

**Strategic Report, Directors' Report and  
Audited Financial Statements for the Year Ended 31 March 2022  
for  
South Tyne & Wear Energy Recovery Ltd**

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for the year ended 31 March 2022**

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# **South Tyne & Wear Energy Recovery Ltd**

## **Company Information for the year ended 31 March 2022**

<b>Directors:</b>	B F Knox B P Millsom M J Williams M H Thompson M Kanai C D Thorn
<b>Secretary:</b>	A Mitchell
<b>Registered office:</b>	C/O Albany SPC Services Ltd 3rd Floor 3 - 5 Charlotte Street Manchester M1 4HB
<b>Registered number:</b>	07417700 (England and Wales)
<b>Independent auditors:</b>	Mazars LLP 90 Victoria Street Bristol BS1 6DP
<b>Bankers:</b>	Crédit Agricole Broadwalk House 5 Appold Street London EC2 2DA
<b>Solicitors:</b>	Allen & Overy LLP 1 Bishops Square London E1 6AD

**Strategic Report  
for the year ended 31 March 2022**

The directors present their strategic report for the year ended 31 March 2022.

**Company objectives**

The company has signed a PFI Contract with The Borough Council of Gateshead to cover the provision of waste treatment infrastructure. In this contract, the Borough Council of Gateshead acts as the lead Authority for a consortium, including the Boroughs of South Tyneside and Sunderland.

The objectives of the company are to successfully construct, finance and operate the waste treatment infrastructure for all three local Authorities. This waste treatment infrastructure comprises a new Energy from Waste (EfW) plant in Billingham, Teesside, together with two new transfer stations in Gateshead and Sunderland and a refurbished transfer station in South Tyneside.

The agreement to provide the facilities was signed on 20 April 2011 with construction commencing shortly after. Full services commenced on site on 22 April 2014.

**Company's strategy**

To ensure that the company achieves its objectives, the strategy is to implement processes, policies and procedures to comply with the control matrices stipulated in the project documentation committed to at the inception of the project. This includes monitoring construction progress, minimising performance and availability deductions, cash monitoring and maintenance of good working relationships between all stakeholders.

**Strategic Report  
for the year ended 31 March 2022**

**Principal risks and uncertainties**

As the project is now in its operational phase, operational risks relating to the smooth and efficient running of the facility and equipment are monitored closely. This takes the form of full-time representation on site by the company's principal subcontractor alongside representation through the company's management services agent and periodic reporting by the independent Technical Assessor.

Approximately a third of the company's forecast income is earned from electricity generation under a power purchase agreement. This income stream is dependent on the volume of waste processed and the smooth operation of the turbine. To date, the volume of waste processed has been in excess of expectations and the plant is operating well.

Exposure to risk relating to interest rate movements has been substantially mitigated by the use of interest rate swaps that swap variable rate exposure to a fixed rate.

On completion of construction, operational services commenced. The operations of the facilities are subcontracted to Suez Recycling and Recovery UK Limited under a 25 year contract. The majority of the company's revenues are paid under a PFI contract with the ultimate client (The Borough Council of Gateshead).

Whilst the main elements of cash flow (authority payments, facilities management costs and lifecycle costs) are contractually linked to either provisions ensuring a minimum guaranteed income or the RPI index, a relatively small proportion of total costs are not protected from inflation increases. A rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history so far is good, current premium renewals have not been excessive and there is a cost sharing mechanism in place with the authority.

A small proportion of cash flow is derived from bank interest on cash balances. The current low levels of interest rates have reduced this interest but this has not impacted on debt covenant compliance.

**COVID-19**

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020, which resulted in various lockdowns throughout 2020 and 2021. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the Company in responding to COVID-19 has been assessed as low. This is because the Company was and is still able to provide the services required under the project agreement - the sub-contracted facilities management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April 2020. As a result of the lockdowns, the authority waste volumes have increased significantly during year, which has resulted in additional waste revenue and higher operating costs.

Since the COVID-19 outbreak, the customer (The Borough Council of Gateshead), has continued making unitary payments in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.

**Key performance indicators**

As the project is within its operational phase, tonnage of waste accepted and processed and levels of electricity generation compared to annual forecasts are key performance indicators. These are reported quarterly to the Board and have been above expectations to date. Additionally monitored are the levels of performance deductions arising from failures to achieve specified levels of contract service. These have been relatively small in the year and are contractually passed onto the contractor with no impact on company cash flows.

Another key indicator is the ratio of operating cash flow to the senior debt service amount as the lenders seek confirmation that there is no risk to the ability of the company to meet its debt obligations, both currently and in the future. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

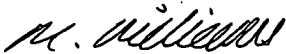
**Strategic Report  
for the year ended 31 March 2022**

**Development and performance of the business**

The delivery of operational services is generally running well with the tonnage of waste processed through the EfW facility to be in excess of that anticipated at financial close. The results of the company for the year are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 11 and the company's position at the end of the financial year is stated in the Statement of Financial Position on page 12.

The company made a profit before tax of £16,548,000 (2021: £1,763,000). The primary reason for the increase is higher prices achieved for power generated in the year.

**On behalf of the board:**



.....  
M J Williams - Director

Date: 19/09/2022  
.....

**Directors' Report  
for the year ended 31 March 2022**

The directors present their report with the financial statements of the company for the year ended 31 March 2022.

**Principal activity**

The company has signed a PFI Contract with The Borough Council of Gateshead to cover the provision of waste treatment infrastructure. In this contract, the Borough Council of Gateshead acts as the lead Authority for a consortium including the Boroughs of South Tyneside and Sunderland.

The principal activities of the company are to construct, finance and operate the waste treatment infrastructure for all three local Authorities. This waste treatment infrastructure comprises a new Energy from Waste (EfW) plant in Billingham, Teesside, together with two new transfer stations in Gateshead and Sunderland and a refurbished transfer station in South Tyneside.

The agreement to provide the facilities was signed on 20 April 2011 with construction commencing shortly after. Full services commenced on site on 22 April 2014.

**Business review**

The profit for the year is £12,444,000 (2021: £1,148,000).

The results for the company for the year are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 11.

**Going concern**

The directors have reviewed the net liabilities position at 31 March 2022 (the reasons for which are more fully explained in note 2) and, taken together with the company meeting all lending covenants, believe that it will not impact on the ability of the company to continue trading for the foreseeable future and have therefore prepared the accounts on a going concern basis.

The revenues achieved from power generation during 2021 and 2022 are significantly higher than anticipated and are expected to continue into 2023. The company is protected from future reductions in this income by a guaranteed price floor within its power purchase agreement along with power output levels consistently higher than original projections at financial close.

Since the COVID-19 outbreak, the customer, The Borough Council of Gateshead, has continued making unitary payments in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.

**Financial instruments**

The company's principal financial instruments consist of a term loan and subordinated debt via a loan with the company's parent. The terms of these financial instruments are such that the profile of the debt service costs are tailored to match expected revenues arising from the concession.

The company does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities.

**Interest rate risk**

The term loan is exposed to interest rate risk.

The company has entered into three identical fixed interest rate swap agreements to avoid volatility in debt service costs on its floating rate term loan. It is considered that these agreements constitute cash flow hedges.

The shareholder loan notes are subject to a fixed interest rate.

**Employees**

No staff are directly employed by the company. Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges.

**Dividends**

The company made a dividend payment of £3,015,000 in the year (2021: £6,000,000).

**Directors' Report  
for the year ended 31 March 2022**

**Events since the end of the year**

Information relating to events since the end of the year is given in the notes to the financial statements.

**Directors**

The directors during the year under review were:

F T A Duval	- resigned 8.11.21
B F Knox	
G A McKenna-Mayes	- deceased 24.6.21
B P Millsom	
Y Suzuki	- resigned 22.6.21
M J Williams	
M H Thompson	- appointed 28.6.21
M Kanai	- appointed 22.6.21
C D Thorn	- appointed 8.11.21

The directors holding office at 31 March 2022 did not hold any beneficial interest in the issued share capital of the company at 1 April 2021 (or date of appointment if later) or 31 March 2022.

**Statement as to disclosure of information to auditors**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Directors' Indemnity**

The Company has granted indemnity to one or more of its directors against liabilities in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

**Auditors**

The auditors, Mazars LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

**On behalf of the board:**



M J Williams - Director

Date: 19/09/2022



**Statement of Directors' Responsibilities  
for the year ended 31 March 2022**

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK adopted international 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 estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK adopted international accounting standards ;
- 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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# Independent auditor's report to the members of South Tyne & Wear Energy Recovery Limited

## Opinion

We have audited the financial statements of South Tyne & Wear Energy Recovery Limited (the 'company') for the year ended 31 March 2022 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended; and
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters 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.

### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

### **Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: environmental regulation, health and safety regulation, anti-money laundering regulation.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting

estimates, in particular in relation to cash-flow hedges, lifecycle provisions, recognition of deferred tax asset, revenue recognition (which we pinpointed to the cut-off and accuracy assertions), and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of the audit report

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.



Jon Barnard (Sep 20, 2022 15:43 GMT+1)

Jonathan Barnard (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

90 Victoria Street, Bristol, BS1 6DP

Date Sep 20, 2022

**Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 31 March 2022**

	Notes	2022 £'000	2021 £'000
<b>Continuing operations</b>			
Revenue	3	38,847	25,570
Cost of sales		(19,469)	(19,631)
<b>Gross profit</b>		<b>19,378</b>	<b>5,939</b>
Administrative expenses		(2,396)	(2,458)
<b>Operating profit before other losses</b>		<b>16,982</b>	<b>3,481</b>
Other losses	5	-	(1,313)
<b>Operating profit</b>		<b>16,982</b>	<b>2,168</b>
Finance costs	6	(15,057)	(15,303)
Finance income	6	14,623	14,898
<b>Profit before income tax</b>	7	<b>16,548</b>	<b>1,763</b>
Income tax	8	(4,104)	(615)
<b>Profit for the year</b>		<b>12,444</b>	<b>1,148</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Income tax relating to items that will not be reclassified to profit or loss		-	-
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Effective portion of changes in value of cash flow hedges		15,258	10,849
Income tax relating to items that may be reclassified subsequently to profit or loss		(1,400)	(2,061)
		<b>13,858</b>	<b>8,788</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>13,858</b>	<b>8,788</b>
<b>Total comprehensive income for the year</b>		<b>26,302</b>	<b>9,936</b>

The notes on pages 16 to 38 form part of these financial statements

**Statement of Financial Position**  
**31 March 2022**

	Notes	2022 £'000	2021 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Other financial assets	3	166,843	170,764
Deferred tax	18	1,622	6,702
		<u>168,465</u>	<u>177,466</u>
<b>Current assets</b>			
Trade and other receivables	10	10,005	5,911
Other financial assets	3	4,623	3,807
Cash and cash equivalents	11	26,906	13,719
		<u>41,534</u>	<u>23,437</u>
<b>Total assets</b>		<u>209,999</u>	<u>200,903</u>
<b>Equity</b>			
<b>Shareholders' equity</b>			
Called up share capital	12	10	10
Cashflow hedging reserve	13	(18,734)	(32,592)
Retained earnings	13	15,288	5,859
<b>Total equity</b>		<u>(3,436)</u>	<u>(26,723)</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other financial liabilities	14	24,979	40,237
Other interest-bearing loans and borrowings	15	155,526	161,269
Provisions	17	17,144	15,394
		<u>197,649</u>	<u>216,900</u>
<b>Current liabilities</b>			
Trade and other payables	14	6,837	4,900
Other interest-bearing loans and borrowings	15	8,525	5,826
Tax payable		424	-
		<u>15,786</u>	<u>10,726</u>
<b>Total liabilities</b>		<u>213,435</u>	<u>227,626</u>
<b>Total equity and liabilities</b>		<u>209,999</u>	<u>200,903</u>

The financial statements were approved by the Board of Directors and authorised for issue on 19/09/2022 and were signed on its behalf by:



M J Williams - Director

The notes on pages 16 to 38 form part of these financial statements

**Statement of Changes in Equity  
for the year ended 31 March 2022**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Cashflow hedging reserve £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 April 2020</b>	10	10,711	(41,379)	(30,658)
<b>Changes in equity</b>				
Profit for the year	-	1,148	-	1,148
Other comprehensive income	-	-	8,787	8,787
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income	-	1,148	8,787	9,935
Dividends	-	(6,000)	-	(6,000)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2021</b>	10	5,859	(32,592)	(26,723)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Changes in equity</b>				
Profit for the year	-	12,444	-	12,444
Other comprehensive income	-	-	13,858	13,858
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income	-	12,444	13,858	26,302
Dividends	-	(3,015)	-	(3,015)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2022</b>	10	15,288	(18,734)	(3,436)
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 16 to 38 form part of these financial statements



**Statement of Cash Flows  
for the year ended 31 March 2022**

	Notes	2022 £'000	2021 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	34,278	22,139
Net cash from operating activities		34,278	22,139
<b>Cash flows from investing activities</b>			
Interest received		26	-
Net cash from investing activities		26	-
<b>Cash flows from financing activities</b>			
Loan repayments in year		(5,826)	(9,290)
Interest paid		(12,276)	(12,641)
Refinancing costs		-	(223)
Equity dividends paid		(3,015)	(6,000)
Net cash from financing activities		(21,117)	(28,154)
<b>Increase/(decrease) in cash and cash equivalents</b>		13,187	(6,015)
<b>Cash and cash equivalents at beginning of year</b>	23	13,719	19,733
<b>Cash and cash equivalents at end of year</b>	23	26,906	13,719

The notes on pages 16 to 38 form part of these financial statements

**Notes to the Financial Statements  
for the year ended 31 March 2022**

**1. Statutory information**

South Tyne & Wear Energy Recovery Ltd is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

**2. Accounting policies**

**Basis of preparation**

These financial statements have been prepared in accordance with UK-adopted international accounting standards and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

**Accounting estimates and significant judgements**

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed generally under the impairment policy with the exception of the following:

**- Impairment of financial asset as a result of financing changes**

In the prior year, there was a reduction in ongoing revenue receivable agreed as a result of the replacement of reserved funds with a debt facility and the contractual sharing of the resulting gain is reflected within these financial statements. Judgement was exercised in concluding that a proportion of the reduction in future income should be reflected as an impairment of the financial asset in the year of agreement with the remainder to be recognised as the concession progresses. A £1,313,000 impairment was recognised within these financial statements as Other Losses within the Statement of Profit or Loss in the prior year.

**- Lifecycle provision**

The inclusion of a provision in respect of lifecycle costs of £17,144,000 (2021: £15,394,000) reflects the uneven profile of expenditure over the concession period to which the company is contracted with the lifecycle contractor. In assessing the provision at each period end, estimates are made in respect of future inflation as it applies to the contract. The impact of a +/-1% inflation rate shift on the lifecycle provision at the year end is immaterial.

**- Deferred tax**

Provision has been made for a deferred taxation asset of £1,622,000 (2021: £6,702,000) on the basis that the financial models and forecasts prepared by the company support the reversal of the deferred tax assets (arising from tax losses and hedging instrument valuations) and deferred tax liabilities (based on the lifecycle provisioning and timing of taxation payable on the financial asset) held at the balance sheet date.

**- Cash flow hedges**

The value of the cash flow hedging instruments held by the company are included within the financial statements at the mark-to-market valuations provided by the swap counterparties, adjusted for a 4% margin to reflect the company's assessment of counterparty risk. In the 2022 financial statements this adjustment represents a £1,041,000 reduction in liabilities (2021: £1,677,000).

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**Measurement convention**

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. All amounts are stated in £ sterling. All primary statements are stated in thousands (unless otherwise stated).

**Going concern**

The company currently has £168,934,000 of total debt (2021: £172,587,000). Whilst it has net liabilities of £3,437,000 in 2022 (2021: £26,390,000), this is as a result of accounting for the fair value of interest rate swap agreements, the majority of which do not crystallise as liabilities for a number of years and as such the company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities.

The company has considerable financial resources together with long-term contracts with The Borough Council of Gateshead. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

The revenues achieved from power generation during 2021 and 2022 are significantly higher than anticipated and are expected to continue into 2023. The company is protected from future reductions in this income by a guaranteed price floor within its power purchase agreement along with power output levels consistently higher than original projections at financial close.

After making enquiries, including around any impact of COVID-19 as disclosed in the directors' report, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

**Standards, amendments and interpretations adopted during the period**

There have been no standards, amendments and interpretations which the company has had to adopt in the year to 31st March 2022.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**2. Accounting policies - continued**

**Service concession financial asset**

In accordance with IFRIC 12 and the various provisions of Adopted IFRS, the company has determined the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Results of all service concessions which fall within the scope of IFRIC12 conform to the following policies depending on the rights to consideration under the service concessions.

The company recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are held at amortised cost.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the construction phase, revenue was recognised at cost, plus attributable profit to the extent that it was reasonably certain, in accordance with IAS11 (now IFRS15). Costs for this purpose included valuation of all work done by subcontractors whether certified or not, and all overheads other than those relating to the general administration of the relevant companies.

During the operational stage, cash received in respect of the service concessions is allocated to service and maintenance revenue based on its fair value with margins attributed to each revenue stream based on an assessment of risk, with the remainder being allocated between capital repayment and interest income using the effective interest method.

The finance receivables are held as a loan or receivable in accordance with IFRS9: 'Financial Instruments'. Finance receivables are recognised initially at fair value. Subsequent to initial recognition, finance receivables are measured at amortised cost using the effective interest method less any impairment losses.

The 28-year concession agreement between the company (operator) and The Borough Council of Gateshead (grantor) covers the design, build and operation of waste facilities. The grantor, as part of the concession agreement, has agreed to provide a minimum guaranteed tonnage of waste to the facility and will pay a fixed price per tonne for this level of waste with any further tonnage being subject to a different rate. The operator, in return, will remove and treat the waste at the central facility and has the obligation to maintain the facilities under lifecycle clauses within the contract.

There are provisions in the contract in relation to the extension of the contract period by up to five years and also provisions for termination (and related compensation) in the event of default or voluntary termination by the operator or grantor.

The service arrangement has been classified as a financial asset under IFRIC 12 due to the highly guaranteed nature of the expected revenues with the exception of the initial refurbishment works at three waste transfer stations as they were subject to reimbursement via a capital contribution from the grantor. Assets are recognised as financial assets rather than intangible assets as the revenues in respect of the construction costs are not subject to demand risk.

In the prior year, a refinancing exercise took place, the terms of which reduced the rate at which the grantor paid for waste services. This resulted in an impairment charge of £1,313k to the Statement of Profit or Loss and Other Comprehensive Income in the prior year with future reductions to be recognised as the concession term progresses.

**Revenue**

Invoiced service revenue is recognised as performance obligations are satisfied on a monthly basis and with this revenue is credited to the financial asset. Services revenue recognised in the income statement represents revenue generated from the provision of waste facility operation and maintenance costs, calculated at the fair value of services provided.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**2. Accounting policies - continued**

Variable revenue (electricity revenue and waste revenue above that contractually guaranteed) is recognised as it is earned.

**Cash and cash equivalents**

Cash represents cash in hand and deposits held on demand with financial institutions. Cash equivalents are short-term, highly-liquid investments with original maturities of three months or less (as at their date of acquisition). Cash equivalents are readily convertible to known amounts of cash and subject to an insignificant risk of change in that cash value.

In the presentation of the Statement of Cash Flows, cash and cash equivalents also include bank overdrafts. Any such overdrafts are shown within borrowings under 'current liabilities' on the Statement of Financial Position.

**Classification of financial instruments issued by the company**

Financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, a service concession financial asset, cash and cash equivalents, loans and borrowings, and trade and other payables.

**Trade and other receivables**

Trade and other receivables are recognised at amortised cost less any expected credit losses.

**Service concession financial asset**

Costs associated with the construction of the service concession financial asset are recognised initially at amortised cost. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

**Trade and other payables**

Trade and other payables are recognised at amortised cost.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, which are held at fair value.

**Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at amortised cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

**Derivative financial instruments**

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**2. Accounting policies - continued**

**Cash flow hedges**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

The associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast item affects profit or loss.

**Impairment excluding inventories and deferred tax assets**

**Financial assets (including receivables)**

A financial asset carried at amortised cost is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

**Expenses**

**Financing income and expenses**

Financing expenses comprise interest payable using the effective interest method, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy) with any borrowing costs that are directly attributable to the construction of an asset that takes a substantial time to be prepared for use being capitalised as part of the cost of that asset. Financing income comprises interest on the service concession debtor, interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**2. Accounting policies - continued**

**Accounting standards issued but unadopted in these financial statements**

New and revised IFRSs in issue but not yet effective

New standards and amendments effective from 1 January 2022

IFRS amendments effective from 1 January 2022 (UK-adopted and EU-endorsed)

- IAS 16 Amendment: Property, Plant and Equipment: Proceeds before Intended Use
- IAS 37 Amendment: Onerous Contracts: Cost of Fulfilling a Contract
- IFRS 3 Amendment: Reference to the Conceptual Framework
- Annual Improvements Cycle 2018 to 2020

New standards and amendments in issue from 1 January 2023 onwards, but not yet effective

IFRS standards effective from 1 January 2023 (EU-endorsed and UK-adopted)

- IFRS 17 Insurance Contracts and IFRS 17 Amendment: Amendments to IFRS 17

IFRS standards effective from 1 January 2023 (EU-endorsed, not UK-adopted)

- IAS 1 Amendment: Disclosure of Accounting Policies
- IAS 8 Amendment: Definition of Accounting Estimates

IFRS standards effective from 1 January 2023 (not UK-adopted, nor EU-endorsed)

- IAS 1 Amendment: Classification of Liabilities as Current or Non-current
- IAS 12 Amendment: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 17 Amendment: Initial Application of IFRS 17 and IFRS 9 - Comparative Information

**3. Revenue**

**Segmental reporting**

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Service concession operating revenue	<b>16,293</b>	16,324
Electricity and variable waste income	<b>22,555</b>	9,246
	<b><u>38,848</u></b>	<u>25,570</u>

**Revenue from contracts with customers**

**Other financial assets**

	<b>2022</b>	2021
	<b>£'000</b>	£'000
<b>Non-current</b>		
Service concession financial asset	<b><u>166,843</u></b>	<u>170,764</u>
	<b>2022</b>	2021
	<b>£,000</b>	£'000
<b>Current</b>		
Service concession financial asset	<b><u>4,623</u></b>	<u>3,807</u>

In the case of Service Concession Revenue the customer pays a fixed plus variable amount based on the contractual terms. The performance obligation to operate and maintain the facilities is satisfied over time as the plant is operated and maintained. If the services rendered by the company exceed the payment a contract asset is recognised. If the payments exceed the services rendered a contract liability is recognised.

In the prior year, a refinancing exercise took place which resulted in an impairment charge of £1,313k to the Statement of Profit or Loss and Other Comprehensive Income.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**4. Employees and directors**

**Staff numbers and costs**

No staff are directly employed by the company (2021: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges.

**Directors' remuneration**

The directors received no emoluments directly from the company (2021: £nil).

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Recharges in respect of directors' services	<b>25</b>	<b>25</b>
	<b>25</b>	<b>25</b>

**5. Other losses**

In the prior year an exercise took place to release funds held within a reserved cash account and replace the related requirement with a debt facility arrangement. The terms of the company's Project Agreement with The Borough Council of Gateshead provide for the resulting gain from any such transaction to be taken as a reduction to their ongoing commitment to make payments for services provided by the company.

To reflect the reduced level of guaranteed income receivable from The Borough Council of Gateshead, an impairment of £1,313,000 was been provided for against the value of the Financial Asset in the prior year.



**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**6. Net finance costs**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Finance income:		
Deposit account interest	26	-
Interest income on service concession financial asset	14,597	14,898
	<u>14,623</u>	<u>14,898</u>
Finance costs:		
Senior loan interest	10,579	10,988
Other finance costs	121	94
Loan stock interest	4,357	4,221
	<u>15,057</u>	<u>15,303</u>
Net finance costs	<u>434</u>	<u>405</u>

**7. Profit before income tax**

Included in the profit for the year are the following:

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Operation and maintenance costs	19,468	19,630
Administration costs	2,373	2,439
	<u>21,841</u>	<u>22,069</u>
Other Losses - Impairment to Financial Asset	-	1,313
Auditor's remuneration:		
Audit of these financial statements	22	20
	<u>21,863</u>	<u>23,402</u>
Total expenses	<u>21,863</u>	<u>23,402</u>

Included in the auditors' remuneration above is £1,000 (2021: £1,000) for the audit of the parent entity South Tyne and Wear Energy Recovery Holdings Limited.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**8. Income tax**

**Taxation**

Recognised in the income statement:

	2022 £'000	2021 £'000
Deferred tax charge		
Origination and reversal of temporary differences	3,680	615
Deferred tax charge	3,680	615
Corporation tax charge	424	-
Total tax charge	4,104	615

Recognised in other comprehensive income:

	2022 £'000	2021 £'000
Total tax charge	1,400	2,061

**Reconciliation of effective tax rate**

	2021 £'000	2021 £'000
Profit for the year	12,444	1,148
Total tax charge	4,104	615
Profit excluding taxation	16,548	1,763
Tax using the UK corporation tax rate of 19%	3,144	335
On service concession differences	571	280
Increase in rate on deferred tax balances	389	-
Total tax charge	4,104	615

**Factors that may affect future tax charges**

A change to the future UK corporation tax rate was enacted during the year. The rate will increase from the current rate of 19% to 25% with effect from 1 April 2023 for profits over £250,000, with marginal relief available on profits between £50,000 to £250,000. This has been incorporated into the deferred tax rate figures above.

**9. Dividends**

	2022 £'000	2021 £'000
Final dividend of £301.50 per share (2021: £600.00)	3,015	6,000

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**10. Trade and other receivables**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Current:		
Trade debtors	-	868
Other debtors	9,357	4,448
Prepayments	648	595
	<u>10,005</u>	<u>5,911</u>

**11. Cash and cash equivalents**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Bank accounts	<u>26,906</u>	<u>13,719</u>

**12. Called up share capital**

Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	<b>2022</b>	<b>2021</b>
			<b>£</b>	<b>£</b>
10,000	Ordinary	£1	<u>10,000</u>	<u>10,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**13. Reserves**

	<b>Retained earnings</b>	<b>Cashflow hedging reserve</b>	<b>Totals</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2021	5,859	(32,592)	(26,733)
Profit for the year	12,444	-	12,444
Dividends	(3,015)	-	(3,015)
Deferred tax	-	(1,400)	(1,400)
Fair value movement	-	15,258	15,258
	<u>15,288</u>	<u>(18,734)</u>	<u>(3,446)</u>
At 31 March 2022	<u>15,288</u>	<u>(18,734)</u>	<u>(3,446)</u>

**Cash flow hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**14. Trade and other payables**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Current:		
Trade creditors	<b>391</b>	1,210
Other creditors	<b>465</b>	446
Accrued expenses	<b>5,326</b>	2,853
Tax and social security	<b>655</b>	391
	<u><b>6,837</b></u>	<u>4,900</u>
Non-current:		
Interest rate swap liability	<u><b>24,979</b></u>	<u>40,237</u>
Aggregate amounts	<u><b>31,816</b></u>	<u>45,137</u>

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**15. Other interest-bearing loans**

**Other interest-bearing loans and borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate risk, see note 16.

	2022 £'000	2021 £'000
Current:		
Bank loans	6,352	5,826
Parent company loan	2,173	-
	<u>8,525</u>	<u>5,826</u>
Non-current:		
Bank loans	121,325	127,069
Parent company loan	34,200	34,200
	<u>155,525</u>	<u>161,269</u>

**Debt repayment schedule**

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Totals £'000
Bank loans	6,352	6,212	21,285	93,828	127,677
Parent company loan	2,173	-	-	34,200	36,373
	<u>8,525</u>	<u>6,212</u>	<u>21,285</u>	<u>128,028</u>	<u>164,050</u>

**Terms and debt repayment schedule**

	Senior Loan £ sterling	Parent company loan £ sterling	Total
Currency			
Notional interest rate	SONIA + 2.8% margin	12.75%	
Facility	£176,778,000	£38,287,000	
Year of maturity	2037	2039	
<b>2022</b>			
Face Value (£'000)	132,584	36,350	168,394
Carrying amount (£'000)	127,677	36,373	164,050
<b>2021</b>			
Face Value (£'000)	138,409	34,177	172,586
Carrying amount (£'000)	132,896	34,200	167,096

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**15. Other interest-bearing loans - continued**

The senior loan above had a nominal interest rate of LIBOR (this was transitioned to SONIA from April 2022 to April 2037) plus a 2.8% margin until 1 April 2014. This margin reduced to 2.6% from 1 April 2014 for 5 years after which it reverted back to a margin of 2.8% on 1 April 2019. This margin is set to increase on 1 April 2024 to 2.9% for 5 years, after which it is set to rise to 3.1% until the end of the concession. The company has entered into swap arrangements to hedge the company's exposure to SONIA fluctuations. The fixed interest rate inherent in the swap contracts is 4.483%.

The Senior loan is due to be repaid by six-monthly instalments from September 2022 to March 2037.

The senior bank loan is secured by a fixed charge over the whole of the land, plant and machinery, cash, intellectual property, assets, and undertaking of the company, assignment of all rights to any proceeds of any insurance policies and all present and future book and floating charges over all assets which have not been secured by way of a fixed charge or assignment.

An unsecured loan of £36,350,000 is in place from the parent company South Tyne & Wear Energy Recovery Holdings Limited. The interest rate chargeable on the loan is 12.75% per annum and interest is payable twice yearly, with interest being accrued. Repayment of this loan is required by 31 March 2039.

**16. Financial instruments**

**(a) Fair values of financial instruments**

**Trade and other receivables**

The fair value of trade and other receivables is their carrying amount.

**Trade and other payables**

The fair value of trade and other payables is their carrying amount.

**Service concession financial asset**

The fair value of service concession financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

**Cash and cash equivalents**

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

**Interest-bearing borrowings**

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

**Derivative financial instruments**

The company has entered into interest rate swaps to hedge against volatility of movements in interest rates. These have been designated as cash flow hedges.

The fair value of interest rate swaps is based on mark-to-market valuations. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The interest rates used to discount estimated cash flows, where applicable, are based on one month and six month SONIA yield curves at the balance sheet date.

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**16. Financial instruments - continued**

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

**2022**

	£'000 Carrying amount	£'000 Fair value	£'000 Level 1	£'000 Level 2	£'000 Level 3
<b>Financial assets</b>					
Service concession financial assets	171,466	171,976	-	-	171,976
Cash and cash equivalents	26,906	26,906	26,906	-	-
Trade and other receivables	9,997	9,997	9,997	-	-
<b>Total financial assets</b>	<b>208,369</b>	<b>208,879</b>	<b>36,903</b>	<b>-</b>	<b>171,976</b>
<b>Financial liabilities</b>					
Other interest-bearing loans and borrowings	127,677	132,584	-	-	132,584
Parent company loan	36,373	36,373	-	-	36,373
Trade and other payables	7,217	7,217	7,217	-	-
Derivative financial instruments liabilities	24,979	24,979	-	24,979	-
<b>Total financial liabilities</b>	<b>196,283</b>	<b>201,190</b>	<b>7,217</b>	<b>24,979</b>	<b>168,957</b>
	<b>(12,086)</b>	<b>(7,689)</b>	<b>29,687</b>	<b>24,979</b>	<b>3,019</b>

**2021**

	£'000 Carrying amount	£'000 Fair value	£'000 Level 1	£'000 Level 2	£'000 Level 3
<b>Financial assets</b>					
Service concession financial assets	174,571	173,825	-	-	173,825
Cash and cash equivalents	13,719	13,719	13,719	-	-
Trade and other receivables	5,900	5,900	5,900	-	-
<b>Total financial assets</b>	<b>194,190</b>	<b>193,444</b>	<b>19,619</b>	<b>-</b>	<b>173,825</b>
<b>Financial liabilities</b>					
Other interest-bearing loans and borrowings	132,896	138,409	-	-	138,409
Parent company loan	34,200	34,200	-	-	34,200
Trade and other payables	4,902	4,902	4,902	-	-
Derivative financial instruments liabilities	40,237	40,237	-	40,237	-
<b>Total financial liabilities</b>	<b>212,235</b>	<b>217,748</b>	<b>4,902</b>	<b>40,237</b>	<b>172,609</b>
	<b>(18,045)</b>	<b>(24,304)</b>	<b>14,717</b>	<b>40,237</b>	<b>1,216</b>

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**16. Financial instruments - continued**

The ineffective portion of the cash flow hedges at the end of the year was measured at £nil (2021: £nil) (total fair value £24,979,000 (2021: £40,237,000)).

**Fair value hierarchy**

The table above analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Fair value measurements**

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities.

Financial assets/ financial liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Service concession financial asset	Level 3	Fair value is calculated based on the present value of future cash flows, discounted at the rate applied to the asset.	N/A	N/A
Other interest-bearing loans and borrowings	Level 3	Fair value is calculated based on the liability confirmed as due by the lender at the balance sheet date	N/A	N/A
Interest rate swaps	Level 2	The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.	N/A	N/A

**(b) Credit risk**

**Financial risk management**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The company will receive its revenue from a government body and therefore is not exposed to significant credit risks. The company holds bank accounts and enters into interest rate swap agreements with financial institutions. The quality of these is reviewed on a regular basis.



**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**16. Financial instruments - continued**

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. Therefore the maximum exposure to credit risk at the balance sheet date was £208,369,000 being the total of the carrying amount of financial assets and trade and other receivables shown in the table shown in 16 (a). This exposure is all in the UK. The total balance of £171,466,000 in relation to the service concession asset is due from a government-backed institution, The Borough Council of Gateshead.

**(c) Liquidity risk**

**Financial risk management**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The company has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet obligations as they fall due.

The directors have reviewed the company's cashflow forecasts. These forecasts demonstrate that the company expects to meet its liabilities as they fall due.

Repayment of the loans is required now the waste facilities are fully operational and revenue is receivable under the terms of the Concession Agreement.

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**16. Financial instruments - continued**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

<b>2022</b>	<b>Carrying amount £000</b>	<b>Contractual cash flows £000</b>	<b>1 year or less £000</b>	<b>1 to &lt;2 years £000</b>	<b>2 to &lt; 5 years £000</b>	<b>5 years and over £000</b>
<b>Non-derivative financial liabilities</b>						
Secured bank loans	127,677	180,104	11,380	11,731	60,621	96,372
Parent Company loan	36,373	108,108	6,529	4,370	21,776	75,433
Trade and other payables	7,217	7,217	7,217	-	-	-
<b>Derivative financial liabilities</b>						
Interest rate swaps used for hedging	24,979	44,507	5,260	4,939	13,010	21,298
	<u>196,283</u>	<u>339,936</u>	<u>30,386</u>	<u>21,040</u>	<u>95,407</u>	<u>193,103</u>
<b>2021</b>						
	<b>Carrying amount £000</b>	<b>Contractual cash flows £000</b>	<b>1 year or less £000</b>	<b>1 to &lt;2 years £000</b>	<b>2 to &lt; 5 years £000</b>	<b>5 years and over £000</b>
<b>Non-derivative financial liabilities</b>						
Secured bank loans	132,896	188,413	9,817	10,588	32,292	134,716
Parent Company loan	34,200	115,809	4,356	3,618	11,357	96,478
Trade and other payables	4,902	4,902	4,902	-	-	-
<b>Derivative financial liabilities</b>						
Interest rate swaps used for hedging	40,237	50,084	5,577	5,260	13,908	25,339
	<u>212,235</u>	<u>359,208</u>	<u>24,652</u>	<u>19,466</u>	<u>57,557</u>	<u>256,533</u>

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**16. Financial instruments - continued**

**(d) Cash flow hedges**

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur and are also expected to affect profit or loss:

**2022**

	<b>Carrying amount £000</b>	<b>Expected cash flows £000</b>	<b>1 year or less £000</b>	<b>1 to &lt;2 years £000</b>	<b>2 to &lt; 5 years £000</b>	<b>5 years and over £000</b>
<b>Interest rate swaps</b>						
Liabilities	<b>24,979</b>	<b>44,507</b>	<b>5,260</b>	<b>4,939</b>	<b>13,010</b>	<b>21,298</b>

**2021**

	<b>Carrying amount £000</b>	<b>Expected cash flows £000</b>	<b>1 year or less £000</b>	<b>1 to &lt;2 years £000</b>	<b>2 to &lt; 5 years £000</b>	<b>5 years and over £000</b>
<b>Interest rate swaps</b>						
Liabilities	<b>40,237</b>	<b>50,084</b>	<b>5,577</b>	<b>5,260</b>	<b>13,908</b>	<b>25,339</b>

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**16. Financial instruments - continued**

**Hedge accounting**

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is based on broker quotes and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

**Cash flow hedges**

	Average contract fixed interest/inflation		Notional principal value		Fair value	
	rate					
	2022	2021	2022	2021	2022	2021
	%	%	£'000	£'000	£'000	£'000
Less than one year						
Two to five years						
Over five years:						
- interest rate						
swaps	4.483	4.483	<u>132,434</u>	<u>138,254</u>	<u>(24,979)</u>	<u>(40,237)</u>

The interest rate swaps settle on a six monthly basis. The floating rate on the interest rate swaps is 6 months SONIA. The Company will settle the difference between the fixed and floating interest rate on a net basis.

Interest rate swap contracts exchanging floating rate interest for fixed rate interest are designated as cash flow hedges to reduce the Company's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

**(e) Market risk**

**Financial risk management**

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The company manages interest rate risk by having swapped its variable rate debt into a fixed rate agreement at the start of the project.

**Interest rate risk**

The term loan is exposed to interest rate risk. The company has entered into three identical fixed interest rate swap agreements to avoid volatility in debt service costs on its floating rate term loan. It is considered that these agreements constitute cash flow hedges.

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**16. Financial instruments - continued**

**Market risk - Interest rate risk profile**

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was

	<b>2022</b> £000	<b>2021</b> £000
<b>Non-derivative financial liabilities</b>		
Financial assets	171,466	174,571
Financial liabilities	(36,373)	(34,200)
	<u>135,093</u>	<u>140,371</u>
	<b>2022</b> £000	<b>2021</b> £000
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	127,677	132,896
	<u>127,677</u>	<u>132,896</u>

**Sensitivity analysis**

No sensitivity analysis is presented as the majority of the variable rate interest costs have been fixed by means of interest rate swap contracts.

**(f) Capital management**

The company manages its cash (2022 balances totalling £26.9m), bank loans (2022 balances totalling £164.0m) and equity (2022 balance £10k) as capital. The group's principal objective was to ensure that the group had sufficient capital to fund its construction programme and minimise cost overruns. Capital requirements and timings are now reviewed regularly based on the requirement to make payments to subcontractors and lenders and controls are in place governing the management of cash resources.

**17. Provisions**

**Provisions for liabilities and charges**

	<b>Lifecycle Provision 2022 £'000</b>
At beginning of the year	15,394
Charge to the profit and loss for the year	5,546
Utilised during the year	(3,796)
	<u>17,144</u>
At the end of the year	<u>17,144</u>

The lifecycle provision represents the difference between the cumulative charge to profit and loss and the cumulative amount of cash expenditure paid to the lifecycle sub-contractor. Lifecycle expenditure is charged to profit and loss on a systematic basis, so as to give an annual charge, increasing with inflation each year, which in total equates to the total amount of the forecast lifecycle expenditure to be paid over the whole concession. The amounts and timing of these payments are defined in the sub-contract agreement.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**18. Deferred tax**

Deferred tax assets and liabilities are attributable to the following:

	Net asset / (liability) 2022 £'000	Net asset / (liability) 2021 £'000
Service concession asset	(15,172)	(10,155)
Tax losses	8,235	7,632
On other timing differences	2,314	1,579
On fair value of cash flow hedges	6,245	7,646
	<hr/>	<hr/>
Tax assets	1,622	6,702
	<hr/>	<hr/>

The deferred tax assets recognised at the end of the year relate to the financial instruments designated as cash flow hedges along with tax losses arising during the year. The deferred tax liability has arisen as a result of timing differences on the recognition of the financial asset for tax purposes.

A change to the future UK corporation tax rate was enacted during the year. The rate will increase from the current rate of 19% to 25% with effect from 1 April 2023 for profits over £250,000, with marginal relief available on profits between £50,000 to £250,000.

The deferred tax asset has been recognised at the future tax rate of 25%. Using the current tax rate of 19%, the deferred tax asset would have a value of £1,233,000, a movement of £389,000.

	2022 £'000	2021 £'000
Balance at 1 April	6,702	9,378
Recognised in income	(3,680)	(615)
Recognised in equity	(1,400)	(2,061)
	<hr/>	<hr/>
Balance at 31 March	1,622	6,702
	<hr/>	<hr/>

**19. Ultimate parent company**

The Company is a wholly-owned subsidiary undertaking of South Tyne & Wear Energy Recovery Holdings Limited, a company incorporated in England & Wales and whose registered office is c/o Albany SPC Services Limited, 3-5 Charlotte Street, Manchester, M1 4HB. The consolidated financial statements of the holding company are the only accounts to include the results of this subsidiary company.

The consolidated financial statements of South Tyne & Wear Energy Recovery Holdings Limited are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3VZ.

At 31 March 2022, 45% of South Tyne & Wear Energy Recovery Holdings Limited's share capital was owned by Suez Recycling and Recovery UK Limited, 35% by Civis PFI/PPP Infrastructure Albany STW Holdings Limited and 20% by I-Environment Investments Limited.

**Notes to the Financial Statements - continued  
for the year ended 31 March 2022**

**20. Related party disclosures**

<b>Party</b>	<b>Nature of transaction</b>	<b>Sales to / (Purchases from) for the year ended 31 March 2022 £'000</b>	<b>Sales to / (Purchases from) for the year ended 31 March 2021 £'000</b>
Albany SPC Services Limited	Management fees	(211)	(221)
Suez Recycling and Recovery UK Ltd	Management fees and operational costs	(17,598)	(19,713)
	Operational sales	5,945	7,799
	Financing	(983)	(1,913)
	Director fees	(10)	(10)
Civis PFI / PPP Infrastructure Fund LP	Financing	(765)	(1,488)
	Directors' fees	(10)	(10)
Itochu Corporation	Financing	(437)	(850)
	Directors' fees	(5)	(5)

<b>Party</b>	<b>Nature of transaction</b>	<b>Outstanding debtor / (creditor) at 31 March 2022 £'000</b>	<b>Outstanding debtor / (creditor) at 31 March 2021 £'000</b>
South Tyne & Wear Energy Recovery Holdings Limited	Financing	(36,350)	(34,177)
Suez Recycling and Recovery UK Ltd	Management fees and operational costs	(2,812)	(3,154)
		3,711	1,962
	Directors' fees	(10)	(10)
Civis PFI / PPP Infrastructure Fund LP	Directors' fees	(20)	(20)
Itochu Corporation	Directors' fees	(5)	(5)

**Relationship**

Albany SPC Services Limited	<b>100% subsidiary of Civis PFI / PPP Infrastructure Fund LP</b>
Suez Recycling and Recovery UK Ltd	<b>45% shareholder in South Tyne &amp; Wear Energy Recovery Holdings Limited</b>
Ambialet Ltd	<b>A company 100% owned by IA Sexton, director</b>
Civis PFI / PPP Infrastructure Fund LP	<b>Parent company of 35% shareholder in South Tyne &amp; Wear Energy Recovery Holdings Limited</b>
Itochu Corporation	<b>20% shareholder in South Tyne &amp; Wear Energy Recovery Holdings Limited</b>

**Transactions with key management personnel**

Management fees of £97,000 (2021: £110,000) were paid to Ambialet Ltd, a company 100% owned by IA Sexton, which was a related party in the prior year. Amounts outstanding at 31 March 2022 were £8,000 (2021: £8,000).

**21. Events after the reporting period**

A dividend of £10,827k was declared post year end.

**Notes to the Financial Statements - continued**  
**for the year ended 31 March 2022**

**22. Reconciliation of profit before income tax to cash generated from operations**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Profit before income tax	<b>16,548</b>	1,763
Decrease in other financial assets	<b>14,597</b>	14,898
Increase in provisions	<b>1,750</b>	1,548
Finance costs	<b>15,057</b>	15,303
Finance income	<b>(14,623)</b>	(14,898)
	<b>33,329</b>	18,614
Increase in trade and other receivables	<b>(4,094)</b>	(3,465)
Decrease in contract assets	<b>3,105</b>	4,425
Increase in trade and other payables	<b>1,938</b>	2,565
<b>Cash generated from operations</b>	<b>34,278</b>	22,139

**23. Cash and cash equivalents**

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

**Year ended 31 March 2022**

	<b>31.3.22</b>	<b>1.4.21</b>
	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	<b>26,906</b>	13,719

**Year ended 31 March 2021**

	<b>31.3.21</b>	<b>1.4.20</b>
	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	<b>13,719</b>	19,733