Water companies' investment and tax

Water companies invest billions of pounds every year – more than £111 billion in the past 25 years – to fulfil their public health duties and provide the very best quality services to customers. They provide excellent quality drinking water and take their customers' wastewater away efficiently and safely. They strive to protect the environment, such as rivers and beaches, and ensure there is a plentiful supply of water for future generations.

Water industry infrastructure – whether mains and pipes, reservoirs or treatment works – needs continuous monitoring, maintenance, repair or replacement. In order to do this, while keeping bills as low as possible for customers, the industry must attract significant annual investment globally, and it is vital that water companies are able to do this as efficiently as possible. The lower the cost of financing, the lower the customer bill. It is estimated that every 1% increase in the cost of financing is equivalent to a 5% increase in bills.

Companies look to finance their investment as efficiently as possible. They use a mixture of debt finance and equity finance, of which the equity finance is more expensive, in order to compensate shareholders for the greater risk they face. The stable and predictable regulatory regime has allowed companies to secure more of their finance through debt finance than the average UK company, which reduces bills for customers. It has also made the UK water industry an attractive destination for global investment in our essential services.

Successive governments have encouraged investment both through sector specific policies and through tax policy that applies to all companies. When companies invest for the future, they can defer – but not avoid – corporation tax due to the tax relief on capital allowances. This reduction in tax has led directly to lower customer bills.

David Gauke MP, Exchequer Secretary to the Treasury, set out the general policy in the House of Commons on 10 September 2013: "The Government are committed to creating the most competitive corporation tax regime in the G20 to support investment that drives economic growth. We want a system that is stable and fair with all companies abiding by the rules and making their contribution."

When asked by Anne McIntosh MP about the water industry, he said: "We need investment in infrastructure, including water, and my Hon Friend is right to highlight the work being done on that". Richard Benyon MP, then Water Minister, expanded: "I would be cross if water companies were not using [capital allowances] because it would mean that our constituents would be paying more for their water or that there would be less investment in repairing and improving our infrastructure. Capital allowances are there for a purpose: they defer tax. If a company stops investing, it pays that tax." (19 June 2013)

As Ofwat Chairman Jonson Cox said in the Lorch Lecture at Cranfield University (September 2013): "To be clear, a regulated company benefits significantly from capital allowances associated with their investment and this – as I have previously said – is a good thing from which customers benefit."

Investment in infrastructure is vital and is one of the key drivers for growth in the UK. The UK water sector is seen as an appealing long-term investment opportunity because it offers modest but consistent returns. This investment is in all our long-term interests, ensuring that customers can continue to rely on water and wastewater services while keeping their bills low, at around £1 a day.

For further information, please contact Neil Dhot, Water UK Head of Corporate Affairs, at ndhot@water.org.uk or on 020 7344 1852.