

Scottish Water Tax Strategy 2020/2021

The approach adopted to the management of our tax affairs is consistent with Scotland's Water Sector Vision and our purpose of 'supporting a flourishing Scotland through being trusted to care for the water on which Scotland depends'. This aligns to our three strategic ambitions: Service Excellence; going Beyond Net Zero Emissions and delivering Great Value & Financial Sustainability. To achieve these ambitions, we are committing to pursue excellence in all we do, acting responsibly and ethically, building trust and leading and inspiring others.

Our purpose means that our tax strategy balances the need to build and maintain trust whilst striving for service excellence and keep services affordable.

The principles we adopt in the tax arena are summarised below.

Effective Tax Governance and Tax Risk Management

1. The Executive Leadership Team and Audit Committee approve Scottish Water's Tax Strategy on an annual basis.
2. The Tax Team is an integral part of Scottish Water's Finance Directorate. Ensuring full compliance with the tax policy and strategy is the responsibility of the Finance Director.
3. Day-to-day tax matters are delegated to the Group Financial Controller and a small team of in-house professionals who hold a combination of accounting and tax qualifications. The in-house expertise and knowledge is enhanced as required by external professional tax advisors.
4. Scottish Water will undertake tax due diligence when considering any significant financial or structural transaction such as mergers and acquisitions. The due diligence will be supported by external professional tax advisors.
5. Scottish Water complies fully with the Senior Accounting Officer (SAO) requirements and will work to continuously review and improve tax accounting arrangements. Scottish Water has systems and processes in place to ensure that all key tax issues are identified.
6. Scottish Water complies with the Criminal Finances Act 2017 and will consider HMRC's six "guiding principles" when developing reasonable procedures to prevent associated persons from facilitating tax evasion.
7. Scottish Water operates a formal governance structure to manage risk. The Board of Scottish Water supported by the Audit Committee and the Executive Leadership Team has responsibility for the risk management framework. The systematic and structured risk management approach adopted is designed to identify, assess and effectively manage business risks.
8. Consistent with the risk management framework, any tax risks are assessed for the likelihood of occurrence and the financial and reputational impact on Scottish Water should the event occur. The key tax risk is likely to be the introduction of unexpected legislative or tax practice changes that lead to a significant increased cash outflow which was not reflected within the current regulatory settlement. Scottish Water is committed to actively engaging with relevant authorities and stakeholders in order to manage any such risk.
9. Board members are required to comply with a Code of Conduct made under the Ethical Standards in Public Life etc. (Scotland) Act 2000.

Cautious Risk Appetite in Relation to Tax

10. Scottish Water is committed to complying with all applicable tax laws, rules, regulations and associated reporting and disclosure requirements.
11. Scottish Water has a cautious risk appetite in relation to tax matters, assessing tax risk and making business decisions recognising the potential impact to its reputation, integrity and ambition to be Trusted to serve Scotland.

Tax Planning

12. Scottish Water engages in appropriate tax planning that supports its business objectives and associated commercial activities. Where it is responsible and appropriate to do so, Scottish Water will take steps to claim appropriate reliefs and incentives and thereby minimise its tax liabilities. This reflects responsible corporate behaviour in the taxation arena.
13. Whilst seeking to minimise tax liabilities for the benefit of customers, Scottish Water's policy is not to take an aggressive interpretation of tax legislation or use tax avoidance schemes.
14. Scottish Water will not enter into artificial tax arrangements and this includes a commitment not to use tax havens and low tax jurisdictions for tax avoidance purposes.
15. Scottish Water's policy is not to enter into transactions that have a primary purpose of gaining a tax advantage. This includes any merger or acquisition activity.

Relationships with Tax Authorities

16. Scottish Water will foster constructive, professional and transparent relationships with tax authorities, based on the concepts of integrity, collaboration and mutual trust.
17. Scottish Water seeks to be transparent in its dealings with HMRC and Revenue Scotland. In cases of a complex nature, potentially involving different interpretation or judgement of tax legislation etc, Scottish Water will work with the relevant tax authorities, ideally in advance of transaction completion, in order to clarify the issue and agree the associated tax treatment and tax liability if applicable.

Scottish Water complied fully with the 2019/20 Tax Strategy.

This tax strategy is published to comply with the Finance Act 2016 Schedule 19.

It applies to year ended 31 March 2021 and will be reviewed on an annual basis.

