

Xoserve Limited

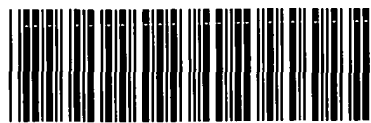
Report and Financial Statements

Year Ended

31 March 2020

Company Number 05046877

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Xoserve Limited

Report and financial statements for the year ended 31 March 2020

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Directors

S Carroll (appointed 1 August 2019)
Y Cohen
M Hogg
I Radley (appointed 1 November 2019)
C Rees
T Sands (appointed 2 December 2019)
D Sedgwick
N Shaw
C Spottiswoode

Secretary and registered office

E L Bradley, Lansdowne Gate, 65 New Road, Solihull, B91 3DL
V M Palmer, Lansdowne Gate, 65 New Road, Solihull, B91 3DL

Company number

05046877

Auditors

BDO LLP, Two Snowhill, Birmingham, B4 6GA

Xoserve Limited

Strategic report for the year ended 31 March 2020

The Directors present their Strategic Report for the year ended 31 March 2020.

Review of the business

Principal activities

Founded in 2005, Xoserve (the Company) is central to Britain's commercial gas market, offering a single consistent point of service for our customers and ensuring their data is managed securely.

During the year the Company continued to provide transactional billing and other data services under the Data Services Contract ("DSC") on behalf of gas network operators in the United Kingdom who are responsible for transporting gas through eight gas distribution networks and the National Transmission System. In addition, the Company provides essential reporting and other services to gas shippers, retailers and other industry participants.

Xoserve sits at the heart of a market that is becoming more, not less, complex in the near term with new participants entering the central bodies landscape via both the Central Switching Service Programme ("CSSP"), led by Ofgem and the Data Communications Company ("DCC") and the introduction of the Retail Energy Code, which in turn will impact how the gas market introduces and manages change.

Funding Arrangements and Ownership

On 1 April 2017, Xoserve was appointed by the Gas Transporters as the gas industry's Central Data Services Provider ("CDSP") collectively funded and governed by Shippers, Gas Distribution Networks, National Grid Gas Transmission, and the Independent Gas Transporters ("DSC Parties").

The DSC Parties provide the majority of Xoserve's funding, are consulted on Xoserve's Business Plan and Budget, and participate in governance meetings. They also have rights to appoint customer nominated Directors to the Xoserve Board. Specifically, the CDSP arrangements prohibit the distribution of profits to Xoserve's shareholders.

Results

For the year ended 31 March 2020, the Company's profit before tax was £0.3m and £0.3m after tax (2019: -£0.1m before tax and £0.1m after tax), including exceptional items of £nil (2019: £0.8m).

Income

The principal source of revenue for the Company comes from the Data Services Contract (DSC) for the provision of general transactional and data management services. These services accounted for £76.4m (95% of turnover) (2019 £65.1m (93% of turnover)). These amounts include deferred revenue recognised in respect of amounts paid in advance by customers to fund major capital projects.

In addition, during the year the Company earned further revenue of £4.3m (5% of turnover) (2019: £4.7m (7% of turnover)) through the provision of other contracted services, mainly to gas Shippers, Major Energy Users and Meter Asset Managers.

Financial position

The financial position of the Company is presented in the Statement of financial position. Total shareholders' funds at 31 March 2020 were £2.0m (2019: £1.7m) comprising fixed assets of £50.6m (2019: £55.0m); net current liabilities of £13.2m (2019: net current liabilities of £10.9m) less long-term creditors and provisions for liabilities of £35.4m (2019: £42.5m).

At the end of the financial year the Company had commitments for contracts placed for future capital expenditure not provided for in the financial statements of £10.2m (2019: £0.4m) primarily related to the multi-year Central Switching Service programme.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (*continued*)

Business strategy

Xoserve believes that it has a responsibility to not burden energy consumers with additional costs, but to allow them to realise the benefits of the significant investment in industry assets that they have funded previously. This is captured in the Company's vision statement – to simplify the Energy Market through maintaining and leveraging industry assets for the benefit of all – and is being delivered through six strategic objectives:

- Customer Centric - From Reliability to Trust
- Data Driven - From Stewardship to Value Creation
- Change Leading - From Consistency to Certainty
- Operationally Excellent - From Necessity to Choice
- People Powered - From Learning to Leading
- Responsible Business - From Assurance to Confidence

Our plan to deliver this vision follows the following key themes:

- Digitising our business and opening up our data
- Protecting against cyber security threats
- Moving our infrastructure to the cloud
- Realising our vision of Operation Excellence
- Gemini Service
- Re-shaping our business
- Customer Centricity through improved communications
- Central Switching Service Programme
- General annual customer change

IS Applications

The Company operates a number of major Information Systems ("IS applications") to support services to its customers. These require significant investment to maintain and ensure their availability as well as keeping pace with customer requirements. During 2019/20 the Company invested in several important system changes totalling £10.7m (2018/19 £4.6m).

Xoserve continued to support National Grid's Transmission System Operator ("TSO") obligations to comply with European Union (EU) reform; implementing changes to the Gemini Balancing and Settlement application to support further phases of change.

Xoserve continued to fulfil its role with the DCC on behalf of Gas Transporters and Independent Gas Transporters, in support of the rollout of Smart meters.

During the year, the Company continued investigations into Unidentified Gas ("UIG") with a dedicated taskforce and have identified potentially significant industry benefits, both reducing UIG at Allocation and lowering overall energy variance at Reconciliation, which could reduce risk and uncertainty for our customers. We continued to demonstrate the capabilities of Xoserve in terms of quality of communication, robustness of analysis and leadership of dialogue in our handling of UIG.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (*continued*)

Xoserve has become a truly stand-alone business, having migrated over 130 services in 2019 historically provided by National Grid and having completed in the year the migration of Desktop and Network legacy services. This involved the roll out of a new Core Network at our offices, delivering increased flexibility and monitoring; the roll-out of new desktop hardware and applications and implementation of Skype for Business and upgraded Skype-enabled meeting rooms. This work was completed in time to enable it to be utilised in successfully switching to full remote working from 17th March 2020 as a result of the COVID-19 pandemic (see Post balance sheet events disclosure in note 22).

The IX migration project aims to provide a more secure and resilient network at a lower overall cost to customers. Xoserve faced some operational challenges during the year in completing the full replacement of the existing IX network provider and associated infrastructure which was compounded by COVID-19. The planned completion of the migration will now take place within 2020/21.

One of our biggest successes of the year was the development, launch and uptake of the Data Discovery Platform ("DDP") which allows customers easy and secure access to their data through interactive dashboards and other data visualisation tools. We are proud to have been listed as a finalist for the UK Customer Satisfaction Awards 'Best Application of Technology' award and to be shortlisted for the 'Game Changer of the Year, Non-Networks' at the Network Awards.

People

Xoserve's direct employees are supported by agency staff, employed through external companies and not directly by the Company, performing process as well as management and technical roles. For 2019/20 the average number of employees and agency staff in aggregate was 476 (2018/19: 395 and 2017/18: 394). The increase in headcount is a reflection of delivering more change activities for our customers in the year.

Total employee and agency staff costs of £28.0m were incurred for the year ended 31 March 2020, inclusive of £nil restructuring costs (2019: £26.1m inclusive of £0.7m of restructuring costs).

During the year we prepared for the introduction of IR35, amending contracting arrangements with our third-party contractors and providing awareness sessions for all line managers.

Our commitment to the learning and development of our People is discussed further within our s172(1) statement on page 13.

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Strategic report for the year ended 31 March 2020 (continued)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

Information security

The Company manages data on behalf of the gas network operators and operates a number of Information Systems in support of this. It is recognised that Information Security is vital to ongoing operation and the key areas of risk being managed are; unauthorised access to Xoserve's critical systems and data, data privacy and cyber security. As a result, Xoserve has continued to strengthen cyber security measures and established a permanent Chief Information Security Officer and in-house Information Security and Privacy team. There are certain areas which require further improvement and so the team have developed a multi-year strategy and approach for ongoing protection which has been assessed and ratified externally. Significant improvements in cyber security maturity have been delivered throughout 2019/20 whilst also maintaining our ISO27001 accreditation.

Third party reliance

The Company uses a number of specialist third party vendors who operate under agreed framework arrangements to provide some of the support services and asset development work. As a result of these long-standing relationships there is a reliance on a few key suppliers which increases the risk that any third-party failure might have on the business. Ongoing procurement strategy, contract management and governance review activities are in place to manage and monitor this risk.

Achieving strategic ambitions and funding model

The governance and funding model could constrain the Company's ability to leverage its assets, given the diversity in risk appetite across customers and any funding restrictions in place for some regulated customers. The Company consults with its customers on the Business Plan and Budget as well as the development of its strategy to ensure these are understood and aligned with industry requirements, thereby facilitating approval of annual charges. Further evolution of the funding model will continue to be explored to enable greater commercial flexibility.

Managing demand and ongoing change

As the business environment evolves through ongoing change, there is requirement to continually review existing and new activities to ensure suitable capacity, capabilities and control frameworks are in place to mitigate any additional risks that may be created and to exploit potential opportunities that may arise. Internal Audit and Change Assurance activities continue to monitor and highlight any required areas of improvement in this regard.

COVID-19

There is a risk that disruption to business operations and the workforce occurs due the global outbreak of COVID-19. See more detail within the Funding and Going Concern section on page 10 and in note 1 and the Post balance sheet events disclosure in note 22.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (*continued*)

Key performance indicators (KPIs)

The Company reports on a number of targets against a 'Balanced Scorecard' of measures as approved by the Board, to gauge progress against its strategic aims. 2019/20 outturn is described under the headings below:

Responsible Business

The Company has achieved its target for its total expenditure to be less than budget and ensure that any spend can be funded from its charges for the year.

A security maturity assessment audit was performed by an external assessor in March 2020 which resulted in an outcome that was broadly in line with target.

Customer Centric

Customer satisfaction is measured through a number of customer surveys issued during the year. The Institute of Customer Services (ICS) measures Xoserve's customer view of its performance across several independently benchmarked metrics on an annual basis, with the UK Customer Satisfaction Index ("CSI") adopted for the Balanced Scorecard.

The Company first adopted annual ("ICS") Business Benchmarking in 2017/18, with a CSI score of 63. The overall score for 2019/20 was 67.1. It was noted that the score varied significantly across Customer segments, with large shippers scoring 77.1, and distribution networks scoring 50.2.

A priority focus for 2021/22 is the transformation of the Customer Experience to drive a step change improvement in customer satisfaction measures across all Customer segments.

Operational Excellence

The KVI outcome for 2019/20 was marginally below the Board target of 85% with the shortfall relating to Relationship Management and Customer Issue Resolution. Enhancements to controls, communication and measurements for 2020/21 have been identified to facilitate performance improvements in these key areas.

The Company met its targets to ensure that major IS systems it provides to customers were available at least 99% of the time within scheduled service hours.

Change Leading & Data Driven

97% of investments were delivered to time, budget and quality, against a target of 95% for the year.

Activity to streamline the preparation of customer reports resulted in a 29% reduction in report effort, against a target of 25%. As part of this process several old and duplicated reports were decommissioned.

The Data Access Platform ("DAP") build was a key success measure for the year. Xoserve achieved this target, with 95% of milestones successfully completed to Plan.

The Customer Satisfaction outcome in the Customer Change Survey was 93% (against a target of 90%) which was calculated as an average of the four survey scores received across the financial year.

People Powered

The target of 5% year on year improvement to the Company's average employee engagement score was missed, with a 2.7% uplift measured in March 2020. However, this was a positive shift nonetheless with further strategies and initiatives in the pipeline geared solely towards increasing levels of people engagement in an organisation that continues to transform.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (continued)

Future Developments

Xoserve's principal contract for the provision of services to all Gas Transporters ("GT"), Shippers and independent Gas Transporters, the DSC, is established under the GT Licence and Uniform Network Code arrangements and has no contractual end date.

Xoserve will continue its programme of investment in strategic IT applications to sustain its services and prepare for future change demand, based on its IT Architectural Roadmap.

The Company aims to press forward with achieving the ultimate ambitions given by the six strategic objectives and nine key themes.

Customer engagement will remain pivotal in ensuring delivery against Xoserve's agreed priorities, in addition to ensuring all stakeholders understand the delivery plans and their implications.

Ofgem is moving forward with its programme of work to place obligations on the Data Communications Company ("DCC") to procure, deliver and operate a Central Switching Service ("CSS"). Xoserve continues to support the industry to redraft necessary industry codes, specifically the Uniform Network Code ("UNC") and the new Retail Energy Code ("REC") to support these revised arrangements.

Throughout the year we continued to look at opportunities to leverage our existing assets and to address the complexities of our existing model.

RIIO-2

Ofgem sets price controls using the RIIO-2 framework. This is carried out by setting Revenue using Incentives to deliver Innovation and Outputs ("RIIO"). RIIO was introduced in 2013 and the decision on the framework will apply to the second round of price controls ("RIIO-2") that will begin in 2021.

Xoserve has developed a business plan in response to Ofgem's requirement for information from gas network companies to inform the RIIO-2 price control setting process.

This plan extends the usual timelines for the Company's annual business planning cycle through to March 2026 and as such could be subject to further change.

As part of this process, in May 2019 Ofgem confirmed a pass-through arrangement for gas distribution networks for Xoserve costs for the RIIO-2 period.

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Strategic report for the year ended 31 March 2020 (continued)

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors consider that the decisions they have made during the financial year and the way they have acted have promoted the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act). The Board meets as a minimum on a quarterly basis and the agenda typically includes reports on current trading and financial performance, legal and governance updates, a review of the strategic plan and more detailed discussions of areas of importance. The Board considers the company's key stakeholders to include employees, shareholders, customers, suppliers and the local community.

The Board has delegated the day-to-day management of the Company's activities to the CEO and Executive management team who are responsible for the execution of the Company's strategy within the plans agreed by the Board. As well as the regular interaction mentioned above, confirmation has been received from the CEO and each of the Executive management team that they have complied in full with supporting the Board of Directors perform their statutory duties required under s172(1).

Long term decisions

The Board discussed the long- term strategy of the business, in line with the strategic pillars and key themes. The Board recognises its responsibility to act fairly between all its stakeholders.

Customers

Xoserve's ultimate ambition to be trusted completely by our customers was severely tested this year, with operational issues that would have expected to be seen in the immediate aftermath of UK Link Go-Live not surfacing until 2019. However, great strides were made towards the end of the year to put this right both operationally and culturally. Our Customer Promise and Golden Principles build on the good progress that we made in 2018 and have been developed based on customer feedback. What customers see and experience must align with what we perceive ourselves to be, and that principal is at the heart of our Customer Promise.

The Company made significant improvements in communication with customers. The Business Planning process was refined from the promising blueprint that was laid out in 2018, delivering on the promise to give customers the maximum opportunity to engage with the Company and share their views.

Customer satisfaction is measured through a number of customer surveys issued during the year. These are referenced further within our Key Performance Indicators.

The Company has received positive feedback from Customers regarding the communication and dedication to the continuation of high-quality service during the COVID-19 pandemic.

Suppliers

Xoserve is dependent on a range of significant third-party relationships in support of the services provided to customers. The Company continues to evolve our supply chain, moving to a more federated model that provides us the opportunity to invest in smaller and UK-based suppliers. With the scale and impact of COVID-19, supplier engagement has been crucial to ensure we support them during this difficult time. This has enabled financially vulnerable suppliers to be identified early, offering improved cash flow in many cases. The steps previously taken to improve our payment performance ensured 95% of all invoices were paid on time with our smaller suppliers offered shorter payment terms.

Security was identified as a key theme of the Company's supplier code of conduct which has been reflected in the minimum standards expected of key suppliers. There has been continued investment in security to protect the critical customer data managed in-house with both self-assessment processes and audits to confirm compliance with the standards set.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (*continued*)

Suppliers (*continued*)

This has been achieved through:

- Inclusion of third-party management risks as part of Crisis Management oversight of the COVID-19 response,
- Clear procurement and supplier management policies and governance in place, including dedicated relationship partners for strategic suppliers,
- Defined service level agreements and key performance indicators for key contracts,
- Dedicated procurement and contract management roles within our wider commercial team,
- Key supplier business contingency planning including targeted reviews by our Business Continuity team,
- Structured governance and business monitoring processes for strategic suppliers operating key business processes.

People

The creation of a People Function focused all activities relating to our people under one Executive responsibility. This includes the People specific aspects of Change and Training, Development and Wellbeing, Operations, Insights and Engagement and Platforms which oversees all the internal technology that our people use day to day, including our back-office finance and HR systems, laptop devices and desktop services as well as all of our people tools and platforms. The development of this function has continued over the year and refined the ultimate ambition for the people element of the Company's strategy to reflect the desire to create an exceptional experience for people for them to deliver an exceptional service to customers.

Engaging our People

Engagement with employees and their representatives has continued at all levels, ensuring that their views are considered when decisions are made that could affect their interests and that employees are made aware of the financial and economic performance of the Company.

Communication with employees occurred through a series of six-monthly Company-wide briefings, briefings from the Chief Executive Officer ("CEO") and other members of the Executive team, ad hoc bulletins and communications through our social and communication platform. Consultation was taken where required, for example with the staff union in relation to the annual staff pay review. A series of breakfast meetings between members of the Executive management team and staff were held throughout the year as well as listening sessions with the CEO and Executive team members, and a series of video logs (vlogs) published which proved especially successful during the move to home working in reaction to COVID-19.

We measure our people engagement through an independent external questionnaire, this year run by The Happiness Index, which measures a wide range of factors which affect employee engagement. We use the output to assess our progress and develop proposals to address themes for within the feedback. We delivered a 2.7% improvement in engagement across the current year.

During the year the Company operated a performance management scheme as a basis for setting individual objectives and monitoring performance of employees. This provides the basis for informing personal performance bonus awards. During the year the People Function worked on improvements to this framework to ensure all of our people have objectives which link to the Company Strategy and launched a new Objectives & Key Results framework at the end of the performance year in readiness for 2020/21.

Developing our capabilities

During the year the Xoserve Academy was developed and launched, designed to support the development and enhancement of Leadership, Data, Change and Operational Excellence capabilities. This has included development and launch of new leadership qualities, with 45 leaders already having attended a new Leadership programme. We successfully internally re-skilled a number of people from operational roles into both Microsoft and SAP development and support roles as well as testing roles, to support our intention to strengthen our in-house change capability.

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Strategic report for the year ended 31 March 2020 (continued)

Inclusion and Diversity

Inclusion and Diversity is actively supported in the business by the Inclusion & Diversity Action Group and Diversity Champions. During the year the Company trained 11 colleagues as Mental Health First Aiders ("MHFA") to help support wellbeing. A series of online articles were written by colleagues across the business sharing their own experiences of mental wellbeing and inclusion and diversity which have proven popular. The new leadership programme is a key part of improving inclusion, developing our leaders to ensure all of our people have a voice and their value is recognised. Xoserve has also sought to be a voice within the wider community, hosting a wellbeing session with Energymind, a new project dedicated to creating a positive culture around mental wellbeing in the energy industry.

Applications for employment by disabled persons are always fully considered, taking account of the qualifications, experience and capabilities of all applicants. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate adjustments and training are arranged. It is the policy of the Company that the training and career development of a disabled person should, as far as possible, remain identical to that for a person who does not suffer from a disability.

Future Focus

The Company has made significant investment in infrastructure for desktop and network and will focus now on maximising the use of the capabilities for our existing toolset while enhancing the security and the user experience as well as ensuring the building space meets our future needs.

The Company will continue to work closely, supporting our people in a remote-working environment, which we expect to continue on a company-wide basis for some time within 2020/21.

Strategic Plan

The Board discussed the Principals and Approach of the Business Plan. The Board re-confirmed the Company's strategy and vision and agreed a directional plan for the Business Plan period of three years. The plan aligns to the Company's nine key themes.

Financial updates

The Board discussed performance against Business Plan with particular focus on Customer Change, Market Investment and Xoserve Change. They also discussed funding requirements, reviewed liquidity position, and discussed preparations, scenario plans and impact assessments for Brexit.

Sustainability

The Board is acutely aware of its responsibility to safeguard the environment. We believe as a Responsible Business, it is ethically the right thing to help address the challenge of Climate Change by reducing our carbon footprint to net zero by 2025. In doing this we support the wider goal the industry is aspiring to achieve of reducing carbon emissions to zero by 2050.

This year, we conducted a thorough review of our Scope 1, 2 and 3 carbon footprint against these carbon reduction commitments. This will serve as a base year for future carbon footprint assessments to be compared to.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (continued)

Our GHG emissions calculations are based on the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). We have identified relevant activity data for Scope 1, 2 and 3 emissions which have been verified by an independent carbon consultant. We have used the preferred method of calculation as a government recognised approach.

Scope	Activity	Tonnes CO ₂ e
Scope 1 subtotal	Site gas	167.44
	Company car travel	2.41
Scope 2 subtotal		169.85
Scope 3 subtotal	Electricity generation	56.95
	Flights	18.81
	Electricity transmission & distribution	4.84
	Grey fleet	3.05
	Rail travel	1.32
Overall total		28.02
Tonnes of CO ₂ e per employee		254.82
Tonnes of CO ₂ e per £M turnover		0.66
		2.78

Gas consumption at the Company's office is the most significant component of Xoserve's carbon footprint. Discussions are underway on how to reduce energy consumption of the building and to that end Xoserve has formed an Emergency Climate Group ("ECG") to help deliver our Carbon Challenge Strategy.

We are pleased to have been certified as a Carbon Neutral Organisation by offsetting our total emissions to the Darfur Low-Smoke Stoves project, which provides fuel efficient cooking stoves for North Darfur Women in Sudan. The project is endorsed by the UN World Food Programme and has been awarded a gold standard for climate security and sustainable development. It also meets the Quality Assurance Standard (QAS) for Carbon Offsetting.

Funding and Going concern

The Company's business activities and funding arrangements, together with the factors likely to affect its future development and position are set out within this Strategic Report. In addition, there are details of the Company's financial position and the financial risks that the Directors have highlighted as significant to the business.

The Company has been funded by contributions from customers to support major capital expenditure programmes and cash flows generated from the delivery of data services to the gas market. At 31 March 2020 the Company had cash at bank of £1.9m and a money fund account (readily accessible) of £25.4m. The Company also had access to a £1m revolving overdraft facility. The increase in liquid cash reserves over the prior year is a result of receiving cash from customers for investment activities which have subsequently been deferred to the next financial year.

The Company recognised a small profit for the year and has net current liabilities as at 31 March 2020. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements.

Detailed profit and cash flow forecasts ("the forecasts") have been prepared by the Company through to the period ending 31 March 2022 ("the period") to assist with this analysis that demonstrate that it will be able to operate and meet its external liabilities as they fall due for payment during this period. This assessment was undertaken against both current and future trading conditions, which includes stress testing against scenarios arising from the global pandemic, COVID-19.

Xoserve Limited

Strategic report for the year ended 31 March 2020 (continued)

The Directors consider that the unique role of the Company activities in providing services to major gas supply and transport companies under the monitoring of Ofgem (the Office of Gas and Electricity Markets) and the nature of its revenue charging model (whereby costs to be incurred are agreed and charged to customers for investment change and delivery of core services) means that revenues are resilient and the risk of any significant income downturn that is not balanced by a similar reduction in costs is therefore unlikely during the period. The Company has agreed its business plan with the Board following a multi-phase engagement process with customers for the year to 31 March 2021 and this forms the basis of its revenue for this year. The business plan outline for the two years ending 31 March 2023 has been provisionally agreed and the underlying model will remain intact as the Central Data Service Provider (CDSP) under the terms of the Data Services Contract (DSC).

The most plausible adverse scenario that Directors have hence considered in assessing going concern involves stress testing a significant reduction in cash receipts in respect of its agreed billing schedule in the year to 31 March 2021, and then a reduction in revenue and receipts in the year to 31 March 2022. Whilst the directors do not expect that this position will be reached, it has helped draw out various mitigation strategies that could be put in place to cope with a fall in revenues. These include but are not limited to obtaining additional funding from continuing customers under the terms of the agreed funding arrangements (whereby existing participants are required to provide replacement funding for the loss of any revenue or cash receipts by the Company), investment programme cancellation or deferment, accessing government loan schemes, tighter headcount controls, bonus and pay curtailment, cessation of non-essential services and other cost reduction measures.

Actual results for April and May 2020 (the first full months following lock-down) showed revenue and collectability levels to be on budget and this is expected to continue for the agreed business plan period to 31 March 2021. The directors expect that the company budget will be approved for the year to 31 March 2022 and this will support its funding and going concern position during the period.

The Company also moved quickly to ensure a safe working environment for its employees and has not suffered from any significant staff absences as a result of the pandemic. It continues to operate a full set of services remotely through the lock-down.

Longer term, Ofgem's decision in May 2019 to confirm a pass-through arrangement for Xoserve's funding for the RIIO-2 period post March 2021 for Gas Transporters will further serve to reduce the Company's going concern risk exposure as any uncertainties in spend year on year would become more recoverable for all parties concerned.

After careful consideration of the above aspects and other factors connected to the impact of COVID -19 on the Company the directors remain of the view that the cash forecast is achievable and that the headroom within the forecast should be sufficient to enable the Company to operate and meet its liabilities as they fall due for payment throughout the period.

Whilst the directors note the possible impact of COVID-19 on future activities and cash flows this is not considered a significant risk to the Company given the arrangements and mitigation options noted above and the currently available cash balances. On this basis the directors consider that it is appropriate to prepare the financial statements on the going concern basis.

Approved by the Board and signed on its behalf by:


M Hogg

Director

14/08/2020

Xoserve Limited

Directors' report for the year ended 31 March 2020

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

Future Developments

Details of future developments have been included within the Strategic Report on page 6.

Dividends

Dividends were not paid during the year or the previous year. The Company's funding model restricts the Company's ability to distribute dividends in the future.

Financial risk management

The Company continued to actively manage any exposure to credit risk through a Credit Review Panel (an internal committee) and managed other financial risks via its contracting arrangements.

Price risk

The Company secures a significant proportion of its goods and services on long term contracts with pre-determined price escalation clauses and notice periods. A number of IS services are acquired from key suppliers under the terms of long-term framework agreements and the Company also makes extensive use of fixed price contracts. Most of its suppliers have enjoyed long term relationships with the Company. Because of these arrangements the Company's exposure to price risk is not considered to be material.

Liquidity risk

The Company invests surplus funds in AAA rated Money Market Funds which are repayable on demand. It also has an agreed overdraft facility with its bankers.

Credit risk

During the year the Company followed its credit policy and associated rules for limiting its exposure to the risk of financial loss resulting from the provision of services and/or supply of goods to its customers. This required the active monitoring of its current and future contractual exposures to its customers against an approved framework in accordance with the Company's governance structure.

Day to day operation of the policy was overseen by the Credit Review Panel reporting to the Executive Committee and overseen by the DSC Credit Committee consisting of industry representatives. As at the year end, potential bad debts were identified by the Company and provision for such was made within the financial statements as appropriate.

Existing DSC arrangements transfers a large part of the Company's credit risk to DSC customers, leading to a consistent on time customer payment performance above 97% each month.

Cash flow risk

The Company continued to earn a significant proportion of its revenue stream through its contracts with the gas networks and Shippers (2019/20: 99%, 2018/19: 93%). A schedule of monthly charges was determined prior to the commencement of the financial year based on the Company's forecast expenditure. The certainty of a major proportion of its income stream significantly reduces the Company's exposure to cash flow risk.

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Directors' report for the year ended 31 March 2020 (continued)

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

Further information about how the directors have engaged with employees, how they have had regard to employee interest, and the effect of that regard can be found in the strategic report. A summary of how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard can also be found in the strategic report.

Directors

The Directors of the Company during the year and up to the date of signing of the financial statements were:

S Carroll	(appointed 1 August 2019)
Y Cohen	
S Edwards	(resigned 31 July 2019)
M Hogg	
C McClay	(resigned 31 October 2019)
I Radley	(appointed 1 November 2019)
C Rees	
T Sands	(appointed 2 December 2019)
D Sedgwick	
N Shaw	
C Spottiswoode	
A Quail	(resigned 1 December 2019)

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the Directors' Report is approved, the Directors confirm that:

- (a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he/she has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' indemnities and insurance

The Company has purchased insurance to indemnify individual Directors' and Officers' personal legal liability and cost for claims arising out of actions taken in connection with the business of Xoserve.

This insurance was in place during the year and continues to be in place at the date of approval of these financial statements.

Approved by the Board and signed on its behalf by:

M Hogg



Director

14/08/2020

Xoserve Limited

Directors' responsibilities report for the year ended 31 March 2020

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) 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, comprising FRS 102, 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.

Xoserve Limited

Independent auditor's report

Opinion

We have audited the financial statements of Xoserve Limited ("the Company") for the year ended 31 March 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related 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 (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 March 2020 and of the Company's profit for the year then ended;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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's 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 as applied to listed entities, 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

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Xoserve Limited

Independent auditor's report (*continued*)

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 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 or 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 Company 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 set out on page 14 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 group or the parent 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Xoserve Limited

Independent auditor's report (*continued*)

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.

B/O LLP

Thomas Lawton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Birmingham
United Kingdom

21 August 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Xoserve Limited

Statement of comprehensive income for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	3	80,668	69,798
Administrative expenses (including restructuring costs of £nil (2019 - £788,000))		(80,546)	(69,798)
Operating profit	4	122	-
Interest receivable and similar income	7	163	138
Interest payable and similar expenses	7	(5)	(3)
Profit on ordinary activities before taxation		280	135
Tax on profit on ordinary activities	8	-	-
Profit for the financial year		280	135
Other comprehensive income for the year (net of tax)		-	-
Total comprehensive profit for the year		280	135

All amounts relate to continuing activities.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial years stated above and their historical cost equivalents.

The notes on page 22 to 41 form part of these financial statements.

Xoserve Limited

Statement of financial position at 31 March 2020

Company number 05046877	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Fixed assets					
Intangible assets	10		44,844		50,348
Tangible assets	11		5,790		4,606
			50,634		54,954
Current assets					
Debtors (including £nil (2019 - £316,000) due after one year)	12	8,260		6,364	
Current asset investments	13	25,417		20,252	
Cash at bank and in hand		1,872		732	
		35,549		27,348	
Creditors: amounts falling due within one year	14	(48,805)		(38,101)	
Net current liabilities			(13,256)	(10,753)	
Total assets less current liabilities			37,378	44,201	
Creditors: amounts falling due after more than one year	15		(33,804)		(40,673)
Provision for liabilities	16		(1,606)		(1,840)
Net assets			1,968	1,688	
Capital and reserves					
Called up share capital	18		1		1
Profit and loss account			1,967		1,687
Total equity			1,968	1,688	

The financial statements were approved by the Board of Directors and authorised for issue on 14/08/2020


M Hogg
Director

The notes on pages 22 to 41 form part of these financial statements.

Xoserve Limited

Statement of changes in equity for the year ended 31 March 2020

	Called up share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2018	1	1,552	1,553
Profit for the year	-	135	135
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2019	1	1,687	1,688
	<hr/>	<hr/>	<hr/>
Balance at 1 April 2019	1	1,687	1,688
Profit for the year	-	280	280
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2020	1	1,967	1,968
	<hr/>	<hr/>	<hr/>

The notes on page 22 to 41 form part of these financial statements.

Xoserve Limited

Statement of cash flows for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
<i>Cash flows from operating activities</i>			
Profit for the financial year		280	135
Adjustments for:			
Tax on profit on ordinary activities		-	-
Interest receivable and similar income		(163)	(138)
Interest payable and similar income		5	3
Depreciation of tangible fixed assets		921	635
Amortisation of intangible fixed assets		15,625	14,821
(Increase)/decrease in debtors		(1,896)	2,664
Increase (decrease) in creditors		3,930	(11,390)
Decrease in provisions for liabilities and charges		(237)	(228)
Cash from operations		18,465	6,502
Interest paid		(5)	(3)
<i>Net cash generated from operating activities</i>		18,460	6,499
<i>Cash flows from investing activities</i>			
Purchases of fixed assets		(12,226)	(7,289)
Interest received		163	138
<i>Net cash from investing activities</i>		(12,063)	(7,151)
<i>Cash flows from financing activities</i>			
Net capital movement of finance leases		(92)	239
<i>Net cash from financing activities</i>		(92)	239
Net increase/(decrease) in cash and cash equivalents		6,305	(413)
Cash and cash equivalents at beginning of year		20,984	21,397
Cash and cash equivalents at end of year		27,289	20,984
<i>Cash and cash equivalents comprise:</i>			
Cash at bank and in hand		1,872	732
Current asset investment	13	25,417	20,252
		27,289	20,984

The notes on page 22 to 41 form part of these financial statements.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020

1 Accounting policies

Xoserve Limited provides transactional billing and other services on behalf of the largest gas network operators and also provides gas transportation related reporting and other services to gas shippers and others. The Company sets its charges to customers in order to recover all costs incurred with an appropriate margin. The margin is set at a level that ensures that the Company should maintain an adequate level of working capital during the year.

The Company is a private limited Company limited by shares and is incorporated and domiciled in England. The address of its registered office during the year was Lansdowne Gate, 65 New Road, Solihull, B91 BDL

The financial statements of Xoserve Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The following principal accounting policies have been applied:

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Funding and going concern

The Company has been funded by contributions from customers to support major capital expenditure programmes and cash flows generated from the delivery of data services to the gas market. At 31 March 2020 the Company had cash at bank of £1.9m and a money fund account (readily accessible) of £25.4m. The Company also had access to a £1m revolving overdraft facility. The increase in liquid cash reserves over the prior year is a result of receiving cash from customers for investment activities which have subsequently been deferred to the next financial year.

The Company recognised a small profit for the year and has net current liabilities as at 31 March 2020. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements.

Detailed profit and cash flow forecasts ("the forecasts") have been prepared by the Company through to the period ending 31 March 2022 ("the period") to assist with this analysis that demonstrate that it will be able to operate and meet its external liabilities as they fall due for payment during this period. This assessment was undertaken against both current and future trading conditions, which includes stress testing against scenarios arising from the global pandemic, COVID-19.

The Directors consider that the unique role of the Company activities in providing services to major gas supply and transport companies under the monitoring of Ofgem (the Office of Gas and Electricity Markets) and the nature of its revenue charging model (whereby costs to be incurred are agreed and charged to customers for investment change and delivery of core services) means that revenues are resilient and the risk of any significant income downturn that is not balanced by a similar reduction in costs is therefore unlikely during the period. The Company has agreed its business plan with the Board following a multi-phase engagement process with customers for the year to 31 March 2021 and this forms the basis of its revenue for this year. The business plan outline for the two years ending 31 March 2023 has been provisionally agreed and the underlying model will remain intact as the Central Data Service Provider (CDSP) under the terms of the Data Services Contract (DSC).

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

1 Accounting policies (continued)

The most plausible adverse scenario that Directors have hence considered in assessing going concern involves stress testing a significant reduction in cash receipts in respect of its agreed billing schedule in the year to 31 March 2021, and then a reduction in revenue and receipts in the year to 31 March 2022. Whilst the directors do not expect that this position will be reached, it has helped draw out various mitigation strategies that could be put in place to cope with a fall in revenues. These include but are not limited to obtaining additional funding from continuing customers under the terms of the agreed funding arrangements (whereby existing participants are required to provide replacement funding for the loss of any revenue or cash receipts by the Company), investment programme cancellation or deferment, accessing government loan schemes, tighter headcount controls, bonus and pay curtailment, cessation of non-essential services and other cost reduction measures.

Actual results for April and May 2020 (the first full months following lock-down) showed revenue and collectability levels to be on budget and this is expected to continue for the agreed business plan period to 31 March 2021. The directors expect that the company budget will be approved for the year to 31 March 2022 and this will support its funding and going concern position during the period.

The Company also moved quickly to ensure a safe working environment for its employees and has not suffered from any significant staff absences as a result of the pandemic. It continues to operate a full set of services remotely through the lock-down. Longer term, Ofgem's decision in May 2019 to confirm a pass-through arrangement for Xoserve's funding for the RII0-2 period post March 2021 for Gas Transporters will further serve to reduce the Company's going concern risk exposure as any uncertainties in spend year on year would become more recoverable for all parties concerned.

After careful consideration of the above aspects and other factors connected to the impact of COVID -19 on the Company the directors remain of the view that the cash forecast is achievable and that the headroom within the forecast should be sufficient to enable the Company to operate and meet its liabilities as they fall due for payment throughout the period. Whilst the directors note the possible impact of COVID-19 on future activities and cash flows this is not considered a significant risk to the Company given the arrangements and mitigation options noted above and the currently available cash balances. On this basis the directors consider that it is appropriate to prepare the financial statements on the going concern basis.

Turnover

Turnover comprises the value of services provided excluding value added tax. Turnover is recognised when it can be reliably measured and it is probable that future economic benefits will flow to the Company and in the period that the service is provided. The Company bases its estimates on historical results and the specifics of each arrangement.

The Company receives contributions from customers to fund its expenditure for the development of Fixed Assets. These contributions are credited to a deferral account within creditors (within accruals and deferred income) and are then released as turnover evenly over the useful life of the relevant asset.

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution plans.

1. Annual bonus arrangements

The Company operates an annual bonus scheme for employees based on performance. An expense is recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the scheme as a result of past events and a reliable estimate of the obligation can be made.

2. Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the benefit is accrued.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

1 Accounting policies (continued)

3. Pensions

The majority of employees are members of a defined contribution pension plan, which is a Master Trust pension plan operated by Standard Life. A proportion of the Company's employees are members of the defined benefit section of The National Grid UK Pension Scheme. The Company's share of the underlying assets and liabilities of the defined benefit scheme cannot be identified separately. Consequently, the Company accounts for the Scheme as if it were a defined contribution scheme, recognising a charge equivalent to cash paid or payable to the scheme and to the scheme's sponsoring Company, National Grid plc (see note 9).

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

1. Current tax

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the Statement of financial position date.

2. Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the Statement of financial position date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the Statement of financial position date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

3. Research and development tax claims

Tax receivable in respect of R&D tax claims is recognised only to the extent that it is reasonably certain that they will be agreed with HMRC and recovered.

Intangible assets

Intangible fixed assets are included in the statement of financial position at their historical purchase cost less accumulated amortisation. Additions represent the purchase or construction of new assets, and extensions to, or significant increases in the capacity of, intangible fixed assets. Cost includes internal costs incurred which are directly attributable to the construction of intangible fixed assets where it is probable that the expected future economic benefits that are attributable to the asset created will flow to the Company and the cost or value of the asset can be measured reliably.

In making this assessment on a particular intangible fixed asset the Company considers things such as the technical feasibility of the development project for the asset, the likelihood of the asset being created being used, how the asset will generate future economic benefits, the availability of resources to complete the asset and realise value and the ability of the Company to reliably measure the expenditure incurred on the asset.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

1 Accounting policies (continued)

Intangible fixed assets are amortised, principally on a straight-line basis, at a rate estimated to write off their book value over their useful economic lives assuming no residual value. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the amortisation periods for the principal categories of intangible fixed assets are as follows:

Software and licences - 2 – 5 years

No amortisation is charged on assets in the course of construction. When these assets are subsequently brought into use they are reclassified to the relevant asset category and amortised at the appropriate rate.

Tangible assets

Tangible fixed assets are included in the Statement of financial position at their historical purchase cost less accumulated depreciation. Additions represent the purchase or construction of new assets, and extensions to, or significant increases in the capacity of, tangible fixed assets. Cost includes internal costs incurred which are directly attributable to the construction of tangible fixed assets where it is probable that the expected future economic benefits that are attributable to the asset created will flow to the Company and the cost or value of the asset can be measured reliably.

In making this assessment on a particular tangible fixed asset the Company considers things such as the technical feasibility of the development project for the asset, the likelihood of the asset being created being used, how the asset will generate future economic benefits, the availability of resources to complete the asset and realise value and the ability of the Company to reliably measure the expenditure incurred on the asset.

Tangible fixed assets are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives assuming no residual value. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are as follows:

Office equipment, fixtures and fittings - 2 – 11 years
Dilapidations provision - Over the life of the lease

No depreciation is charged on assets in the course of construction. When these assets are subsequently brought into use they are reclassified to the relevant asset category and depreciated at the appropriate rate.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Finance lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (*continued*)

1 Accounting policies (*continued*)

On transition to FRS 102, the group took advantage of the optional transition exemption available which allowed lease incentives on leases entered into before the date of transition to the standard (1 January 2014) to continue to be charged over the shorter period to the first market rent review rather than the term of lease.

For leases entered into on or after 1 January 2014, reverse premiums and similar incentives received to enter into operating lease agreements are released to profit or loss over the term of the lease.

Where the Company has a legal obligation, a dilapidations provision is created on inception of a lease. These provisions are a best estimate of the cost required to return leased properties to their original condition upon termination of the lease. Where the obligation arises from 'wear and tear', the provision is accrued as the 'wear and tear' occurs.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within current liabilities.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Impairment of non-financial assets

At each Statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount.

Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, bank overdrafts or deposits with financial institutions.

Client accounts

The Company operates a number of client bank accounts that are in the Company's name for which the beneficial interests belong solely with another party. The Directors have considered the definitions of assets (and liabilities) contained within FRS 102 to assess whether these cash assets and related liabilities should be recorded on the Company's Statement of financial position. The Directors consider that these bank accounts are not resources controlled by the Company as a result of past events and from which future economic benefits (such as interest) are expected to flow to the Company and also that there could be no residual risks impacting on the Company connected to these accounts as a result of the contractual nature of the arrangements. Therefore, these client accounts are not recorded as assets and related liabilities on the Company's Statement of financial position.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

2 Critical accounting estimates and judgements

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

Critical judgements in applying the entity's accounting policies

Defined benefit pension scheme

Certain employees participate in a defined benefit pension scheme with companies in the National Grid group (the Company's former parent undertaking). There is no contractual arrangement or stated policy for charging to individual group companies the net defined benefit cost of the scheme as a whole. National Grid have confirmed that current arrangements between parties mean that the Company has no current legal obligation to contribute towards any of the Section B deficit identified in March 2019. This position will be reviewed at each Actuarial Valuation, the next of which will be as at 31 March 2022. Should the Company be specifically included on the Schedule of Contributions following a future valuation then the Company would be formally notified by National Grid and past liabilities would need to be identified and a commensurate proportion of the deficit assigned to the Company. For these reasons the Directors consider that it is appropriate that the Company accounts for the scheme as a defined contribution scheme and recognises a cost equal to their contribution payable for the period (see note 9).

Valuation of assets in the course of construction

The Company estimates accruals due relating to the value of assets in the course of construction by considering the degree of completion in respect of significant contracts within the project which are still to be invoiced. Employee costs are capitalised within internally developed assets by an allocation of time recorded by employees on activities that can be directly attributed to the construction of the asset. Employee costs incurred on project management activities within a project are apportioned between capital and operating expenditure in proportion to the allocation of costs for the activities being managed.

Contributions to capital expenditure

Contributions received from customers towards the construction of Fixed Assets are recognised as turnover within the Statement of Comprehensive Income evenly across the asset's useful life.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of intangible fixed assets

The annual amortisation charge for internally developed software within intangible fixed assets is sensitive to changes in the estimated useful lives of the assets which are re-assessed annually. They are amended when necessary to reflect current estimates based on economic utilisation and future investment plans for replacement or upgrade. See note 10 for the carrying amount of software and licences and note 1 for amortisation periods.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (*continued*)

2 Critical accounting estimates and judgements (*continued*)

Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful lives of the assets which are re-assessed annually. They are amended when necessary to reflect current estimates based on economic utilisation and future investment plans for replacement or upgrade. See note 11 for the carrying amount of tangible fixed assets and note 1 for depreciation periods.

Provisions

Provision is made for dilapidation obligations, onerous contracts and tax liabilities. These provisions require management's best estimate of the cost and whether it will be incurred based on legislative and contractual requirements and the timing of cash flows. See note 16 for detail of the amounts provided for each of these items.

Impairment of tangible and intangible assets

Given the year-end date and the key date in the COVID-19 pandemic, COVID-19 is regarded as an adjusting event and therefore an indicator of impairment for tangible and intangible assets. Based on forecasts prepared for the period to 31 March 2022, longer term business plans and the nature of the assets concerned the directors do not consider that there have been any impairments of non-financial or financial assets at the year-end. However, it is noted that the issues and uncertainties connected to COVID-19 remain in place and the impact on asset values will continue to be monitored.

Impairment of debtors

The Company has a good history of collecting debts due and only makes provision for the impairment of debtors in specific circumstances where all options available to the Company have been exhausted and the debt is not considered to be recoverable. See note 12 for the net carrying amount of debtors and associated impairment provision.

Client accounts

The Directors consider that certain bank accounts with a value of £52,725,000 (2019 - £59,636,000) operated as client accounts on behalf of another party should not be recorded on the Statement of financial position of the Company as they are not resources controlled by the entity from which future economic benefits are expected to flow. This treatment is based on the guidance as to the definitions of assets and liabilities contained within accounting standards. If these standards or key aspects of the arrangements were to change in the future the directors would need to consider whether these bank accounts needed to be recorded on the Statement of financial position of the Company.

Impact of COVID-19

The impact on going concern is shown in note 1 to the financial statements. The impact on impairment of non-financial assets is considered above and the impact on results to date is shown in note 22 post balance sheet events to the financial statements.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

3 Turnover

	2020 £'000	2019 £'000
<i>Analysis by customer group</i>		
External customers (including contributions to capital expenditure)	27,366	24,303
Related undertakings (including contributions to capital expenditure)	53,302	45,495
	<u>80,668</u>	<u>69,798</u>
<i>Analysis by service type</i>		
General services	59,925	50,101
Other contracted services	4,305	4,663
Contributions to capital expenditure, funded from General services	16,438	15,034
	<u>80,668</u>	<u>69,798</u>

Geographical analysis of turnover is not provided as the Company's operations are all undertaken in the UK for customers based in the UK.

4 Operating profit

	2020 £'000	2019 £'000
This is arrived at after charging/(crediting):		
Amortisation of intangible fixed assets	15,625	14,515
Depreciation of tangible fixed assets – owned assets	826	595
Depreciation of tangible fixed assets – under finance lease and hire purchase contracts	95	40
Impairment of trade debtors	5	36
Employee costs capitalised	-	(367)
Operating lease charges	934	1,099
Restructuring costs	-	788
Dilapidations provisions	(114)	(224)
Commercial provisions	(120)	(685)
	<u></u>	<u></u>

Exceptional costs related to restructuring costs include salaries and pensions costs of £nil (2019 - £736,000) and other professional and advisory fees of £nil (2019 - £52,000).

	2020 £'000	2019 £'000
Fees payable for services provided by the current Company's auditors:		
Statutory audit of the Company's financial statements	32	36
Taxation services	-	-
	<u></u>	<u></u>

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

5 Employees

	2020 £'000	2019 £'000
Staff costs (including Directors) consist of:		
Wages and salaries (including bonuses)	18,091	15,319
Social security costs	2,131	1,677
Defined benefit pension costs (see note 9)	1,185	2,575
Defined contribution pension costs (see note 9)	1,108	864
Agency costs	5,521	4,922
Restructuring costs (see note 4)	-	736
	<u>28,036</u>	<u>26,093</u>

The average number of employees (including Directors) during the year was as follows:

	2020 Number	2019 Number
Employees	398	349
Agency	78	46
	<u>476</u>	<u>395</u>

Key management compensation

Key management includes the members of the Xoserve executive team. The compensation paid or payable to key management for employee services is shown below:

	2020 £'000	2019 £'000
Salaries and other short term benefits	1,528	1,182
Other pension costs	147	176
	<u>1,675</u>	<u>1,358</u>

6 Directors' remuneration

	2020 £'000	2019 £'000
Directors' emoluments	251	203

Of the 12 (2019 - 11) Directors who served during the year, 6 (2019 - 4) waived their right to remuneration. No Directors participated in either the Company's defined benefit pension scheme or the defined contribution pension scheme.

Emoluments of the highest paid Director were £84,000 (2019 - £44,000).

Xoserve Limited

Notes forming part of the financial statements
for the year ended 31 March 2020 (*continued*)

7	Interest receivable and similar income	2020	2019
		£'000	£'000
	Dividend receivable from current asset investment	163	138
		<hr/>	<hr/>
	Interest payable and similar expenses	2020	2019
		£'000	£'000
	Finance leases and hire purchase contracts	5	3
		<hr/>	<hr/>
8	Tax on profit on ordinary activities	2020	2019
		£'000	£'000
	<i>Current tax</i>		
	UK corporation tax	-	-
	Adjustments in respect of previous years	-	-
	Total current tax	<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
	<i>Deferred tax</i>		
	Origination and reversal of timing differences	-	-
	Adjustments in respect of previous periods	-	-
	Total deferred tax	<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
	Tax (credit) on profit on ordinary activities	-	-
		<hr/>	<hr/>

The deferred tax (credit)/charge includes a credit of £nil (2019 - £nil).

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

8 Tax on profit on ordinary activities (continued)

Factors affecting future tax charges

The Finance Act 2020 which was enacted on 17 March 2020 maintained the main rate of UK corporation tax at 19% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

The tax assessed for the year is lower (2019 - lower) than the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £'000	2019 £'000
Profit/(loss) on ordinary activities before taxation	280	135
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	53	25
Effect of:		
Fixed asset differences	15	43
Expenses not deductible for tax purposes	53	1
Non-taxable income	(1,079)	(98)
Adjustments in respect of prior periods	-	-
Deferred tax not recognised	1,321	43
Rate changes	(363)	(14)
Total tax (credit) for the year	-	-

On 31st March 2020, the Company submitted a claim under the RDEC scheme for the 2017/18 year to obtain corporation tax credit for allowable research and development costs. Given the boundaries of this claim have yet to be verified and agreed by HMRC, the Company believes the inflow of any economic benefit to be probable only and as such no amount has been recognised in the financial statements. The Company notes a conservative estimate of this claim as being £0.4m after tax. The Company has also started to prepare but not yet submitted a claim under the RDEC scheme for the 2018/19 year, to obtain corporation tax credit for allowable research and development costs. For the reasons noted above no amount has been recognised in the financial statements. The company notes a conservative estimate of this claim as being £0.2m after tax. The Company intends to make a claim for qualifying activities in respect of the 2019/20 year and subsequent years but deem any amounts recoverable to be uncertain in magnitude given the variation in investments year on year. Conservative estimates are thought to be in the region of circa £0.2m per claim after deducting any associated consultancy fees. The Directors consider that the treatment noted above is the most appropriate approach to the recording of these potential assets until at least the first claim has been agreed by HMRC and also that the total amount of the prudent assessment of claims for the period to 31 March 2020 is not material to the financial statements.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

9 Pensions

The Company operates a number of pension schemes for its employees.

Defined benefit scheme

The Company has certain employees who participate in a defined benefit pension scheme with companies in the National Grid group (the Company's former parent undertaking). There is no contractual arrangement or stated policy for charging to individual companies the net defined benefit cost of the scheme as a whole. The scheme administrator has confirmed that whilst it would be possible to calculate the liabilities relating to the Company it is not possible to allocate the assets specifically to the Company. National Grid have confirmed that current arrangements between parties mean that the Company has no current legal obligation to contribute towards any of the Section B deficit identified in March 2019. This position will be reviewed at each actuarial valuation.

Should the Company be specifically included on the Schedule of Contributions following a future valuation then the Company would be formally notified by National Grid and past liabilities would need to be identified and a commensurate proportion of the deficit assigned to the Company. Therefore, the net defined benefit cost is recognised in the individual company financial statements of the company that is legally the sponsoring employer of the scheme. The other companies in their individual financial statements recognise a cost equal to their contribution payable for the period and Xoserve accounts for its pension arrangements in this way.

For these reasons the Directors consider it is appropriate that the Company accounts for the scheme as a defined contribution scheme and recognises a cost equal to their contribution payable for the period.

The defined benefit arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by a trustee company with a board consisting of National Grid and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with National Grid, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the Scheme's assets, are expected to be sufficient to fund the benefits payable.

The last full actuarial valuation was carried out by Willis Towers Watson as at 31 March 2019. The market value of the Scheme's assets was £5,765m and the value of the assets represented approximately 99% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2019 on an ongoing basis and allowing for projected increases in pensionable earnings. This valuation showed the scheme had a funding deficit of £66m. This deficit is being fully funded by National Grid Gas plc with no obligation for the Company to make any contributions. The final payment to clear the deficit will be made by National Grid Gas plc in September 2020. No further deficit contributions are required to be made. If this were to change in future it would occur as part of a future valuation agreement. The next full actuarial valuation is due to be carried out as at 31 March 2022.

Following the 2019 actuarial valuation, the employers contribute 51.4% of pensionable salary less member contributions, in respect of ongoing service. In addition, National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund Levy.

The amount recognised as an expense for the defined benefit scheme was:

	2020 £'000	2019 £'000
Current period contributions	1,185	2,575

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

9 Pensions (continued)

Defined contribution scheme

Following the closure of the defined benefit schemes to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2020 £'000	2019 £'000
Current period contributions	1,108	864

10 Intangible assets

	Assets in the course of construction £'000	Software and licences £'000	Total £'000
<i>Cost</i>			
At 1 April 2019	649	88,237	88,886
Additions	8,617	2,095	10,712
Reclassifications	(58)	58	-
Reclassifications – Tangible assets	(591)	-	(591)
Disposals	-	-	-
At 31 March 2020	8,617	90,390	99,007
<i>Amortisation</i>			
At April 2019	-	38,538	38,538
Charge for the year	-	15,625	15,625
Disposals	-	-	-
At 31 March 2020	-	54,163	54,163
<i>Net book value</i>			
At 31 March 2020	8,617	36,227	44,844
At 31 March 2019	649	49,699	50,348

The Company has an ongoing programme of investment in its IS infrastructure and is recovering the cost of this investment from the gas network operators in the form of capital contributions over the course of the programme, although the assets will still be owned by the Company. Additions to assets under this programme are classified as "Assets in the course of construction" and reclassified as "Software" when the assets are commissioned for use.

Included within creditors (amounts falling due within one year) are contributions to the cost of intangible fixed assets amounting to £15,852,000 (2019 - £15,018,000).

Included within creditors (amounts falling due after more than one year) are contributions to the cost of intangible fixed assets amounting to £28,992,000 (2019 - £37,212,000).

The contributions to the cost of intangible fixed assets noted above are released to turnover evenly over the useful life of the corresponding asset, in line with amortisation.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

11 Tangible assets

	Computer hardware £'000	Leasehold improvement, fixtures and fittings £'000	Total £'000
<i>Cost</i>			
At 1 April 2019	286	8,113	8,399
Additions	1,514	-	1,514
Reclassifications – Intangible assets	591	-	591
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2020	2,391	8,113	10,504
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At April 2019	40	3,753	3,793
Charge for the year	341	580	921
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2020	381	4,333	4,714
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2020	2,010	3,780	5,790
	<hr/>	<hr/>	<hr/>
At 31 March 2019	246	4,360	4,606
	<hr/>	<hr/>	<hr/>

The Company has an ongoing programme of investment in its IS infrastructure and is recovering the cost of this investment from the gas network operators in the form of capital contributions over the course of the programme, although the assets will still be owned by the Company. Additions to assets under this programme are classified as "Assets in the course of construction" and reclassified as "Office equipment, fixtures and fittings" when the assets are commissioned for use.

Included within creditors (amounts falling due within one year) are contributions to the cost of tangible fixed assets amounting to £989,000 (2019 - £592,000).

Included within creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £4,213,000 (2019 - £3,316,000).

The contributions to the cost of tangible fixed assets noted above are released to turnover evenly over the useful life of the corresponding asset, in line with depreciation.

The net book value of tangible fixed assets includes an amount of £151,000 (2019 - £239,000) in respect of assets held under finance leases and hire purchase contracts.

The provision for dilapidation in respect of the current occupied property is included within the net book value of tangible fixed assets within leasehold improvements, fixtures and fittings and is being depreciated over the lease term. Its current net book value is £582,000 (2019 - £681,000). Depreciation of £101,000 (2019 - £112,000) was recognised through the statement of comprehensive income in the year.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

12 Debtors

	2020 £'000	2019 £'000
Trade debtors	4,250	2,562
Amounts owed by related undertakings (see note 21)	1,463	2,293
Corporation tax receivable	396	396
Other debtors	-	11
Prepayments and accrued income	2,151	1,102
	<hr/> 8,260	<hr/> 6,364

Prepayments and accrued income include £nil (2019 - £316,000) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £47,000 (2019 - £41,000).

13 Current asset investments

	2020 £'000	2019 £'000
Money Fund Account	25,417	20,252
	<hr/>	<hr/>

The Company invests its surplus cash balances in a short-term liquidity money fund account which is payable on demand.

During the year, the Company continued to provide Credit Risk and Neutrality services to the UK gas industry under sections F and X of the Uniform Network Code (UNC), by acting as agents of National Grid's National Transmission System (NTS). In delivering this service, the Company operates a number of client bank accounts that are in the Company's name for which the beneficial interests belong solely with National Grid plc. The net balance on these accounts as at 31st March 2020 was £52,725,000 (2019 - £59,636,000). As explained in note 1 "Client Accounts" the Company does not recognise these assets or related liabilities on its own Statement of financial position. National Grid plc have confirmed in writing that they regard these accounts as being under their ownership and have recorded these balances and related liabilities on their Statement of financial position.

14 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	4,283	4,570
Amounts owed to related undertakings (see note 21)	9,130	8,003
Other taxation and social security payable	916	697
Obligations under finance lease and hire purchase contracts	96	94
Other creditors	3,063	2,225
Accruals and deferred income	31,317	22,512
	<hr/> 48,805	<hr/> 38,101

The bank overdraft facility is unsecured.

Accruals and deferred income includes deferred contributions to capital expenditure of £17,391,000 (2019 - £15,610,000).

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

15 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Obligations under finance lease and hire purchase contracts	49	145
Accruals and deferred income	33,755	40,528
	<u>33,804</u>	<u>40,673</u>

Accruals and deferred income includes deferred contributions to capital expenditure of £33,755,000 (2019 - £40,528,000).

The maturity of sources of debt finance are as follows:

	Finance leases 2020 £'000	2019 £'000
In one year or less, or on demand	96	94
In more than one year but not more than two years	49	96
In more than two years but not more than five years	-	49
	<u>145</u>	<u>239</u>

16 Provisions for liabilities

	Other provisions £'000	Deferred tax provision £'000	Total £'000
1 April 2019	1,840	-	1,840
Credited to profit and loss account	(234)	-	(234)
Capitalised in fixed assets	-	-	-
	<u>1,606</u>	<u>-</u>	<u>1,606</u>
31 March 2020	1,606	-	1,606

Other provisions

The Company subleases its business premises from National Grid Property Limited, a former fellow subsidiary of National Grid plc. The lease for the Company's former business premises expired in July 2016. Final settlement of dilapidation costs was formally agreed between National Grid Property Limited and the ultimate landlord in April 2019 and so the Company expects to utilise this provision in the next year to settle any potential sub-tenancy liability in respect of these dilapidation costs. In December 2015 the Company started a new lease for a new property which is due to expire in December 2026. A provision has been made for the Company's expected future liability based on an estimate of the costs. The Company expects to utilise this provision after the expiry of the lease.

No separate analysis is shown for each of the provisions being carried due to commercial sensitivity.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

16 Provisions for liabilities (continued)

Deferred tax provision

	2020 £'000	2019 £'000
Accelerated capital allowances	-	-
Share based payments	-	-
Tax losses	-	-
Other short-term timing differences	-	-
	<hr/>	<hr/>
Deferred tax liability	-	-
	<hr/>	<hr/>
	2020 £'000	2019 £'000
Deferred tax liability/(asset) at 1 April	-	-
Charged to profit and loss account	-	-
Credited to reserves	-	-
	<hr/>	<hr/>
Deferred tax liability	-	-
	<hr/>	<hr/>

A deferred tax asset totalling £4,424,000 (2019 - £1,387,000) has not been recognised as the future recovery is uncertain. Trading losses are available to carry forward indefinitely.

17 Financial instruments

The Company has the following financial instruments:

	2020 £'000	2019 £'000
Financial assets that are debt instruments measured at amortised cost:		
Trade debtors (note 12)	4,250	2,562
Amounts owed by related undertakings (note 12)	1,463	2,293
Other debtors (note 12)	-	11
Cash at bank and in hand	1,872	732
Current asset investments (note 13)	25,417	20,252
	<hr/>	<hr/>
	33,002	25,850
	<hr/>	<hr/>
Financial liabilities measured at amortised cost:		
Trade creditors (note 14)	4,283	4,570
Amounts owed to related undertakings (note 14)	9,130	8,003
Obligations under finance lease and hire purchase contracts	145	239
	<hr/>	<hr/>
	13,558	12,812
	<hr/>	<hr/>

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (*continued*)

18 Share capital

	2020 £	2019 £
<i>Allotted, called up and fully paid</i>		
100,000 ordinary shares of £0.01 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>

The Articles of Association (as amended from 1 April 2017) provide that if a Network Operator of a given Network Area ceases to hold a Gas Transportation Licence in respect of that Network Area, or part of the Network Area, then all ordinary shares held by that Network Operator in relation to that Network Area (or if relevant part of Network Area) will convert to deferred shares. All ordinary shares held by a Network Operator in relation to the Network Areas operated by that Network Operator will also convert into deferred shares if an insolvency event occurs in relation to the Network Operator and the Board elects to convert the shares.

19 Capital and other commitments

	2020 £'000	2019 £'000
Contracts placed for future capital expenditure not provided for in the financial statements	10,157	362
	<u>10,157</u>	<u>362</u>

20 Financial commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2020 £'000	2019 £'000
Not later than one year	1,319	941
Later than one year and not later than five years	3,916	3,271
Later than five years	1,389	2,381
	<u>6,624</u>	<u>6,593</u>

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

21 Related party transactions

Transactions and balances with related parties:

The following companies each have a shareholding in Xoserve Limited. Transactions and balances with these companies were as follows:

	Sales and contributions received		Amounts owed by related parties	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
National Grid Gas plc	24,720	18,015	3	528
Cadent Gas Limited	11,668	11,997	998	1,206
Southern Gas Networks plc	5,469	5,220	-	-
Scotland Gas Networks plc	3,396	2,961	-	-
Northern Gas Networks Limited	4,027	3,657	231	280
Wales & West Utilities Limited	4,022	3,644	231	279

Amounts received from related parties represent charges to related party customers. These amounts include contributions to capital expenditure recoverable and do not reflect the amortisation of those amounts recognised as turnover.

Amounts owed by related parties are unsecured and on normal commercial terms. Related parties provided a number of services to Xoserve during the year, the cost of these were £2,670,000 (2019 - £3,477,000).

	Purchases		Amounts owed to related parties	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
National Grid Gas plc	2,404	2,703	8,245	5,504
Cadent Gas Limited	266	774	177	561
Southern Gas Networks plc	-	-	177	484
Scotland Gas Networks plc	-	-	177	484
Northern Gas Networks Limited	-	-	177	484
Wales & West Utilities Limited	-	-	177	484

Amounts owed to related parties of £9,130,000 (2019 - £8,003,000) are unsecured and on normal commercial terms. Amounts owed include £3,492,000 of deferred income (2019 - £3,087,000).

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2020 (continued)

22 Post balance sheet events

In December 2019 cases of a novel corona virus (COVID-19) in Wuhan, China were reported to the World Health Organization (WHO) and subsequently spread worldwide. On March 11, 2020, the WHO declared COVID-19 a global pandemic and recommended containment and mitigation measures. Given that the declaration of a global health emergency happened just before the year-end of the Company the impacts of COVID-19 are considered by the directors (as supported by relevant accounting authorities) as being a potential adjusting event.

The Company moved quickly to ensure a safe working environment for employees and have not suffered from any significant staff absences as a result of the pandemic. Operations have been maintained throughout the peak impact of COVID-19 through remote working arrangements. Further information on recent and forecast cash flows is included in the going concern statement in the financial statements.

Based on forecasts prepared for the period to 31 March 2022, longer term business plans and the nature of the assets concerned the directors do not consider that there have been any significant impairments of non-financial or financial assets at the year-end. However, it is noted that the issues and uncertainties connected to COVID-19 remain in place and the impact on asset values will continue to be monitored.

There have been no other significant events affecting the company since the year end.

23 Ultimate parent company and controlling party

No entity has a controlling interest in the Company.