

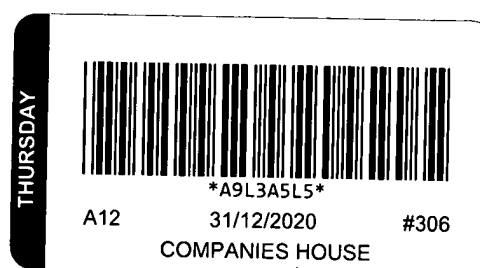
Babcock Fire Services (SW) Limited

Annual report and financial statements

For the year ended 31 March 2020

Company registration number:

04380305



Babcock Fire Services (SW) Limited

Directors and advisors

Current directors

R H Taylor
J R Parker

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Babcock Fire Services (SW) Limited

Strategic report

The directors present their Strategic report on the Company for the year ended 31 March 2020.

Principal activities

The principal activities of the Company are the design, construction and maintenance of Fire Fighting Units for use in the provision of fire-fighting training by the South Wales Fire & Rescue Service.

Review of the business

	2020	2019
	£000	£000
Revenue	1,257	1,344
Profit for the financial year	178	243
Net assets	3,000	2,822

Over the course of the year, the Company's business activities continued to perform in line with expectations.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the expected impact of COVID-19, is provided on pages 80 to 92 of the annual report of Babcock International Group PLC, which does not form part of this report.

Since the beginning of the COVID-19 pandemic the Training Centre has largely remained open and continued to be utilised. Further there is not expected to be a significant change in costs due to the pandemic. Consequently we expect there to be little to no impact to financial performance of the company from the pandemic.

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities and there are no plans to alter significantly the business of the Company.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 74 to 75 of the Group's report, which does not form part of this report.

Babcock Fire Services (SW) Limited

Strategic report *(continued)*

S172(1) statement and stakeholder engagement.

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 30 and 31 of the annual report of Babcock International group PLC, which does not form part of this report.

The disclosure in the Group annual report considered all relevant factor for the Company, in particular the Company's engagement with its customers and employees. During the year, regular and frequent engagement continued with the South Wales Fire & Rescue Service to ensure effective operational running of the Training Centre.

On behalf of the board



J R Parker
Director
16 December 2020

Babcock Fire Services (SW) Limited

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

Dividends

No dividends were paid in the year (2019: £nil). No final dividend for the year ended 31 March 2020 has been proposed by the directors (2019: £nil).

Future developments

There are no plans to alter significantly the business of the Company.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Price risk

The Company is exposed to price risk as a result of its operations. Prices are set by reference to the long term contract pricing mechanism. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities. The Company has no exposure to equity securities price risks as it holds no listed equity investments.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

The Company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate cash flow risk

The Company has interest-bearing assets in the form of cash balances and the Financial Asset recoverable from the customer. The interest earned on cash balances accrues at a floating rate and an implied fixed rate is earned on the Financial Asset. Amounts owed to group undertakings incur interest at a fixed rate. The Company uses derivatives to swap the variable rate on its bank loan to a fixed rate of interest. No hedge accounting is applied.

Babcock Fire Services (SW) Limited

Directors' report *(continued)*

Directors of the Company

The directors who held office during the year and up to the date of signing the annual report were as follows:

R H Taylor
J R Parker

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Babcock Fire Services (SW) Limited

Directors' report *(continued)*

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as directors of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Statement of engagement with customers, employees, suppliers and others in a business relationship with the Company

The Directors have regard to the need to foster the Company's business relationship with customers, employees, suppliers and others, and the effect of that regard, including on principal decisions taken by the Company during the financial year. Please refer to the Company's Section 172(1) statement in the Strategic report.

Reappointment of auditors

PricewaterhouseCoopers LLP were reappointed as auditors at the Annual General Meeting.

On behalf of the board



J R Parker

Director

16 December 2020

Independent auditors' report to the members of Babcock Fire Services (SW) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Fire Services (SW) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2020; the Statement of Comprehensive Income and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Babcock Fire Services (SW) Limited

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

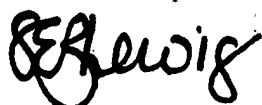
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Sasha Lewis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

24 December 2020

Babcock Fire Services (SW) Limited**Statement of Comprehensive Income***for the year ended 31 March 2020*

	Note	2020 £000	2019 £000
Revenue	4	1,257	1,344
Cost of sales		<u>(1,233)</u>	<u>(1,331)</u>
Operating profit	5	24	13
Finance income	6	431	459
Finance costs	6	(278)	(288)
Other finance income (movement on derivative)		<u>7</u>	<u>66</u>
 Profit before income tax		 184	 250
Tax on profit	7	<u>(6)</u>	<u>(7)</u>
 Profit and total comprehensive income for the financial year		 <u>178</u>	 <u>243</u>

All of the above results derive from continuing operations.

Babcock Fire Services (SW) Limited**Statement of financial position***as at 31 March 2020*

	Note	2020 £000	2019 £000
Fixed assets			
Financial asset	8	<u>5,344</u>	<u>5,915</u>
		<u>5,344</u>	<u>5,915</u>
Current assets			
Trade and other receivables	9	436	329
Cash and cash equivalents	10	<u>3,539</u>	<u>3,241</u>
		3,975	3,570
Trade and other payables – amounts falling due within one year	11	<u>(1,468)</u>	<u>(1,392)</u>
Net current assets		<u>2,507</u>	<u>2,178</u>
Total assets less current liabilities		<u>7,851</u>	<u>8,093</u>
Trade and other payables – amounts falling due after more than one year	11	<u>(4,851)</u>	<u>(5,271)</u>
Net assets		<u>3,000</u>	<u>2,822</u>
Equity			
Called up share capital	13	50	50
Retained earnings		<u>2,950</u>	<u>2,772</u>
Total shareholders' funds		<u>3,000</u>	<u>2,822</u>

The financial asset includes £114,000 (2019: £353,000) due within 1 year.

The notes on pages 12 to 24 are an integral part of these financial statements. The financial statements on pages 9 to 24 were approved by the board of directors and signed on its behalf by:



J R Parker
Director

16 December 2020

Babcock Fire Services (SW) Limited**Statement of changes in equity***for the year ended 31 March 2020*

	Called- up Share Capital £000	Retained earnings £000	Total Shareholders' funds £000
Balance at 1 April 2018			
	50	2,529	2,579
Profit and total comprehensive income for the financial year	-	243	243
Balance at 31 March 2019 and at 1 April 2019	50	2,772	2,822
Profit and total comprehensive income for the financial year	-	178	178
Balance at 31 March 2020	50	2,950	3,000

Babcock Fire Services (SW) Limited

Notes to the financial statements

1 General information

Babcock Fire Services (SW) Limited is a private company limited by shares which is incorporated and domiciled in England, UK. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. In year IFRS 16 has been adopted, but this has nil impact on the Company as there are no leases in the entity.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

These financial statements are prepared on a going concern basis, under the historical cost convention in accordance with the Companies Act 2006, modified by the adoption of fair value accounting in relation to the interest rate swap agreement. The financial statements are prepared in sterling which is the functional and presentational currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Vosper Thornycroft (UK) Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- a) IFRS 7, 'Financial instruments: Disclosures';
- b) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136;
- f) IAS 7, 'Statement of cash flows';

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors;'
- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation;
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has sufficient net assets to continue trading for the foreseeable future, and we believe that any impacts of COVID-19 will be minor. For further details please see the Strategic Report. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Adoption of new and revised standards

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 16, 'Leases' has been adopted in the year (effective 1 January 2019) and replaces IAS 17 as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Company has adopted the standard from 1 April 2019.

Babcock Fire Training (SW) Limited did not have any qualifying leases in place for the years ended 31 March 2019 and 31 March 2020, therefore there is no impact from the adoption of IFRS 16.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. The Company's contracts typically do not include significant financing components.

The contract is subject to KPI penalties and therefore there may be an obligation that monies have to be returned to the customer if these performance criteria fail to be satisfied to a certain threshold.

(c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation, whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Company's performance as it performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done; or
- the Company's performance creates or enhances an asset controlled by the customer.

Service concession arrangements

IFRIC 12 'Service concession arrangements' addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the Interpretation (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

The Company entered into a 25 year arrangement in 2006 with South Wales Fire & Rescue Service (Fire Authority) for the construction and maintenance of a Fire Training Facility at Cardiff Gate, Cardiff in addition to the provision of training services. The training services and facilities management delivery is entirely sub-contracted to a fellow Babcock entity.

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Service concession arrangements *(continued)*

The Fire Authority will obtain legal title of the facility on completion of the contract for consideration of £1, although there remains the option of extending the contract for an additional 10 years. The Fire Authority retain control throughout the duration over access and rights to use the facility within the terms of the contract.

The price of facilities and training is controlled through a training point mechanism. The Fire Authority will purchase training points to use at a defined minimum level per quarter and may purchase additional training points. The value of the training points is controlled by indexation formula based on inputs from the Office of National Statistics (ONS). There is no re-pricing built into the contract.

The Company accounts for the single contract as a service concession under IFRIC 12. In applying IFRIC 12, Babcock recognised separately the revenue on operational cost and training and financial income on the contract. Financial income is calculated as the effective interest rate on the value of the financial asset from the initial construction of the facilities and revenue as the mark-up on facility costs. The assets of the fire training facility will, at the option of the Fire Authority, be transferred to that Authority at the end of the contract, subject to the agreement of compensating sums, where applicable, in accordance with the terms of that underlying contract.

Financial instruments

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and amounts owned by group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in Income Statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in Income Statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Financial Instruments *(continued)*

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Such liabilities are subsequently carried at amortised cost using the effective interest method.

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Derivatives

The Company uses interest rate swaps to fix any variable interest rates on its long term borrowings. Amounts payable or receivable in respect of interest rate swaps are recognised in the income statement at fair value.

Taxation

(a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

There are a number of assumptions made in the IFRIC12 calculations which are used to derive the accounting in the Company. The return on the financial asset was set at the contract inception date based upon the market conditions at that time and will not change through the concession life. Other assumptions including the discount rate, growth rate and operating margin represent the directors' best estimate and are set with reference to the projected costs to complete the contract. The directors ensure this projection is updated each year and changes are reflected in the IFRIC12 calculations in response to this estimate.

The service concession arrangement has been shown as a full financial asset due to the variable income element not being relevant to the contract.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2020 £000	2019 £000
	Principal activity	Principal activity
By area of activity:		
Rendering of services	1,257	1,344
	1,257	1,344

All the revenue in the year ending 31 March 2020 (2019: all) originated in the United Kingdom.

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

5 Operating Profit

Operating profit is stated after charging:

	2020	2019
	£000	£000
Audit fees payable to the Company's auditors	6	6

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

No emoluments were made by the Company to the directors in either year as they are all remunerated by other entities within the Babcock International Group PLC. It is not possible to make an accurate apportionment of their emoluments relating to the services provided to the Company.

There were no employees in either year.

6 Finance income and costs

	2020	2019
	£000	£000
Finance income:		
Bank interest	24	20
Service concession investment income	407	439
	<u>431</u>	<u>459</u>
Finance costs:		
Bank loan interest	(246)	(260)
Loan interest payable to group undertakings	(32)	(28)
	<u>(278)</u>	<u>(288)</u>

Babcock Fire Services (SW) Limited**Notes to the financial statements (continued)****7 Tax on profit**

Tax charge included in income statement	2020	2019
Current tax:	£000	£000
UK Corporation tax on profits for the year	-	-
Current tax charge for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	(6)	8
Adjustments in respect of deferred tax for prior years	(18)	-
Impact of change in UK tax rate	30	(1)
Total deferred tax charge (note 12)	6	7
Tax charge on profit	6	7

Tax expense for the year is lower (2019: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

Babcock Fire Services (SW) Limited**Notes to the financial statements (continued)****7 Tax on profit (continued)**

	2020 £000	2019 £000
Profit on ordinary activities before taxation	184	250
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2019: 19%)	35	48
Effects of:		
Expenses not deductible for tax purposes	72	43
Group relief claimed for nil consideration	(113)	(83)
Adjustments in respect of deferred tax for prior years	(18)	-
Impact of change in UK tax rate	30	(1)
Tax charge for the year	6	7

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 19% as this is the tax rate that will apply on reversal.

8 Financial asset

	2020 £000	2019 £000
Financial asset	5,344	5,915
	5,344	5,915

The Company operates a Fire Training facility on behalf of South Wales Fire and Rescue Service (SWFRS) that falls under IFRIC 12 "Service Concession Arrangements". At the end of the 25 year contract the control of the facility will return to the control of SWFRS. Expiration date of the current contract is 2030.

Babcock Fire Services (SW) Limited

Notes to the financial statements (continued)

9 Trade and other receivables

	2020 £000	2019 £000
Amounts falling due within one year:		
Prepayments	299	204
Contract asset	19	-
Other receivables	58	50
Deferred Tax Asset (note 12)	60	75
	436	329
		Contract asset £000
At 31 March 2019		-
Increase due to work done but not recognised in Trade receivables		19
At 31 March 2020		19

10 Cash and cash equivalents

Within the cash balance, £663,000 (2019: £659,000) is held in favour of the financiers, pursuant to the financing agreements, and withdrawals may only be made subject to any consent required from the financiers.

11 Trade and other payables

	2020 £000	2019 £000
Amounts falling due within one year:		
Trade creditors	139	-
Bank loans and overdrafts (secured)	386	296
Amounts owed to parent and group undertakings	404	362
UK corporation tax liability	13	13
Derivative financial liabilities	80	63
Accruals	37	89
Contract liabilities	409	569
	1,468	1,392

The amounts owed to group undertakings represent a trading balance of £90,000 (2019: £22,000) and an intercompany loan totalling £314,000 (2019: £340,000). This loan is repayable on demand, is unsecured and carries interest at a fixed rate of 8%.

Babcock Fire Services (SW) Limited**Notes to the financial statements (continued)****11 Trade and other payables (continued)**

	Contract liabilities £000
At 31 March 2019	569
Revenue recognised that was included in contract liabilities at the beginning of the year	(160)
At 31 March 2020	409

	2020 £000	2019 £000
Amounts falling due after more than one year:		
Bank loans and overdrafts (secured)	3,798	4,184
Derivative financial liabilities	789	814
Deferred tax liability (note 12)	264	273
	4,851	5,271

The bank loan is secured by Barclays Bank plc via a fixed and floating charge over the shares and assets of Babcock Fire Services (SW) Limited. The loan is also guaranteed in full by Vosper Thornycroft (UK) Limited. The bank loan is repayable by six-monthly capital and interest instalments, bearing interest at a variable rate of Libor plus 0.75%. The Company has in place a swap agreement, which fixes the variable rate to 4.745%. At the year end, the fair value of the swap was a liability of £870,000 (2019: £892,000) which has been split between current and non-current based on the maturity of the loan.

	2020 £000	2019 £000
Age analysis of bank loans		
In one year or less	386	296
In more than one year but not more than two years	306	385
In more than two years but not more than five years	1,009	987
In more than five years	2,483	2,812
	4,184	4,480

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

12 Deferred taxation

The major components of the deferred tax liabilities and deferred tax assets are recorded as follows:

Deferred tax liabilities and (assets)	Accelerated capital allowances £000	Derivative deferred tax asset £000	Total £000
At 1 April 2018	281	(90)	191
- (credited) / charged to the income statement	(8)	15	7
At 1 April 2019	273	(75)	198
- (credited) / charged to the income statement	(9)	15	6
At 31 March 2020:	264	(60)	204

13 Called up share capital

	2020 £000	2019 £000
Allotted and fully paid		
50,000 ordinary shares of £1 (2019: 50,000 ordinary shares of £1)	50	50

14 Contingent liabilities

At the year end the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2019: £nil) provided to certain group companies. In addition, the Company at the year-end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2019: £nil).

15 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available. There were no other transactions or balances which require disclosure.

Babcock Fire Services (SW) Limited

Notes to the financial statements *(continued)*

16 Immediate and Ultimate parent undertakings

The Company's immediate parent company is Vosper Thornycroft (UK) Limited, a limited liability company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX