Company Registration No. 04980216 (England and Wales)

FALCON SUPPORT SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

FALCON SUPPORT SERVICES LIMITED

COMPANY INFORMATION

Directors	JS Gordon ID Lamerton H O'Gorman AJ Watson GM Beazley-Long
Secretary	Resolis Limited
Company number	04980216
Registered office	Watling House 5th Floor 33 Cannon Street London EC4M 5SB
Auditor	BDO LLP 55 Baker Street London W1U 7EU

FALCON SUPPORT SERVICES LIMITED

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FALCON SUPPORT SERVICES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2022

The directors present the strategic report for the year ended 31 March 2022. These financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland."

The company was incorporated in Great Britain, registered in England and Wales and is domiciled in the United Kingdom.

Business review and principal activities

The company's principal activity is undertaking a Private Finance Initiative (PFI) concession contract with the MOD to design, build, finance and operate accommodation facilities at the Fleet Accommodation Centre in Devenport, Plymouth. The contract was signed on July 2004. Building activities commenced from that date and completed on 28 March 2008. Interim service operations on the existing building commenced in October 2004 and increased in stages to reach full service operations for the whole site from April 2008. The contract is scheduled to complete in March 2029.

There have not been any changes in the company's activities in the year under review, and the directors are not aware, at the date of the report, of any likely changes next year.

As shown in the company's profit and loss account on page 9, the company's turnover increased by £1,021,000 to £22,429,000 (2021: turnover increased by £1,515,000). This is primarily due to indexation uplifts in the company's PFI agreements. The company declared a profit before tax this year of £2,468,000 (2021: £2,065,000) and declared a profit after tax of £1,999,000 (2021: £1,673,000).

The Balance Sheet on page 11 shows that the company is in a net liability position, which is primarily due to the inclusion of the hedge reserve on the balance sheet. The company has distributable reserves available for the payment of dividends during the year notwithstanding the net liability position. In the year there has been a decrease in the fair value of the interest swap recorded as a liability. The fair value of the interest rate swap has to be recorded in the balance sheet under FRS 102 accounting requirements.

Dividends of £1,993,786 (2021: £4,317,712) were declared and paid in the year. Since the year end, additional dividends of £850,403 have been paid in respect of the financial year ending 31 March 2023.

The company's operations are managed under the supervision of its shareholders and lender and are largely determined by the detailed terms of the PFI contract. For this reason, the company's directors believe that further key performance indicators for the business are not necessary or appropriate for an understanding of the performance of financial position of the business.

The PFI contract and related subcontracts are fixed for the life of the contract and this enables the company to have a reasonable certainty over its income and expenditure over the life of the contract. In addition, the company has a Credit Agreement in place with its lender which fixes the level of borrowing and repayments due until the loan is fully repaid in 2027.

The delivery of the operational services is generally running well and is expected to continue to do so.

Principal risks and uncertainties
The company's principal activity as detailed above is risk averse as its trading relationships with its customer, lender and subcontractor are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks as detailed in the following section.

One of the risks of the company is that services may not continue due to the financial failure of the company's subcontractor. The financial stability of the facilities management company is being monitored on a continuous basis. The directors have reviewed the benchmarking information on the facilities management contract fee and are comfortable that this is a market rate which would enable replacement of the subcontractor for a similar fee.

Interest rate risk
The company hedged its interest rate risk at the inception of the project by swapping its variable rate debt into a fixed rate by using an interest rate swap agreement.

Inflation risk
The company's contract revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

Liquidity risk
The company adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its obligations as they fall due. Due to the nature of the project, cash flows are reasonably predictable and so in the normal course of business this is not a major risk to the company.

Credit risk
The company receives the bulk of its revenue from a government department and its exposure to credit risk is therefore significantly reduced.

Cash investments and the interest rate swap agreements are with institutions of a suitable credit quality.

Lifecycle risk
Lifecycle expenditure is a significant risk to the business. The risk being that the allowance for lifecycle costs factored into the financial model is insufficient to cover future lifecycle expenditure, thus resulting in lower profitability and reduced distribution. This is mitigated by regular lifecycle reviews undertaken by the management services provider and a detailed lifecycle review performed every 5 years. Any savings against the lifecycle cost profile forecast at the inception of the contract are retained by the company with 25% of such savings reserved for the lifecycle contractor, to be paid at the end of the concession.

Ownership
The company is owned by its immediate parent company Falcon Support Services (Holdings) Limited and its ultimate parent companies are as detailed in Note 16 and operates in the United Kingdom.

Going concern
The directors have prepared a detailed model forecasting the performance of the contract to completion incorporating the relevant terms of the contract, subcontracts, Credit Agreement and reasonably prudent economic assumptions. This forecast, which is updated regularly, predicts that the company will be profitable and will have sufficient cash resources to operate within the terms of the contract, subcontracts and Credit Agreement. The directors have assessed the viability of its main sub-contractors and are satisfied in their ability to provide the services in line with the contractual terms. The directors have also sensitised the impact of increase lifecycle costs over the remainder of the concession period and consider there to be sufficient headroom for the company to operate in without breaching lender covenants.

Therefore, the directors, having considered the financial position of the company and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the company or cease trading as they have realistic alternatives to doing so.

The net current assets of the business are positive. However, the company is in a net liability position due to the inclusion of the hedge reserve on the balance sheet and this will unwind completely over the term of the hedge.

The directors confirm the completeness of information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future actions.

On behalf of the board

....
GM Beazley-Long
Director

Date: 31/03/2023

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2022

The directors present their annual report and financial statements for the year ended 31 March 2022.

Principal activities
The principal activity of the company is undertaking a Private Finance Initiative (PFI) concession contract with the MOD, to design, build, finance and operate accommodation facilities at the Fleet Accommodation Centre in Devenport, Plymouth.

Strategic report
The information that fulfils the Companies Act requirements of the business review are included in the strategic report. This includes a review of the development of the business of the company during the year, of its financial position at the end of the year including a going concern statement, financial risk exposure and management.

Details of the principal risks, uncertainties and financial risk management are found within the strategic report.

Results and dividends
The results for the year are set out in the Profit and Loss account.

Ordinary dividends were declared and paid amounting to £1,993,786 (2021: £4,317,712). Since the year end, additional dividends of £850,403 have been paid in respect of the financial year ending 31 March 2023.

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

JS Gordon
ID Lamerton
H O'Gorman
AJ Watson
GM Beazley-Long

The directors holding office at 31 March 2022 did not hold any beneficial interest in the issued share capital of the company at 1 April 2021 or 31 March 2022.

No appointments or resignations of directors occurred between the year end and the date of approval of these financial statements.

Directors' indemnity insurance
The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

FALCON SUPPORT SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2022

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditor

The auditor, BDO LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Environment

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies through its subcontractors to reduce any damage that might be caused by the company's activities.

Political donations and expenditure

There have been no political donations or political expenditure made during the year (2021: Nil).

On behalf of the board

....

GM Beazley-Long

Director

Date: 31/03/2023

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF FALCON SUPPORT SERVICES LIMITED

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 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.

We have audited the financial statements of Falcon Support Services Limited ("the Company") for the year ended 31 March 2022 which comprise the Profit and Loss Account Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of 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.*

Basis for opinion

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

Independence

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.

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 preparation of 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 directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF FALCON SUPPORT SERVICES LIMITED

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 where 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Extent to which the audit was 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 obtained an understanding of the legal and regulatory framework applicable to the entity and the industry in which it operates. We considered the significant laws and regulations to be Companies Act 2006 and the applicable accounting standards.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Company's assets.

Audit procedures performed by the engagement team included:

- We checked the design and implementation of key controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We reviewed minutes of Board meetings throughout the year for any evidence of non-compliance with laws and regulations;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the determination of service margins and lifecycle costs;
- We performed substantive testing on account balances and transactions, which were considered to be a greater risk of susceptibility to fraud;
- We targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, as well as a focus on large and unusual transactions based upon our knowledge of the business;
- We made enquiries of Management, those charged with governance and those responsible for legal and compliance procedures as to whether there was any correspondence from regulators in so far as the correspondence related to financial statements; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement 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 deliberate concealment by, for example, forgery, misrepresentations or through collusion. 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.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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.

DocuSigned by:
Cassie Forman-Kotsapa
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Cassie Forman-Kotsapa (Senior Statutory Auditor)
For and on behalf of BDO LLP

Date: 31 March 2023

Chartered Accountants
Statutory Auditor

55 Baker Street
London
W1U 7EU

FALCON SUPPORT SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £000	2021 £000
Turnover	2	22,429	21,408
Cost of sales		(18,731)	(17,729)
Gross profit		3,698	3,679
Administrative expenses		(1,080)	(1,280)
Operating profit	3	2,618	2,399
Interest receivable and similar income	5	3,279	3,580
Interest payable and similar expenses	6	(3,429)	(3,914)
Profit before taxation		2,468	2,065
Tax on profit	7	(469)	(392)
Profit for the financial year		1,999	1,673

The profit and loss account has been prepared on the basis that all operations are continuing operations.

FALCON SUPPORT SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

	2022 £000	2021 £000
Profit for the year	1,999	1,673
Other comprehensive income		
Fair value adjustments reclassified to profit or loss	3,597	2,154
Tax relating to other comprehensive income	(699)	(186)
Other comprehensive income for the year	2,898	1,968
Total comprehensive income for the year	5,263	3,641

FALCON SUPPORT SERVICES LIMITED

BALANCE SHEET

AS AT 31 MARCH 2022

	Notes	2022 £000	2022 £000	2021 £000	2021 £000
Current assets					
Debtors falling due after more than one year	9	27,700		31,783	
Debtors falling due within one year	9	8,376		7,701	
Cash at bank and in hand		16,562		16,689	
		52,638		56,173	
Creditors: amounts falling due within one year	10	(18,478)		(16,720)	
Net current assets			34,160		39,453
Creditors: amounts falling due after more than one year	11		(36,616)		(44,812)
Net liabilities			(2,456)		(5,359)
Capital and reserves					
Called up share capital	13		10		10
Hedging reserve	14		(2,595)		(5,493)
Profit and loss reserves	15		129		124
Total equity			(2,456)		(5,359)

The financial statements were approved by the board of directors and authorised for issue on 31/03/2023 and are signed on its behalf by:

G Beazley-Long
....
GM Beazley-Long
Director

Company Registration No. 04980216

FALCON SUPPORT SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2022

	Notes	Share capital £000	Hedging reserve £000	Profit and loss reserves £000	Total £000
Balance at 1 April 2020		10	(7,461)	2,769	(4,682)
Year ended 31 March 2021:					
Profit and total comprehensive income for the year		-	1,968	1,673	3,641
Dividends	8	-	-	(4,318)	(4,318)
Balance at 31 March 2021		10	(5,493)	124	(5,359)
Year ended 31 March 2022:					
Profit and total comprehensive income for the year		-	2,898	1,999	5,263
Dividends	8	-	-	(1,994)	(1,994)
Balance at 31 March 2022		10	(2,595)	129	(2,456)

1 Accounting policies

Company information
Falcon Support Services Limited is a private company limited by shares incorporated in England and Wales. The registered office is Watling House, 5th Floor, 33 Cannon Street, London, EC4M 5SB.

1.1 *Accounting convention*
These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

Financial Reporting Standard 102 - reduced disclosure exemptions
The company has taken advantage of the following disclosure exemptions in preparing these financial statements as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of paragraphs 11.42,11.44,11.45,11.47,11.48(a)(iii), 11.48(a)(iv),11.48(b) and 11.48(c);
- the requirements of paragraphs 2.26,12.27,12.29(a),12.29(b) and 12.29A.

The company's parent undertaking has been notified of and did not object to the use of these disclosure exemptions.

Related party exemption
The company is a wholly owned subsidiary of Falcon Support Services (Holdings) Limited and as such has taken advantage of exemption, under the terms of FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" not to disclose related party transactions with wholly owned subsidiaries within the group.

1.2 Going concern
The directors have prepared a detailed model forecasting the performance of the contract to completion incorporating the relevant terms of the contract, subcontracts, Credit Agreement and reasonably prudent economic assumptions. This forecast, which is updated regularly, predicts that the company will be profitable and will have sufficient cash resources to operate within the terms of the contract, subcontracts and Credit Agreement. The directors have assessed the viability of its main sub-contractors and are satisfied in their ability to provide the services in line with the contractual terms. The directors have also sensitised the impact of increase lifecycle costs over the remainder of the concession period and consider there to be sufficient headroom for the company to operate in without breaching lender covenants. Therefore, the directors, having considered the financial position of the company and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the company or cease trading as they have realistic alternatives to doing so.

The net current assets of the business are positive However, the company is in a net liability position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind completely over the term of the hedge.

The directors confirm the completeness of information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future actions.

1 Accounting policies **(Continued)**

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates are reviewed on a periodic basis and updated as required.

Estimates

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 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 the current and future periods.

Key source of estimation uncertainty:

- Accounting for the service concession contract and finance asset require an estimation of service margins, finance debtors interest rate and associated amortisation profile which is base on forecast results of the PFI contract.
- Critical judgements in applying the company's accounting policies as discussed in detail within the relevant Accounting Policy:
    - Derivative financial instruments are held at fair value;
    - Applicability of hedge accounting

1.4 Service concessions

The company chose to adopt the transitional arrangements available under FRS 102, Section 35.10(i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed.

Under the terms of the arrangement, the company has the right to receive a baseline contractual payment stream for the provision of the service from the grantor (the Authority), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in with FRS 102.

Revenue is recognised from the supply of services, which represents the timing of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.

1 Accounting policies **(Continued)**

1.5 Turnover

Turnover is recognised is accordance with the PFI contracts accounting policy and excludes discounts, rebates and value added tax.

PFI contracts

The company has taken advantage of exemptions made available under section 35.10(i) of FRS 102, which permits it to continue to account for the service concession arrangement under the accounting policies adopted under the old UK GAAP. As such there has been no substantial change to the treatment of the financial asset receivable due to the adoption of the standard.

During the period of construction, costs incurred as a direct consequence of designing and constructing the facilities, excluding finance costs, were shown as work in progress. Costs of financing were expensed during the period of construction. On completion, credit was taken for the deemed sale, which was recorded within turnover. The construction expenditure and associated costs were reallocated to cost of sales. Amounts receivable were classified as a financial asset receivable (PFI contract debtor).

Contractual unitary payment revenues received from the customer in the operational phase are apportioned between capital repayments, finance income and operating revenue. Variation and income arising from additional work requests are recognised as they are incurred.

1.6 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

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

Basic financial assets

Basic financial assets, which include debtors and cash at bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised costs using the effective interest rate method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of the interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to net carrying amount on initial recognition.

1 Accounting policies **(Continued)**

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities
Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities
Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

1 Accounting policies **(Continued)**

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.7 Hedge accounting

The company designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as either fair value hedges or cash flow hedges. At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item along with risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Any gain or loss previously recognised in other comprehensive income is reclassified to profit or loss when the hedge relationship ends. This occurs when the hedging instrument expires or no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised, or the hedging instrument is terminated.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1 Accounting policies **(Continued)**

1.9 Share capital

Share capital recognised at amortised cost represents the amount of equity in the form of shares invested by the shareholders.

Profit and loss account

The profit and loss account represents cumulative profits and losses.

1.10 Lifecycle costs

Under the terms of the PFI contract, the company has a programme of expenditure for the maintenance of and replacement of non-moveable assets in the facilities. In recognition of this obligation, the company has created a lifecycle expenditure accrual to record the difference between the annual charge for maintenance prescribed by the contract terms and those actually incurred.

1.11 Debt policies

Interest bearing bank loans are recorded at the proceeds received net of direct issue costs. Finance charges including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the statement of comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financing charges

Costs of financing during both the construction and operational periods are expensed as they arise.

Capital commitments

There are no capital commitments (2021: £nil).

Borrowing costs

It is company policy to expense borrowing costs during the construction phase. Cumulative borrowing costs of £11.3 million were expensed during that period.

All borrowing costs continue to be expensed since commencement of the operational phase in April 2008.

2 Turnover

The turnover and profit before taxation are attributable to one principal activity of the company.

	2022	**2021**
	£000	**£000**
Turnover analysed by class of business:		
Unitary payment revenue	18,223	16,759
Variation income	4,206	4,649
	22,429	21,408

The turnover arose entirely within the United Kingdom and through one principal activity.

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided, and is recognised each year as the applicable portions of the amounts receivable relating to finance and operating costs calculated on a consistent basis (see accounting policy note 1.5).

3 Operating profit

Operating profit for the year is stated after charging:	2022 £000	2021 £000
Fees payable to the company's auditor for the audit of the company's financial statements	21	19
Fees payable to the company's auditor for corporation tax compliance	4	3

4 Employees and directors

The company had no employees during the year (2021: Nil).

Service fees are payable to the company's ultimate shareholders for the directors' services to the company during the year. The amounts paid are in note 20 of the parent company 'Falcon Support Services (Holdings) Limited' (Related Parties) as Services.

5 Interest receivable and similar income

	2022 £000	2021 £000
Interest income		
Interest on bank deposits	15	22
Finance debtor interest	3,264	3,558
Total income	3,279	3,580

6 Interest payable and similar expenses

	2022 £000	2021 £000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	540	713
Interest payable to group undertakings	868	1,057
Other finance costs:		
Interest payable on derivative financial istruments	2,021	2,144
	3,429	3,914

7 Taxation

	2022 £000	2021 £000
Current tax		
UK corporation tax on profits for the current period	469	392

7 Taxation (Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2022 £000	2021 £000
Profit before taxation	2,468	2,065
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2021: 19%)	469	392
Taxation charge in the financial statements	469	392

Tax effects relating to effects of other operating income
The effective portion of change in the fair value of hedges resulted in a credit of £3,596,000 (2021: credit £2,154,000), with a deferred tax impact of £865,000 (2021: £186,000).

Factors that may effect future tax charges
A charge to the future UK corporation tax was announced in the March 2021 Budget. The rate will increase to 25% with effect from 1 April 2023, and therefore a rate of 25% has been used in the deferred tax calculation.

There is a deferred tax asset relating to the interest rate derivative which will unwind over the term of the hedging agreement. All movements in the deferred tax have been recognised in other comprehensive income.

8 Dividends

	2022 Per share £	2021 Per share £	2022 Total £000	2021 Total £000
Final paid	194.40	431.77	1,994	4,318

9 Debtors

Amounts falling due within one year:	2022 £000	2021 £000
Trade debtors	4	4
Deferred tax	230	337
Finance debtor - due within 1 year	3,998	3,678
VAT receivable	579	-
Prepayments and accrued income	3,565	3,682
	8,376	7,701

9 Debtors (Continued)

Amounts falling due after more than one year:	2022 £000	2021 £000
Deferred tax	635	1,227
Finance debtor - due after more than 1 year	27,065	30,556
	27,700	31,783
Total debtors	36,076	39,484

The deferred tax asset represents the deferred tax on the revaluation of the fair value of the interest rate swap. The net reversal of the deferred tax asset expected to occur in the next reporting period is estimated to be £230,000 based on the anticipated recycling of cash flow hedges to profit and loss and changes to the fair values of the cash flow hedges.

10 Creditors: amounts falling due within one year

	Notes	2022 £000	2021 £000
Bank loans	12	4,952	4,595
Loans from group undertakings	12	507	441
Trade creditors		3,163	3,213
Corporation tax		175	31
Other taxation and social security		-	313
Derivative financial instrument		920	1,775
Accruals and deferred income		8,761	6,352
		18,478	16,720

The senior secured loan represents amounts borrowed under a Credit Agreement with Bank of Scotland. The loan bears interest at a margin of 1% over LIBOR and is repayable in six monthly instalments between 2008 and 2027. The loan is secured by fixed and floating charges over the property, assets and rights of the company, and has certain covenants attached.

11 Creditors: amounts falling due after more than one year

	Notes	2022 £000	2021 £000
Bank loans and overdrafts	12	28,189	33,137
Loans from group undertakings	12	5,715	6,222
Derivative financial instrument		2,540	5,281
MOD insurance premium fund		172	172
		36,616	44,812

11 Creditors: amounts falling due after more than one year (Continued)

In July 2004 the company entered into a 24 year fixed interest swap arrangement to hedge its exposure to the effect of interest rate fluctuations.

The swap was effected on a maximum notional amount of £86.9 million payable in monthly amounts between July 2004 and March 2008 and in six monthly intervals from March 2008 to September 2027. The fair value of the interest rate swap liability in the current and prior year has been determined by the Bank of Scotland, which has the relevant market data to determine its valuation.

In addition to the utilised loan facility detailed above the company also has the following loan facility arrangements in place and have not been drawn, all of which bear non-utilisation costs at 0.45% per annum. Debt Service Reserve £4,284,000; Change of Law £1,293,000 (2021: Debt Service Reserve £4,284,000; Change of Law £1,293,000).

The subordinated unsecured loan stock was subscribed by the shareholders on 28 March 2008 and bears interest at 13.184% per annum payable in six monthly intervals in March and September each year, subject to approval of the lender. The stock is subordinated until all of the secured obligations of the company have been repaid or discharged in full.

12 Loans and overdrafts

An analysis of the maturity of loans is given below:

	2022	2021
	£000	£000
Amounts falling due within one year or on demand:		
Senior secured loan	4,952	4,595
Loans from group undertakings	507	441
	5,459	5,036
Amounts falling due between one and two years:		
Senior secured loan	5,315	4,948
Loans from group undertakings	535	507
	5,850	5,455
Amounts falling due between two and five years:		
Senior secured loan	18,743	16,786
Loans from group undertakings	2,315	1,693
	21,058	18,479
Amounts falling due after more than five years:		
Repayable by instalments		
Senior secured loan	4,131	11,403
Loans from group undertakings	2,865	4,022
	6,996	15,425

13 Share capital

	2022	2021	2022	2021
Ordinary share capital	**Number**	**Number**	**£000**	**£000**
Issued and fully paid				
of £1 each	10,000	10,000	10	10

14 Hedging reserve

	2022	2021
	£000	**£000**
At the beginning and end of the year	(2,595)	(5,493)

In July 2004 the company entered into a 24 year fixed interest swap arrangement to hedge its exposure to the effect of interest rate fluctuations.

The swap was effected on a maximum notional amount of £86.9 million payable in monthly amounts between July 2004 and March 2008 and in six monthly intervals from March 2008 and September 2027. The fair value of the interest rate swap liability in the current and prior year has been determined by Bank of Scotland, which has used relevant market data to determine the valuation.

15 Profit and loss reserves

Retained earnings represent cumulative profits and losses net of dividends paid.

16 Controlling parties

The immediate parent company is Falcon Support Services (Holdings) Limited, which is the largest and smallest company to consolidate these financial statements.

In the directors' opinion, there is no ultimate controlling party and the ultimate parent companies are PPP Equity PIP LP which is interested in 50% of the company, together with Innisfree PFI Secondary Fund, which is interested in 16% of the company and Innisfree PFI Secondary Fund 2 LP which is interested in 34% of the company.

Both Innisfree Secondary Funds are English Limited Partnerships managed by Innisfree Limited, and PP Equity PIP LP is also an English Limited Partnership managed by Dalmore Capital Limited. Copies of the financial statements of Falcon Support Services (Holdings) Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. The registered office of the company is the same as the registered office of this company.