**Northumberland Energy Recovery Limited**

# Annual report and financial statements

Registered number 05934106

Year ended 31 March 2022

## Company Information

| | |
|---|---|
| **Directors** | C Thorn<br>M Thompson<br>G Carfrae<br>M Templeton<br>A Verma |
| **Company secretary** | SUEZ Recycling & Recovery UK Limited |
| **Company number** | 05934106 - incorporated in England & Wales |
| **Registered office** | SUEZ House<br>Grenfell Road<br>Maidenhead<br>Berkshire<br>SL6 1ES |
| **Auditor** | Mazars LLP<br>90 Victoria Street<br>Bristol<br>BS1 6DP |

## Contents

## Strategic report

**Principal activities**

The company has signed a twenty-eight year PFI contract with Northumberland County Council to cover the provision of a waste treatment infrastructure. The contract commenced in December 2006.

The principal activities of the company are to operate the waste treatment infrastructure on behalf of the Council. The infrastructure comprises an Energy from Waste plant (EfW) which the company constructed, together with a number of Household Waste Recycling Centres, Transfer Stations and a Materials Recovery Facility.

**Business review**

The company's key financial and other performance indicators during the year were as follows:

| | **31 March 2022 £000** | 31 March 2021 £000 | **Variance %** |
|---|---|---|---|
| Turnover | 25,847 | 21,826 | +18.4% |
| Operating Profit/(Loss) | 1,277 | (916) | +239.0% |
| Profit after tax | 183 | 625 | -71.1% |
| Shareholders funds | 10,612 | 4,591 | +131.1% |
| Current assets as % of current liabilities | 322% | 265% | |
| Total assets | 107,133 | 105,014 | |

The Energy from Waste plant at Billingham continued to perform well, which helped to deliver an improved operating profit for the year. Profitability for the year also benefited from higher Contract Waste tonnages, primarily as a result of the Covid-19 pandemic which led to increased home working.

The O&M Contractor implemented stringent work management procedures to ensure that operations were as resilient as possible during the pandemic, which helped to ensure the pandemic had no material adverse impact on the Company's performance.

This report was approved by the board and signed on its behalf on 19 August 2022 by

**C Thorn – Director**

## Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2022.

### Results and dividends

For the year ended 31 March 2022 the company made a profit after tax of £183,000 *(2021 – £625,000).*

No dividends were paid in the year ended 31 March 2022 *(2021* - £nil*).*

### Future Developments

The Company's principal customer, Northumberland County Council, continues to explore opportunities to reduce costs in the current difficult financial climate for local authorities. The Company is working with the Authority to evaluate and implement proposals that may help them with their objectives.

### Directors

The directors who held office during the year and up to the approval date of the financial statements (unless otherwise stated) were as follows:

F Duval (resigned 1 December 2021)
M Templeton
N Wakefield (resigned 12 February 2022)
G McKenna-Mayes (deceased 24 June 2021)
G Carfrae (appointed 16 July 2021)
M Thompson (appointed 28 June 2021)
C Thorn (appointed 1 December 2021)
A Verma (appointed 14 February 2022)
P Would (resigned 16 July 2021)

No director who held office on 31 March 2022 had an interest in the Company's shares either during the financial year or at 31 March 2022.

### 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.

### Going Concern

The directors have reviewed the Company's financial position at 31 March 2022 and believe that the Company has adequate financial resources to meet its obligations for the foreseeable future. Long term loans are in place and cash flow is sufficient to meet the Company's operational cash commitments. The impact of Covid-19 has been assessed by the directors (as noted below) and it is considered it does not have an impact on the going concern basis of the company. Accordingly, they have prepared the accounts on a going concern basis.

### COVID-19

The potential impact of Covid-19 has been considered and the directors are of the opinion that this will have no significant impact on the going concern status of the company. There was no material adverse effect on operations in the year from the Covid-19 pandemic.

## Directors' report *(continued)*

### Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as operational risks, competitive risks, legislative risks, health & safety risks and financial risks.

*Operational risks*
The Company's primary operations involve a major public sector contract of 28 years, where default on the contract may result in substantial compensation payments to the client.

The long term contract also exposes the Company to the risk that the contract's revenue profile over the life of the contract may be insufficient to compensate the Company for unforeseen cost increases and hence losses may result.

The Company has put in place rigorous tender approval procedures to ensure all material risks are properly considered. The Company's management and review procedures are aimed at ensuring any problems are identified at an early stage and steps are taken to mitigate any losses arising.

*Competitive risks*
Most of the Company's revenue is derived from long term fixed price contracts and as such is not vulnerable to competitor activity. A proportion of the company's revenue is derived from the sale of recycled materials and this is subject to normal market pressures of supply and demand.

*Legislative risks*
The waste management business is subject to strict legislation and regulation. These standards are subject to continuous revision. Compliance with new standards can impose additional costs on the Company and failure to comply could result in heavy penalties.

The Company has entered into a long term operating subcontract with SUEZ Recycling & Recovery UK Limited, an experienced waste operator, to manage day to day operation of the Company's facilities. A non-compliance with legislation caused by the negligence of the operator would result in any associated penalties being recharged to the subcontractor. The Company has the right to terminate the operator subcontract in the event of any material persistent non-compliance with legislation on the part of the operator.

*Health & safety risks*
Whilst the Company has no direct employees, it acknowledges that subcontractors' employees working within the waste management industry face significant potential hazards in their everyday work. In addition, sites managed by the Company are open to the public and require constant monitoring to ensure that members of the public are not also exposed to significant risks.

The Company encourages subcontractors to meet the highest standards so that the risks to both employees and others visiting Company sites are minimised. Subcontractors are required to report accidents and near misses on a regular basis and these reports are reviewed at Board meetings. Subcontractors are encouraged to take pre-emptive action where risks to employees or members of the public have been identified.

*Financial instrument risks*
The Company was set up as part of a Project Finance structure to manage the provision of waste services for the County of Northumberland over a 28-year period. Financial instruments were used to minimise the long term financial risks associated with such a major project.

Interest rate risk – The Company's principal financial instrument is a term loan. This loan is exposed to interest rate risk. The Company has entered into a fixed rate swap agreement to avoid volatility in interest charges on its floating rate loan. The Company has applied hedge accounting requirements to account for the derivative swap agreement and the associated loan; their relationships being accounted for as a cash flow hedge – see Note 19 to the accounts.

## Directors' report *(continued)*

The Company's exposure to credit risk and liquidity risk and the procedures in place to manage these risks are explained in Note 19 to the accounts.

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

**Employee Involvement**

The Company has no direct employees, all provision of services having been subcontracted to third parties.

**Company policy for payment of creditors**

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

**Streamlined Energy and Carbon Reporting**

The Company is classified as a large unquoted company under the definitions set in Section 465 and 466, Chapter 15, of the Companies Act 2006, and therefore is required to comply with government legislation implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") on Streamlined Energy and Carbon Reporting (SECR). However, under paragraph 20D (7) of the 2018 Regulations, the Company is exempt from the disclosure requirements by virtue of the Company's energy consumption in the UK being less than 40 MWh during the period. The management of the day to day operations of the Company's facilities are subcontracted and therefore energy consumption related to the operation of the facilities are by the subcontracting operator.

**Statement in respect of Section 172(1) of the Companies Act 2006**

The board of directors of the Company, both individually and collectively, consider they have acted appropriately and in such a way as to promote the long term success of the Company for the benefit of its members as a whole.

The Company have no direct employees as the Company are managed under an Administrative Services Agreement (ASA) and Services Agreement (SA). The board of Directors is satisfied that those people employed under the ASA / SA are appropriately qualified and have the support systems in place to carry out their role. The Directors are engaged with each team under the ASA / SA to ensure the ongoing management of the underlying contracts of the Company and they work collaboratively with the teams to achieve success.

The Group is a holding company for special purpose companies which have a finite lifespan with a defined set of obligations under a PFI Contract. The Group delivers its objectives through effective relationships with its stakeholders including suppliers and customers. This is affected by regular reporting and reviews with suppliers and customers to ensure delivery of the Group's objectives, whilst considering those stakeholders' needs. The Directors of the Company meet regularly to review strategies for effective risk mitigation and service delivery in the context of its impact on all stakeholder interests, including shareholders, suppliers, customers and the wider community.

Due to the nature of the Group's operations, their impact on the community and environment is of paramount importance to the Group's success. Operating safely is the Group's primary objective and is as such integrated in everything the Group undertakes. A safe environment is managed through effective leadership, implementation of robust policies, procedures and instructions, safety management review processes both internally and externally with relevant stakeholders, reporting, audit and monitoring. An independent safety advisor is appointed by each of the companies within the Group, who reports directly to the Board of Directors.

The Group delivers contracts to support essential services to the public sector and takes its responsibility for ensuring that an appropriate environment is managed and maintained extremely seriously, ensuring the highest quality service is delivered from the assets under the Group's management.

## Directors' report *(continued)*

### Matters covered in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' report have been omitted as they are included in the Strategic report.

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, 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. Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006 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 and prudent
- state whether IFRS in conformity with the requirements of the Companies Act 2006 have been followed subject to any material departures disclosed and explained in the financial statements
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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.

### Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information.

### Auditor

The re-appointment of auditors will be considered at the Company's AGM.

By order of the board on 14 August 2022

**C Thorn – Director**

## Independent auditor's report to the members of Northumberland Energy Recovery Limited

### Opinion

We have audited the financial statements of Northumberland Energy Recovery Limited (the 'company') for the year ended 31 March 2022 which comprise the Income statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement 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.

# Independent auditor's report to the members of Northumberland Energy Recovery Limited (continued)

**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 8, 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.

# Independent auditor's report to the members of Northumberland Energy Recovery Limited (continued)

**Auditor's responsibilities for the audit of the financial statements (continued)**

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, maintenance 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. This description forms part of our auditor's report.

# Independent auditor's report to the members of Northumberland Energy Recovery Limited (continued)

**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 (Aug 23, 2022 17:27 GMT+1)

**Jonathan Barnard (Senior Statutory Auditor)**
**for and on behalf of Mazars LLP**
*Chartered Accountants and Statutory Auditor*
Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

Aug 23, 2022

## Income Statement
***for the year ended 31 March 2022***

| | Note | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|---|
| **Revenue** | *3* | **25,847** | 21,826 |
| Operating expenses | *4* | **(24,570)** | (22,742) |
| **Operating Profit/ (loss)** | | **1,277** | (916) |
| Financial income | *7* | **7,205** | 7,385 |
| Financial expense | *7* | **(5,209)** | (5,329) |
| Other gains | *7* | **99** | 63 |
| **Net financing income** | | **2,095** | 2,119 |
| **Profit on ordinary activities before tax** | | **3,372** | 1,203 |
| Taxation | *8* | **(3,189)** | (578) |
| **Profit for the year** | | **183** | 625 |

## Statement of Comprehensive Income
***for the year ended 31 March 2022***

| | | **£000** | £000 |
|---|---|---|---|
| **Profit for the year** | | **183** | 625 |
| **Other comprehensive income – items that will be reclassified to profit and loss** | | | |
| Effective portion of changes in fair value of cash flow hedges | | **6,509** | 4,158 |
| Deferred tax on other comprehensive income | *12* | **(671)** | (790) |
| **Other comprehensive income for the year, net of deferred tax** | | **5,838** | 3,368 |
| **Total comprehensive income for the year** | | **6,021** | 3,993 |

All amounts are attributable to continuing operations.

The notes on pages 17-34 form part of the financial statements.

## Balance Sheet
at 31 March 2022

| | Note | Year ended 31 March 2022 £000 | Year ended 31 March 2021 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Financial assets | *9* | **84,686** | 87,708 |
| | | **84,686** | 87,708 |
| **Current assets** | | | |
| Financial assets | *9* | **3,022** | 1,896 |
| Trade and other receivables | *13* | **4,109** | 4,685 |
| Cash and cash equivalents | *14* | **15,316** | 10,725 |
| | | **22,447** | 17,306 |
| **Total assets** | | **107,133** | 105,014 |
| **Current liabilities** | | | |
| Trade and other payables | *16* | **(3,333)** | (3,830) |
| Interest bearing loans and borrowings | *15* | **(3,629)** | (2,709) |
| | | **(6,962)** | (6,539) |
| **Non-current liabilities** | | | |
| Net deferred tax liability | *12* | **(6,370)** | (2,510) |
| Interest-bearing loans and borrowings | *15* | **(68,233)** | (70,752) |
| Other financial liabilities | *10* | **(9,559)** | (16,167) |
| Provisions for liabilities | *11* | **(5,397)** | (4,455) |
| | | **(89,559)** | (93,884) |
| **Total liabilities** | | **(96,521)** | (100,423) |
| **Net Assets** | | **10,612** | 4,591 |
| **Equity** | | | |
| Share capital | *18* | **10** | 10 |
| Hedging Reserves | *17* | **(7,070)** | (12,908) |
| Retained earnings | *17* | **17,672** | 17,489 |
| **Total Shareholders funds - Equity** | | **10,612** | 4,591 |

These financial statements were approved and authorised for issue by the board of directors on 19 August 2022 and were signed on its behalf by:

**C Thorn – Director**

Company registered number: 05934106

The notes on pages 17 - 34 form part of the financial statements.

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

| | **Share capital £000** | **Hedging reserve £000** | **Retained earnings £000** | **Total equity £000** |
|---|---|---|---|---|
| Balance at 1 April 2021 | **10** | **(12,908)** | **17,489** | **4,591** |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | - | - | 183 | **183** |
| Other comprehensive income | - | 5,838 | - | **5,838** |
| **Balance at 31 March 2022** | **10** | **(7,070)** | **17,672** | **10,612** |

| | Share capital £000 | Hedging reserve £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|
| Balance at 1 April 2020 | **10** | **(16,276)** | **16,864** | **598** |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | - | - | 625 | **625** |
| Other comprehensive income | - | 3,368 | - | **3,368** |
| **Balance at 31 March 2021** | **10** | **(12,908)** | **17,489** | **4,591** |

The notes on pages 17 - 34 form part of the financial statements.

## Cash Flow Statement
***for the year ended 31 March 2022***

| | Year ended 31 March 2022 £000 | Year ended 31 March 2021 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **183** | 625 |
| *Adjustments for:* | | |
| Financial income | **(7,205)** | (7,385) |
| Financial expense | **5,209** | 5,329 |
| Ineffective portion of foreign exchange hedges | **(99)** | (63) |
| Taxation | **3,189** | 578 |
| | **1,277** | (916) |
| Decrease/ (increase) in trade and other receivables | **576** | (1,060) |
| (Decrease)/ increase in trade and other payables | **(496)** | 1,455 |
| Increase in lifecycle provision | **821** | 885 |
| | **901** | 1,280 |
| **Net cash from operating activities** | **2,178** | 364 |
| **Cash flows from investing activities** | | |
| Repayment of concession debtor | **8,998** | 9,554 |
| Interest received | **1** | 6 |
| **Net cash from investing activities** | **8,999** | 9,560 |
| **Cash flows from financing activities** | | |
| Repayment of loan | **(2,709)** | (4,028) |
| Interest paid | **(3,877)** | (4,145) |
| **Net cash used in financing activities** | **(6,586)** | (8,173) |
| Net increase in cash and cash equivalents | **4,591** | 1,751 |
| Cash and cash equivalents at 1 April | **10,725** | 8,974 |
| **Cash and cash equivalents at 31 March** | **15,316** | 10,725 |
| Represented by: | | |
| Cash | **15,316** | 10,725 |

The notes on pages 17 - 34 form part of the financial statements.

## Notes (forming part of the financial statements)

### 1 Accounting policies

#### *1.1 General information*

Northumberland Energy Recovery Limited (the "Company") is a private company limited by shares incorporated and domiciled in England and Wales. These financial statements cover the individual entity only. The address of its registered office is SUEZ House, Grenfell Road, Maidenhead, SL6 1ES.

The company's principal activity is the operation of waste treatment infrastructure.

The company's parent company is Northumberland Energy Recovery Holdings Limited, a limited company incorporated and registered in England and Wales, which owns 100% of the company's ordinary share capital. The smallest and largest group in which the company is incorporated into is Northumberland Energy Recovery Holdings Limited. The consolidated financial statements of Northumberland Energy Recovery Holdings Limited may be obtained from SUEZ House, Grenfell Road, Maidenhead, SL6 1ES.

The financial statements have been presented in Pounds Sterling as this is the functional currency of the Company and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

#### *1.2 Basis of preparation of financial statements*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act 2006 and The Large and Medium sized Companies and Groups Regulations 2008/410 ('Regulations').

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

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 in notes 1.8 and 2.

#### *1.3 Going concern*

The Company currently has £71,862,000 of total debt. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it will be able to operate within the level of its current facilities. Long term loans are in place and cash flow is sufficient to meet the Company's operational cash commitments.

The impact of COVID-19 on the going concern has been assessed and it is considered there is no significant impact as detailed in the Directors' report on page 5.

Having taken account of all available information, in particular the assessment of the impact of COVID-19 and forecasts for the next 12 months from the date of approval of the financial statements, and having performed the appropriate sensitivity analysis; the directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis.

#### *1.4 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's 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.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.5 Non-derivative financial instruments, excluding the service concession financial asset*

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 initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For trade receivables the simplified approach is used, and the loss allowance is measured at the estimate of the lifetime expected credit losses. The amount of any loss allowance is recognised in profit or loss.

*Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances.

*Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value 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.

### *1.6 Derivative financial instruments and hedging*

*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).

*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 transaction affects profit or loss.

### *1.7 Impairment excluding inventories and deferred tax assets*

*Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss 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.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

### *1.8 Service concession financial asset*

In accordance with IFRIC 12 and the various provisions of 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 IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions:

## Notes *(continued)*

### 1 **Accounting policies** *(continued)*

### *1.8 Service concession financial asset (continued)*

*Service concessions treated as financial assets*

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.

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

The financial assets are held as loans or receivables in accordance with IFRS 9: 'Financial instruments: Recognition and measurement'. Financial assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method less any impairment losses.

The Company has entered into a contract to provide waste management services on behalf of Northumberland County Council. The Company is contractually obliged to design, build, and operate waste facilities, including household waste recycling centres, materials recycling centres, civic amenity sites, transfer stations and an Energy from Waste plant on behalf of Northumberland County Council, and has the right to use these facilities to provide waste management services. The grantor (Northumberland County Council) 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 Company in return, will remove and treat the waste and is obliged to maintain the facilities under lifecycle clauses within the contract.

The Company has the right to both accept and process third party waste, and to generate electricity revenues at the waste facilities.

The contract specifies that the waste management facilities are maintained in an appropriate condition for the length of the contract period.

There are provisions in the contract for termination (and related compensation) in the event of default or voluntary termination by the operator or grantor. There is also provision in the contract for an extension of the contract period.

The service arrangement has been classified as a financial asset under IFRIC 12 due to the highly guaranteed nature of the expected revenues from the contract, which are expected to cover the fair value of the construction services.

### *1.9 Revenue*

Service Concession Revenue is measured by a contractual fixed and variable fee less an element of guaranteed revenue. Differences between the amounts recognised in the income statement and amount invoiced at the period end are shown in the statement of financial position as a contract asset or contract liability.

Revenue from the sale of materials is recognised, based on contractually agreed prices, when the risks and rewards have passed to the buyer, can be reliably measured and the recovery of the consideration is probable.

Electricity Revenue is recognised at contractual price per Megawatt recognised as the electricity is produced and exported by the plant.

### *1.10 Financing income and expenses*

Financing expenses comprise interest payable using the effective interest method. Financing income comprises interest on the service concession debtor and interest receivable on funds invested.

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 within finance income or finance expenses as appropriate.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.11 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. The net position of deferred tax assets and liabilities are recognised in the balance sheet.

### *1.12 Provisions*

Provision has been made for the costs of maintaining and replacing assets as required under the terms of contracts in place with the Council. The Group expects for these costs to be incurred over the contract life. The expected costs are discounted at 1.78% *(2021 – 1.36%)*. The discounting cost is included in finance expense.

### *1.13 IFRSs adopted in these financial statements*

The adoption of the following mentioned standards, amendments and interpretations in the current year have not had a material impact on the Company's financial statements for the year ended 31 March 2022

Effective from 1 January 2022:

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

Effective from 1 January 2023:

- IAS 1 Amendment: Classification of Liabilities as Current or Non-current and Deferral of Effective Date.
- IAS 1 Amendment: Disclosure of Accounting Policies.
- IAS 8 Amendment: Definition of Accounting Estimates.
- IAS 12 Amendment: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- IFRS 17 Insurance Contracts and IFRS 17 Amendment: Amendments to IFRS 17.

# Notes *(continued)*

## 2 Judgments in applying accounting policies and key sources of estimation uncertainty

Due to uncertainties inherent in the estimation process, the Company regularly revises its estimates in light of currently available information. Final outcomes could differ from those estimates.

The key estimates and judgements used by the Company in preparing the Financial Statements relate mainly to:

- **Service concession arrangements** – Consideration from contract with public sector entities for waste management service concessions is treated as either contract receivables or an intangible asset or a mixture of both based on the right to receive cash from the arrangement. Management have used judgement to determine the fair value of the services provided when splitting the contractual receivables between the construction of assets, the operating of the facilities and the provision of financing. Further details of these arrangements are found in Note 1.8 & 9.

## 3 Revenue

| | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|
| Service Concession Revenue | **18,830** | 16,185 |
| Sales of goods | **2,588** | 1,340 |
| Electricity Revenue | **4,429** | 4,301 |
| Total revenues | **25,847** | 21,826 |

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.

## 4 Expenses and auditors' remuneration

*Included in the profit for the year are the following:*

| | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|
| Service concession costs | **24,552** | **22,724** |
| | **24,552** | 22,724 |
| *Auditors' remuneration:* | | |
| Audit of these financial statements | **18** | 18 |
| Non-audit assurance services | - | - |
| Total expenses | **24,570** | 22,724 |

# Notes *(continued)*

## 5 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.

## 6 Directors' remuneration

The directors received no emoluments directly from the Company *(2021: £nil)*. During the year ended 31 March 2022 and the prior year, SUEZ Recycling and Recovery UK Limited, Equitix Capital Eurobond 3 Limited and PPDI AssetCo 2 Limited each charged the Company £10,000 for director services provided.

## 7 Finance income and expense

| | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|
| *Finance income* | | |
| Interest income on financial assets at amortised cost | **7,204** | 7,380 |
| Bank interest | **1** | 5 |
| Total finance income | **7,205** | 7,385 |

| | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|
| *Finance expense on financial liabilities at amortised cost* | | |
| Interest expense on financial liabilities– term loans and associated interest swaps | **4,091** | 4,252 |
| Interest expense on financial liabilities– subordinated loan | **997** | 997 |
| Unwinding of discount on lifecycle provision | **121** | 80 |
| Total finance expense | **5,209** | 5,329 |
| *Other gains* | | |
| Ineffective portion of interest rate swaps | **99** | 63 |

## Notes *(continued)*

### 8 Taxation

**Recognised in the income statement**

| | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|
| Current tax charge | | |
| Current year | - | - |
| Current tax charge | - | - |
| Deferred tax charge | | |
| Origination and reversal of temporary differences – current year | **3,189** | 572 |
| Origination and reversal of temporary differences – prior year | - | 6 |
| Deferred tax charge | **3,189** | 578 |
| Total tax charge | **3,189** | 578 |

**Factors affecting the tax charge for the year**

The tax assessed for the year is lower than (2021 – lower than) the standard rate of corporation tax in the UK of 19% (2021 – 19%). The differences are explained below:

| | **Year ended 31 March 2022 £000** | Year ended 31 March 2021 £000 |
|---|---|---|
| Profit for the year | **183** | 625 |
| Total tax charge | **3,189** | 578 |
| Profit excluding taxation | **3,372** | 1,203 |
| Tax using the UK corporation tax rate of 19% *(2021: 19%)* | **641** | 229 |
| Adjustments in respect of prior year | - | 6 |
| Income not allowable for tax | **296** | - |
| Costs not allowable for tax | - | 343 |
| Change in rate on deferred tax balances | **2,252** | - |
| Total tax charge | **3,189** | 578 |

The increase to the corporation tax rate to 25% had been substantively enacted at the balance sheet date and will have an effect on future tax charges. The deferred tax balance has been adjusted to reflect this change.

# Notes *(continued)*

## 9 Financial assets

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Non-current** | | |
| Service concession financial asset | **84,213** | 87,138 |
| Other non-current financial assets | **473** | 570 |
| | **84,686** | 87,708 |
| **Current** | | |
| Service concession financial asset | **2,926** | 1,795 |
| Other financial assets | **96** | 101 |
| | **3,022** | 1,896 |

## 10 Other financial liabilities

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Non-current** | | |
| Derivative financial instruments (see note 19) | **9,559** | 16,167 |

## 11 Provisions

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Non-current** | | |
| Provision for lifecycle maintenance | **5,397** | 4,455 |

Provision has been made for the costs of maintaining and replacing assets as required under the terms of the contract with Northumberland County Council. The directors expect that this provision will be utilised over the next 15 years.

Movements in the provision are analysed as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Provision brought forward | **4,455** | 3,490 |
| Additions | **821** | 885 |
| Utilised | **-** | - |
| Unwinding of discount | **121** | 80 |
| Provision carried forward | **5,397** | 4,455 |

# Notes *(continued)*

## 12 Deferred tax assets and liabilities

*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

| | **Assets** | **Liabilities** | **Total liability** | Assets | Liabilities | Total liability |
|---|---|---|---|---|---|---|
| | **2022** | **2022** | **2022** | 2021 | 2021 | 2021 |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Financial assets | **-** | **(15,462)** | **(15,462)** | - | (11,584) | (11,584) |
| Tax losses | **5,375** | **-** | **5,375** | 5,156 | - | 5,156 |
| On fair value of cash flow hedges | **2,391** | **-** | **2,391** | 3,072 | - | 3,072 |
| Other timing differences | **1,326** | **-** | **1,326** | 846 | - | 846 |
| Net tax (liabilities)/assets | **9,092** | **(15,462)** | **(6,370)** | 9,074 | (11,584) | (2,510) |

The net position of deferred tax assets and liabilities as shown above are recognised in the balance sheet.

*Movement in deferred tax during the year ended 31 March 2022*

| | **1 April 2021** | **Recognised in income** | **Recognised in equity** | **31 March 2022** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Financial assets | **(11,584)** | **(3,878)** | **-** | **(15,462)** |
| Tax losses | **5,156** | **219** | **-** | **5,375** |
| On fair value of cash flow hedges | **3,072** | **(10)** | **(671)** | **2,391** |
| Other timing differences | **846** | **480** | **-** | **1,326** |
| | **(2,510)** | **(3,189)** | **(671)** | **(6,370)** |

*Movement in deferred tax during the year ended 31 March 2021*

| | 1 April 2020 | Recognised in income | Recognised in equity | 31 March 2021 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Financial assets | (11,392) | (192) | - | (11,584) |
| Tax losses | 5,713 | (557) | - | 5,156 |
| On fair value of cash flow hedges | 3,874 | (12) | (790) | 3,072 |
| Other timing differences | 663 | 183 | - | 846 |
| | (1,142) | (578) | (790) | (2,510) |

# Notes *(continued)*

## 13 Trade and other receivables

| | 2022 | 2021 |
|---|---|---|
| | **£000** | £000 |
| Trade debtors | **-** | 976 |
| Contract asset | **2,962** | 3,161 |
| Other receivables | **1,147** | 548 |
| | **4,109** | 4,685 |

There are no unimpaired trade receivables that are past due as at the reporting date.

No receivables have been written off as uncollectible during the year (2021: £NIL) and it has not been necessary to recognise any impairment loss under the expected lifetime loss model.

## 14 Cash and cash equivalents

| | 2022 | 2021 |
|---|---|---|
| | **£000** | £000 |
| Cash and cash equivalents per balance sheet | **15,316** | 10,725 |
| Cash and cash equivalents per cash flow statements | **15,316** | 10,725 |

Cash and cash equivalents of £8,264,000 (2021: £4,499,000) are held in accounts restricted for the use in debt servicing and the maintenance requirements relating to the facilities operated by the company.

## 15 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 and foreign currency risk, see Note 19.

| | 2022 | 2021 |
|---|---|---|
| | **£000** | £000 |
| **Current liabilities** | | |
| Secured bank loans | **3,629** | 2,709 |
| **Non-current liabilities** | | |
| Subordinated loan | **10,929** | 9,819 |
| Secured bank loans | **57,304** | 60,933 |
| | **68,233** | 70,752 |

# Notes *(continued)*

## 15 Interest-bearing loans and borrowings (continued)

*Terms and debt repayment schedule*

| | Currency | Nominal interest rate | Facility | Year of maturity | Face value 2022 £000 | Carrying amount 2022 £000 | Face value 2021 £000 | Carrying amount 2021 £000 |
|---|---|---|---|---|---|---|---|---|
| Term Loan | GBP | SONIA + 1.2% | £88,086,704 | 2033 | **60,933** | **60,933** | 63,642 | 63,642 |
| Subordinated loan | GBP | 11.2% | £9,801,000 | 2035 | **10,929** | **10,929** | 9,819 | 9,819 |
| | | | | | **71,862** | **71,862** | 73,461 | 73,461 |

The Company initially entered into swap arrangements in the year ended 31 March 2007 to hedge the Company's exposure to LIBOR fluctuations, during the year ended 31 March 2022 the swap arrangement were amend to reflect the move from LIBOR to SONIA. The fixed interest rate inherent in the swap contracts is 4.9375%.

The RBS Term loan is due to be repaid by in full by 30 September 2033.

The subordinated loan is a loan from the immediate parent company, Northumberland Energy Recovery Holdings Limited.

The term loan is secured by a fixed charge over the assets of the Company.

## 16 Trade and other payables

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Current** | | |
| Accruals & other creditors | **3,333** | 3,830 |
| | **3,333** | 3830 |

Included within trade and other payables is £nil expected to be paid in more than 12 months *(2021 - £Nil)*.

## 17 Reserves

**Hedging Reserve**
Hedging reserves relate to the use of Hedge Accounting as detailed in accounting policy 1.6.

**Retained earnings**
Retained earnings are distributable reserves made up of accumulated profit and loss.

# Notes *(continued)*

## 18 Share capital

| | 2022 £000 | 2021 £000 |
|---|---|---|
| ***Allotted, called up and fully paid*** | | |
| Ordinary shares of £1each | **10** | 10 |
| Shares classified in shareholders' funds | **10** | 10 |
| | **10** | 10 |

The authorised share capital of the Company is 10,000 £1 ordinary shares. These shares carry voting rights but no rights to fixed income from the Company.

## 19 Financial instruments

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

*Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

*Trade and other payables*

The fair value of trade and other payables 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.

*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 the interest rate swap is based on a mark-to-market valuation. This quote is 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 SONIA at the balance sheet date.

## Notes *(continued)*

### *19 (a) Fair values of financial instruments (continued)*

*Fair values*

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:

| | Carrying amount 2022 £000 | Fair value 2022 £000 | Carrying amount 2021 £000 | Fair Value 2021 £000 |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| Service concession financial asset | 87,139 | 87,139 | 88,933 | 88,933 |
| Other financial assets | 569 | 569 | 671 | 671 |
| Cash and cash equivalents | 15,316 | 15,316 | 10,725 | 10,725 |
| Trade and other receivables | 4,109 | 4,109 | 4,685 | 4,685 |
| Total financial assets | 107,133 | 107,133 | 105,014 | 105,014 |

| | Carrying amount 2022 £000 | Fair value 2022 £000 | Carrying amount 2021 £000 | Fair value 2021 £000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Other interest-bearing loans | 71,862 | 71,862 | 73,461 | 73,461 |
| Trade and other payables | 3,333 | 3,333 | 3,830 | 3,830 |
| Total financial liabilities | 75,195 | 75,195 | 77,291 | 77,291 |
| Derivatives designated as hedging instruments – interest rate swaps | 9,559 | 9,559 | 16,167 | 16,167 |
| Non financial liabilities – deferred tax | 6,370 | 6,370 | 2,510 | 2,510 |
| Non financial liabilities – provisions | 5,397 | 5,397 | 4,455 | 4,455 |
| Total liabilities | 96,521 | 96,521 | 100,423 | 100,423 |

## Notes *(continued)*

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

*Fair value hierarchy*

The table below 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)

| **2022** | **Level 1**<br>**£000** | **Level 2**<br>**£000** | **Level 3**<br>**£000** | **Total**<br>**£000** |
|---|---|---|---|---|
| **Financial liabilities classified as cash flow hedges** | **-** | **9,559** | **-** | **9,559** |

| 2021 | Level 1<br>£000 | Level 2<br>£000 | Level 3<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| Financial liabilities classified as cash flow hedges | - | 16,167 | - | 16,167 |

***19 (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 considered to be exposed to significant credit risk. 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.

*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 £107,133,000 (2021: £105,014,000) being the total of the carrying amount of financial assets and trade and other receivables shown in the table shown in 19 (a). This exposure is all in the UK.

***19 (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.

## Notes *(continued)*

**19 Financial instruments** *(continued)*

***19 (c) Liquidity risk** (continued)*

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

| | 2022 | | | | | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount £000** | **Contractual cash flows £000** | **1 year or less £000** | **1 to <2years £000** | **2 to <5years £000** | **5years and over £000** | Carrying amount £000 | Contractual cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 | 5years and over £000 |
| **Non-derivative financial liabilities** | | | | | | | | | | | | |
| Secured bank loans | **60,933** | **60,933** | **3,629** | **4,367** | **19,498** | **33,439** | 63,642 | 63,642 | 2,709 | 3,629 | 16,824 | 40,480 |
| Subordinated loans | **10,929** | **10,929** | - | - | - | **10,929** | 9,819 | 9,819 | - | - | - | 9,819 |
| Trade and other payables | **3,333** | **3,333** | **3,333** | - | - | - | 3,830 | 3,830 | 3,830 | - | - | - |
| **Derivative financial liabilities** | | | | | | | | | | | | |
| Interest rate swaps used for hedging | **9,559** | **16,720** | **2,814** | **2,634** | **6,344** | **4,928** | 16,167 | 19,671 | 2,951 | 2,814 | 7,164 | 6,742 |
| | **84,754** | **91,915** | **9,776** | **7,001** | **25,842** | **49,296** | 93,458 | 96,962 | 9,490 | 6,443 | 23,988 | 57,041 |

## Notes *(continued)*

**19 Financial instruments** *(continued)*

***19 (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 | | | | | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount £000** | **Expected cash flows £000** | **1 year or les £000** | **1 to <2years £000** | **2 to <5years £000** | **5years and over £000** | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 | 5years and over £000 |
| **Interest rate swaps:** | | | | | | | | | | | | |
| Liabilities | **9,559** | **16,720** | **2,814** | **2,634** | **6,344** | **4,928** | 16,167 | 19,671 | 2,951 | 2,814 | 7,164 | 6,742 |
| | **9,559** | **16,720** | **2,814** | **2,634** | **6,344** | **4,928** | 16,167 | 19,671 | 2,951 | 2,814 | 7,164 | 6,742 |

During the year ended 31 March 2022 £6,509,000 of the decrease in fair value of cash flow hedges *(2021 - £4,158,000 increase)* has been deemed to be effective and recognised in other comprehensive income. During the year £99,000 has been deemed to be ineffective and therefore has been recognised in profit or loss as a gain *(2021 – £63,000 loss)*.

The following table details the notional principle amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

| | **Average contract fixed interest/inflation rate** | | **Notional principle value** | | **Fair value** | |
|---|---|---|---|---|---|---|
| | **2022** | *2021* | **2022** | *2021* | **2022** | *2021* |
| | **%** | *%* | **£000** | *£000* | **£000** | *£000* |
| **Interest rate swaps** | **4.9375** | *4.9375* | **61,838** | *64,591* | **(9,559)** | *(16,167)* |

## Notes *(continued)*

### 19 Financial instruments *(continued)*

***19(e) Market risk***

*Financial risk management*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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 and manages foreign exchange risk by entering into certain foreign exchange forward contracts.

*Interest rate risk*

The term and bridging loans are exposed to interest rate risk.

The Company has entered into fixed interest swap agreements to avoid volatility in debt service costs on its floating rate term loan. It is considered that this agreement constitutes a cash flow hedge.

**Market risk – Interest rate risk**

*Profile*

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

| | **2022** | 2021 |
|---|---|---|
| | **£000** | £000 |
| **Fixed rate instruments** | | |
| Financial assets | **87,139** | 88,933 |
| Financial liabilities – subordinated loan | **(10,929)** | (9,819) |
| | **76,210** | 79,114 |
| **Variable rate instruments** | | |
| Financial liabilities – term loan | **(60,933)** | (63,642) |
| | **(60,933)** | (63,642) |

*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.

***19 (f) Capital management***

The Company manages its cash, bank loans and equity as capital. The Company's principal objective is to ensure that the Company has sufficient capital to fund its operations and maintenance obligations. Capital requirements and timings are reviewed regularly based on the requirement to make payments to subcontractors and lenders; and forecasts and models are used to monitor the management of cash resources. Loans are in place for the duration of the contract with Northumberland County Council.

### 20 Commitments

*Capital commitments*

The Company has no capital commitments at 31 March 2022 *(2021 - £Nil)*.

# Notes *(continued)*

## 21 Related parties

During the year, the following transactions took place between the Company and SUEZ Recycling & Recovery UK Limited, a 42.5% shareholder in Northumberland Energy Recovery Holdings Limited:

| | **Transactions** | **Outstanding at 31 March** | Transactions | Outstanding at 31 March |
|---|---|---|---|---|
| | **2022** | **2022** | 2021 | 2021 |
| | **£000** | **£000** | £000 | £000 |
| Waste management services | **20,684** | **1,857** | 19,499 | 1,826 |
| Administration services | **227** | **-** | 223 | - |
| Other recharges including directors fees | **25** | **15** | 25 | 15 |

During the year ended 31 March 2022, the Company was charged £10,000 in directors fees by both Equitix Capital Eurobond 3 Limited (100% shareholder of Equitix Concessions 3 Limited) and PPDI AssetCo 2 Limited. Equitix Concessions 3 Limited and PPDI AssetCo 2 Limited both own a 28.75% share of Northumberland Energy Recovery Holdings Limited, the parent company of Northumberland Energy Recovery Limited.

The company was charged interest of £997,000 by its parent company Northumberland Energy Recovery Holdings Limited during the year ended 31 March 2022 *(2021 - £997,000)*. At the year end, the balance on this loan is £10,929,000 *(2021 - £9,819,000)*.

## 22 Ultimate parent company and parent company of larger group

The company's immediate parent undertaking is Northumberland Energy Recovery Holdings Limited, a company registered in England & Wales.

At 31 March 2022, Northumberland Energy Recovery Holdings Limited is owned and controlled by SUEZ Recycling and Recovery UK Limited (42.5%), Equitix Concessions 3 Limited (28.75%) and PPDI AssetCo 2 Limited (28.75%).

In the opinion of the Directors there is no ultimate controlling party.