# Ensuring strong ethics and compliance

*In this chapter you can read more about our work in the areas of modern slavery, prompt payment of suppliers, how we engage with investors on sustainability matters and what makes us a responsible taxpayer.*

In this section



# Our supply chain

## Responding to the Modern Slavery Act 2015

As a business with a turnover of more than £36m we are required to produce an annual statement which describes the steps that have been taken to prevent modern slavery and human trafficking from occurring in our supply chain and direct business activities. Our most recent statement, dated March 2019, sets out the actions that the Group is taking to ensure instances of modern slavery or human trafficking are not occurring directly in our businesses as well as indirectly in the supply chains that we use to procure goods and services. The statement also communicates the measures we have taken to improve internal understanding and awareness around modern slavery and human trafficking.

The Group is committed to understanding the risks posed by modern slavery and human trafficking and ensuring that they do not exist in our businesses or supply chains.

Our next annual statement will be published by April 2020.

You can view our statement on the homepage of our corporate website at **www.providentfinancial.com**

## Treating our suppliers fairly

Our suppliers play a vital role in our operations, so it is imperative that we encourage best practice within our supply chain by ensuring we are compliant with legislation such as the Modern Slavery Act 2015 and support supplier payment by being signatories to the Prompt Payment Code.

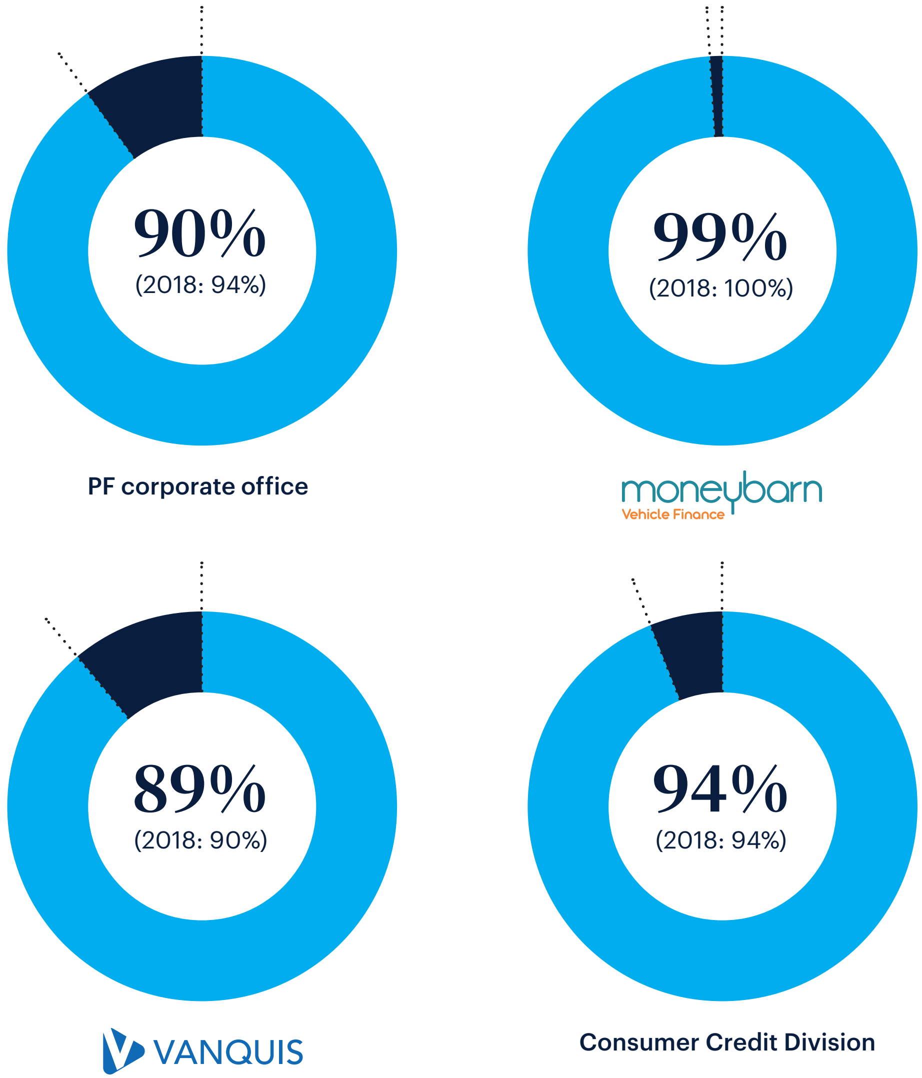
We use a large number of suppliers that range from small and medium-sized enterprises to large multinational corporations, and we are always seeking to be forward thinking in our approach to supply chain management and develop strong supplier relationships to ensure we only procure products and services from those who operate in a responsible manner.

We also understand that many of our suppliers are small and medium-sized businesses and if we do not pay them on time, this can result in cash flow challenges. Therefore, we have signed up to the Prompt Payment Code, which requires us to pay suppliers within 60 days of receiving an invoice, and aim to pay all suppliers within 30 days of receiving an invoice.

In 2019, 96% of the Group's invoices were paid in line with the Prompt Payment Code and 86% of them were paid within 30 days.

Our Blueprint: *Strategic drivers*

## Percentage of companies paid in line with the Prompt Payment Code



# Engaging investors on CR

We continue to share information on our sustainability performance, alongside our financial performance, with the investment community so investors, analysts and other key stakeholders can see how we have, in delivering our business activities, balanced profit and purpose. We do this by responding directly to requests for information from individual investors and analysts, and by maintaining a presence on specific investment indices and registers which focus on sustainability matters. This enables us to share with the investment community information on the progress we are making in terms of delivering our business strategy in accordance with our purpose, and on material issues such as responsible lending, customer satisfaction and corporate governance, as well as on a broader spectrum of issues such as climate change, equality, diversity and inclusion, and human rights.

In 2019, the Group engaged with:

CDP
DRIVING SUSTAINABLE ECONOMIES

We made our annual submission of climate change data to CDP in August 2019. CDP requests information on the risks and opportunities of climate change from the world's largest companies, on behalf of institutional investor signatories with a combined US$96 trillion of assets under management. Through the CDP submission, we can inform investors of any material climate change-related risks and opportunities, and how we manage them. Our 2019 CDP submission was rated 'C Awareness', demonstrating that we have knowledge of our impacts on climate change and of climate change issues more broadly. Our CDP submissions are published at www.cdp.net.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

In September 2019, we were notified of our inclusion in both the Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Europe Index (DJSI Europe) with a score of 61 out of 100. The DJSI is a category of the S&P Dow Jones Indices, one of the world's leading index providers, and our submission will be assessed by RobecoSAM, the investment specialist that focuses exclusively on sustainability investing. The DJSI World represents the top 10% of the largest 2,500 companies in the S&P Global BMI, and the DJSI Europe selects the top 20% of the largest 600 European companies in the S&P Global BMI based on long-term economic, environmental and social criteria.

FTSE4Good

Following the annual review undertaken by the FTSE4Good Advisory Committee, we were once again included in the FTSE4Good Index Series. Our overall score remained at 4.5 out of 5. The FTSE4Good is an extra-financial market index, which measures the performances of over 800 companies against a range of environmental, social and governance (ESG) criteria. To be included in the FTSE4Good Indexes companies must: support human rights, have good relationships with the various stakeholders, be making progress to become environmentally sustainable, ensure good labour standards in their own company and in companies that supply them, and seek to address bribery and corruption.

# What makes us a responsible taxpayer

## Our approach to tax

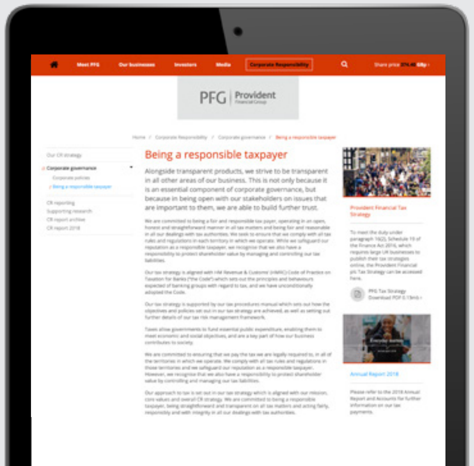
Taxes allow governments to fund essential public expenditure, enabling them to meet economic and social objectives. Paying tax is a key part of how our business contributes to society.

We are committed to being a fair and responsible taxpayer, operating in an open, honest and straightforward manner in all tax matters and being fair and reasonable in all our dealings with tax authorities. We seek to ensure that we comply with all tax rules and regulations in each territory in which we operate and we safeguard our reputation as a responsible taxpayer, while recognising that we also have a responsibility to protect shareholder value by managing and controlling our tax liabilities.

## Our tax strategy

Our tax strategy, which was last updated and approved by our Board in September 2019 and can be accessed on our website at www.providentfinancial.com, follows our corporate mission and values.

Our tax strategy is aligned with HMRC's Code of Practice on Taxation for Banks (the Code) which sets out the principles and behaviours expected of banking groups with regard to tax, and we have unconditionally adopted the Code.




To find out more on our tax strategy visit
www.providentfinancial.com

**Our strategy comprises a number of key tax objectives and policies and is supported by our tax procedures manual which sets out how the objectives and policies are to be achieved.**

It comprises a number of key principles, including:

- **Payment of taxes.** We seek to ensure that we always pay the tax we are legally required to pay and comply fully with our tax obligations in all territories in which we operate.
- **Dealings with tax authorities.** We are committed to dealing with tax authorities openly, honestly and proactively. This includes having a regular and constructive dialogue with HMRC across all taxes, seeking advance clearance where tax treatment is uncertain and discussing contentious issues as early as possible.
- **Mitigating tax liabilities.** We seek to ensure that genuine commercial transactions are structured with clear and unambiguous legislative support so that tax liabilities are controlled and minimised, but artificial structures without commercial or economic substance which give a result which is inconsistent with the underlying economic position will not be considered.
- **Mitigating and controlling tax risk.** We have a low appetite for tax risk. We set out how tax risk is mitigated and controlled by having documented processes and controls to ensure the correctness and completeness of data for tax returns and tax reporting purposes, documented principles for the involvement of the in-house tax function in transactions and business developments, the allocation of responsibilities between the tax function and the businesses and principles for the involvement of external advisors.
- **Prevention of tax evasion and the facilitation of tax evasion.** We do not tolerate any of our employees, agents or suppliers undertaking tax evasion themselves or facilitating tax evasion by another person whilst acting for us.

# **What makes us a responsible taxpayer** continued

## Our tax strategy continued

We operate only in the UK and the ROI and we do not operate in, or generate income in, any other territory. We seek to ensure that all intragroup transactions are priced on an arm's-length basis, including transactions with our Irish operation, as well as transactions between Vanquis Bank Limited (which is subject to a higher rate of corporation tax as a result of the bank corporation tax surcharge) and the rest of the Group.

## Our total tax contribution in 2019

Our total tax contribution comprises the direct tax we contribute to governments out of our own financial resources as well as the indirect tax we collect on behalf of governments, such as employment taxes deducted from payments to employees. Over the last five years, our total tax contribution has been as follows:

| | 2015 £'m | 2016 £'m | 2017 £'m | 2018 £'m | 2019 UK £'m | 2019 ROI £'m | 2019 Total £'m |
|---|---|---|---|---|---|---|---|
| **Direct tax contribution** | | | | | | | |
| Corporation tax | 48 | 57 | 40 | 7 | **14.2** | **(0.2)** | **14** |
| Bank corporation tax surcharge | — | 8 | 15 | 15 | **10.0** | **—** | **10** |
| Employer's national insurance and equivalent (note 3) | 16 | 18 | 23 | 23 | **21.4** | **0.6** | **22** |
| Irrecoverable VAT | 21 | 22 | 28 | 35 | **29.6** | **0.4** | **30** |
| Business rates | 3 | 3 | 3 | 2 | **2.0** | **—** | **2** |
| | 88 | 108 | 109 | 82 | **77.2** | **0.8** | **78** |
| **Indirect tax contribution** | | | | | | | |
| Employees' income tax and national insurance (through PAYE) (note 3) | 44 | 46 | 59 | 51 | **48.3** | **1.7** | **50** |
| Tax deducted from interest paid on Vanquis Bank deposits and redress payments (note 4) | 3 | 2 | — | 1 | **1.0** | **—** | **1** |
| | 47 | 48 | 59 | 52 | **49.3** | **1.7** | **51** |
| **Total tax contribution** | 135 | 156 | 168 | 134 | **126.5** | **2.5** | **129** |

Note 1: For 2015, the above includes small amounts of Polish taxes paid in respect of Vanquis Bank's pilot operation in Poland.

Note 2: Our Provident home credit business operates as a branch in the ROI. In 2019, it generated revenue of £28m (2018: £34m) and a loss of £5.4m (2018: loss of £4.6m) and had, on average, 119 (2018: 126) employees.

Note 3: In July 2017, the operating model of our home credit business in the UK was fundamentally altered such that customers ceased to be served by self-employed agents; instead brand-new employed roles were created, tasked with serving customers in a way which was controlled and directed entirely by the business. As a result of these changes, the average number of employees increased.

Note 4: Prior to the abolition of the requirement to withhold tax from interest on retail deposits in March 2016, basic rate income tax was withheld from such interest and paid to the UK Government. In 2018 and 2019, basic rate tax has been withheld from Repayment Option Plan (ROP) redress payments made to Vanquis Bank customers, and to redress payments made to customers elsewhere in the Group.

# **What makes us a responsible taxpayer** continued

## **Our total tax contribution in 2019** continued

### Our direct tax contribution comprises:

- **Corporation tax** – this is the tax on the profits we generate in the UK and ROI. In the UK, corporation tax is paid in quarterly instalments whereby 50% of the estimated corporation tax liability for the year is payable in the year concerned with the remaining amount in the subsequent year. Tax paid in 2019 comprised around 50% of the corporation tax liability for 2018 and 50% of the estimated liability for 2019. The reduction in corporation tax paid in 2017 and the further reduction in 2018 arose as a result of the losses generated in the home credit business in both 2017 and 2018 which substantially reduced the Group's estimated corporation tax liabilities for both years. The reduction in the home credit losses in 2019 has resulted in corporation tax payments increasing to £14m in 2019.
- **Bank corporation tax surcharge** – a bank corporation tax surcharge of 8% was introduced with effect from 1 January 2016. It applies to the taxable profits of Vanquis Bank above £25m where taxable profits are calculated after adding back bank compensation payments and the additional 10% deemed taxable receipt on such payments as well as other tax disallowable items, and, like corporation tax, it is payable through quarterly instalments. The settlements payable to Vanquis Bank customers in respect of ROP following resolution with the FCA in 2017, and the further amounts recognised in 2019 related to balance reductions on charged off accounts net of the release of provisions related to other accounts following completion of the ROP refund programme, are treated as bank compensation payments, as explained in note 5 to the Annual Report and Financial Statements 2019. As well as increasing corporation tax liabilities, they also have the impact of increasing the bank corporation tax surcharge liabilities for 2017 and 2019 and therefore the amounts of bank corporation tax surcharge paid in 2017, 2018 and 2019.

  The bank corporation tax surcharge liability does not benefit from losses generated elsewhere in the Group as tax law prohibits this. Accordingly, the losses generated by the home credit business in 2017, 2018 and 2019 have no impact on the bank corporation tax surcharge liability.
- **Employer's national insurance contributions** – in 2019 we employed, on average, 4,854 (2018: 5,849) employees in respect of whom we pay 13.8% employer's national insurance contributions in the UK and the equivalent in the ROI. In 2019, along with the Apprenticeship Levy, this comprised £22m (2018: £23m) of our direct tax contribution.
- **Irrecoverable VAT** – as a provider of loans and other credit products, we are unable to recover VAT on most of the costs we incur. In 2019, £30m (2018: £35m) of our direct tax contribution comprised irrecoverable VAT incurred by our businesses.
- **Business rates** – the remaining £2m of our 2019 direct tax contribution (2018: £2m) comprised business rates payable on the various business premises we occupy.

Employer's national insurance contributions, business rates and irrecoverable VAT are taken into account in arriving at profit before tax. Irrecoverable VAT on capitalised costs is accounted for as part of the cost of the underlying asset.

Corporation tax and bank corporation tax surcharge are accounted for through the tax charge as explained in note 5 to the Annual Report and Financial Statements 2019. The corporation tax and bank corporation tax surcharge we paid in 2019 of £24m differed from the current tax charge for the year of £34m due primarily to the timing of quarterly instalment payments in the UK and changes to profit estimates.

### Our indirect tax contribution comprises:

- **Employees' income tax and national insurance contributions** – this represents the income tax and employees' national insurance contributions and the equivalent in ROI that we deduct from amounts paid to employees through PAYE. In 2019 it amounted to £50m (2018: £51m).

# **What makes us a responsible taxpayer** continued

## Tax risk management and principal tax risks

Our tax strategy, as well as setting out how we mitigate and control tax risk, also sets out our tax risk management framework. This explains: (a) how we identify, evaluate and manage tax risk; (b) independent review and challenge of first-line actions; and (c) independent assurance provided through a rolling programme review by the Internal Audit function of the processes and internal controls underpinning the reporting and payment of UK taxes.

Insight into risk management and the principal risks facing the Group in 2019 is set out on pages 42 to 53 of the Annual Report and Financial Statements 2019. The principal tax risks facing the Group, how we mitigate those risks and progress made in 2019 are as follows:

| Risk | Mitigation and progress in 2019 |
|---|---|
| **Self-employed status of agents**<br>The Group has been, and may continue to be, subject to claims brought against it by tax authorities challenging the historic employment status of the group's home credit agents in the UK and the employment status of agents in the ROI, particularly given recent employment status cases reported in the media.<br><br>Were the Group to be unsuccessful in defending such claims, it may be required to pay additional taxes, in particular employer's national insurance contributions, to the relevant authorities. | • In July 2017, the Group changed the operating model of its home credit business in the UK from a self-employed agent model to an employed workforce so as to take direct control of all aspects of the customer relationship. In the ROI the Group continues to operate a self-employed agent operating model.<br>• Policies and procedures were in place in the UK up to the transition to the new operating model in 2017 and continue to be in place in the ROI to ensure that the relationship between the business and the agents it engages is such that self-employed status is maintained. Compliance with policies has been routinely evidenced and tested.<br>• To date the Group has successfully defended claims and challenges against the historical employment status of its home credit agents, although there is no guarantee that this will also be the case with future claims and challenges.<br>• It is understood from discussions with HMRC that they have started undertaking an industry-wide review of the self-employed status of agents in the UK.<br>• The Group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact finding stages. The Group is working positively and collaboratively with HMRC and HMRC expects that the review could continue for another year. |

# **What makes us a responsible taxpayer** continued

## **Tax risk management and principal tax risks** continued

| Risk | Mitigation and progress in 2019 |
|---|---|
| **Other tax risks**<br>The Group has a number of tax risks across corporation tax, VAT and employment taxes. These include:<br>(a) The risk that there is an unforeseen breakdown in the systems and processes which underpin the preparation of tax returns and identification of tax sensitive matters which results in an item being treated incorrectly for tax purposes.<br>(b) The risk that the Group has not put in place adequate procedures to meet its legal and compliance obligations.<br>(c) The risk that tax authorities take a view that is different to the view that the Group has taken on the treatment of particular items in its tax returns. | • We place considerable importance on having in place robust processes and internal controls to ensure the correctness and completeness of data which needs to be captured and treated correctly in the various tax returns that the Group is required to make. As well as allowing the annual Senior Accounting Office certification to be made, these processes are a key control in our overall tax governance framework, providing assurance that tax sensitive issues are identified and taxes are correctly calculated.<br>• During 2019, the Internal Audit function carried out its annual review of different aspects of the operational effectiveness of processes and internal controls over UK corporation tax, UK VAT returns and UK employment taxes.<br>• The risk assessment and implementation plan developed in 2017 following the changes introduced by the Criminal Finances Act 2017 has now been largely implemented to ensure reasonable procedures are in place to prevent tax evasion and the facilitation of tax evasion by associates. Improvements to supplier onboarding are continuing to be developed.<br>• An experienced central in-house tax function is in place, supported by tax aware personnel in the businesses, which deals with, or has oversight of, all of the Group's tax matters. During the year, the Head of Tax provided the Group Audit Committee with a further update of progress against the risk assessment and implementation plan related to prevention of the facilitation of tax evasion, an update to the tax strategy was provided and approved, and regular updates were provided to both the Group Risk Committee and the Board on the progress of HMRC's review of the historical employment status of the self-employed agents.<br>• Expert third-party tax advice is obtained on all material transactions and wherever the necessary expertise is not available in house. During 2019, advice was obtained on a range of issues including the tax treatment of the securitisation of Moneybarn receivables, HMRC's review of the historical employment status of agents in the UK and the appropriateness of the model for recovering VAT from HMRC where Moneybarn recovers a vehicle as a result of customer default or voluntary termination of a conditional sales contract.<br>• In keeping with our strategy of having a regular and constructive dialogue with HMRC across all taxes:<br>  • We have worked constructively and collaboratively with HMRC in relation to its review of the historical employment status of agents in the UK, agreeing a number of key aspects of how the review was to be approached and carried out.<br>  • We consulted HMRC on a range of employment taxes issues where the tax treatment was uncertain, including certain distributions from the Employer Funded and Unfunded Retirement Benefit Schemes, certain life assurance payments and a historical car fleet issue in the Consumer Credit Division.<br>  • We completed work on an improved model for recovering VAT from HMRC where a VATable car has been provided to a customer under a conditional sales contract and the car is subsequently returned to Moneybarn following default or voluntary termination.<br>  • We sought guidance on the tax treatment of a number of other issues across a range of taxes, including matters related to withholding of basic rate tax on certain customer redress payments. |