our ‘fair share’ is important to stakeholders and society more generally.

It is a subject that goes beyond just the tax team, with a tax strategy approved by the board that is promoted across the business to ensure that all of our people act consistently with our agreed values and objectives.

We only engage in reasonable tax planning. In other words, we ensure that commercial activities and transactions are structured tax efficiently in compliance with what we consider to be both the letter and the spirit of the law. Our directors have a duty to promote the success of the company and that includes not paying more tax than a company is obliged to do.

What does that actually mean?

An example would be when we’re planning a major capital investment programme: in considering the various commercial options, we are mindful of the different rates of tax allowances that may be available for each option.

We do, therefore, claim reliefs, such as allowances in relation to our capital spend, and manage our tax as a cost of business, like any other. However, we believe we operate a sustainable and responsible approach to tax planning that balances the interests of all our stakeholders.

Taking corporation tax alone, we’ve paid over £330 million in respect of the previous nine years, making us consistently one of the highest payers of corporation tax in the UK water sector.



Our strategy sets out our approach to tax and to deliver it we have a framework to ensure that its values are embedded in everything that we do.

Risk framework

Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the financial or reputational impact on the group and its objectives, should the event occur. As a consequence of the sector's five-year regulatory cycle, 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 engaging with relevant authorities to manage any such risk. We proactively lobby, both at a company and an industry level where appropriate, to minimise the impact of any proposed changes in tax law or HMRC practice which could materially impact on the group.

For example, for HM Treasury's recent policy review of business rates, we responded at each stage of the consultation process, both as a company and through sector-wide tax groups, to put our views across.

Governance framework

Our governance process is the basis by which we ensure our tax returns are right and can be traced right through the group's accounting systems and processes. We are required to certify on an annual basis that we've taken reasonable steps to ensure that our tax accounting arrangements are fit for purpose and this is managed via the involvement of our specialist tax team.



Our specialist tax team has the job of delivering the tax strategy agreed by the board.

With an overarching strategy agreed by the board and a strong risk framework established to support that, both require monitoring by people well equipped to understand the tax risks and how to manage them.

Ultimately, our CFO is responsible for tax governance with oversight from the board. He is our Senior Accounting Officer and, as such, is required to certify on an annual basis that each relevant company in the group has taken reasonable steps to ensure that its tax accounting arrangements are fit for purpose for all major tax-related risk areas.

The CFO is supported by a specialist team of tax professionals with more than 50 years of tax experience within the water sector. Led by the Head of Tax, the team includes people with specific responsibilities for different taxes, such as corporation tax, employment taxes and VAT.

The Head of Tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with colleagues to ensure tax risk is proactively managed. For example, she speaks regularly with the legal team to ensure that tax is always considered for the many transactions and projects they are involved with.

The team engages with both external advisers and HMRC to obtain additional advice and certainty with the aim of ensuring that any residual risk is typically low. The tax team are members of Water UK, keeping track of key sector-wide tax issues and leading the industry's collective response.

All significant tax issues are reported to the board regularly. They have agreed the strategy and take a keen interest in ensuring it is faithfully applied.



We develop strong, professional relationships with the key authorities who monitor our compliance with relevant rules and regulations.

HMRC

We are committed to having an open and professional relationship with HMRC which includes operating on full disclosure. For the various tax compliance processes, we meet regularly with HMRC to agree key risk areas and share how our risk framework identifies and manages these risks. We do in-year testing to flag any issues in real time and share the results with them. We also operate a system of real-time disclosure with HMRC to discuss significant proposed transactions so that any concerns can be discussed in advance of returns being formally submitted.

Valuation Office Agency (VOA)

Given our largest single tax outflow is business rates, where we paid around £88 million for 2023, we hold regular meetings with the VOA team in charge of the UK water sector.

We provide respective business updates and discuss the latest business rates issues relevant to us.



Ofwat's primary duties include protecting consumers' interests, by promoting effective competition wherever appropriate, and making sure that the company properly carries out its statutory functions and can finance carrying out these functions – in particular through securing reasonable returns on capital.

How is it determined whether our strategy and tax forecasting is fair?

By submitting a robust, balanced plan to Ofwat prior to the start of each five-year regulatory period, our aim is to agree a regulatory contract that allows for the best overall outcomes for customers, shareholders and the environment.

Ofwat scrutinises and challenges these business plans, and sets the five-year price, service and incentive package. This becomes the regulatory contract that company performance is measured against. It ensures all interactions between the regulatory entities and the group are undertaken at arm's length.

What does that mean for tax?

As part of that plan, we provide detailed tax calculations which are independently reviewed by Ofwat. As Ofwat sees all the different regulated water companies' tax calculations, not only are the details closely scrutinised against our wider financial plan and best assumptions, they are benchmarked across the whole industry.

Detailed work is undertaken on an annual basis and reviewed by the regulator to assess how we are performing against the contract. Given the regulatory contract is set five years in advance, we use our best estimates but sometimes changes outside of our control can occur.

For example, in the 2021 Chancellor's Budget, the UK's headline corporation tax rate was increased from 19% to 25% cent from 2024 onwards as well as the introduction of temporary enhanced capital allowances rates.

Recognising that these matters are outside of management's control, the impact of changes to tax rates and capital allowances, in so far as they impact the agreed base plan position, are now passed back to customers under the terms of the current five-year regulatory contract which began in 2020/21.



Tax is a cost of doing business and just like any other, it needs to be planned for, budgeted and managed efficiently so that we pay our fair share.

Our group's overall effective tax rate on underlying profits will typically broadly match the UK headline rate, currently at 19%. However, the actual effective cash tax rate may fluctuate from the headline UK rate year by year due to the way statutory tax relief works for items such as capital investment, R&D and financing:

An important element of the group's tax liability position is tax allowances on our capital spend. We spent around £900 million on capital items in 2023, so any changes to the allowances can significantly affect our tax bill. From 1 April 2021, for a two-year period, special first-year tax allowances, 'super deductions', have been introduced to encourage investment and these apply to a significant element of our infrastructure spend.

We are a sector leader in terms of innovation and continue to invest in order to make our processes and operations more efficient. We claim available enhanced tax reliefs on this expenditure where applicable.

The above tax deductions are achieved as a result of statutory reliefs, or utilising tax incentives which have been explicitly put in place by successive governments precisely to encourage such investment in infrastructure and innovation. The impact of our existing capital allowances claims is set out in our [detailed tax disclosures](#).

We are a UK group and our funding comes from non-related parties. We have not been negatively impacted by the tax deductibility of interest rules, which are generally targeted at groups that have a disproportionate amount of debt in the UK as compared with their overall group position. Our interest costs remain deductible in the UK. Managing our financial position is complex and the movement on unrealised profits and losses on our debt and derivatives portfolio can be significant. The tax treatment of some of this follows the accounts and for others is based on specific tax rules. As such, the impact can be volatile but all profits and losses remain subject to tax in the UK.



READ MORE #7

The group is committed to paying its fair share of tax and this includes a commitment not to use tax havens for tax avoidance purposes.

We are now a UK business, headquartered in the North West, with all historic legacy overseas operations having been sold or dissolved.

Our only remaining nominal overseas investment is a 1% interest in an Indian trading company, Mahindra Water Utilities Limited. Due to our nominal holding, this company is not a subsidiary, joint venture or associate of the group. Our only source of income from this shareholding is dividend income. For 2021/22, we received £7,000 and this income will have been subject to Indian tax at above the UK rate. The registered address of this entity is also the place of incorporation and profits are declared where the economic substance arises.



Glossary

Business rates

Set by the government and collected by local authorities, these are the means by which those who occupy non-domestic property contribute towards the cost of local services.

Capital allowances

The tax equivalent of accounting depreciation, allowing a company to obtain tax relief on tangible capital expenditure at rates and over periods of time set within the tax legislation.

CFO: Chief Financial Officer

Our Chief Financial Officer is the board member responsible for managing the financial risks of the group.

Corporation tax

Tax levied on the profits of a company.

Effective tax rate

The tax charged as a percentage of the accounting profits.

Employment taxes

Everyone who earns income or works in the UK is typically liable to pay UK income tax and social security. This term covers all forms of employer's and employees' liabilities.

Environment Agency

A public body set up to protect and improve the environment.

Environmental taxes/other duties

These are designed to internalize environmental costs and provide economic incentives for people and businesses to promote ecologically sustainable activities.

Headline tax rate

The prevailing rate for UK companies (currently 19%).

HMRC: Her Majesty's Revenue and Customs

A non-ministerial department of the UK Government responsible for the collection of taxes.

Ofwat

The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales.

R&D: Research and development

Applying innovation to develop a new service/product or to improve an existing service/product.

Related parties

Any business, partnership, limited liability company or other entity in which the company, a parent or a subsidiary holds a substantial ownership interest, directly or indirectly.

SAO: Senior Accounting Officer

Responsible for personally certifying that their companies' systems are fit for the purpose of reporting taxes.

Stakeholder

Anyone who is affected by our business in one way or another.



Glossary

Statutory tax relief

This is tax relief that is required, permitted or enacted by statute and which reduces the amount of tax owed by a taxpayer.

Tax liability

The total amount of tax owed by a company to HMRC.

VAT: Value Added Tax

A consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale.

VOA: Valuation Office Agency

An agency of Her Majesty's Revenue and Customs. It values properties for the purpose of council tax and business rates in England and Wales.

Water UK

The sector organisation that engages with companies and regulators to ensure customers receive high quality tap water at a reasonable price and that our environment is protected and improved.



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Water for the North West