

# Explaining our **tax** **contribution**

2019/20



WONDERFUL ON TAP

SEVERN

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# Foreword

Paying tax is one of the important ways that we contribute to society. The contributions we make help fund vital public services and investment in people and public infrastructure. We believe that building trust with our customers, colleagues and other stakeholders on issues such as tax is important to the long-term sustainability of our business. This is why we are committed to paying our fair share of tax and helping our stakeholders understand our tax position and the contributions we make.

Over the past year, we are really pleased to have:

- contributed almost £150 million in taxes to public finances;
- received the Fair Tax Mark, an independent accreditation recognising our commitment to paying the right amount of tax at the right time, and applying the 'gold standard of tax transparency; and
- reconfirmed our HMRC "low risk" rating, demonstrating HMRC's confidence in our ability to pay the right amount of tax at the right time.

The year ended with the impact of COVID-19. We took a decision not to use any of the Government's business support measures, including those relating to Business Rates, and have continued to pay our fair share of tax through the pandemic.

We hope you enjoy reading our report.

**James Bowling**  
Chief Financial Officer



# Our approach to tax is driven by the interests of all of our stakeholders



## Customers

The effective management of our tax affairs is in the best interests of our customers as it helps to keep our bills as low as possible. This is particularly true for our regulated business where the taxes we pay are included in the calculation of customers' bills.



## Colleagues

Our colleagues tell us they want to work for a socially responsible business that pays the right amount of tax at the right time, complies with all relevant tax laws and is open and transparent about its tax affairs.



## Shareholders

As a listed business, responsible and efficient management of our tax affairs helps us deliver attractive, sustainable post tax returns in the form of dividends.



## Communities

The communities we serve have an interest in how we manage our taxes and want us to act in a socially responsible way.

We make a significant financial contribution to the communities we serve through the business rates we pay direct to local authorities as well as broader taxes.

## Our Approach to Tax

We will manage our tax affairs responsibly, recognising the interests of all our stakeholders;

We will not undertake aggressive tax planning or any planning that is not aligned with the economic and commercial activities of our business;

We will make use of widely claimed incentives offered by Government to encourage investment; and

We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

A copy of our tax strategy is available at [severntrent.com/sustainability-strategy/reports-and-publications/tax](https://www.severntrent.com/sustainability-strategy/reports-and-publications/tax). Compliance with our strategy is tested regularly by our internal audit function and was classified as effective throughout 2019/20.



# Tax transparency

We support measures aimed at enhancing tax transparency and are committed to providing regular information on our tax affairs in a clear and straightforward way that enhances our stakeholders' understanding and provides them with confidence that we are paying our fair share of tax.

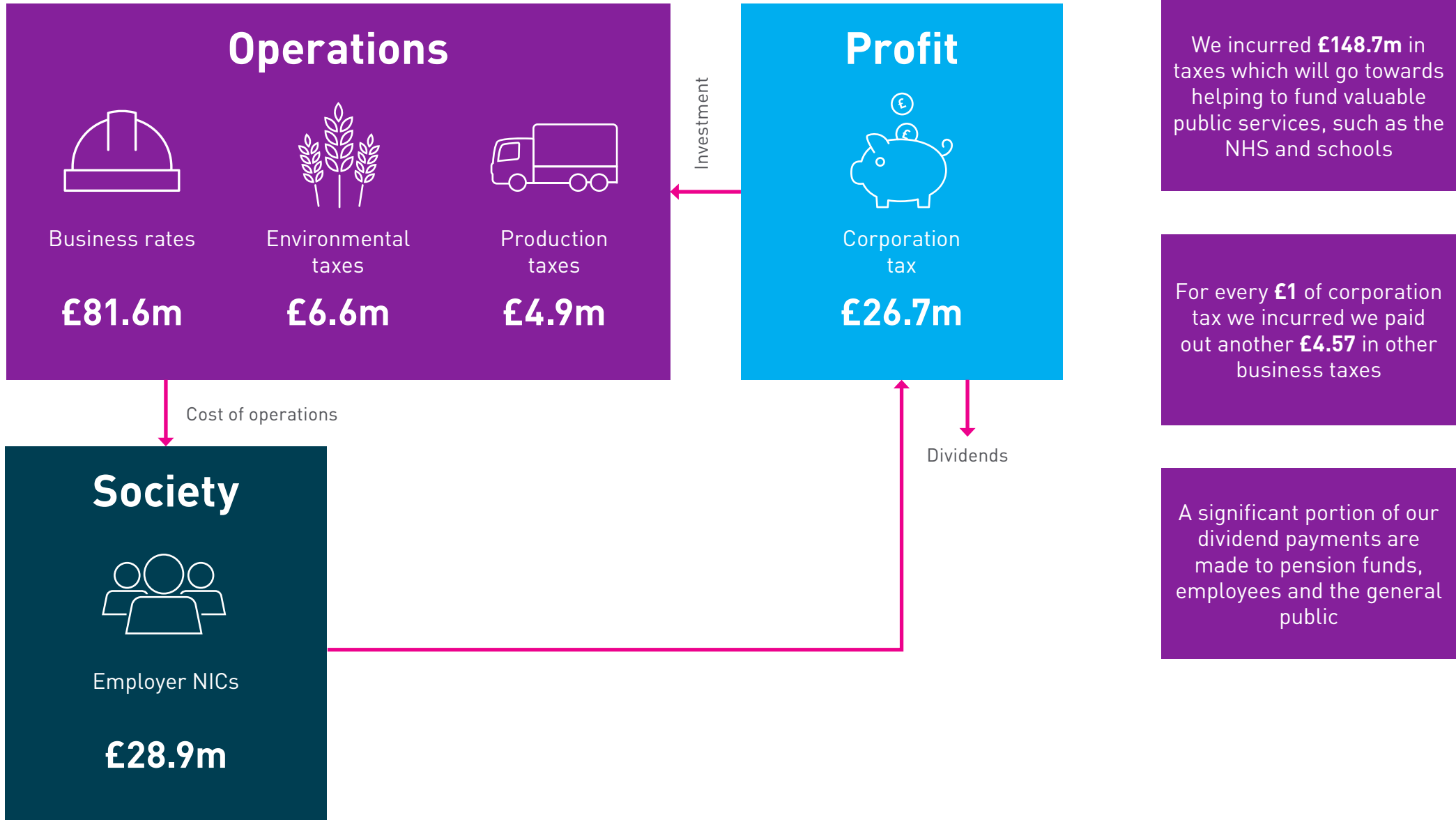
This year, we received the Fair Tax Mark which is a major milestone for Severn Trent. It recognises that we're a company that does the right thing – paying the right amount of corporation tax, in the right place at the right time. Most importantly, this accreditation shows our customers that we are a responsible business taking a great deal of pride in being open and transparent in how we do things.



# Fair Tax



# What taxes do we pay?



# Corporation tax

We pay corporation tax on our profits.

Almost all of our profits are generated in the UK, so they're subject to UK corporation tax at the current rate of 19%. We receive tax relief on some of the money we spend, particularly on new capital projects which affects the amount of tax we pay in the year.

## Why our corporation tax payments differ to the charge in our income statement



- 1 We have remeasured our deferred tax assets and liabilities at 19% following the Government's decision to no longer reduce the corporation tax rate to 17%.
- 2 The tax charge on our profits includes amounts that are payable to HMRC now (current tax) and amounts that may become payable in the future where tax relief is received earlier than items are charged to our income statement (deferred tax).  
  
The significant investments we make in our capital assets receive tax relief at a faster rate than we write them off in our accounts. This difference defers some tax into future years.
- 3 We make significant contributions to our colleagues' pensions and share schemes, which we receive tax relief on but accounting rules require this benefit to be recorded outside the income statement.
- 4 We estimate our tax charge when we prepare our accounts and make adjustments in later periods to arrive at the amount of tax we owe.
- 5 We received a repayment for taxes overpaid in previous years.
- 6 Last year's tax liability was required to be paid equally across last year and this year. From 1 April 2019, our tax liability is paid in quarterly instalments in the year that the profits are made.
- 7 In 2019/20, our quarterly instalment payments were higher than the liability we calculated at the end of the year. We will use our overpayments to settle future tax liabilities.

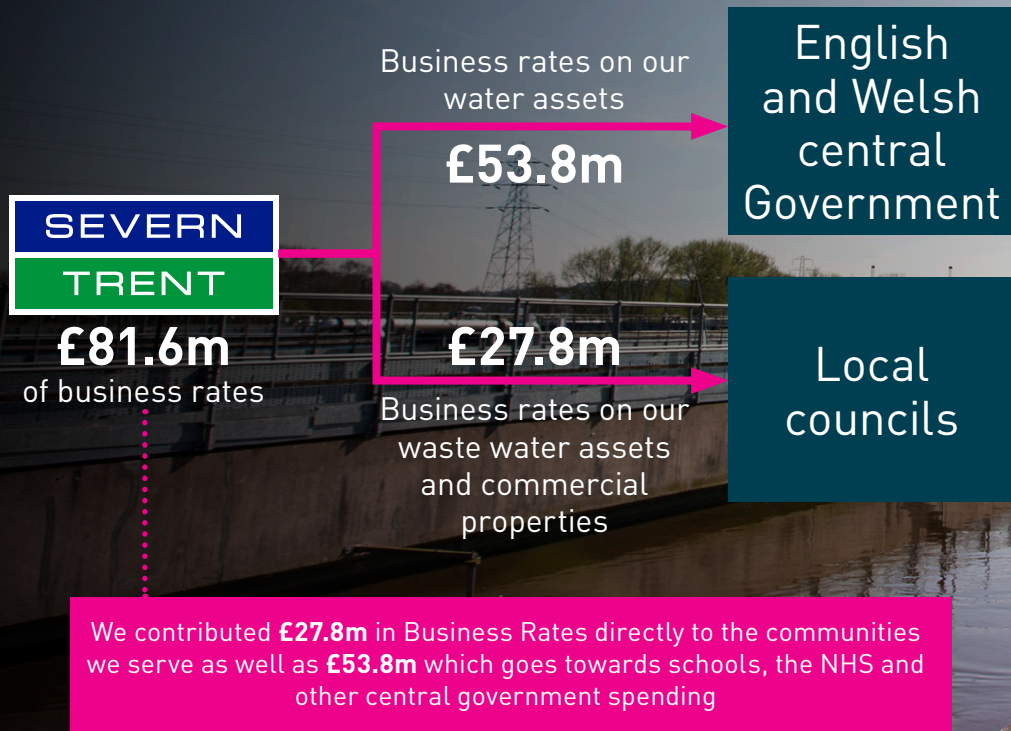


# Business Rates

Just like any other company, we pay business rates on our properties and infrastructure.

Business rates on our water assets, such as our pipelines and service reservoirs, are paid directly to central government.

We pay business rates on our waste water assets, such as sewage treatment works, directly to the local council where the assets are located, which means the tax goes directly to the communities we serve.



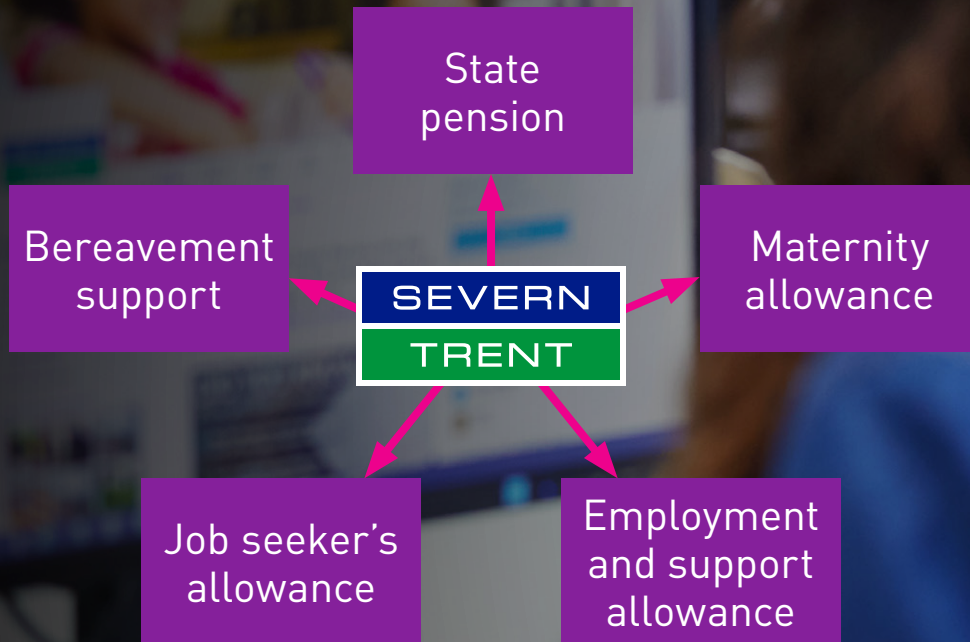


# National Insurance Contributions

We manage two types of National Insurance Contributions (NICs):

- **Employer NICs** are a cost to us of employing our colleagues and are based on their wages and salaries.
- **Employee NICs** are costs incurred by our colleagues that we collect and pay to the UK Government on our colleagues' behalf.

How does the UK Government use our National Insurance Contributions?



In 2019/20 we employed on average 6,796 colleagues and paid **£28.9m** in Employer NICs, while also collecting **£20.6m** in Employee NICs.



# Environmental taxes

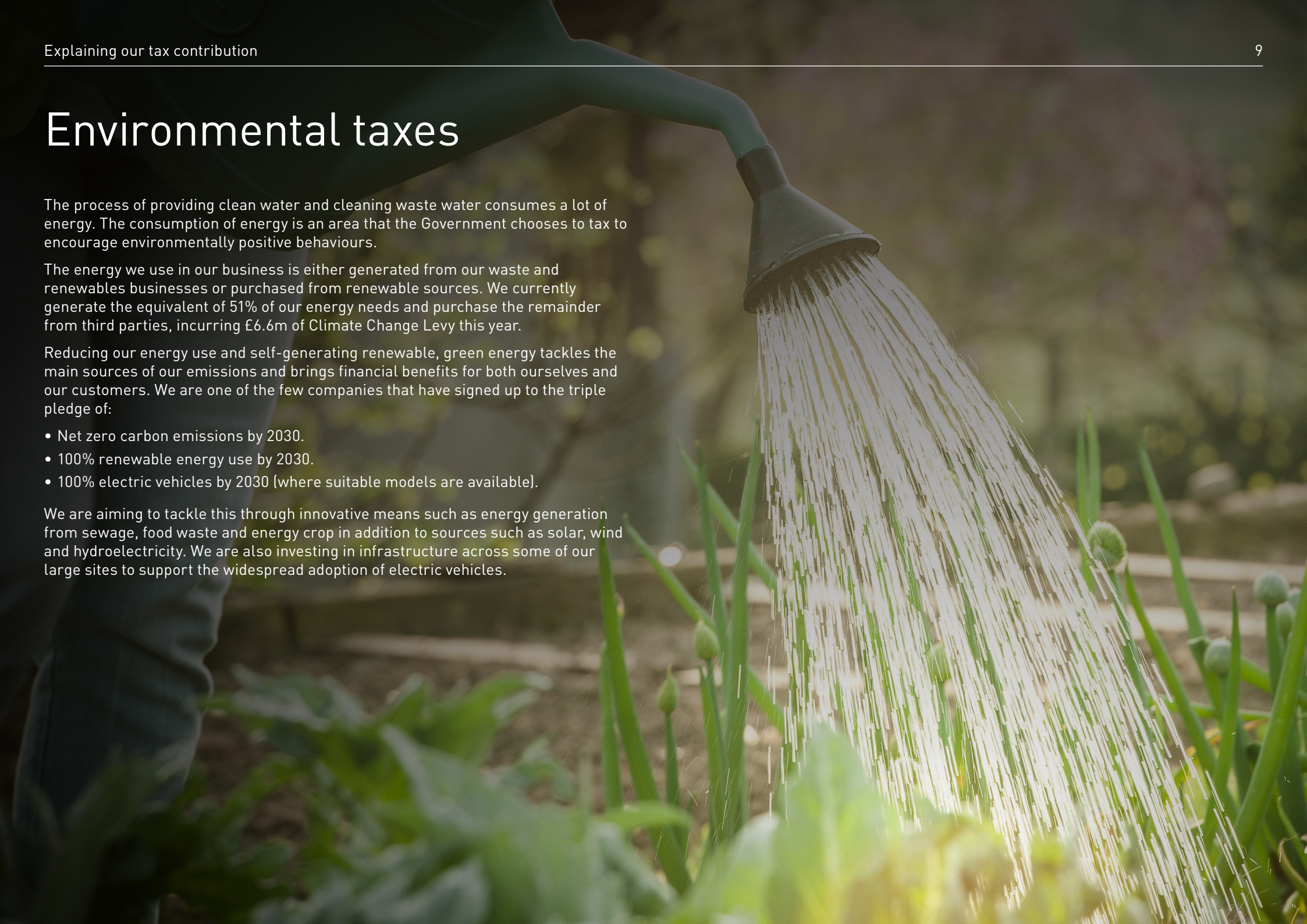
The process of providing clean water and cleaning waste water consumes a lot of energy. The consumption of energy is an area that the Government chooses to tax to encourage environmentally positive behaviours.

The energy we use in our business is either generated from our waste and renewables businesses or purchased from renewable sources. We currently generate the equivalent of 51% of our energy needs and purchase the remainder from third parties, incurring £6.6m of Climate Change Levy this year.

Reducing our energy use and self-generating renewable, green energy tackles the main sources of our emissions and brings financial benefits for both ourselves and our customers. We are one of the few companies that have signed up to the triple pledge of:

- Net zero carbon emissions by 2030.
- 100% renewable energy use by 2030.
- 100% electric vehicles by 2030 (where suitable models are available).

We are aiming to tackle this through innovative means such as energy generation from sewage, food waste and energy crop in addition to sources such as solar, wind and hydroelectricity. We are also investing in infrastructure across some of our large sites to support the widespread adoption of electric vehicles.





# Production taxes

Production taxes include taxes on our transport activities and insurance policies.

We operate around the clock to ensure that our customers receive the high standard of service they expect from us. Transport is an essential part of delivering this service.

We have a fleet comprising a wide range of vehicles from large water and sludge tankers to the small vans we use for the routine sampling of customer taps.

We incur production taxes, such as fuel duty (£3.8m) and vehicle excise duty (£0.6m), on our transportation activities.

We have already switched some of our fleet to electric vehicles and have pledged to switch our entire fleet to electric vehicles by 2030 where suitable models are available. As well as reducing overall mileage we are increasing the fuel efficiency of our transport.

Like any other business, our business faces many risks. We choose to protect ourselves by transferring some of these risks to insurance companies. Last year, we paid £0.6m of Insurance Premium Tax on insurance policies.





# Country by country data

We seek to declare profits in the country where the economic substance arises and therefore substantially all of our profits are generated in the UK and are subject to UK corporation tax.

Details of our global activities are provided below:

Country	Turnover £m	Profit/(loss) before tax £m	Current tax charge/(credit) £m	Average number of employees	Employee costs* £m	Footnote
United Kingdom	1,838.2	307.6	31.0	6,783	343.1	1
Ireland	4.6	(0.2)	-	13	0.8	2
Guernsey	0.7	3.3	-	-	-	3
Gibraltar	-	-	-	-	-	3
South Africa	-	-	-	-	-	4
Hong Kong	-	-	-	-	-	5
<b>Group</b>	<b>1,843.5</b>	<b>310.7</b>	<b>31.0</b>	<b>6,796</b>	<b>343.9</b>	

\*Employee costs includes all costs of paying wages, salaries, social security, pension and share based payments

1. Severn Trent is one of the UK's largest water companies. We operate through regulated and non-regulated businesses. Our regulated business provide water and sewage services to more than 4.5 million households and businesses in the Midlands and Wales. Our non-regulated businesses design, build and operate water assets, as well as providing renewable energy generation, property development, developer services and property searches.
2. Severn Trent Response Limited is a 60% owned subsidiary company operating in Ireland. It designs, builds, operates and maintains water infrastructure assets in Ireland and is subject to Irish tax. The company was sold on 15 May 2020.
3. Lyra Insurance Guernsey Limited and Derwent Insurance Limited are wholly owned subsidiary companies incorporated in Guernsey and Gibraltar respectively. They were established to provide insurance services to the Group. Both companies are subject to the UK Controlled Foreign Company (CFC) rules and therefore the Group incurs tax at the UK Corporation Tax rate on their profits. Proceedings are underway to liquidate Derwent Insurance Limited.
4. Severn Trent Africa Proprietary Limited is a company incorporated in South Africa that no longer trades. It is subject to tax in South Africa and proceedings are underway to deregister and liquidate this company.
5. Athena Holdings Limited was set up during the year for investment risk planning purposes. It is a wholly owned company incorporated in Hong Kong and tax resident in the UK. It has no impact on the Group's overall tax position.

# Key terms

<b>Business rates</b>	Taxes charged on our properties and infrastructure.
<b>Corporation tax</b>	The tax we pay on the profits we earn.
<b>Employer National Insurance Contributions (“NICs”)</b>	Taxes charged on employing our colleagues.
<b>Environmental taxes</b>	Taxes designed to promote environmentally positive behavior and includes taxes on the energy we use, such as Climate Change Levy.
<b>Production taxes</b>	Taxes charged on our transportation activities, such as fuel duty and vehicle excise duty, and insurance policies, such as Insurance Premium Tax.
<b>Taxes incurred</b>	Includes all taxes that represent a cost to us of running our business.



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