

Enterprise Civic Buildings Limited

Annual report and financial statements

Registered number 04421860

31 December 2022



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COMPANY INFORMATION

The Board of Directors

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

Company Secretary

Pario Limited

Registered Office

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

Independent Auditor

Johnston Carmichael LLP
7-11 Melville Street
Edinburgh
EH3 7PE

DIRECTORS' REPORT

for the year ended 31 December 2022

The directors' present their directors' report and the audited financial statements of Enterprise Civic Buildings Limited (the "Company") for the year ended 31 December 2022.

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 £245,000 (2021 loss: £226,000). 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 2022, 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 RPI, as set out in note 15 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. Deductions incurred for the year totalled Nil (2021: £16,772). The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

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)*

Climate change risk

The Company has considered whether it is exposed to additional risks as a result of climate change and has not identified any risks that would significantly impact the company. This is primarily due to the nature of the operations of the project, where the majority of work is performed by subcontractors who are responsible for the associated risks. Whilst the Company is subject to SPV costs through the provision and maintenance of facilities including, for instance, heating systems, the Company's contractual protections are expected to protect the company from changes in law that result in any longer-term pricing risk associated with climate change.

Dividend

Interim dividends totalling £201,905 were paid in respect of the year ended 31 December 2021 (2021: £152,000). The directors do not recommend the payment of a final dividend (2021: £nil).

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 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 and to operate within the covenants on its external borrowings.

Specifically, the directors have considered if, in modelled severe but plausible downside scenarios, the level of operational performance of the Company would lead to service failure points being awarded against the Company in accordance with the terms of the Company's contract with the Ministry of Justice sufficient to cause an event of default under the terms of the terms of the Company's external borrowings. To date, there has been no material adverse impact on the Company's cashflows, or the service levels provided and no indication of heightened risk of subcontractor failure. As a result, the cashflow forecasts indicate that, even in downside scenarios, the Company will be able to meet its liabilities as they fall due.

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.

Directors and directors' interests

The directors who served during the year were as follows:

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

DIRECTORS' REPORT *(continued)*

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. As at 31 December 2022 the LLCR was 1.5803 and the average ADSCR was 1.2783.

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 9.

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 or political contributions during the year (2021: £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.

By order of the Board



22.06.2023

D W Davies

Director

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

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 UK accounting standards and applicable UK law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- 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 2022 which comprise the Profit and Loss Account and Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Directors' Report has been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.
- The directors were not entitled to prepare the financial statements in accordance with the small companies regime and 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities 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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and the sector in which it operates, focusing on those provisions that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- FRS 102
- Companies Act 2006
- Corporation Tax legislation
- VAT legislation

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

Extent the audit was considered capable of detecting irregularities, including fraud (continued)

We gained an understanding of how the company is complying with these laws and regulations by making enquiries of management and those charged with governance. We corroborated these enquiries through our review of relevant correspondence with regulatory bodies and board meeting minutes.

We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls. We identified a heightened fraud risk in relation to:

- Management override of controls
- Revenue recognition


In addition to the above, the following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulations or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Reviewing the level of and reasoning behind the company's procurement of legal and professional services
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias;
- Completion of appropriate checklists and use of our experience to assess the Company's compliance with Companies Act 2006; and
- Agreement of the financial statement disclosures to supporting documentation.
- Ensuring calculations of revenue were performed accurately and recognised consistently based on historical margin comparisons.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed


Irvine Spowart (Senior Statutory auditor)
For and on behalf of Johnston Carmichael LLP,
Chartered Accountants
Statutory Auditor

Date: 22 June 2023
7-11 Melville Street
Edinburgh, United Kingdom
EH3 7PE

PROFIT AND LOSS ACCOUNT AND STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Turnover	3	2,124	1,947
Cost of sales		(1,231)	(1,152)
		<hr/>	<hr/>
Gross profit		893	795
Administrative expenses		(162)	(159)
		<hr/>	<hr/>
Operating profit	4	731	636
Interest receivable and similar income	7	1,041	1,078
Interest payable and similar expenses	8	(1,549)	(1,693)
		<hr/>	<hr/>
Profit before tax		223	21
Tax income/(expense)	9	22	(247)
		<hr/>	<hr/>
Total comprehensive income/(expense) for the year		245	(226)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 12 to 21 form part of these financial statements.

All amounts arise from continuing operations.

STATEMENT OF FINANCIAL POSITION

as at year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Current assets			
Debtors including £15,180,000 (2021: £15,882,000) due after more than one year	11	20,932	19,027
Cash and cash equivalents		500	2,673
Total Current assets		21,432	21,700
Current liabilities			
Creditors: amounts falling due within one year	12	(2,055)	(1,798)
Net Current assets		19,377	19,902
Creditors: amounts falling due after more than one year	13	(17,021)	(17,504)
Provision for liabilities	14	(1,769)	(1,854)
Net assets		587	544
Capital and Reserves			
Issued share capital	16	3	3
Retained earnings		584	541
Total equity attributable to the owners of the parent		587	544

The notes on pages 12 to 21 form part of these financial statements.
The financial statements were approved by the Board of Directors on
behalf by:

22.06.2023 and were signed on its



D W Davies
Director
Company registered number: 04421860

STATEMENT OF CHANGES IN EQUITY
as at year ended 31 December 2022

	Notes	<u>Attributable to the owners of the parent</u>		
		Share Capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 31 December 2020		3	919	922
Loss for the year		-	(226)	(226)
Total comprehensive income for the year		-	(226)	(226)
Dividends	10	-	(152)	(152)
Balance at 31 December 2021		3	541	544
Profit for the year		-	245	245
Total comprehensive income for the year		-	245	245
Dividends	10	-	(202)	(202)
Balance at 31 December 2022		3	584	587

The notes on pages 12 to 21 form part of these financial statements.

Retained earnings

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

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 Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") in conformity with the requirements of the Companies Act 2006. 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.

The Company's parent undertaking, Enterprise Civic Buildings (Holdings) Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Enterprise Civic Buildings (Holdings) Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash Flow Statement and related notes including disclosure of changes in net debt; and
- Key Management Personnel compensation.

As the consolidated financial statements of Enterprise Civic Buildings (Holdings) Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available 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 revision and future periods if the revision affects both current and future periods.

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 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 and to operate within the covenants on its external borrowings.

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

1 Accounting Policies (*continued*)

Going concern (*continued*)

Specifically, the directors have considered if, in modelled severe but plausible downside scenarios, the level of operational performance of the Company would lead to service failure points being awarded against the Company in accordance with the terms of the Company's contract with the Ministry of Justice sufficient to cause an event of default under the terms of the Company's external borrowings. To date, there has been no material adverse impact on the

Company's cashflows, or the service levels provided and no indication of heightened risk of subcontractor failure. As a result, the cashflow forecasts indicate that, even in downside scenarios, the Company will be able to meet its liabilities as they fall due.

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.

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 are expected to be realised over the life of the project. As at 31 December 2022 finance receivables include £13.8 million (2021: £14.6 million) due after more than twelve months.

Services contracts

The Company's principal activity is the provision and maintenance of crown country courts in Exeter under the Government's Private Finance Initiative (PFI). The Company has 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 PFI project for a primary term of 32 years from the date of signing the Project Agreement (November 2002). The Company's primary source of contractual income is a monthly 'Unitary Charge', which has a fixed base fee and allows for an inflationary increase each year. The Company has modelled the anticipated cash flows of the Project across its full term, and this financial model is updated twice per year. Key assumptions that affect future cash flows include future inflation, interest rates, maintenance costs, and the ability of service providers to continue to provide services in accordance with the relevant contract. Clauses in the concession agreement ensure that the Company will be sufficiently compensated by Lord Chancellor's Department (now Ministry of Justice) in the event of default or voluntary termination.

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.

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

1 Accounting Policies (*continued*)

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.

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

The Company is obligated to keep a separate cash reserve in respect of future major maintenance costs, change in law and debt service, some of which has been placed in fixed term deposit accounts. Fixed term deposits with a maturity of more than 3 months are treated as debtors due within one year, which amount to £2.7m. Restricted cash balances in the prior year (£2.4m) were not held on deposit, but were shown on the balance sheet within the 'cash and cash equivalents' balances.

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)*

1 Accounting Policies *(continued)*

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2 Accounting estimates and judgements

The preparation of financial statements 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 0.8%.
- 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 Turnover

	2022 £'000	2021 £'000
Service revenue	2,033	1,806
Passthrough revenue	47	94
Variation revenue	44	47
	2,124	1,947

All turnover originates in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4 Operating Profit

	2022	2021
	£'000	£'000
Profit before taxation is stated after charging:		
Auditor's remuneration:		
- Audit of these financial statements	14	14
- Audit of parent company's financial statements	1	1

5 Remuneration of directors

Fees of £82,000 were accrued to third parties in respect of directors' services for 2022 (2021: £77,000). See note 17 for details.

6 Employees

The Company had no employees during the year (2021: nil).

7 Interest receivable and similar income

	2022	2021
	£'000	£'000
Finance receivable interest	1,027	1,078
Bank interest receivable	14	-
	<u>1,041</u>	<u>1,078</u>

8 Interest payable and similar expenses

	2022	2021
	£'000	£'000
Interest on index linked bonds	1,191	1,335
Interest on subordinated debt	358	358
	<u>1,549</u>	<u>1,693</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9 Taxation

	2022 £'000	2021 £'000
<i>Current Tax expense</i>		
Current year	194	81
Total current tax	194	81
Deferred tax	(216)	166
Total (income)/expense tax reported in the income statement	(22)	247
	2022 £'000	2021 £'000
<i>Reconciliation of income tax expense</i>		
Profit before taxation	223	21
UK Corporation tax thereon at 19% (2021: 19%)	42	4
Deemed lease premium deduction	(27)	(27)
Amortisation of non-qualifying asset	74	69
Change in tax rate	-	144
Adjustment to tax charge in respect of prior years	(111)	57
Total tax in the income statement	(22)	247

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 2022 has been calculated based on the rate of 25% (2021: 25%) substantively enacted at the balance sheet date.

10 Dividends

Dividends totalling £201,905 (£67.33 per share) were paid in the year (2021: £152,000 (£50.67 per share)).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 Debtors

	2022	2021
	£'000	£'000
Finance receivable	14,628	15,406
Deferred tax asset	1,385	1,254
Trade receivables	-	35
Unitary charge control account	1,633	1,960
Prepayments and accrued income	420	364
Corporation tax	129	8
Other financial assets	2,737	-
	<u>20,932</u>	<u>19,027</u>
	<u>20,932</u>	<u>19,027</u>
Due within one year	5,752	3,145
Due after more than one year	15,180	15,882
	<u>20,932</u>	<u>19,027</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.

The full Unitary Charge Control Account is forecast to be received within the next 12 months via Unitary Charge receipts with amounts being offset by service concession accounting adjustments.

Other financial assets relate to reserve account balances which are invested in fixed term deposits.

12 Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
3.1095% index linked secured guaranteed bonds (due 2033)	1,120	1,049
Trade payables	103	98
Accruals and deferred income	681	515
Other taxation	148	136
Other creditors	3	-
	<u>2,055</u>	<u>1,798</u>

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13 Creditors: amounts falling due after more than one year

	2022 £'000	2021 £'000
3.1095% index linked secured guaranteed bonds (due 2033)	14,453	14,936
Subordinated Debt	2,568	2,568
	<u>17,021</u>	<u>17,504</u>

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 2020	1,032	(1,467)	(435)
Recognised in income statement	<u>222</u>	<u>(387)</u>	<u>(165)</u>
31 December 2021	1,254	(1,854)	(600)
Recognised in income statement	<u>131</u>	<u>85</u>	<u>216</u>
31 December 2022	<u>1,385</u>	<u>(1,769)</u>	<u>(384)</u>

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings.

	2022 £'000	2021 £'000
Creditors falling due after more than one year		
3.1095% index linked secured guaranteed bonds (due 2033)	14,453	14,936
Subordinated debt	2,568	2,568
Total	17,021	17,504
Creditors falling due in less than one year		
3.1095% index linked secured guaranteed bonds (due 2033)	1,120	1,049

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.

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 Share capital

	2022 £'000	2021 £'000
<i>Allotted, called up and fully paid:</i>		
3,000 ordinary shares of £1 each	3	3

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17 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	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Directors' fees				
- Infrastructure Investments LP	82	77	153	153
Subordinated debt				
- Infrastructure Investments LP	-	-	2,568	2,568
Subordinated debt interest				
- Infrastructure Investments LP	358	358	90	59
Group relief				
- Infrastructure Investments Holdings Ltd	164	-	164	-
	<u>604</u>	<u>435</u>	<u>2,975</u>	<u>2,780</u>

18 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.

The ultimate parent company is HICL Infrastructure Plc, a company listed on the London Stock Exchange and registered at One Bartholomew Close, Barts Square, London, EC1A 7BL.

18 Post balance sheet events

There were no post balance sheet events.