Aberdeen Environmental Services Limited

Annual report and financial statements

Registered number SC202555

Year ended 31 March 2018

Contents

Directors and advisers

Directors

P J Doherty (resigned 14 August 2017)
G M Cawthra (resigned 30 September 2017)
I C Washer (resigned 20 September 2017)
C S Haysom (appointed 14 August 2017)
B P Raistrick (appointed 20 September 2017)

Company secretary

A W M White

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Nigg WWTP
Coast Road
Nigg
Aberdeen
AB12 3LT

Bankers

Royal Bank of Scotland
Corporate & Institutional Banking
8th floor, 135 Bishopsgate
London
EC2M 3U

Strategic report

The directors present their strategic report for the year ended 31 March 2018.

Principal activities and review of business

On 4 May 2000, Aberdeen Environmental Services Limited ("AES") entered into a Public Private Partnership ("PPP") concession agreement with a water authority that is now subsumed within Scottish Water to design, build and finance wastewater treatment schemes in and around Aberdeen and to operate and maintain these schemes over a 30-year period. In accordance with the concession agreement the company is responsible for operating the wastewater treatment schemes together with carrying out all of the routine and major life cycle maintenance for the life of the concession.

On 28 June 2007, AES entered into an amendment agreement to the concession agreement with Scottish Water to design, build and finance an additional wastewater treatment scheme near Aberdeen and to operate and maintain this scheme over a period of 23 years. Construction of the scheme was completed in July 2008.

The company reported an operating profit of £9,694,000 (2017: £8,493,000). The profit is mainly driven by an increase in turnover. The company's main source of income is from treating the waste received from incoming sewers. In wetter weather conditions the waste water treated provides higher revenues than in drier conditions.

Principal risks and uncertainties

Strategic, financial, commercial, operational, social, environmental and ethical risks are all considered as part of the company's controls, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore, they can only provide reasonable, not absolute, assurance against material misstatement or loss.

On a regular basis throughout the year ended 31 March 2018, the directors of the company were provided with an updated assessment of any risks that might impact on the business. A business risk register is in place and is regularly reviewed and updated. Risks are evaluated both in financial terms and in relation to their impact and likelihood and appropriate mitigation actions are assigned following a board review.

Operational activities at the Aberdeen site were reviewed following issues arising in relation to contractual non-compliance in the period. The operating contractor continues to address the issues at no cost to the company under the terms of its operations and maintenance agreement. Contractual performance of the operating company is improved, regulatory performance was not affected in the year.

At present there are no immediate risks considered likely to have a significant impact on the short or long-term value of the company, however the principal risks identified are as follows:

Financial instruments

The financial risk management objectives of the company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions.

Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2000 and 2027 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

Credit and cash flow risks to the company arise from its client, Scottish Water. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

The company's liquidity risk is principally managed through financing by means of long-term borrowings with an amortisation profile that matches the expected availability of funds from the group's operating activities. In addition, the company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

Strategic report *(continued)*

Contractual relationships

The company operates within a contractual relationship with its primary customer, Scottish Water. A significant impairment of this relationship could have a direct and detrimental effect on the company's results and could ultimately result in termination of the concession. To manage this risk the company has regular meetings with Scottish Water including discussions on performance, recovery plan progress, asset investment progress, future plans and customer requirements.

The relationship with Scottish Water is very positive; regular contact with Scottish Water's representatives is maintained and performance meetings are well established. AES also attends the odour liaison meetings to review the performance of the Nigg Waste Water Treatment Works facility with respect to any recorded odour contacts. The relationship with both the regulator ("SEPA") and Aberdeen city council is very positive.

Health & safety

Health and safety of employees and contractors is of the highest importance to the company, with regular reporting and review of safety statistics and practices at board level. The relevant key performance indicator is the number of reportable accidents. There were no reportable accidents in the year and no minor accidents in the year (2017: no reportable accidents and no minor accidents).

Key performance indicators

The company has set specific business objectives, which are monitored using a number of key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below:

	2018	2017
	£'000	£'000
Profit for the financial year	**4,608**	3,909
Net assets	**6,189**	469

Profit for the financial year has increased during the year ended 31 March 2018 due to an increase in turnover. The net assets increase was mainly driven by the reduction in interest rate swaps liabilities.

Future developments

There have been no changes to the company's activities in the year under review and none are currently contemplated.

During the previous year, a strategic decision was taken by the company's parent company to seek to sell the company as part of a wider plan to dispose of the non-regulated businesses owned by Kelda Water Services Limited. A competitive sales process remains in progress at the year-end. All stakeholders, including client, lenders and colleagues have been kept informed of this process, which has not impacted on the normal operations of the company.

A key focus for the coming year is to maintain safe and stable operations, ensuring that continued investment is provided to maintain the assets, which will reduce the risk of compliance failures and so avoid incurring compensation penalties from Scottish Water.

On behalf of the board

C S Haysom
Director

18 September 2018

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2018.

Results and dividends

The profit for the financial year amounts to £4,608,000 (2017: profit £3,909,000).

The directors do not propose payment of a dividend (2017: £nil).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

P J Doherty (resigned 14 August 2017)
G M Cawthra (resigned 30 September 2017)
I C Washer (resigned 20 September 2017)
C S Haysom (appointed 14 August 2017)
B P Raistrick (appointed 20 September 2017)

Going concern

The company's business activities, together with the likely factors likely to affect its future development, performance and position, are set out in the Strategic and Directors' reports on pages 2 to 5.

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue in adopting the going concern basis of accounting in preparing the financial statements.

Disclosure of information to independent auditor

As at the date of this report, as far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware and the directors have taken all the steps that they ought to have as directors, in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Independent auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

Directors' report *(continued)*

Directors' responsibilities statement

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

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

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

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

Future developments and financial risk management commentary are included within the strategic report.

On behalf of the board

CS Haysom

C S Haysom
Director

18 September 2018

Independent auditor's report to the members of Aberdeen Environmental Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Aberdeen Environmental Services Limited (the "company") which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 15

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Aberdeen Environmental Services Limited *(continued)*

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 these financial statements.

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.

Use of our 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.

Independent auditor's report to the members of Aberdeen Environmental Services Limited *(continued)*

Report on other legal and regulatory requirements

Opinions on other matter prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Louise Cooper

Louise Cooper ACA, FCA *(Senior statutory auditor)*
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds

19 September 2018

Profit and loss account
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Turnover	3	**23,197**	21,834
Operating costs		**(13,503)**	(13,341)
Operating profit	4	**9,694**	8,493
Interest receivable and similar income	6	**29**	38
Interest payable and similar expense	7	**(3,731)**	(3,967)
Profit on ordinary activities before taxation		**5,992**	4,564
Taxation	8	**(1,384)**	(655)
Profit for the financial year		**4,608**	3,909

Statement of comprehensive income
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		**4,608**	3,909
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**3,775**	1,852
Income tax on cash flow hedges	8	**(2,663)**	(490)
Other comprehensive income for the year, net of income tax		**1,112**	1,362
Total comprehensive income for the year		**5,720**	5,271

Balance sheet
as at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	9	**43,455**	45,040
Current assets			
Debtors	10	**11,758**	12,100
Cash at bank and in hand		**23,931**	17,538
		35,689	29,638
Creditors: amounts falling due within one year	11	**(11,715)**	(7,601)
Net current assets		**23,974**	22,037
Total assets less current liabilities		**67,429**	67,077
Creditors: amounts falling due after more than one year	12	**(57,476)**	(65,222)
Provisions for liabilities			
Deferred tax liability	13	**(3,764)**	(1,386)
Net assets		**6,189**	469
Capital and reserves			
Called up share capital	14	**8**	8
Share premium account	14	**69**	69
Cash flow hedge reserve	14	**(11,890)**	(13,002)
Profit and loss account	14	**18,002**	13,394
Total shareholders' funds		**6,189**	469

These financial statements on pages 9 to 21 have been approved by the board of directors and are signed on its behalf by:

C S Haysom
Director

18 September 2018
Company registered number: SC202555

Statement of changes in equity
for the year ended 31 March 2018

	Called up share capital £'000	**Share premium account £'000**	**Cash flow hedging reserve £'000**	**Profit and loss account £'000**	**Total equity £'000**
Balance at 1 April 2017	8	69	(13,002)	13,394	**469**
Total comprehensive income for the year					
Profit for the financial year	-	-	-	4,608	**4,608**
Effective portion of changes in fair value of cash flow hedges	-	-	3,775	-	**3,775**
Income tax expense on cash flow hedges	-	-	(2,663)	-	**(2,663)**
Total comprehensive income for the year	-	-	1,112	4,608	**5,720**
Balance at 31 March 2018	**8**	**69**	**(11,890)**	**18,002**	**6,189**

	Called up share capital £'000	Share premium account £'000	Cash flow hedging reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 April 2016	8	69	(14,364)	9,485	(4,802)
Total comprehensive income for the year					
Profit for the financial year	-	-	-	3,909	3,909
Effective portion of changes in fair value of cash flow hedges	-	-	1,852	-	1,852
Income tax credit on cash flow hedges	-	-	(490)	-	(490)
Total comprehensive income for the year	-	-	1,362	3,909	5,271
Balance at 31 March 2017	8	69	(13,002)	13,394	469

Notes to the financial statements

1 Accounting policies

Aberdeen Environmental Services Limited (the "company") is a company limited by shares and incorporated and resident for tax in the UK. The Registered address is Nigg WWTP, Coast Road, Nigg, Aberdeen, AB12 3LT.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling.

Kelda Holdings Limited includes the company in its consolidated financial statements. The consolidated financial statements of Kelda Holdings Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes;
- Key management personnel compensation; and
- Transactions between wholly-owned subsidiaries, or with their parent.

As the consolidated financial statements of Kelda Holdings Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. These financial statements have been prepared on a going concern basis.

Going concern

The company's business activities, together with the likely factors likely to affect its future development, performance and position, are set out in the Strategic and Directors' reports on pages 2 to 5.

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue in adopting the going concern basis of accounting in preparing the financial statements.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. However, where derivatives qualify for cash flow hedge accounting:

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Cash flow hedges

Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in profit or loss.

The hedging gain or loss recognised in OCI is reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives or the lifetime of the concession agreement if shorter from service commencement onwards. The estimated useful lives are as follows:

Plant and equipment	3 - 13 years
Fixtures and fittings	3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Impairment

Financial assets (including trade and other debtors)

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. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover is recognised on a monthly basis as it is earned and represents amounts due, exclusive of value added tax, in respect of the treatment and disposal of wastewater and sludge.

Expenses

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Taxation

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

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 timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, associates, branch, joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Accounting estimates and judgements

The preparation of financial statements with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There were no such areas of judgement or estimation uncertainty deemed significant in these financial statements.

Notes to the financial statements *(continued)*

3 Turnover

Turnover represents the value of service fees for the operation of wastewater sites under a contractual arrangement with Scottish Water. Turnover is attributable to this one continuing activity in a single geographic location.

4 Operating profit

Operating profit is stated after charging:

	2018 £'000	2017 £'000
Depreciation on owned tangible assets	3,994	4,631
Fixed asset impairment (note 9)	541	-

Auditor's remuneration:

	2018 £'000	2017 £'000
Audit of these financial statements	8	8

5 Staff costs and directors' emoluments

The company does not have any employees (2017: nil).

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2017: £nil).

6 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable on financial assets at amortised cost	29	38
Total interest receivable and similar income	29	38

Interest receivable and similar income includes income from group undertakings of £nil (2017: £nil).

Notes to the financial statements *(continued)*

7 Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable on financial liabilities at amortised cost	**3,731**	3,967
Total other interest payable and similar charges	**3,731**	3,967

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £3,731,000 (2017: £3,967,000).

8 Taxation

Total tax charge recognised in the profit and loss account

	2018 £'000	2017 £'000
Current tax		
Current tax on income for the period	**1,669**	1,210
Total current tax	**1,669**	1,210
Deferred tax		
Origination and reversal of timing differences	**(319)**	(370)
Change in tax rate	**34**	(201)
Adjustments in respect of prior periods	**-**	16
Total deferred tax	**(285)**	(555)
Total tax charge	**1,384**	655

	2018 £'000 Current tax	2018 £'000 Deferred tax	2018 £'000 Total tax	2017 £'000 Current tax	2017 £'000 Deferred tax	2017 £'000 Total tax
Recognised in profit and loss account	**1,669**	**(285)**	**1,384**	1,210	(555)	655
Recognised in other comprehensive income	**-**	**2,663**	**2,663**	-	490	490
Total tax charge/ (credit)	**1,669**	**2,378**	**4,047**	1,210	(65)	1,145

Notes to the financial statements *(continued)*

8 Taxation *(continued)*

Reconciliation of effective tax rate

	2018	2017
	£'000	£'000
Profit for the financial year	**4,608**	3,909
Total tax charge included in profit and loss	**1,384**	655
Profit on ordinary activities taxation before taxation	**5,992**	4,564
Tax using the UK corporation tax rate of 19% (2017: 20%)	**1,138**	913
Non-deductible expenses	**195**	229
Adjustments in respect of previous periods	**-**	16
Transfer pricing adjustments	**17**	23
Group relief received for no charge	**-**	(325)
Transfer of assets from non-qualifying to qualifying for deferred tax purposes	**34**	-
Tax rate changes	**-**	(201)
Total tax charge included in profit or loss	**1,384**	655

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements.

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016 and accordingly the deferred tax liability at 31 March 2018 has been calculated using this rate.

Notes to the financial statements *(continued)*

9 Tangible assets

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 April 2017	98,354	29	98,383
Additions	2,950	-	2,950
Disposals	(1,895)	-	(1,895)
Balance at 31 March 2018	99,409	29	99,438
Accumulated depreciation			
Balance at 1 April 2017	53,314	29	53,343
Depreciation charge for the year	3,994	-	3,994
Impairment	541	-	541
Disposals	(1,895)	-	(1,895)
Balance at 31 March 2018	55,954	29	55,983
Net book value			
At 31 March 2018	**43,455**	-	**43,455**
At 31 March 2017	45,040	-	45,040

10 Debtors

	2018 £'000	2017 £'000
Trade debtors	**1,729**	1,830
Amounts owed by group undertakings	**7,708**	8,645
Taxation debtor	**353**	16
Prepayments and accrued income	**1,968**	1,609
	11,758	12,100

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements *(continued)*

11 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts (see note 12)	**3,876**	3,574
Trade creditors	**4,438**	2,078
Amounts owed to group undertakings	**3,266**	1,190
Taxation and social security	**-**	647
Other creditors	**19**	-
Accruals and deferred income	**116**	112
	11,715	7,601

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

12 Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	**44,531**	48,407
Other creditors	**1,055**	1,150
Other financial liabilities - interest rate swap	**11,890**	15,665
	57,476	65,222

Included above are amounts repayable after five years by instalments of £25,659,000 (2017: £30,832,000).

Bank loans, included above and in note 11, represent amounts borrowed by the company under a facility agreement with a consortium of banks. The bank loans bear interest at a margin over LIBOR and are repayable in instalments over a period of 24 years which commenced on 30 September 2003. The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the company and the company's parent company, and over the parent company's shares in the company. The bank loans have certain covenants attached.

The other financial liabilities relate to the fair value of interest rate swaps taken out to manage interest rate volatility on firm future commitments. The fair values of these derivatives at the balance sheet date are determined by reference to their market values, which are provided by a third party.

Notes to the financial statements *(continued)*

13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Accelerated capital allowances	**-**	-	**3,764**	4,049	**3,764**	4,049
Other	**-**	(2,663)	**-**	-	**-**	(2,663)
Tax (assets) / liabilities	**-**	(2,663)	**3,764**	4,049	**3,764**	1,386

The other timing differences are expected to be fully recoverable after 12 months. Of the accelerated capital allowances £nil (2017: £nil) are payable within 12 months.

14 Capital and reserves

Called up share capital	**2018**	2017
	£'000	£'000
Allotted, called up and fully paid		
76,403 ordinary shares (2017: 76,403) of 10p each (2017: 10p each)	**8**	8

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.

The company did not pay any dividends during the year (2017: £nil).

The share premium account contains the premium arising on issue of equity shares, net of issue expenses.

The cash flow hedge reserve represents the gains or losses on the effective portion of hedging instruments which are recognised as other comprehensive income or expense.

The profit and loss account represents cumulative profits or losses, net of dividends paid.

15 Ultimate parent company and parent company of larger group

The company's immediate parent undertaking is CIBC World Markets Plc, acting as trustee on behalf of Aberdeen Environmental Services (Holdings) Limited, under a shares pledge agreement dated 8 July 2016. The ultimate controlling party is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK.

The smallest group in which they are consolidated and made publicly available is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The largest group in which the results of the company are consolidated and made publicly available is that headed by Kelda Holdings Limited. No other group financial statements include the results of the company. The consolidated financial statements of these groups are available from the Company Secretary, Western House, Halifax Road, Bradford, BD6 2SZ.