

SEVERN WASTE SERVICES LIMITED

Annual Report and financial statements

For the year ended 31 December 2014

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SEVERN WASTE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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SEVERN WASTE SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

COMPANY SECRETARY

TMF Corporate Administration Services Limited

REGISTERED OFFICE

The Marina
Kings Road
Evesham
Worcestershire
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

Wragge Lawrence Graham and Co LLP
2 Snowhill
Birmingham
B4 6WR

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom

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 2014.

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 Mercia 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").

STRATEGIC REVIEW, DEVELOPMENTS AND PROSPECTS

As shown in the company's profit and loss account on page 6, the company's sales have increased by 5% from the prior year (2013 - 7%). The increase in 2014 is mainly due to the impact of increased costs in the recycle processing market and landfill tax. These costs are invoiced to Mercia.

The balance sheet on page 8 of the financial statements shows the company's financial position at the year end. The decrease in net assets is attributed to the post-tax profit for the year of £6,736 (2013 - £4,790 loss) in addition to the actuarial loss of £34,400 (2013 - gain of £32,000) recognised in respect of the defined benefit pension scheme.

The company's cash balances increased to £2,450,558 in 2014 from £1,064,575 in 2013. The increase is due to the timing of the payment of management charges.

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

Management expects trade for 2015 to continue at similar levels to those achieved in 2014.

RESULTS AND DIVIDENDS

The results for the year are set out on page 6. The directors do not recommend payment of a dividend (2013 - £nil) and the profit of £6,736 (2013 - £4,790) has been transferred to reserves.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Movements arising on the defined benefit pension scheme within the company are a further financial risk for the company. Management consider that this risk is controlled through planning and consultation with actuarial advisers to ensure that contributions are sufficient to mitigate the movements in the deficit during the year.

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.

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



Agustín Serrano

Director

7th May 2015

SEVERN WASTE SERVICES LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company for the year ended 31 December 2014. The company's principal activities, business review, results and dividends, and principal risks and uncertainties are presented in the Strategic Report.

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 or charitable donations in the year (2013 - same).

Contributions of £1,083,445 (2013 - £643,526) were made by the company via the Landfill Communities Fund. The net cost to the company of these payments was £108,344 (2013 - £64,353).

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.

AUDITOR

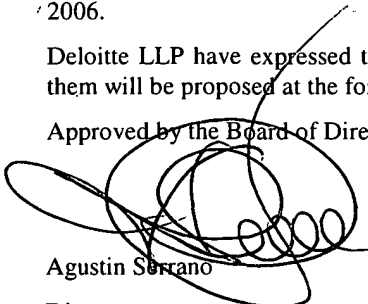
In the case of each of the persons who is a director of the company at the date when this report is approved:

- 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

7th May 2015

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). 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 judgements 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 2014, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 19. 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).

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 2014 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 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.

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

William Smith MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
13 May 2015

SEVERN WASTE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2014

	Note	2014 £	2013 £
TURNOVER	2	35,053,177	33,196,425
Cost of sales		(32,901,423)	(29,405,657)
GROSS PROFIT		2,151,754	3,790,768
Administrative expenses		(2,143,754)	(3,779,806)
OPERATING PROFIT	4	8,000	10,962
Interest receivable	5	11,110	9,314
Other finance charges	18	(8,000)	(11,000)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		11,110	9,276
Tax charge on profit on ordinary activities	6	(4,374)	(4,486)
PROFIT FOR THE FINANCIAL YEAR	12	6,736	4,790

All results arose from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2014

	Note	2014 £	2013 £
Profit for the financial year	12	6,736	4,790
Actuarial (losses)/gains relating to the pension scheme	18	(43,000)	40,000
UK deferred tax attributable to actuarial gains and losses relating to the pension scheme	10	8,600	(8,000)
Total recognised gains and losses related to the year		(27,664)	36,790

SEVERN WASTE SERVICES LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS For the year ended 31 December 2014

	2014 £	2013 £
Profit for the financial year	6,736	4,790
Net recognised actuarial (loss)/gains for the year	(34,400)	32,000
Total recognised gains and losses related to the year	(27,664)	36,790
Opening shareholders' funds	343,847	307,057
Closing shareholders' funds	316,183	343,847

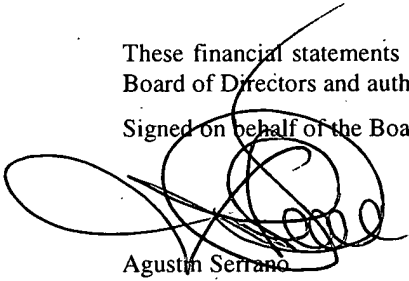
SEVERN WASTE SERVICES LIMITED

BALANCE SHEET As at 31 December 2014

	Note	2014 £	2013 £
CURRENT ASSETS			
Stock	7	107,705	130,603
Debtors	8	3,788,407	4,090,924
Cash at bank and in hand		2,450,558	1,064,575
		<u>6,346,670</u>	<u>5,286,102</u>
CREDITORS: amounts falling due within one year	9	<u>(6,034,487)</u>	<u>(4,962,255)</u>
NET CURRENT ASSETS		<u>312,183</u>	<u>323,847</u>
NET ASSETS EXCLUDING PENSION ASSET		312,183	323,847
PENSION ASSET	18	<u>4,000</u>	<u>20,000</u>
NET ASSETS INCLUDING PENSION ASSET		<u>316,183</u>	<u>343,847</u>
CAPITAL AND RESERVES			
Called-up share capital	11	250,000	250,000
Profit and loss account	12	<u>66,183</u>	<u>93,847</u>
TOTAL SHAREHOLDERS' FUNDS		<u>316,183</u>	<u>343,847</u>

These financial statements of Severn Waste Services Limited, registered number 03618688, were approved by the Board of Directors and authorised for issue on 7 May 2015.

Signed on behalf of the Board of Directors


Agustín Serrano

Director

SEVERN WASTE SERVICES LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2014

	Note	2014 £	2013 £
Net cash inflow/(outflow) from operating activities	14	1,374,873	(859,947)
Returns on investments and servicing of finance	15	11,110	9,314
Taxation	15	-	(1,707)
Net cash inflow/(outflow)	16	<u>1,385,983</u>	<u>(852,340)</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. ACCOUNTING POLICIES

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

Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable law and United Kingdom accounting standards.

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.

Taxation

Current tax, including UK corporation 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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, 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 at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Stocks

Stock consists wholly of finished goods and is stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

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.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

1. ACCOUNTING POLICIES (continued)

Pension costs

The company accounts for pension costs in accordance with FRS 17 "Retirement Benefits".

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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 method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

In addition, the company contributes towards the personal pension plans of certain categories of employees for which the amount charged to the profit and loss account in respect of pension costs 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.

2. TURNOVER

All turnover was derived within the UK from sales to the company's fellow associated undertaking, Mercia Waste Management Limited (see note 17).

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors remuneration

Directors A Serrano and J Peiro received no remuneration during the year (2013 – same).

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 17.

	2014 No.	2013 No.
Average number of persons employed		
Technical and administrative	17	19
Operational	239	243
	<u>256</u>	<u>262</u>
	2014	2013
	£	£
Staff costs during the year		
Wages and salaries	4,863,164	4,840,274
Social security costs	399,788	400,171
Pension costs	81,357	76,888
	<u>5,344,309</u>	<u>5,317,333</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

4. OPERATING PROFIT

	2014 £	2013 £
Operating profit is stated after charging:		
Rentals under operating leases		
Hire of plant and machinery	208,689	168,385
Other operating leases	145,156	141,079
	<u>208,689</u>	<u>168,385</u>

The analysis of auditor's remuneration is as follows:

	2014 £	2013 £
Fees payable to the company's auditor for the audit of the company's annual financial statements	21,175	20,075
Total audit fees	<u>21,175</u>	<u>20,075</u>
Taxation services	4,558	1,500
Total non-audit fees	<u>4,558</u>	<u>1,500</u>

5. INTEREST RECEIVABLE

	2014 £	2013 £
Bank interest	11,110	9,314

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2014 £	2013 £
United Kingdom corporation tax at 20% (2013 – 20%) based on the profit for the year	-	-
Deferred tax timing differences	4,374	4,486
Total tax charge	<u>4,374</u>	<u>4,486</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

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

	2014 £	2013 £
Profit on ordinary activities before tax	<u>11,110</u>	<u>9,276</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2013 – 20%)	2,222	1,855
Effects of:		
Expenses not deductible for tax purposes	108	515
Movement in short term timing differences	(4,374)	(4,486)
Losses carried forward	<u>2,044</u>	<u>2,116</u>
	<u>-</u>	<u>-</u>

7. STOCK

	2014 £	2013 £
Finished goods	<u>107,705</u>	<u>130,603</u>

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

8. DEBTORS

	2014 £	2013 £
Amounts owed by related parties (note 17)	3,294,733	3,757,882
Other debtors	199,789	20,376
Prepayments and accrued income	293,030	312,037
Deferred tax (note 10)	855	629
	<u>3,788,407</u>	<u>4,090,924</u>

All amounts are due within one year.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £	2013 £
Trade creditors	888,922	1,093,605
Amounts owed to joint venture shareholders (note 17)	760,586	-
Amounts owed to related parties (note 17)	15,822	-
Landfill tax payable	2,108,632	1,923,026
Other taxes and social security	529,685	516,372
Other creditors	363,097	359,836
Accruals and deferred income	<u>1,367,743</u>	<u>1,069,416</u>
	<u>6,034,487</u>	<u>4,962,255</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

10. DEFERRED TAX

	Deferred tax asset (note 8) £	Pension related liability (note 18) £	Total £
At 1 January 2014	629	(5,000)	(4,371)
Credited/(charged) to the profit and loss account	226	(4,600)	(4,374)
Credited to statement of total recognised gains and losses	-	8,600	8,600
At 31 December 2014	<u>855</u>	<u>(1,000)</u>	<u>(145)</u>

The deferred tax asset is provided as follows:

	2014 £	2013 £
Short-term timing differences	<u>855</u>	<u>629</u>

11. CALLED-UP SHARE CAPITAL

	2014 £	2013 £
Called-up, allotted and fully paid 250,000 ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

12. RESERVES

	Profit and loss account £
As at 1 January 2014	93,847
Profit for the financial year	6,736
Net actuarial losses relating to the pension scheme	(34,400)
As at 31 December 2014	<u>66,183</u>

13. FINANCIAL COMMITMENTS

Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2014 Land and Buildings £	2013 Land and buildings £
Expiry date:		
- within one year	14,400	54,963
- between two and five years	-	27,000
- after five years	109,904	55,089
	<u>124,304</u>	<u>137,052</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

14. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2014 £	2013 £
Operating profit	8,000	10,962
Current pension service cost	8,000	21,000
Decrease/(increase) in debtors	302,743	(191,504)
Decrease/(increase) in stocks	22,898	(8,659)
Increase/(decrease) in creditors	1,072,232	(639,746)
Adjustment for pension funding	(39,000)	(52,000)
Net cash inflow/(outflow) from operating activities	1,374,873	(859,947)

15. ANALYSIS OF CASH FLOWS

	2014 £	2013 £
Returns on investments and servicing of finance		
Net cash inflow from interest received	11,110	9,314
Taxation		
UK corporation tax paid	-	(1,707)

16. ANALYSIS AND RECONCILIATION OF NET FUNDS

	1 January 2014 £	Cash flow £	31 December 2014 £
Cash at bank and in hand	1,064,575	1,385,983	2,450,558
Net funds	1,064,575	1,385,983	2,450,558

	2014 £	2013 £
Increase/(decrease) in cash in the year	1,385,983	(852,340)
Movement in net funds in the year	1,385,983	(852,340)
Net funds at beginning of the year	1,064,575	1,916,915
Net funds at end of the year	2,450,558	1,064,575

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

17. 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 £35,053,177 for this in the year (2013 - £33,196,425). The trading balance due from Mercia at 31 December 2014 was £3,294,733 (2013 - £3,757,882).

On 21 May 2014, Mercia, as contractor, signed a Construction Management Agreement with the company acting as the construction manager. Fees charged during the period were £258,662. The trading balance owed to Mercia at 31 December 2014 was £15,822 (2013 - £nil)

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 £1,071,877 (2013 - £1,889,203). The amount owed by the company to FCC Environment Services (UK) Limited at 31 December 2014 was £380,293 (2013 - £nil).

The company was charged management and advisory fees by Urbaser Limited of £1,071,877 (2013 - £1,889,203). The amounts owed by the company to Urbaser Limited at 31 December 2014 was £380,293 (2013 - £nil).

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.

18. PENSION COSTS

The company provides the following pension arrangements:

Defined contribution schemes

A grouped personal pension scheme arrangement where the company makes contributions to certain employees' personal pension plans held with Prudential Assurance. The cost of the scheme was £25,039 (2013 - £25,335).

In April 2014, a defined contribution scheme with Legal & General plc was set-up in compliance with the new regulatory requirements of the Pensions Act 2008. The cost of the scheme was £18,189 (2013 - £nil).

Defined benefit scheme

The pension cost of the defined benefit scheme is assessed in accordance with the advice of a qualified independent actuary using the projected unit method. The latest full actuarial assessment of the scheme was at 31 December 2012 and this has been updated to 31 December 2014 by qualified actuaries.

The latest FRS 17 actuarial valuation of the Severn Waste Services Limited scheme, as at 31 December 2014, shows a total surplus of £61,000 (2013 - £25,000) before adjusting for the element of the surplus that is unrecognisable, and for deferred tax.

The contributions made by the employer into the defined benefit scheme over the financial year have been £39,000 (2013 - £52,000).

As the scheme is closed to new entrants, the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll.

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.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

18. PENSION COSTS (continued)

Actuarial assumptions

	2014	2013	2012
Rate of increase in salaries	3.50%	3.90%	3.35%
Rate of increase in pensions in payment	2.90%	3.30%	2.85%
Discount rate	3.90%	4.55%	4.60%
Inflation assumption (RPI)	3.00%	3.40%	2.85%
Inflation assumption (CPI)	2.00%	2.40%	2.15%
Rate of revaluation for deferred pensioners	2.00%	2.40%	2.15%

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.

	Expected rate of return at 31 December 2014	Market value at 31 December 2014 £'000	Expected rate of return at 31 December 2013	Market value at 31 December 2013 £'000	Expected rate of return at 31 December 2012	Market value at 31 December 2012 £'000
Equities	6.3%	-	6.0%	93	7.0%	72
Insurance policies	3.8%	109	3.0%	108	3.5%	123
Cash	0.5%	301	0.5%	262	0.5%	205
		<u>410</u>		<u>463</u>		<u>400</u>

The actual return on scheme assets for the year was a profit of £23,000.

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	
	2014 years	2013 years
Retiring today:		
Males	21.5	21.3
Females	23.7	23.6
Retiring in 20 years:		
Males	23.2	23.1
Females	25.6	25.5

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2014

18. PENSION COSTS (continued)

Sensitivities

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 6.2%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 6.2%
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 0%
Rate of mortality	Increase by 1 year	Increase by 2.1%

Reconciliation of pension scheme assets and liabilities

	2014 £'000	2013 £'000	2012 £'000
Fair value of scheme assets	410	463	400
Present value of scheme liabilities	(349)	(438)	(435)
Surplus/(deficit) in the scheme	61	25	(35)
Unrecognised surplus	(56)	-	-
Asset/(liability) to be recognised	5	25	(35)
Related deferred tax	(1)	(5)	7
Net pension surplus/(deficit)	4	20	(28)

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

	2014 £'000	2013 £'000
At 1 January	438	435
Service cost	8	21
Interest cost	18	20
Contributions by scheme participants	2	4
Actuarial gains	-	(23)
Benefits paid	(117)	(19)
At 31 December	349	438

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

	2014 £'000	2013 £'000
At 1 January	463	400
Expected return on scheme assets	10	9
Actuarial gains	13	17
Contributions from the sponsoring companies	39	52
Contributions from scheme members	2	4
Benefits paid	(117)	(19)
At 31 December	410	463

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2014

18. PENSION COSTS (continued)

Analysis of the amounts charged to operating profit

	2014 £'000	2013 £'000
Current service cost	(8)	(21)

Analysis of the amount included as other finance charges

	2014 £'000	2013 £'000
Expected return on scheme assets	10	9
Interest cost	(18)	(20)
Net finance charge	(8)	(11)

Analysis of the actuarial gain in the statement of total recognised gains and losses

	2014 £'000	2013 £'000
Actual return less expected return on pension scheme assets	13	17
Experience gains and (losses) arising on the scheme liabilities	10	(16)
Changes in assumptions underlying the present value of the scheme liabilities	(10)	39
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) – gain	13	40
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable – (loss)	(56)	-
Total actuarial gains and losses recognised – (loss)/gain	(43)	40

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS 17 is a loss of £98,000 (2013: £55,000).

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2014

18. PENSION COSTS (continued)

History of experience gains and losses

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Difference between the expected and actual return on scheme assets	13	17	8	(14)	(1)
<i>As a percentage of scheme assets</i>	3.2%	3.7%	2.0%	(4.0%)	(0.4%)
Experience gains and (losses) arising on scheme liabilities	10	(16)	4	8	11
<i>As a percentage of the present value of the scheme liabilities</i>	2.9%	(3.7%)	0.9%	2.1%	3.0%
Effects of changes in demographic and financial assumptions underlying the present value of scheme liabilities	(10)	39	(9)	16	(7)
<i>As a percentage of the present value of the scheme liabilities</i>	(2.9%)	8.9%	(2.1%)	4.1%	(1.9%)
Total actuarial gain/(loss) (before restriction for unrecognised surplus)	13	40	3	10	3
<i>As a percentage of the present value of scheme liabilities</i>	3.7%	9.1%	0.7%	2.6%	0.8%
Unrecognised surplus	(56)	-	-	-	-
<i>As a percentage of the present value of scheme assets</i>	(13.7%)	-	-	-	-
Total actuarial gains and losses recognised	(43)	40	3	10	3
<i>As a percentage of the present value of scheme liabilities</i>	(12.3%)	9.1%	0.7%	2.6%	0.8%

The estimated amounts of contributions expected to be paid to the scheme during the 2014 financial year is £34,000.

Movement in scheme surplus/(deficit) during the year

	2014 £'000	2013 £'000
Surplus/(deficit) at 1 January	25	(35)
Current service cost	(8)	(21)
Net finance charge	(8)	(11)
Contributions	39	52
Actuarial gain	13	40
Surplus at 31 December	61	25

19. CONTROLLING PARTY

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