

Hills Waste Solutions Limited
Annual report and financial statements
Registered number 00571289
30 April 2020

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Strategic report

Principal activities

The company's principal activities are the provision of waste management services to both the private and public sector. The company manages five municipal waste contracts on behalf of Wiltshire Council including treatment of non-recyclable household waste at the company operated Mechanical Biological Treatment (MBT) plant (also known as the Northacre Resource Recovery Centre) diverting waste from landfill and creating a fuel that can be used to generate energy in power plants, two Household Recycling Centres (HRC's), a mixed recycling sorting facility and a residual landfill contract. The company also operates a commercial waste collection fleet, facilities for the sorting and segregation of commercial waste and two landfill sites.

Financial review

The profit for the year, after taxation, was £1,710,000 (2019: £1,578,000). Turnover decreased in the year by 6% to £52,120,000 (2019: decreased by 1% to £55,690,000). Gross profit margin remained the same as for the previous year at 21% (2019: decreased by 1% to 21%). There was a 29% decrease (2019: 12% increase) in distribution expenses in the year and this is the main reason for the increased profit noted despite the 6% reduction in sales. This significant reduction of £1,000,000 was principally due to reduced depreciation and hired vehicle charges.

The major difference to the overall company balance sheet at 30 April 2020 as compared to that at 30 April 2019 is the value of tangible fixed assets which have increased by £8,202,000 as a result of significant investment into the Sands Farm recycling facility and also on the new link road to the facility. The other significant change is an increase in short term creditors due to financing for the Sands Farm plant and an increase in amounts owed to group companies of £1,800,000 over the year which is also due to loans from the ultimate parent company, Hills UK Limited, to fund investment.

The company paid a dividend to The Hills Group Limited, its parent company of £750,000 during the year (2019: £1,000,000) so that the retained earnings of the company at 30 April 2020 of £22,737,000 are £960,000 more than the previous year.

We are expecting profits in the 2020/21 year to be lower than the year being reported due to the lockdown restrictions imposed to prevent the spread of the Covid-19 Coronavirus which has impacted trade. However, unless there is a far more severe second wave, the amount by which profits are expected to fall is a relatively modest 10% as our business was generally less impacted than many others as the Council Contracts are deemed essential services which need to be maintained.

Business review

Wiltshire Council Contracts

The new material recycling plant based in Sands Farm, Calne, commenced operations in early March 2020, a little later than expected last year. Unfortunately this was about 2 weeks before the start of lockdown and we had little unconstrained mobilisation time before we were hit with a significant increase in waste volumes and considerable logistics problems. It is not surprising that we encountered significantly increased costs and that this has impacted on the performance of the contract.

Our other contracts with Wiltshire Council continue to perform well, Northacre Resource Recovery Centre, the mechanical and biological treatment facility, has performed very well this year and remained fully operational throughout the lockdown period. The contract diverting waste from landfill to generate electricity at the Lakeside energy from waste facility continues to see a regular profit performance.

Waste Disposal

The Landfill business continues to operate at similar levels to the recent past. Despite a reduction of volumes during the lockdown period the business continues to be a very useful contributor to profitability.

We have re-evaluated the economics of the waste to energy project with our partners and external funders and this led to a change in the technology selection to a more traditional moving grate combustion process. Consequently we have recently submitted a new planning application to progress this project. I am hopeful this will be approved during the current year so that the construction phase of the project may start in 2022.

Strategic report (continued)

Waste Collection

The waste collection business continued to show improvement during the year, with further reductions in cost and reassessment of markets. Unfortunately the business was adversely affected when many of its customers were shut down in March. It has slowly begun to recover as markets have improved during the latter part of this summer and, whilst our customers in non-essential retail and hospitality have been impacted during the second period of national restrictions, we have been able to maintain revenues from our wider customer base. We expect to continue to make improvements going forward and look forward to this business contributing to overall profitability over the medium term.

Summary

The waste management business as a whole continues to experience challenging times at present, with new contracts and projects taking up a significant amount of management time and resources. Profitability, whilst lower than in 2018/19, has held up reasonably well.

Future developments and research and development

The company continues to research the application of alternative technologies in its operations to divert waste from landfill and also to generate energy. Expenditure on research and development of future business opportunities in the year, including payroll costs of relevant staff, amounted to £740,000 (2019: £3,347,000). This expenditure was in relation to the Westbury waste to energy project mentioned above and has been carried forward in Other Debtors as it is due to be reimbursed on financial close of the project.

Risk management

The company's principal financial instruments comprise cash, bank borrowings, and capital financing, the main purpose of which is to provide finance for its normal operations. The main risks arising from its financial instruments are interest rates risk and liquidity risk. In addition the company has an exposure to exchange rate fluctuations due to the purchase of some equipment in Euros. Where the company is exposed to the European supply chain we are looking at contingency planning to minimise our exposure to potential disruption from a disorderly exit from the European Union. The directors are satisfied that the company has sufficient resources to continue the operational activities of the business despite the continued uncertain economic outlook.

The company is also exposed to other risks and other uncertainties including those associated with the impact of its operations on the environment and Government environmental policy and regulations. The directors monitor and take actions to mitigate these risks and minimise their impact.

The principle risk and uncertainty facing the company is the increasingly challenging environment for securing new planning consents.

The risks associated with the Covid-19 virus for the company can be grouped into two categories. Firstly there are risks associated with reduced trade as lockdown restrictions are imposed. In the initial lockdown period this impacted on the waste received from the retail and hospitality sector which saw waste collection volumes fall as much as 60% for a short period before recovering steadily to the point where we are now with volumes almost back to normal but the likelihood of a second wave of the virus growing. However, this time around the indication is that government will make every effort to keep business open as much as possible to balance the economic harm of the restrictions against the public health damage of the virus. The second economic risk lies with essential waste contracts in that whilst the revenue may be protected from economic downturn the cost of delivering the service in a Covid-safe manner and changes in waste being handled as more people remained at home did see reduced levels of profit for the company. This risk is being mitigated by control over the costs and recovery of all justifiable additional expenditure under the contracts.

Environment and Quality Assurance and Corporate Social Responsibility

The group's environmental policy is available from the company's website at www.hills-group.co.uk. The company's environmental management system is externally certified to international standard ISO 14001.

The company operates a quality management system that is externally certified to international standard ISO 9001.

The company is committed to continual improvement and sets responsible targets for its operations in areas including environmental impact, service quality, and health and safety.

Strategic report (continued)

Streamlined Energy and Carbon Reporting (SECR)

The company has opted to include its SECR reporting disclosures in the independently produced report published in the consolidated accounts of its' ultimate parent company, Hills UK Limited. These accounts can be obtained from the contact details given in note 24.

Employee involvement

The company continues to keep its employees informed on matters affecting them as employees by way of its award winning Intouch magazine, and Safer for All newsletter. Staff notices, emails, company website and meetings are used to communicate immediate issues with employees. The group operates an employee engagement programme "Move to improve" that actively seeks and rewards employees for submitting business improvement ideas for consideration by senior management.

The group's employment practices and policies ensure that job applicants and all employees are treated in an equal and fair manner. Wherever possible, efforts are made to provide appropriate facilities and conditions of service to meet the work place requirements of all employees' including those with special needs or disability. Where an employee becomes disabled whilst employed by the group, arrangements are made, wherever possible, to retrain them in order to enable them to perform a job identified as appropriate to their aptitude and abilities.

The health and safety of all employees is given paramount importance by the company and the Company's Health and Safety Management System has been certified to ISO 45001.

By order of the board



MP Hill
Director

4 December 2020

Wiltshire House
County Park Business Centre
Shrivenham Road
Swindon
Wiltshire
SN1 2NR

Directors' report

The directors present their report and the financial statements of the company for the year ended 30 April 2020.

Dividend

During the year a dividend of £750,000 (2019: £1,000,000) was paid to The Hills Group Limited, the parent company and sole shareholder of the company. The directors do not recommend a final dividend.

Directors

The following individuals served as directors during the year and to the date of signing this report:

AG Pardoe
MP Hill
EH Dodd Appointed 1st June 2019
JW Bucksey Appointed 1st February 2020

Political and charitable donations

During the year, the company made no political contributions (2019: £nil.) and no charitable donations (2019: £nil.).

Other information

An indication of research and development, employee involvement, likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report which starts on page 1.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- a) likely consequences of any decisions in the long-term;
- b) interests of the company's employees;
- c) need to foster the company's business relationships with suppliers, customers and others;
- d) impact of the company's operations on the community and environment;
- e) desirability of the company maintaining a reputation for high standards of business conduct; and
- f) need to act fairly as between members of the company.

In discharging its section 172 duties the Company has regard to the factors set out above. In doing so the Company has regard to directives and policies set by the Hills Group Board and delegates authority for day-to-day management to line management and designated sub-committees that hold operational responsibility for engaging in setting, approving and overseeing the execution of the business strategy and related policies. The directors of the Company are members of The Hills Group Board and Finance Committee and report to the Group Board at each board meeting on the operational performance of the activities of the Company.

The Company also has regard to other factors which it consider relevant to the decision making process including engagement with regulatory authorities and involvement in industry trade bodies of which it is a member.

The Company has established core values and a supporting policy framework developed by The Hills Group Board. In the decision making process to deliver its strategic priorities the executives are guided by the policy framework with aim to make sure that the decisions taken are consistent and adhere with the Company and Group core values.

Risk and compliance, legal, pensions, stakeholder-related matters, diversity and inclusivity, corporate responsibility matters, health and safety matters and environmental compliance are reviewed at management meetings and meetings of The Hills Group Board and designated sub-committees.

The Company reviews financial and operational performance and other matters as they arise over the course of the financial year. This is done through review at management meetings and presentations to the Hills Group Board by the directors and the consideration and discussion of reports which, as required, are sent to management and directors in advance of meetings.

Directors' report (continued)

Section 172(1) Statement (continued)

Stakeholder engagement is primarily undertaken at an operational level and is a priority for the Company due to the impact our business activities can have on neighbouring local communities and surrounding environment to our sites. An important part of our stakeholder engagement programme are the regular liaison meetings held at our sites attended by senior management with elected representatives of the local community and other invited stakeholders to discuss and feedback on our operations

The interests and views of the Company's key stakeholders received alongside other relevant factors are considered when making decisions. This information is published and presented in a variety of formats both use within the Company but also in public facing documents. As a result of this the Company's management have an understanding of the nature of the stakeholders' concerns whilst discharging their responsibilities in compliance with the section 172 duty to promote success of the Company.

During the financial year the Company has had regard to the matters set out in section 172(1)(a)-(f) when deciding on the Company's dividend policy. In making this decision the Board considers a range of factors, included the long-term viability of the Company, expected cash flow and financing requirements and funding of strategic investment in our business and workforce as well as other factors.

The actions taken by the Company in response to the Coronavirus pandemic can be found within the strategic report on pages 1 to 3.

Post balance sheet events

As noted in the strategic report the Covid-19 virus has caused widespread disruption beyond the balance sheet date. However, since the initial lockdown period we have gradually returned towards normal activity across all operations over the first 6 months of the financial year with results being better than expected in April. There is currently increasing evidence of a second wave of the virus but to date the government are showing that keeping the economy open for business is now seen as equally important as combating the virus and so the current view is that any further restrictions this winter will have less of an impact on business.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

By order of the board



MP Hill
Director

4 December 2020

Wiltshire House
County Park Business Centre
Shrivenham Road
Swindon
Wiltshire
SN1 2NR

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Hills Waste Solutions Limited

Opinion

We have audited the financial statements of Hills Waste Solutions Limited ("the company") for the year ended 30 April 2020 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Independent auditor's report to the members of Hills Waste Solutions Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square,

Bristol

BS1 4BE

7 December 2020

Profit and Loss Account
for the year ended 30 April 2020

	<i>Note</i>	2020 £000	2019 £000
Turnover	2	52,120	55,690
Cost of sales		(41,214)	(44,090)
		<hr/>	<hr/>
Gross profit		10,906	11,600
Distribution costs		(2,471)	(3,496)
Administrative expenses		(5,808)	(5,867)
Other operating income		61	58
		<hr/>	<hr/>
Operating profit	3	2,688	2,295
Interest payable and similar charges	6	(123)	(130)
		<hr/>	<hr/>
Profit before taxation		2,565	2,165
Tax on profit	7	(855)	(587)
		<hr/>	<hr/>
Profit for the financial year		1,710	1,578
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

The company has no items of other comprehensive income.

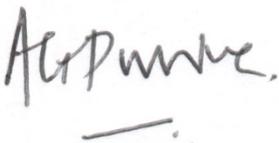
The notes on pages 12 to 23 form an integral part of these financial statements.

Balance Sheet
at 30 April 2020

	Note	2020 £000	£000	2019 £000	£000
Fixed assets					
Tangible assets	8		34,239		26,037
			34,239		26,037
Current assets					
Stocks	9	433		443	
Debtors (including £6,312,000 (2019:£nil) due after more than one year)	10	14,836		15,696	
Cash at bank and in hand		322		62	
		15,591		16,201	
Creditors: amounts falling due within one year	11	(19,248)		(13,015)	
Net current assets			(3,657)		3,186
Total assets less current liabilities			30,582		29,223
Creditors: amounts falling due after more than one year	12		(619)		(637)
Provision for liabilities and charges					
Deferred tax	15		(1,584)		(1,293)
Other provisions	16		(5,632)		(5,506)
Net assets			22,747		21,787
Capital and reserves					
Called up share capital	17		10		10
Profit and loss account			22,737		21,777
Shareholders' funds			22,747		21,787

The notes on pages 12 to 23 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 4 December 2020 and were signed on its behalf by:



AG Pardoe
Director

Statement of changes in equity
at 30 April 2020

	Called up Share capital	Profit and loss account	Total equity
	£000	£000	£000
Balance at 1 May 2018	10	21,199	21,209
Total comprehensive income for the period			
Profit or loss	-	1,578	1,578
	-	1,578	1,578
Total comprehensive income for the period	10	22,777	22,787
Dividends paid	-	(1,000)	(1,000)
Balance at 30 April 2019	10	21,777	21,787

	Called up Share capital	Profit and loss account	Total equity
	£000	£000	£000
Balance at 1 May 2019	10	21,777	21,787
Total comprehensive income for the period			
Profit or loss	-	1,710	1,710
	-	1,710	1,710
Total comprehensive income for the period	10	23,487	23,497
Dividends paid	-	(750)	(750)
Balance at 30 April 2020	10	22,737	22,747

The notes on pages 12 to 23 form an integral part of these financial statements.

Notes

1 Accounting policies

Hills Waste Solutions Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

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”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company’s ultimate parent undertaking, Hills UK Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Hills UK 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 Wiltshire House, County Park Business Centre, Shrivensham Road, Swindon, Wiltshire, SN1 2NR.

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:

- Cash Flow Statement and related notes;
- Related party transactions; and
- Key Management Personnel compensation.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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 note 21 The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Measurement convention

The financial statements are prepared on the historical cost basis.

Turnover

Turnover is derived from the sale of landfill space, and from the collection, management and recycling of waste materials. Revenue is recognised on dispatch of goods or performance of services. All turnover is derived from activities carried on in the UK.

Going concern

Notwithstanding net current liabilities of £3,657,000 as at balance sheet date, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicates that, taking account of a reasonably possible downside scenario, the anticipated socio-economic impact of the COVID-19 pandemic and the company's ability to obtain funding from its ultimate parent company, Hills UK Limited, the company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Hills UK Limited not seeking repayment of the amounts currently due to the group, which at 30 April 2020 amounted to £2,830,000, and providing additional financial support during that period. Hills UK Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes (continued)

1 Accounting policies (continued)

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. 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, less any impairment losses in the case of trade debtors. 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 the present value of future payments discounted at a market rate of interest. 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. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Landfill tax

Landfill tax is included within both turnover and cost of sales. It is an integral part of the charge made to customers for some services and is subject to value added tax.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost / deemed 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, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Freehold land is not depreciated. The cost less residual value of landfill sites is depreciated over the estimated life of the site on the basis of the usage of the void space.

The cost of landfill sites includes acquisition and commissioning costs, engineering works, and the discounted cost of the final site restoration and post-closure aftercare costs.

Cost includes directly attributable finance costs.

Depreciation is provided by the company to write off the cost less estimated residual value of other tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and machinery	- over 5 to 25 years
Fixtures and fittings	- over 3 to 5 years
Motor vehicles	- over 4 to 5 years
Software	- over 3 years
Freehold buildings	- over 40 years

Freehold buildings on landfill sites are depreciated over the life of that site.

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

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; 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 provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

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. Deferred tax balances are not discounted.

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

Research and development

Expenditure on research and development is incurred on a specific project and has been capitalised against the cost of the expected future income stream.

Post-retirement benefits

The company is a member of Hills UK Limited's defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by FRS 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Further details of the specific accounting treatment adopted are set out in note 22.

Provisions for restoration and aftercare costs

The expected costs of the restoration and aftercare of landfill sites are recognised as provisions when the obligations arise.

Where the time value of money is material, the amount of the provision is discounted to present value. The discount rate used was 4.5% (2019: 4.5%). The unwinding of the discount is included within cost of sales.

Tangible fixed assets are created for an amount equal to the capital element of the provision with the remainder being expensed through the profit and loss account. The capital elements are recognised as additions to the original assets in land and buildings. The fixed assets are charged to the profit and loss account on the basis described above in "Fixed assets and depreciation" for landfill sites. Costs are then charged to the provisions as incurred.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Turnover and segmental reporting

Turnover represents the amounts (excluding value added tax) derived from the sale of waste management services. Turnover is recognised on provision of waste management services.

The whole of the turnover and profit on ordinary activities before taxation derives from operations within the United Kingdom.

Notes (continued)

3 Operating profit and auditor's remuneration

This is stated after charging/(crediting):

	2020	2019
	£000	£000
Depreciation of owned fixed assets	2,154	2,391
Depreciation of assets held under finance leases and hire purchase contracts	504	696
Profit on sale of fixed assets	(61)	(58)
 Auditor's remuneration: audit of these financial statements	 18	 30
	18	30

Amounts receivable by the company's auditor and their associates in respect of services to the company and its associates, other than the audit of the company's financial statements have not been disclosed as the information is required instead to be disclosed.

Research and development expenditure of £740,000 (2019:£3,347,000) has been added to current assets in the year.

4 Directors' emoluments

	2020	2019
	£000	£000
Emoluments	166	100
Contributions to defined contribution pension schemes	25	23
	191	123
 Highest paid director:		
Emoluments	132	100
Contributions to defined contribution pension schemes	20	23
	152	123

Number of directors accruing benefits in company pension schemes:

	2020	2019
	No.	No.
Defined contribution schemes	3	2
	3	2

Notes *(continued)*

5 Staff costs

The aggregate payroll costs of the persons employed by the company in the year (including directors) were as follows:

	2020	2019
	£000	£000
Wages and salaries	5,614	6,193
Social security costs	489	542
Pension costs	960	791
	7,063	7,526
	7,063	7,526

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2020	2019
	No.	No.
Site based employees	126	154
Administration and sales staff	50	43
	176	197
	176	197

6 Interest payable and similar charges

	2020	2019
	£000	£000
Bank loan and overdrafts	14	59
Other loans	32	29
Interest on finance leases and hire purchase contracts	77	42
	123	130
	123	130

Notes (continued)

7 Taxation

Total tax recognised in the profit and loss account.

	2020	2019
	£000	£000
Analysis of charge in the year		
Current tax:		
UK corporation tax on profits of the year	583	641
Adjustments in respect of previous years	(19)	(84)
	564	557
Total current tax		
Deferred tax:		
Origination and reversal of timing differences	128	(51)
Adjustments in respect of previous years	10	81
Effect of tax rate change on opening balance	153	-
	291	30
Total deferred tax		
	855	587
Total tax		

Reconciliation of effective rate

The total tax charge for the period is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020	2019
	£000	£000
Profit for the year	1,710	1,578
Total tax expense	855	587
	2,565	2,165
Profit on ordinary activities before tax		
Standard rate of corporation tax in the UK 19% (2019: 19%)	19%	19%
Profit on ordinary activities multiplied by the standard rate of corporation tax	487	411
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2	4
Fixed asset differences	222	169
Adjustment to deferred tax brought forward values	153	6
Adjustments to tax charge in respect of previous periods	(9)	(3)
	855	587
Total tax expenses included in profit and loss		

The 2020 Budget, which was substantively enacted on 17th March 2020, announced that the UK corporation tax rate applicable from 1st April 2020 would remain at 19% rather than the previously enacted reduction to 17%. The deferred tax liability at 30 April 2020 has therefore been calculated based on a rate of 19%.

Notes (continued)

8 Tangible fixed assets

	Motor vehicles £000	Land and buildings £000	Other assets £000	Plant and machinery £000	Total £000
Cost					
At 1 May 2019	3,733	32,713	881	26,768	64,095
Additions	233	1,897	-	8,734	10,864
Disposals	(328)	-	-	(206)	(534)
At 30 April 2020	3,638	34,610	881	35,296	74,425
Depreciation					
At 1 May 2019	2,982	16,135	780	18,161	38,058
Charge for the year	432	855	43	1,328	2,658
On disposals	(324)	-	-	(206)	(530)
At 30 April 2020	3,090	16,990	823	19,283	40,186
Net book value					
At 30 April 2020	548	17,620	58	16,013	34,239
At 30 April 2019	751	16,578	101	8,607	26,037

Impairment loss and subsequent reversal

There has been no impairment loss in the current year (2019: £nil).

Security

The Northacre Energy Resource Centre is pledged as security for the related bank loan provided by RBS. This is included in Land and buildings above. See note 13 for further details.

	Cost 2020 £000	Net book value 2020 £000	Cost 2019 £000	Net book value 2019 £000
Land and buildings				
Freehold land and buildings	28,620	17,256	26,750	16,177
Short leasehold land and buildings	2,724	30	2,724	53
	31,344	17,286	29,474	16,230

Leased plant and machinery

	2020	2019
	£000	£000
Net book value of fixed assets held under finance leases and hire purchase contracts	698	983

The fixed assets owned under finance leases carry financial obligations as shown in note 14. The depreciation charged in the year for the assets held under finance leases was £504,000 (2019: £696,000).

Included within land and buildings is a cost of £3,266,000 (2019: £3,239,000) and associated accumulated depreciation of £2,932,000 (2019: £2,891,000) relating to the restoration asset which represents the discounted cost of the final site restoration and post-closure aftercare. This asset is not included in the analysis of freehold and leasehold properties shown above.

Notes (continued)

9 Stocks

	2020	2019
	£000	£000
Consumables	433	443
	433	443

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Consumables were recognised as cost of sales and distribution costs in the year amounted to £705,000 and £1,126,000 respectively (2019: £292,000 cost of sales and £1,445,000 distribution).

10 Debtors

	2020	2019
	£000	£000
Trade debtors	6,111	8,622
Other debtors	5,077	4,337
Prepayments and accrued income	3,648	2,737
	14,836	15,696

Amounts due after more than one year included in Other debtors is £5,077,000 (2019: £nil)

Amounts due after more than one year included in Prepayments and accrued income is £1,235,000 (2019: £nil).

11 Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Bank loans and overdrafts	5,292	3,339
Obligations under finance leases and hire purchase contracts (see note 13)	237	511
Trade creditors	2,327	1,512
Amounts owed to group undertakings	2,492	650
Corporation tax	345	407
Other taxes and social security costs	3,454	4,516
Accruals and deferred income	5,101	2,080
	19,248	13,015

12 Creditors: amounts falling due after one year

	2020	2019
	£000	£000
Obligations under finance lease and hire purchase contracts (see note 13)	619	637
	619	637

Notes (continued)

13 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.

	2020 £000	2019 £000
Creditors falling due after more than one year		
Secured bank loans	-	-
Finance lease and hire purchase liabilities	619	637
	<u>619</u>	<u>637</u>
Creditors falling due within less than one year		
Secured bank loans	1,185	3,339
Other bank loan	4,107	-
Finance lease and hire purchase liabilities	237	511
	<u>5,529</u>	<u>3,850</u>

The secured bank loans comprise a fixed term loan of £nil (2019: £1,440,000) which is secured against the Northacre Resource Recovery Centre (NRRC) and £1,185,000 (2019 £1,899,000) of variable funding against on trade debtors. The NRRC Loan was repaid over a period of seven years which finished on 31st January 2020. The variable debtor finance is secured by an all assets debenture and is governed by a facility agreement which was effective for a minimum period which expired on 23rd June 2019 and since this date is cancellable on 6 months' notice. Interest is charged at a margin of 1.4% above UK base rates. The other bank loan is an interim unsecured loan which will be converted into a finance lease arrangement secured against new recycling plant and equipment when the equipment is commissioned.

14 Other interest-bearing loans and borrowings

The maturity of obligations under finance leases and hire purchase contracts are as follows:

	2020 £000	2019 £000
Amounts payable:		
Within one year	237	511
Within one to two years	234	284
In the second to fifth years	385	353
	<u>856</u>	<u>1,148</u>

15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Accelerated capital allowances	-	-	1,613	1,319	1,613	1,319
Tax losses carried forward	(29)	(26)	-	-	(29)	(26)
Tax (assets) / liabilities	<u>(29)</u>	<u>(26)</u>	<u>1,613</u>	<u>1,319</u>	<u>1,584</u>	<u>1,293</u>

The provision for deferred taxation has not been discounted.

Notes (continued)

16 Provisions for liabilities

Site restoration and aftercare

	2020	2019
	£000	£000
At 1 May 2019	5,506	5,459
Charge to the profit and loss account for the year	262	285
Amounts used	(253)	(353)
Changes to the discounted amount	117	115
	5,632	5,506
At 30 April 2020	5,632	5,506

Site restoration and aftercare

The timing of the expected cash flows of the site restoration and aftercare provision are estimated on a site by site basis over the period covering the operational life of the site, its full restoration when completed, and the continuing 60 year aftercare period following restoration. The amounts and timing of the expected outflows are uncertain due to the projection of costs over this period of time.

The restoration and aftercare provision has been discounted using an annual discount rate of 4.5% (2019: 4.5%).

17 Share capital

	2020	2019
	£000	£000
<i>Allotted, called up and fully paid</i>		
20,000 (2019: 20,000) ordinary shares of 50p each	10	10
	10	10

18 Dividends

	2020	2019
	£000	£000
Dividends for which the company became liable during the year:		
Dividends paid	750	1,000
	750	1,000

19 Capital commitments

	2020	2019
	£000	£000
Amounts contracted for but not provided in the accounts	-	364
	-	364

20 Other financial commitments

	Other	Other
	2020	2019
	£000	£000
Operating leases which expire:		
Within one year	23	149
In the second to fifth years	2,391	3,148
	2,414	3,297
	2,414	3,297

During the year £1,065,000 was recognised as an expense in the profit and loss account in respect of operating leases (2019: £1,149,000).

Notes (continued)

21 Accounting estimate and judgements

The preparation of the company's financial statement requires management to make judgements, estimate and assumption that affect the application of account policies and reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Key sources of estimation uncertainty

Restoration provisions

The timing of the expected cash flows of the site restoration and aftercare provision are estimated on a site by site basis over the period covering the operational life of the site, its full restoration when completed, and the continuing 60 year aftercare period following restoration. The amounts and timing of the expected outflows are uncertain due to the projection of costs over this period of time.

The restoration and aftercare provision has been discounted using an annual discount rate of 4.5% (2019: 4.5%).

22 Pensions

Defined contribution scheme

Employees are eligible to be members of the group's defined contribution pension scheme. The assets of the scheme are held separately from those of the group and the company in independently administered funds. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period and amounted to £548,000 (2019: £467,000). An accrual of £nil has been made for these charges as at 30 April 2020 (2019: £ nil).

Defined benefit pension scheme

Other employees and three directors are members of the parent company (Hills UK Limited's) defined benefit pension scheme (2019: four directors). The assets of the scheme are held separately from those of the company and group. The scheme closed to the accrual of further benefits on 1 July 2017. Two directors (2019: Two directors) accrued benefits in the defined benefit scheme until this date.

The most recent valuation of the scheme at 1 July 2017 has been updated by the actuary on an FRS102 basis on 30 April 2020 and on 30 April 2019.

Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS102, the scheme is accounted for by this company as if the scheme was a defined contribution scheme with the full requirements of FRS102 being adopted in the consolidated financial statements of the parent company, Hills UK Limited, which can be obtained from the address given in note 24.

The assets and liabilities of the scheme are not able to be attributed to the current trading companies in the Hills UK Group as they include significant amounts which relate to dormant or disposed subsidiaries as well as the actively trading subsidiaries.

The profit and loss charge for the defined benefit scheme is £412,000 (2019: £343,000).

The total profit and loss charge for both the above schemes is £960,000 (2019: £810,000).

23 Cross guarantee

The company has an unlimited composite guarantee over the borrowing facilities of Hills UK Limited, The Hills Group Limited, Hills Quarry Products Limited, Hills Municipal Collections Limited, Hills Homes Developments Limited, County Homes (Wessex) Limited, Hills (West Midlands) Limited and Able Waste Management Limited.

24 Ultimate parent undertakings

The company is a subsidiary undertaking of The Hills Group Limited which in turn is a wholly owned subsidiary of Hills UK Limited which is registered in England and Wales. The largest and smallest group in which these results are included is headed by Hills UK Limited. The consolidated financial statements are available to the public and may be obtained from:

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County Park Business Centre
Shrivenham Road
Swindon
Wiltshire
SN1 2NR
Registered number: 00571289