

Enterprise Civic Buildings Limited

Annual report and financial statements

Registered number 04421860

31 December 2019

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COMPANY INFORMATION

The Board of Directors

D W Davies
A Mills
A H Page
J N E Cowdell

Company Secretary

Pario Limited

Registered Office

Unit 18, Riversway Business Village
Navigation Way
Preston
PR2 2YP

Independent Auditor

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

DIRECTORS' REPORT

for the year ended 31 December 2019

The directors' present their directors' report and the audited financial statements of Enterprise Civic Buildings Limited (the "Company") for the year ended 31 December 2019.

Principal activities

The principal activity of the Company in the year under review is the operation and management of the Exeter Crown and County Courts PFI project under the Government's Private Finance Initiative ("PFI"). The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

The Company entered into a Project Agreement with The Lord Chancellor's Department (now Ministry of Justice), together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements. The Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain services within the Exeter Crown and County Courts PFI project for a primary term of 32 years from the date of signing of the Project Agreement.

Business review and strategy

The Company is in the operational phase of the contract and is performing to the required standards underwritten by the contracts entered into which govern the management of the Company. The Company has continued to make good progress during the year in terms of delivery and profitability.

The Company expects to continue in line with the contractual obligations for the remaining term of the Project Agreement. The Company has modelled its anticipated financial performance for the full term of the project and expect to perform in line with this for the remaining concession period. The operational model has forecast continued profits for the Company.

The Company has no employees.

Development and financial performance during the year

The profit for the year after taxation was £208,000 (2018: £134,000). The majority of the Company's revenues and costs are fixed and agreed in the initial contracts entered into at the commencement of the project. The Company, from time to time, will agree certain variations with the Ministry of Justice which are agreed to have a small profit mark up for the Company.

The Company has modelled the anticipated financial outcome of the Project across its full term. The directors monitor actual financial performance against this anticipated performance. As at 31 December 2019, the Company's performance reflects an acceptable variance to this model.

Financial instruments

The Company's exposure to interest rate risk is managed through the matching of revenue contracts which are subject to similar indexation terms, as set out in note 16 to the financial statements.

Principal risks and uncertainties

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. Unavailability deductions are passed on 100% to the Facilities management provider as and when they occur. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in note 16 to the accounts.

The Company shares the risks and rewards from any potential variance with the Lifecycle profile modelled at financial close with the facilities management provider. The Company is therefore exposed to the risk that the actual cost for Lifecycle in the future is above the modelled profile, and would therefore be liable to a part of this additional cost which is not forecast. The directors believe the risk of the company being exposed to a deficit is low.

DIRECTORS' REPORT *(continued)*

Brexit risk

The Company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's future relationship with the European Union after the end of the transition period. Whilst the Company itself is not considered to be significantly exposed, subcontractors which the company engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

COVID-19

The Company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The Company is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Dividend

Interim dividends totalling £719,000 were paid in respect of the year ended 31 December 2019 (2018: £nil). The directors do not recommend the payment of a final dividend (2018: £nil).

Directors and directors' interests

The directors who served during the year were as follows:

D W Davies
A Mills
A H Page
J N E Cowdell

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Key Performance Indicators (KPIs)

The Company is required to comply with a number of financial covenants implemented by the senior lender at certain calculation dates throughout the year, of which failure to meet would result in a default of the senior loan agreement. The ratios required to meet are defined in the collateral deed as Loan Life Cover Ratio and Annual Debt Service Cover Ratio. These are required to remain above 1.2000 and 1.1000 respectively.

Current and future ratios are presented to the senior lender for approval on a six-monthly basis to ensure compliance with the collateral deed. To date, and in all future periods as detailed in the latest operational model, the Company has met and is forecast to meet these requirements for the remainder of the concession.

The results for the year are set out in the Statement of Profit and Loss and Other Comprehensive Income on page 8.

DIRECTORS' REPORT *(continued)*

Strategic Report exemption

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small company exemption. Accordingly, no Strategic Report has to be prepared.

Political and charitable contributions

The Company made no charitable contributions during the year (2018: £nil).

The Company made no political contributions during the year (2018: £nil).

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418(1) of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to section 487 of the companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



D W Davies
Director
29 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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 ENTERPRISE CIVIC BUILDINGS LIMITED

Opinion

We have audited the financial statements of Enterprise Civic Buildings Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, 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 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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.

Directors' report

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

Our responsibility is to read 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 audit work:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENTERPRISE CIVIC BUILDINGS LIMITED (CONTINUED)

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; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, 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.

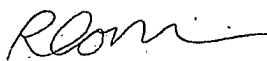
Auditor's responsibilities

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.



Richard Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

3 Assembly Square

Britannia Quay

Cardiff

CF10 4AX

30 June 2020

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	4	2,298	1,911
Cost of sales		(1,547)	(1,142)
Gross profit		751	769
Administrative expenses		(153)	(172)
Operating profit		598	597
Financial income	8	1,183	1,227
Financial expenses	9	(1,483)	(1,624)
Profit before tax	5	298	200
Tax expense	10	(90)	(66)
Profit and Total Comprehensive Income for the year		208	134

The notes on pages 12 to 27 form part of these financial statements.

All amounts arise from continuing operations.

STATEMENT OF FINANCIAL POSITION

as at year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non current assets			
Deferred tax assets	14	1,021	1,079
Finance receivables	16	16,133	16,813
		<u>17,154</u>	<u>17,892</u>
Current assets			
Finance receivables	16	679	634
Trade and other receivables	12	3,129	3,247
Cash and cash equivalents		2,634	2,480
		<u>6,442</u>	<u>6,361</u>
Total assets		<u>23,596</u>	<u>24,253</u>
Liabilities			
Current liabilities			
Trade and other payables	13	1,411	623
Interest bearing loans and borrowings	15	886	877
		<u>2,297</u>	<u>1,500</u>
Non current liabilities			
Interest bearing loans and borrowings	15	19,506	20,410
Deferred tax liabilities	14	1,358	1,397
		<u>20,864</u>	<u>21,807</u>
Total liabilities		<u>23,161</u>	<u>23,307</u>
Net assets		<u>435</u>	<u>946</u>
Equity			
Issued share capital	19	3	3
Retained earnings		432	943
Total equity attributable to the owners of the parent		<u>435</u>	<u>946</u>

The notes on pages 12 to 27 form part of these financial statements.

The financial statements were approved by the Board of Directors on 29 June 2020 and were signed on its behalf by:



D W Davies

Director

Company registered number: 04421860

STATEMENT OF CHANGES IN EQUITY
as at year ended 31 December 2019

	Notes	<u>Attributable to the owners of the parent</u>		
		Share Capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 31 December 2017		3	809	812
Profit for the year		-	134	134
Total comprehensive income for the year		-	134	134
Dividends	11	-	-	-
Balance at 31 December 2018		3	943	946
Profit for the year		-	208	208
Total comprehensive income for the year		-	208	208
Dividends	11	-	(719)	(719)
Balance at 31 December 2019		3	432	435

The notes on pages 12 to 27 form part of these financial statements.

Retained earnings

The retained earnings reserve represents profits and losses retained in the previous and the current period.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit before taxation	298	200
<i>Adjustments for:</i>		
Financial income	(1,183)	(1,227)
Financial expense	1,483	1,624
Operating profit before changes in working capital and provisions	598	597
Decrease in finance receivables	635	595
Decrease / (increase) in trade and other receivables	110	(395)
Increase in trade and other payables	595	44
Cash generated from operations	1,938	841
Tax paid	(46)	(91)
Net cash inflows from operating activities	1,892	750
Cash flows from investing activities		
Interest received	1,183	1,227
Net cash inflows from investing activities	1,183	1,227
Cash flows from financing activities		
Interest paid (note 18)	(772)	(1,064)
Repayment of borrowings (note 18)	(1,430)	(1,292)
Dividends paid	(719)	-
Net cash outflows from financing activities	(2,921)	(2,356)
Net increase / (decrease) in cash and cash equivalents	154	(379)
Cash and cash equivalents at the beginning of the year	2,480	2,859
Cash and cash equivalents at the end of the year	2,634	2,480

The notes on pages 12 to 27 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

Enterprise Civic Buildings Limited (the "Company") is a private Company limited by shares and incorporated, domiciled and registered in England in the UK.

Basis of preparation

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

All amounts are rounded to the nearest £1,000 unless otherwise stated.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Going concern

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 covering a period of 12 months from the date of approval of these financial statements through to 30 June 2021 which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Ministry of Justice. In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19. The Company's operating cash inflows are largely dependent on unitary charge receipts receivable from the Ministry of Justice and the Directors expect these amounts to be received even in severe but plausible downside scenarios. The Company continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

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 TO THE FINANCIAL STATEMENTS (*continued*)

Standards, amendments and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following amendments to Accounting Standards were in issue but not yet effective. These are not expected to have a significant impact on the Company's financial statements in future periods.

Effective Date	New standards or Amendments
To be confirmed	Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate benchmark reform.

New requirements applicable to the Company's financial statements for the first time:

Effective Date	New standards or Amendments
01-Jan-19	Amendment to IAS 12 <i>Income Taxes</i> – clarification in respect of tax consequences of dividends.
01-Jan-19	IFRIC 23 <i>Uncertainty over income tax treatments</i> – clarifies the accounting for uncertainties in income taxes.
01-Jan-19	IFRS 16 <i>Leases</i> – changes to the recognition and measurement of leases.

The new requirements described above have not had any impact on the Company's financial statements.

Finance receivable

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance receivable. During the operational phase, income is allocated between interest receivable and the finance receivable using a project specific interest rate. The remainder of the PFI unitary charge income is included within revenue in accordance with the services contracts accounting policy below. Finance receivables and amounts recoverable on contracts are classified as loans and receivables as defined in IAS 39, which are initially recognised at fair value and then are stated at amortised cost.

Finance receivables are expected to be realised over the life of the project. As at 31 December 2019 finance receivables include £16.1 million (2018: £16.8 million) due after more than twelve months.

Measurement convention

The financial statements are prepared on the historical cost basis.

Revenue

Revenue is recognised in accordance with the finance receivable and service contracts accounting policies above, and excludes VAT.

Interest income arises on funds invested in deposits. It is recognised in profit or loss as it accrues, using the effective interest method.

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 interest for a similar debt instrument.

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Taxation

Corporation tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future tax profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets / liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on where there is an intention to settle balances on a net basis.

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 statement of cash flows.

Cash and cash equivalents included £1,828,000 (2018: £1,669,000) restricted from use within the business, held in reserve accounts under the terms of the service debt agreement.

Financing costs

Financing costs comprise interest payable, and gains and losses that are recognised in the statement of profit and loss and other comprehensive income.

Interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Accounting estimates and judgements

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements in applying the Company's accounting policies are described below:

- Accounting for the service contracts and finance receivables requires estimation of service margins, finance receivable interest rates and finance receivable amortisation profile which are based on forecasted results of the PFI contract. Lifecycle costs are a significant proportion of future expenditure and can be volatile in nature. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis. If over the remainder of the concession lifecycle costs increase by 5%, this could lead to a reduction in margin recognised of 1%;
- The Company has recognised a deferred tax asset in respect of tax losses. The directors review the forecasts of future taxable profits on a regular basis so as to satisfy themselves about the carrying value of the deferred tax asset.

3 Segmental information

All assets, liabilities, revenue and profit before taxation originate in the United Kingdom and are relating to one operating segment, being the construction, operating and financing of a PFI contract.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4 Revenue

	2019 £'000	2018 £'000
Service revenue	1,592	1,681
Other revenue	706	230
	<u>2,298</u>	<u>1,911</u>

All turnover originates in the United Kingdom.

(i) Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers:

	2019 £'000	2018 £'000
Receivables	447	366
Financial assets	16,812	17,447

The contract assets primarily relate to the company's rights to consideration for work completed but not billed at the reporting date on the company's PFI contract. The contract assets are transferred to receivables when the rights become unconditional.

The amount of revenue recognised in the current period from performance obligations satisfied (or partially satisfied) in previous periods was £nil (2018: £nil).

Significant changes in contract assets during the period are as follows:

	2019 £'000	2018 £'000
Opening financial asset	17,447	18,042
Decreases due to cash received excluding amounts recognised as revenue during the period	(3,397)	(3,718)
Revenue recognised	1,592	1,911
Interest recognised	1,170	1,212
	<u>16,812</u>	<u>17,447</u>

(ii) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4 Revenue *(continued)*

	2020	2021	2022	2023	2024
	£'000	£'000	£'000	£'000	£'000
Service revenue	1,727	1,799	2,019	3,026	2,640
	<u>1,727</u>	<u>1,799</u>	<u>2,019</u>	<u>3,026</u>	<u>2,640</u>

5 Profit before taxation

	2019	2018
	£'000	£'000
Profit before taxation is stated after charging:		
Auditor's remuneration:		
- Audit of these financial statements	15	15
- Audit of parent company's financial statements	1	1
Amounts receivable by the company's auditor and its associates in respect of:		
- Taxation services	-	6
	<u> </u>	<u> </u>

6 Remuneration of directors

Fees of £74,000 were accrued to third parties in respect of directors' services for 2019 (2018: £71,000). See note 21 for details.

7 Employees

The Company had no employees during the year (2018: nil).

8 Financial income

	2019	2018
	£'000	£'000
Finance receivable interest	1,170	1,212
Bank interest receivable	13	15
	<u>1,183</u>	<u>1,227</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9 Financial expenses

	2019 £'000	2018 £'000
Interest on index linked bonds	1,125	1,266
Interest on subordinated debt	358	358
	<u>1,483</u>	<u>1,624</u>

10 Taxation

	2019 £'000	2018 £'000
<i>Current Tax expense</i>		
Current year	71	53
Total current tax	<u>71</u>	<u>53</u>
Deferred tax	<u>19</u>	<u>13</u>
Total income tax expense reported in the income statement	<u>90</u>	<u>66</u>
	2019 £'000	2018 £'000
<i>Reconciliation of income tax expense</i>		
Profit before taxation	298	200
UK Corporation tax thereon at 19% (2018: 19%)	57	38
Deemed lease premium deduction	(27)	(27)
Amortisation of non-qualifying asset	60	52
Adjustment to tax charge in respect of prior years	-	3
Total tax in the income statement	<u>90</u>	<u>66</u>

Deferred tax has been recognised on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a PFI contract. The deferred tax asset at 31 December 2019 has been calculated based on the rate of 17% (2018: 17%) substantively enacted at the balance sheet date. However, in the March 2020 Budget Statement, the UK Government announced that the rate would remain at 19%. The effect of this at 31 December 2019 would be to increase the deferred tax asset by £120,000 and increase the deferred tax liability by £160,000, resulting in an additional deferred tax charge to the income statement of £40,000.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 Dividends

Dividends totalling £719,000 (£239.67 per share) were paid in the year (2018: nil).

12 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	447	366
Other receivables	2,334	2,532
Prepayments and accrued income	348	341
Corporation tax	-	8
	<u>3,129</u>	<u>3,247</u>

No allowance for doubtful amounts has been created. The classes do not contain impaired assets. The Company considers that due to the nature of its business, that it is not exposed to significant credit risks.

13 Trade and other payables

	2019 £'000	2018 £'000
Trade payables	79	98
Accruals and deferred income	1,074	419
Other taxation	241	106
Corporation tax	17	-
	<u>1,411</u>	<u>623</u>

The carrying value of trade and other payables is measured at amortised cost which approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Tax losses £'000	Finance receivables £'000	Total £'000
31 December 2017	1,125	(1,430)	(305)
Recognised in income statement	(46)	33	(13)
31 December 2018	1,079	(1,397)	(318)
Recognised in income statement	(58)	39	(19)
31 December 2019	1,021	(1,358)	(337)

The deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

The deferred tax liability has been recognised due to the carrying value of the Finance receivable being greater than its tax base, and the deferred tax liability will unwind over the remainder of the concession.

15 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rates, see note 16.

	2019 £'000	2018 £'000
Non current liabilities		
3.1095% index linked secured guaranteed bonds (due 2033)	16,938	17,842
Subordinated debt	2,568	2,568
Total	19,506	20,410
Current liabilities		
3.1095% index linked secured guaranteed bonds (due 2033)	886	877

Terms and debt repayment schedule

The bonds are indexed-linked 3.1095% bonds redeemed by instalments each on 30 April and 31 October commencing on 30 April 2005 with the final repayment due on 31 October 2033. The bonds are guaranteed by Assured Guaranty (UK) Limited and are secured by a fixed and floating charge over the assets of the Company. The bonds are indexed using RPI figures published by the Office for National Statistics. The index ratio uses a base index figure of 174.5 and a numerator index figure that is published in the eighth month prior to each payment date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15 Interest bearing loans and borrowings *(continued)*

Repayment of the subordinated debt has been deferred until the end of the project, which is expected to be 2034. The interest rate on the subordinated debt is 14% per annum.

16 Financial instruments

The Company's principal financial instruments comprise trade and other receivables, trade and other payables, cash and cash equivalents, indexed-linked guaranteed bonds and subordinated debt. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements.

All financial instruments are classified as loans and receivables or other financial liabilities.

Exposure to credit and interest rate risks arises in the normal course of the Company's business.

The Company does not have any exposure to foreign currency fluctuations.

Credit risk

Although the Ministry of Justice (the "Authority") is the only client of the Company, the directors are satisfied that the Authority will be able to fulfil its collateral obligations under the PFI contract.

The carrying amount of financial assets represents the maximum credit exposure:

	2019 £'000	2018 £'000
Finance receivable	16,812	17,447
Trade receivables	447	366
Other receivables	2,334	2,532
Cash and cash equivalents	2,634	2,480
	<u>22,227</u>	<u>22,825</u>

Included within Finance receivable is an amount receivable after five years of £12,904,000 (2018: £13,795,000).

Effective interest and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates the contractual maturities of financial liabilities, including interest payments.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Financial instruments *(continued)*

2019	Total £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	5+ years £'000
<u>Financial assets measured at amortised cost</u>					
Finance receivable	26,769	1,805	1,805	5,414	17,745
Cash and cash equivalents	2,634	2,634	-	-	-
Trade receivables	447	447	-	-	-
Other receivables	2,334	2,334	-	-	-
<u>Financial liabilities measured at amortised cost</u>					
Index linked guaranteed bonds	(26,169)	(2,029)	(1,943)	(5,042)	(17,155)
Other payables	(1,411)	(1,411)	-	-	-
Subordinated debt	(8,006)	(541)	(359)	(1,025)	(6,081)
	<u>(3,402)</u>	<u>3,239</u>	<u>(497)</u>	<u>(653)</u>	<u>(5,491)</u>
<hr/>					
2018	Total £'000	<1 year £'000	1-2 years £'000	2-5 years £'000	5+ years £'000
<u>Financial assets measured at amortised cost</u>					
Finance receivable	28,574	1,804	1,805	5,414	19,551
Cash and cash equivalents	2,480	2,480	-	-	-
Trade receivables	366	366	-	-	-
Other receivables	2,532	2,532	-	-	-
<u>Financial liabilities measures at amortised cost</u>					
Index linked guaranteed bonds	(28,248)	(2,011)	(2,035)	(5,072)	(19,130)
Other payables	(615)	(615)	-	-	-
Subordinated debt	(8,179)	(359)	(360)	(1,077)	(6,383)
	<u>(3,090)</u>	<u>4,197</u>	<u>(590)</u>	<u>(735)</u>	<u>(5,962)</u>

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase of one percentage point in interest rates would increase the Company's profit after tax by approximately £158,000 (2018: £162,000).

The bond and sub debt repayments have not been included in the calculation as a 1% increase would not affect the fixed repayment profiles.

Interest Rate Risk

The Company has indexed linked bonds which are subject to fluctuations, but the risk is also offset by turnover being subject to similar indexation terms.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Financial instruments *(continued)*

Fair values

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

	2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
<i>Financial assets measured at amortised cost</i>					
Cash and cash equivalents	2,634	2,634	2,634	-	-
Trade receivables	447	447	-	-	447
Other receivables	2,682	2,682	2,682	-	-
Finance receivable	16,812	22,999	-	-	22,999
<i>Financial liabilities measured at amortised cost</i>					
Index linked guaranteed bonds	(17,824)	(24,203)	-	(24,203)	-
Subordinated debt	(2,568)	(4,042)	-	(4,042)	-
Trade and other payables	(1,411)	(1,411)	(1,411)	-	-
	772	(894)	3,905	(28,245)	23,446
	2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000
<i>Financial assets measured at amortised cost</i>					
Cash and cash equivalents	2,480	2,480	2,480	-	-
Trade receivables	366	366	-	-	366
Other receivables	2,881	2,881	2,881	-	-
Finance receivable	17,447	23,361	-	-	23,361
<i>Financial liabilities measured at amortised cost</i>					
Index linked guaranteed bonds	(18,719)	(25,111)	-	(25,111)	-
Subordinated debt	(2,568)	(3,908)	-	(3,908)	-
Trade and other payables	(623)	(623)	(623)	-	-
	1,264	(554)	4,738	(29,019)	23,727

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Financial instruments *(continued)*

Estimation of fair values

The different levels have been defined by the Group as follows:

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

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted to determine the fair value.

Fair value of finance receivables and subordinated debt is calculated by discounting future cash flows at an appropriate discount rate. The discount rate used is calculated by adding an appropriate premium to the relevant gilt yield for the project. The gilt yield reflects the unexpired term of the project agreement and the estimated premium reflects market spread that would be required by investors of the PFI project companies with similar risk profiles. The discount rates that have been applied to the finance receivables are 2.1% (2018: 2.6%) and subordinated debt is 8% (2018: 8%).

At 31 December 2019, an increase in the discount rate by one percentage point would reduce the fair value of the finance receivable by £1,561,000 (2018: £653,000), whereas a reduction in the discount rate of one percentage point would increase the fair value of the finance receivable by £1,724,000 (2018: £3,224,000). For the subordinated debt, an increase of one percentage point in the discount rate would result in a reduction in the fair value of £286,000 (2018: £180,000) and a decrease in the discount rate of one percentage point would result in an increase in fair value of £319,000 (2018: £481,000).

The fair values of indexed linked bonds have been calculated by M&G Investment Management Limited. The values were determined using comparable information on a public bond issue and represent Level 3 in the IFRS 13 fair value hierarchy which expands on the requirements of fair value measurement by IFRS 7.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's financial obligations, including the repayment of its borrowings which are provided on a long term basis, have been structured to be met from the income which, under normal operating conditions, will be earned from its long term concession contract with the Authority.

17 Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital management strategy remains unchanged from 2018.

The capital structure of the Company consists of borrowings as detailed in note 15 and equity.

To maintain or adjust the capital structure of the Company, the Company may adjust the dividend payment to shareholders or issue new shares if deemed necessary.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18 Change in liabilities arising from financing activities

	Year ended 31 December 2019				
	Bonds £'000	Accrued interest on bonds £'000	Subordinated debt £'000	Accrued interest on subdebt £'000	Total £'000
Balance at 31 December 2018	18,719	101	2,568	60	21,448
<i>Changes from financing cash flows:</i>					
Interest paid	(55)	(539)	-	(178)	(772)
Repayment of borrowings	(1,430)	-	-	-	(1,430)
<i>Other changes:</i>					
Interest expense	590	535	-	358	1,483
Balance at 31 December 2019	<u>17,824</u>	<u>97</u>	<u>2,568</u>	<u>240</u>	<u>20,729</u>

	Year ended 31 December 2018				
	Bonds £'000	Accrued interest on bonds £'000	Subordinated debt £'000	Accrued interest on subdebt £'000	Total £'000
Balance at 31 December 2017	19,359	104	2,568	149	22,180
<i>Changes from financing cash flows:</i>					
Interest paid	38	(655)	-	(447)	(1,064)
Repayment of borrowings	(1,292)	-	-	-	(1,292)
<i>Other changes:</i>					
Interest expense	614	652	-	358	1,624
Balance at 31 December 2018	<u>18,719</u>	<u>101</u>	<u>2,568</u>	<u>60</u>	<u>21,448</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19 Share capital

	2019	2018
	£	£
<i>Allotted, called up and fully paid:</i>		
3,000 ordinary shares of £1 each	3,000	3,000

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

20 Related party disclosures

The Company is controlled by Enterprise Civic Buildings (Holdings) Limited, the Company's immediate parent undertaking. Infrastructure Investments LP (acting by its general partner, Infrastructure Investments General Partner Limited) has a 100% interest in the parent Company's share capital and subordinated loan stock.

Infrastructure Investments LP is party to an Equity Subscription and Subordinated Debt agreements for the Company.

During the year, the Company has incurred costs charged by these related parties as follows:

	Transactions		Balance owed at year end	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Directors' fees				
- Infrastructure Investments LP	74	71	74	-
Subordinated debt				
- Infrastructure Investments LP	-	-	2,568	2,568
Subordinated debt interest				
- Infrastructure Investments LP	358	358	240	60
	<u>432</u>	<u>429</u>	<u>2,882</u>	<u>2,628</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Enterprise Civic Buildings (Holdings) Limited incorporated in the United Kingdom. The registered address is Unit 18, Riversway Business Village, Navigation Way, Preston PR2 2YP.

The largest group in which the results of the Company are consolidated is that headed by Enterprise Civic Buildings (Holdings) Limited. The consolidated accounts of these groups are available to the public and may be obtained from Unit 18, Riversway Business Village, Navigation Way, Preston PR2 2YP.

Prior to 1 April 2019, the ultimate parent of the group was HICL Infrastructure Company Limited incorporated in Guernsey. The registered address is East Wing, Trafalgar Court, Les Banques, St Peter Port, GY1 3PP, Guernsey.

On 1 April 2019, HICL Infrastructure Company Limited transferred all of its assets to HICL Infrastructure Plc. As a result, the ultimate beneficial owner of the company changed from HICL Infrastructure Company Limited to HICL Infrastructure Plc, a company listed on the London Stock Exchange and registered at 12 Charles II Street, London, SW1Y 4QU.

22 Post Balance Sheet Events

The COVID-19 pandemic continues to cause significant impact to the UK's economy; however, the Company has continued to be paid in full since the year end in accordance with Government guidance and the concession contract and does not expect this position to change. The project remains fully operational.