

SEVERN WASTE SERVICES LIMITED

Annual Report and financial statements

For the year ended 31 December 2016

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SEVERN WASTE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

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SEVERN WASTE SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

FCC Environment Services (UK) Limited
Urbaser Limited
J Peiro
A Serrano

REGISTERED OFFICE

The Marina
Kings Road
Evesham
Worcestershire
England
WR11 3XZ

BANKERS

HSBC Bank plc
PO Box 4
6 Broad Street
Worcester
WR1 2EJ

SOLICITORS

Harrison Clark Rickerbys LLP
Ellenborough House
Wellington Street
Cheltenham
Gloucestershire
GL50 1YD

Gowling WLG (UK) LLP
2 Snowhill
Birmingham
B4 6WR

AUDITOR

Deloitte LLP
Statutory Auditor
Manchester
United Kingdom
M3 3HF

SEVERN WASTE SERVICES LIMITED

STRATEGIC REPORT

The directors present their strategic report on the affairs of the company, together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The company operates all of the waste management facilities of Mercia Waste Management Limited ("Mercia"), a fellow company under common control, under the terms of an Operating and Maintenance Agreement ("OMA"). The company is responsible for performing the obligations of the agreement for a management fee. In addition, reimbursable operating costs are received from Mercia.

On 21 May 2014, the company signed a Construction Management Agreement with Mercia, acting as the construction manager. Under the terms of this agreement, the company co-ordinates the design and construction of new facilities as required for the Councils of Herefordshire and Worcestershire ("the Councils"). Payments in respect of the construction of the EfW Plant at Hartlebury were only due up until take-over of the Plant which took place in March 2017.

REVIEW OF THE BUSINESS AND KEY PERFORMANCE INDICATORS

As shown in the company's Profit and loss account on page 8, the company's sales have increased by 1% from the prior year (2015 – increase of 4%). The increase in 2016 is mainly due to the impact of increased costs in relation to commissioning works being carried out at the new facility in Hartlebury. These costs are invoiced to Mercia.

The Balance sheet on page 9 of the financial statements shows the company's financial position at the year end. The increase in net assets is attributed to the post-tax profit for the year of £10,067 (2015 – £6,225) offset by the actuarial loss of £1,745 (2015 – £25,600) recognised in respect of the defined benefit pension scheme.

The company's cash balances decreased to £1,248,983 in 2016 from £2,188,975 in 2015. The decrease is due to the timing of deposit payments relating to the contract held with Mercia.

The directors confirm that there are no significant events arising since the balance sheet date.

RESULTS AND DIVIDENDS

The profit for the year is set out on page 8. The directors do not recommend payment of a dividend (2015 – £nil) and the profit of £10,067 (2015 – £6,225) has been transferred to reserves.

PRINCIPAL RISKS AND UNCERTAINTIES

Management consider that operational risks faced by the company are mitigated by the contract held with Mercia.

Movements arising on the defined benefit pension scheme within the company were a further financial risk for the company. Management consider that this risk has been relinquished by the payment of a section 75 debt and as a result of this payment Severn Waste is absolved of any future liabilities in relation to the defined benefit scheme.

FUTURE DEVELOPMENTS

During 2017 the company has commenced operating Mercia's new Energy from Waste plant in Hartlebury. This will result in an increase in operating expenditure, however this is expected to be more than offset by a saving in Landfill Tax costs, as waste is diverted away from the landfill.

Approved by the Board of Directors and signed on behalf of the Board



Agustín Serrano

Director

29 June 2017

SEVERN WASTE SERVICES LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2016. The company's results and dividends and future developments are presented in the Strategic report and form part of this report by cross reference.

DIRECTORS

The directors who served during the year and thereafter were as follows:

FCC Environment Services (UK) Limited

Urbaser Limited

A Serrano

J Peiro

DONATIONS

The company made no political donations in the year (2015 - £nil).

Contributions of £935,715 (2015 - £678,971) were made by the company via the Landfill Communities Fund. The net cost to the company of these payments was £93,571 (2015 - £67,897).

DISABLED EMPLOYEES

The company recognises its responsibilities towards disabled persons and therefore, where applicable, applications for employment are considered bearing in mind the respective aptitudes and abilities of the candidate. Where an applicant is judged, for reasons related to their disability, to have failed to meet the requirements of a job description, consideration will be given to whether an adjustment can be made to the role, to counteract any disability related disadvantage. In the event of existing employees becoming disabled, every effort is made to ensure that their employment can continue. It is the policy of the company that the training and development of a disabled employee should as far as possible be the same as that of an able bodied person.

EMPLOYEE CONSULTATION

The company continues its policy of involving employees in its affairs where possible and creating the opportunity for management to communicate to employees matters which affect the company's performance. This is achieved through meetings, memoranda and briefings.

GOING CONCERN

The company has sufficient financial resources to meet its day to day requirements, and as a consequence the directors believe that the company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk.

Cash flow and credit risk

The company's principal financial assets are bank balances and receivables. The receivables are from related party companies, whereby an allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Liquidity risk

The company does not use derivative financial instruments.

SEVERN WASTE SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

AUDITOR

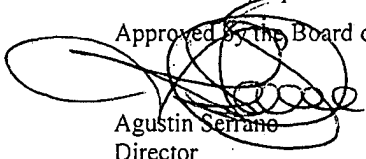
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue as the company's auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



Agustin Serrano
Director
29 June 2017

SEVERN WASTE SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN WASTE SERVICES LIMITED

We have audited the financial statements of Severn Waste Services Limited for the year ended 31 December 2016, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN WASTE SERVICES LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



William Smith MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
29 June 2017

SEVERN WASTE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

	Note	2016 £	2015 £
TURNOVER	3	37,048,727	36,566,351
Cost of sales		<u>(34,676,303)</u>	<u>(34,259,435)</u>
GROSS PROFIT		2,372,424	2,306,916
Administrative expenses		<u>(2,372,424)</u>	<u>(2,306,916)</u>
OPERATING RESULT	5	-	-
Finance income (net)	6	<u>10,880</u>	<u>6,080</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,880	6,080
Tax (charge)/credit on profit on ordinary activities	7	<u>(813)</u>	<u>145</u>
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY		<u>10,067</u>	<u>6,225</u>

All results arose from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 £	2015 £
Profit for the financial year		10,067	6,225
Actuarial losses relating to the pension scheme	16	(2,000)	(32,000)
UK deferred tax attributable to actuarial gains and losses relating to the pension scheme	11	<u>255</u>	<u>6,400</u>
		<u>(1,745)</u>	<u>(25,600)</u>
Total comprehensive gain/(loss) attributable to equity shareholders of the company		<u>8,322</u>	<u>(19,375)</u>

SEVERN WASTE SERVICES LIMITED

BALANCE SHEET

As at 31 December 2016

	Note	2016 £	2015 £
CURRENT ASSETS			
Stock	8	127,420	112,177
Debtors	9	3,722,756	3,534,943
Cash at bank and in hand		1,248,983	2,188,975
		<u>5,099,159</u>	<u>5,836,095</u>
CREDITORS: amounts falling due within one year	10	<u>(4,794,029)</u>	<u>(5,539,287)</u>
NET CURRENT ASSETS, BEING NET ASSETS		<u>305,130</u>	<u>296,808</u>
CAPITAL AND RESERVES			
Called-up share capital	12	250,000	250,000
Profit and loss account		55,130	46,808
TOTAL SHAREHOLDERS' FUNDS		<u>305,130</u>	<u>296,808</u>

These financial statements of Severn Waste Services Limited, registered number 03618688, were approved by the Board of Directors and authorised for issue on 29 June 2017.

Signed on behalf of the Board of Directors


Agustin Serrano
Director

SEVERN WASTE SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY As at 31 December 2016

	Called up share capital £	Profit and loss account £	Total £
At 1 January 2015	250,000	66,183	316,183
Profit for the financial year	-	6,225	6,225
Actuarial losses relating to pension scheme	-	(32,000)	(32,000)
Tax adjustment relating to pension scheme	-	6,400	6,400
	<hr/>	<hr/>	<hr/>
Total comprehensive loss	-	(19,375)	(19,375)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	250,000	46,808	296,808
	<hr/>	<hr/>	<hr/>
Profit for the financial year	-	10,067	10,067
Actuarial losses relating to pension scheme	-	(2,000)	(2,000)
Tax adjustment relating to pension scheme	-	255	255
	<hr/>	<hr/>	<hr/>
Total comprehensive profit	-	8,322	8,322
	<hr/>	<hr/>	<hr/>
At 31 December 2016	250,000	55,130	305,130
	<hr/>	<hr/>	<hr/>

SEVERN WASTE SERVICES LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	2016 £	2015 £
Net cash outflow from operating activities	14	(950,872)	(273,918)
Cash flows from investing activities			
Interest received		10,880	12,335
Net cash flows from investing activities		10,880	12,335
Net decrease in cash and cash equivalents		(939,992)	(261,583)
Cash and cash equivalents at beginning of year		2,188,975	2,450,558
Cash and cash equivalents at end of year		1,248,983	2,188,975

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) General information and basis of accounting

Severn Waste Services Limited is a private company limited by shares and registered in Worcestershire, United Kingdom and incorporated under the Companies Act. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 2.

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Severn Waste Services Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

b) Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 2. The Strategic Report also describes the financial position of the company; the company's objectives, policies and processes for managing its capital; and the company's policies to mitigate its principal risks and uncertainties. The company has sufficient financial resources to meet its day to day working capital requirements, and as a consequence the directors believe that the company is well-placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

d) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

e) Turnover

Turnover represents amounts receivable for services provided in the normal course of business, net of trade discounts and VAT. Turnover from the supply of services represents the value of services provided under contracts to the extent there is a right to consideration and is recorded at the value of the consideration due, and is recognised at the point at which the services are performed.

f) Employee benefits

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurements, comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in other comprehensive income.

The defined benefit scheme is funded, with the assets held separately from those of the company, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

g) Stocks

Stock consists wholly of finished goods and is stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

h) Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs).

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Debt instruments are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The following relates to the critical judgement and estimations that the directors have made in the process of applying the company's accounting policies and that has the most significant effect on the amounts recognised in the financial statements:

Leachate accrual

The company operates, via a permit with the Environment Agency, the landfill operations owned by Mercia Waste Management Limited and pays for the processing of leachate (a liquid emanating from the site which requires treatment). The company monitors the height of leachate in the landfill cells via regular readings taken at various points from within the site. An estimate is then made from these values of the total leachate held within the site for which the company needs to provide. Key to this calculation is the level of saturation (the amount of liquid within a cubic metre of waste). The estimate used is based on industry standards and is reviewed periodically.

Recoverability of debtors

The debtor balance outstanding with the related party, Mercia Waste Management Limited, is the trading balance due on the ongoing Operation and Maintenance Agreement and the Construction Management Agreement. The directors have reviewed this matter and satisfied themselves that the amount receivable is appropriate and that no impairment of the balance is warranted.

3. TURNOVER

All turnover was derived within the UK from sales to the company's fellow associated undertaking, Mercia Waste Management Limited (see note 15).

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors remuneration

Directors A Serrano and J Peiro are not employees of the company and received no remuneration during the year (2015 – nil).

Directors FCC Environment Services (UK) Limited and Urbaser Limited received remuneration by way of management fees from the company for their services during the current and preceding year. Full disclosure is detailed in note 15.

	2016 No.	2015 No.
Average number of persons employed		
Technical and administrative	22	19
Operational	270	245
	<u>292</u>	<u>264</u>
	2016	2015
	£	£
Staff costs during the year		
Wages and salaries	6,380,863	5,145,398
Social security costs	553,734	419,424
Pension costs	322,091	82,440
	<u>7,256,688</u>	<u>5,647,262</u>

5. OPERATING RESULT

	2016 £	2015 £
Operating result is stated after charging:		
Rentals under operating leases		
Hire of plant and machinery	49,480	137,853
Other operating leases	106,289	113,942
Cost of stock recognised as an expense	<u>1,506,764</u>	<u>1,472,164</u>

The analysis of auditor's remuneration is as follows:

	2016 £	2015 £
Fees payable to the company's auditor for the audit of the company's annual financial statements	<u>21,750</u>	<u>22,375</u>
Total audit fees	<u>21,750</u>	<u>22,375</u>
Taxation services – compliance	4,000	4,000
Other taxation services	2,900	-
Total non-audit fees	<u>6,900</u>	<u>4,000</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

6. FINANCE INCOME (NET)

	2016 £	2015 £
Net interest on defined benefit scheme (see note 16)	-	(6,255)
Bank interest received	10,880	12,335
	<u>10,880</u>	<u>6,080</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises:

	2016 £	2015 £
United Kingdom corporation tax at 20% (2015 – 20%) based on the profit for the year	<u>2,576</u>	<u>-</u>
Deferred tax timing differences	<u>(1,763)</u>	<u>(145)</u>
Total tax charge/(credit)	<u>813</u>	<u>(145)</u>

The standard rate of tax applied to profit on ordinary activities is 20% (2015 – 20%). Finance (No.2) Act 2015 enacted further reductions resulting in a main rate of corporation tax of 19% for financial years 2017 to 2019 and a rate of 17% with effect from 1 April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 17% in these accounts.

The difference between the total tax charge shown above and the amount calculated by applying standard rate of UK corporation tax to the profit before tax is as follows:

	2016 £	2015 £
Profit on ordinary activities before tax	<u>10,880</u>	<u>6,080</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2015 – 20%)	2,176	1,216
Effects of:		
Expenses not deductible for tax purposes	683	1,527
Group relief surrendered	-	2,857
Losses carried forward/(utilisation of losses)	<u>(2,046)</u>	<u>(5,745)</u>
Total tax charge/(credit)	<u>813</u>	<u>(145)</u>

8. STOCK

	2016 £	2015 £
Consumables	<u>127,420</u>	<u>112,177</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

9. DEBTORS

	2016 £	2015 £
Amounts owed by related parties (note 15)	3,332,406	3,017,041
Other debtors	25,621	237,600
Prepayments and accrued income	362,966	280,302
Deferred tax (note 11)	1,763	-
	<u>3,722,756</u>	<u>3,534,943</u>

All amounts are due within one year. Amounts owed by related parties are non-interest bearing and repayable on demand.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £	2015 £
Trade creditors	1,073,814	647,719
Amounts owed to joint venture shareholders (note 15)	747,814	725,515
Landfill tax payable	962,874	2,078,663
Other taxes and social security	522,632	488,446
Corporation tax	2,176	-
Other creditors	439,006	489,821
Accruals and deferred income	1,045,713	1,109,123
	<u>4,794,029</u>	<u>5,539,287</u>

Amounts owed to joint venture shareholders are non-interest bearing and repayable on demand.

11. DEFERRED TAX

	Deferred tax asset £	Pension related liability £	Total (note 9) £
At 1 January 2016	16,020	(16,020)	-
(Charged)/credited to the profit and loss account	(14,257)	15,765	1,508
Credited to statement of comprehensive income	-	255	255
	<u>1,763</u>	<u>-</u>	<u>1,763</u>
At 31 December 2016			

The deferred tax asset is provided as follows:

	2016 £	2015 £
Deferred tax assets and liabilities		
Asset recoverable after one year	<u>1,763</u>	<u>16,020</u>
Liability payable after one year	<u>-</u>	<u>(16,020)</u>

12. CALLED-UP SHARE CAPITAL

	2016 £	2015 £
Called-up, allotted and fully paid 250,000 ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

13. FINANCIAL COMMITMENTS

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2016 Land and buildings £	2015 Land and buildings £
Amounts falling due		
- within one year	115,218	112,736
- between two and five years	386,928	447,694
- after five years	412,223	514,144
	<u>914,369</u>	<u>1,074,574</u>

14. RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2016 £	2015 £
Operating result	-	-
Current pension service cost	-	6,255
(Increase)/decrease in debtors	(186,050)	252,609
Increase in stocks	(15,243)	(4,472)
Decrease in creditors	(522,834)	(495,200)
Adjustment for pension funding	(226,345)	(33,110)
Corporation tax paid	(400)	-
Net cash outflow from operating activities	<u>(950,872)</u>	<u>(273,918)</u>

15. RELATED PARTY TRANSACTIONS

Mercia Waste Management Limited

In 1999, Mercia Waste Management Limited ("Mercia"), a fellow associated undertaking of the company, appointed the company to operate all of Mercia's planned and existing waste management installations under the terms of an Operating and Maintenance Agreement. The company is responsible for performing the obligations of Mercia within the operating budget agreed by Mercia and received a fee of £34,604,574 for this in the year (2015 - £36,138,313).

On 21 May 2014, Mercia, as contractor, signed a Construction Management Agreement with the company acting as the construction manager. Fees charged during the year were £423,528 (2015 - £428,038) and amounts invoiced to recharge commissioning costs were £2,020,625 (2015 - £nil).

The trading balance due from Mercia at 31 December 2016 was £3,332,406 (2015 - £3,017,041).

Joint venture shareholder entities

FCC Environment Services (UK) Limited and Urbaser Limited are the joint venture shareholders of Severn Waste Services Limited.

The company was charged management and advisory fees by FCC Environment Services (UK) Limited of £1,186,212 (2015 - £1,153,458). The amount owed by the company to FCC Environment Services (UK) Limited at 31 December 2016 was £373,907 (2015 - £362,758).

The company was charged management and advisory fees by Urbaser Limited of £1,186,212 (2015 - £1,153,458). The amount owed by the company to Urbaser Limited at 31 December 2016 was £373,907 (2015 - £362,757).

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

15. RELATED PARTY TRANSACTION (continued)

All of the above management fees were recharged to Mercia as part of the Operating and Maintenance Agreement and are included in the fee received in the current and prior year.

Other related party transactions

The total remuneration for key management personnel for the year totalled £160,345 (2015 - £164,549).

16. EMPLOYEE BENEFITS

The company provides the following pension arrangements:

Defined contribution schemes

The Company operates two Defined Contribution Schemes for its staff.

The cost of the scheme with Prudential Assurance was £46,651 (2015 - £22,083).

The cost of the scheme with Legal & General was £29,394 (2015 - £25,555).

Defined benefit scheme

The pension cost of the defined benefit scheme is assessed in accordance with the advice of a qualified independent actuary. The last remaining active member retired in late 2015, as a consequence of this a 'section 75' debt became due upon Severn Waste during 2016. The scheme was underfunded when assessed using a solvency valuation. The contributions made by the employer into the defined benefit scheme over the financial year as a result of the section 75 debt have been £246,000 (2015 - £33,110). As a result of this payment Severn Waste is absolved of any future liabilities in relation to the defined benefit scheme.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered may not necessarily be borne out in practice.

Actuarial assumptions

	2016	2015	2014
Rate of increase in salaries	N/a	3.60%	3.50%
Rate of increase in pensions in payment	3.3%	3.00%	2.90%
Discount rate	2.8%	3.80%	3.90%
Inflation assumption (RPI)	3.4%	3.10%	3.00%
Inflation assumption (CPI)	2.4%	2.10%	2.00%
Rate of revaluation for deferred pensioners	2.4%	2.10%	2.00%

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

16. EMPLOYEE BENEFITS (continued)

Fair value of assets

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance.

	Market value at 31 December 2016 £'000	Market value at 31 December 2015 £'000	Market value at 31 December 2014 £'000
Equities	-	145	-
Insurance policies	-	2	109
Government bonds	-	131	-
Corporate bonds	-	4	-
Property	-	7	-
Diversified growth	-	36	-
Cash	-	15	301
	-	340	410

The actual return on scheme assets for the year was a profit of £33,000 (2015 - £8,000).

Mortality assumptions:

Investigations have been carried out within the past three years into the mortality experience of the company's defined benefit scheme. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	Valuation at	
	2016 years	2015 years
Retiring today:		
Males	21.6	21.5
Females	23.9	23.8
Retiring in 20 years:		
Males	23.4	23.3
Females	25.8	25.7

Reconciliation of pension scheme assets and liabilities

	2016 £'000	2015 £'000	2014 £'000
Fair value of scheme assets	-	340	410
Present value of scheme liabilities	-	(251)	(349)
Surplus in the scheme	-	89	61
Unrecognised surplus	-	(89)	(56)
Asset to be recognised	-	-	5

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

16. EMPLOYEE BENEFITS (continued)

Movements in the present value of defined benefit liabilities were as follows:

	2016 £'000	2015 £'000
At 1 January	251	349
Service cost	-	6
Interest cost	7	12
Contributions by scheme participants	-	1
Actuarial losses/(gains)	117	(5)
Benefits paid	(1)	(112)
Liabilities extinguished on settlements	(374)	-
At 31 December	-	251

Movements in the fair value of defined benefit assets were as follows:

	2016 £'000	2015 £'000
At 1 January	340	410
Interest income	10	14
Actuarial gains/(losses)	23	(6)
Contributions from the sponsoring companies	246	33
Contributions from scheme members	-	1
Benefits paid	(1)	(112)
Assets distributed on settlements	(618)	-
At 31 December	-	340

Analysis of the amount included as other finance income/(charges)

	2016 £'000	2015 £'000
Current service cost	-	(6)

Analysis of the amounts charged to operating profit

	2016 £'000	2015 £'000
Interest income	10	14
Interest cost	(7)	(12)
Losses on settlements	(244)	-
Net finance (charge)/income	(241)	2

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

16. EMPLOYEE BENEFITS (continued)

Analysis of the actuarial gain in the statement of comprehensive income

	2016 £'000	2015 £'000
Actual gain/(loss) less expected return on pension scheme assets	23	(6)
Experience (losses)/gains arising on the scheme liabilities	(53)	10
Changes in assumptions underlying the present value of the scheme liabilities	(64)	(5)
Total actuarial losses (before restriction due to some of the surplus not being recognisable)	(94)	(1)
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable – gain/(loss)	92	(31)
Total actuarial losses recognised in other comprehensive income	(2)	(32)

The estimated amounts of contributions expected to be paid to the scheme during the 2017 financial year is £nil (2016 - £23,700).

17. FINANCIAL INSTRUMENTS

The carrying values of the company's financial assets and liabilities are summarised by category below:

	2016 £	2015 £
Financial assets		
Measured at undiscounted amount receivable		
• Other debtors (see note 9)	25,621	237,600
• Amounts due from related parties (see note 9)	3,332,406	3,017,041
	<u>3,358,027</u>	<u>3,254,641</u>
Financial liabilities		
Measured at undiscounted amount payable		
• Trade and other creditors (see note 10)	2,035,452	1,625,986
• Amounts owed to joint venture shareholders (see note 10)	747,814	725,515
	<u>2,783,266</u>	<u>2,351,501</u>

18. CONTROLLING PARTY

There is no ultimate controlling party as the company is jointly owned by FCC Environment Services (UK) Limited and Urbaser Limited.