

BBH - LSL (FUND CO TRANCHE 1) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

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BBH - LSL (FUND CO TRANCHE 1) LIMITED
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COMPANY INFORMATION

DIRECTORS

G Alltimes
S Beaumont
P Eyres
A Nasir
P Robinson
I Willett

COMPANY SECRETARY

Fulcrum Infrastructure Group Services Limited

REGISTERED NUMBER

05072627

REGISTERED OFFICE

105 Piccadilly
London
W1J 7NJ

INDEPENDENT AUDITOR

Goodman Jones LLP
29-30 Fitzroy Square
London
W1T 6LQ

BBH - LSL (FUND CO TRANCHE 1) LIMITED

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BBH - LSL (FUND CO TRANCHE 1) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023**

The directors present their report and the financial statements for the year ended 31 March 2023.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are 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.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The Company carries out the business of developing and managing property projects and provides associated services for the NHS Local Improvement Finance Trust ("LIFT") programme in Lambeth, Southwark and Lewisham.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £411,736 (2022 - £191,626).

Dividends of £330,000 (2022 - £364,000) were paid during the year.

DIRECTORS

The directorss who served during the year and up to the date of signature of the financial statements were:

G Alltimes
S Beaumont
P Eyres
A Nasir (appointed 6 May 2022)
P Robinson (appointed 6 May 2022)
I Willett (appointed 16 August 2022)
J Andrews (resigned 6 May 2022)
O Hannan (resigned 6 May 2022)

BBH - LSL (FUNDSCO TRANCHE 1) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023**

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The directors of BBH - LSL (Fundco Tranche 1) Limited have qualifying third party indemnity provisions put in place through other companies of which they are also directors.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

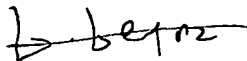
- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Under section 487(2) of the Companies Act 2006, Goodman Jones LLP, will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by the Companies Act 2006.

This report was approved by the board on 28-07-23 and signed on its behalf.



A Nasir
Director

BBH - LSL (FUND CO TRANCHE 1) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BBH - LSL (FUND CO TRANCHE 1) LIMITED

OPINION

We have audited the financial statements of BBH - LSL (Fundco Tranche 1) Limited ("the Company") for the year ended 31 March 2023 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (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 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor'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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

BBH - LSL (FUND CO TRANCHE 1) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BBH - LSL (FUND CO TRANCHE 1) LIMITED

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.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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 Director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

BBH - LSL (FUND CO TRANCHE 1) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BBH - LSL (FUND CO TRANCHE 1) LIMITED

RESPONSIBILITIES OF DIRECTORS

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

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

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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry sector regulations and unethical and prohibited business practices, and we considered the extent to which noncompliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK Tax Legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls). Appropriate audit procedures in response to these risks were carried out. These procedures included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading minutes of meetings of those charged with governance;
- Obtaining and reading correspondence from legal and regulatory bodies including HMRC;
- Identifying and testing journal entries;
- Challenging assumptions and judgements made by management in their significant accounting estimates.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members; and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

BBH - LSL (FUND CO TRANCHE 1) LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BBH - LSL (FUND CO TRANCHE 1) LIMITED

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.

Goodman Jones LLP

Paul Bailey (Senior Statutory Auditor)
For and on behalf of Goodman Jones LLP, Statutory Auditor
London

28-07-23

Goodman Jones LLP is a limited liability partnership registered in England and Wales (with registered number OC313156).

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	2023 £	2022 £
Turnover	2	4,021,215	3,076,233
Cost of sales		(3,663,876)	(2,808,493)
Gross profit		357,339	267,740
Interest receivable and similar income	5	2,758,406	2,463,602
Interest payable and expenses	6	(2,048,678)	(2,004,177)
Profit before tax		1,067,067	727,165
Tax on profit	7	(655,331)	(535,539)
Profit for the financial year		411,736	191,626
Other comprehensive income for the year			
Change in fair value of hedge		3,683,679	1,107,019
Taxation in respect of items of other comprehensive income		(920,920)	326,233
Other comprehensive income for the year		2,762,759	1,433,252
Total comprehensive income for the year		3,174,495	1,624,878

All amounts relate to continuing activities.

The notes on pages 11 to 26 form part of these financial statements.

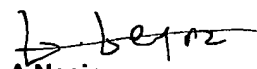
BBH - LSL (FUND CO TRANCHE 1) LIMITED
REGISTERED NUMBER: 05072627

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023

	Note	2023 £	2022 £
Fixed assets			
Financial asset	8	37,691,360	36,888,420
		<u>37,691,360</u>	<u>36,888,420</u>
Current assets			
Debtors	10	1,483,885	2,009,535
Cash at bank and in hand	11	2,583,098	3,189,930
		<u>4,066,983</u>	<u>5,199,465</u>
Creditors: amounts falling due within one year	12	(2,960,820)	(2,389,375)
Net current assets		<u>1,106,163</u>	<u>2,810,090</u>
Total assets less current liabilities		<u>38,797,523</u>	<u>39,698,510</u>
Creditors: amounts falling due after more than one year	13	(33,675,297)	(38,997,030)
Provisions for liabilities			
Deferred tax	16	(1,769,677)	(193,426)
		<u>(1,769,677)</u>	<u>(193,426)</u>
Net assets		<u><u>3,352,549</u></u>	<u><u>508,054</u></u>
Capital and reserves			
Called up share capital	17	60,000	60,000
Share premium account		1,120,226	1,120,226
Other reserves		(3,944,319)	(6,707,078)
Profit and loss account		6,116,642	6,034,906
		<u>3,352,549</u>	<u>508,054</u>

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28-07-23


A Nasir
 Director

The notes on pages 11 to 26 form part of these financial statements.

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023**

	Called up share capital	Share premium account	Cashflow hedge reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 April 2022	60,000	1,120,226	(6,707,078)	6,034,906	508,054
Comprehensive income for the year					
Profit for the year	-	-	-	411,736	411,736
Change in fair value of hedge	-	-	3,683,679	-	3,683,679
Taxation in respect of items of other comprehensive income	-	-	(920,920)	-	(920,920)
Total comprehensive income for the year	-	-	2,762,759	411,736	3,174,495
Dividends: Equity capital (See note 9)	-	-	-	(330,000)	(330,000)
At 31 March 2023	60,000	1,120,226	(3,944,319)	6,116,642	3,352,549

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022**

	Called up share capital	Share premium account	Cashflow hedge reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 April 2021	60,000	1,120,226	(8,140,330)	6,207,280	(752,824)
Comprehensive income for the year					
Profit for the year	-	-	-	191,626	191,626
Change in fair value of hedge	-	-	1,107,019	-	1,107,019
Taxation in respect of items of other comprehensive income	-	-	326,233	-	326,233
Total comprehensive income for the year	-	-	1,433,252	191,626	1,624,878
Dividends: Equity capital (see note 9)	-	-	-	(364,000)	(364,000)
At 31 March 2022	60,000	1,120,226	(6,707,078)	6,034,906	508,054

The notes on pages 11 to 26 form part of these financial statements.

BBH - LSL (FUNDCO TRANCHE 1) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1. ACCOUNTING POLICIES**1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

BBH-LSL (Fundco Tranche 1) Limited is a private company, limited by shares, registered and domiciled in the UK (England and Wales). The financial statements have been prepared under the historical costs convention except for the revaluation of certain financial instruments and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and Companies Act 2006.

The financial statements are presented in pounds sterling which is the Company's functional currency and rounded to the nearest pound. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies. Details of these are given in note 1.9.

The following principal accounting policies have been applied:

1.2 GOING CONCERN

The financial statements are prepared on the going concern basis which assumes that the company will be able to continue in operation for the foreseeable future.

The directors have considered the available funding facilities, cash flow projections and financial projections that are agreed as part of the 25 year business plan model agreed at financial close. In addition, the company has in place SWAP arrangements with the funder that protect against Retail Price Index and interest rate fluctuations.

The income is guaranteed through the 25 year Lease Plus Agreement and the directors do not believe that there is any material risk to income or cashflows. After considering these matters, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

1.3 COMPANY DISCLOSURE EXEMPTIONS

In preparing the financial statements of the Company, advantage has been taken of the following disclosure exemption available in FRS 102, as a result of the company being a small entity:

- No cash flow statement has been presented for the Company.

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1. ACCOUNTING POLICIES (CONTINUED)**1.4 TURNOVER****a) Public to private concession arrangements**

A substantial portion of the Company's assets are used within the framework of concession contracts granted by public sector customers ('grantors'). Under these contracts, the Company constructs primary care centres that are leased to the NHS on a 25 year lease.

To fall within the scope of section 34 of FRS 102, a contract must satisfy the following two criteria:

- the grantor controls or regulates what service the operator must provide using the infrastructure, to whom, and at what price; and
- the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to section 34 of FRS 102, such infrastructure is not recognised in assets of the operator as property, plant, and equipment but as financial assets ("financial asset model").

b) Financial asset model

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor.

In the case of concession services, the operator has an unconditional right if the grantor contractually guarantees the payment of:

- the amounts specified or determined in the contract; or
- the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract.

Financial assets resulting from the application of section 34 of FRS 102 are recorded in the Statement of Financial Position under the heading financial asset and measured at amortised cost.

Pursuant to section 23 of FRS 102, revenue associated with this financial model comprises of revenue determined on a completion basis in the case of the construction of operating financial asset and service remuneration.

(c) Other turnover items

Other turnover items comprise 'Property management and related services', 'Rental income' and 'Other income'. Property management and related services income relates to SPV maintenance and facilities management income and ad hoc property related services income. Construction revenue relates to construction and lifecycle maintenance income. The former relates to work performed by the Company under concession arrangements to maintain and repair the primary care centres that it operates. Consideration received in respect of property management and related services income is only recorded as turnover to the extent that the Company has performed its contractual obligations in respect of that consideration, and turnover attributable to costs in future periods is deferred. Rental income from operating leases is recognised in turnover on a straight-line basis over the lease term.

BBH - LSL (FUNDCO TRANCHE 1) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1. ACCOUNTING POLICIES (CONTINUED)**1.5 CURRENT AND DEFERRED TAXATION**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax balances are not discounted.

1.6 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative financial instruments to manage its exposure to interest rate and inflation rate risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non current asset or a non current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1. ACCOUNTING POLICIES (CONTINUED)

1.7 HEDGE ACCOUNTING

The Company has entered into variable to fixed rate interest and inflation rate swaps to manage its exposure to interest rate cash flow risk on its variable rate debt and inflation rate cash flow risk on its ability to service its variable rate debt. These derivatives are measured at fair value at each reporting date. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the profit or loss as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously accumulated in these derivatives are measured at fair value at each reporting date. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period. Amounts are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

1.8 BANK BORROWINGS

Project specific interest costs incurred in the performance of the service concession contract, including net amounts payable on interest rate swaps, are expensed using the effective interest rate method. The effective interest method is a method of calculating the amortised costs of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Arrangement fees are netted off against the carrying value of the loan facility and charged to the profit or loss over the term of the debt.

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1. ACCOUNTING POLICIES (CONTINUED)**JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION
UNCERTAINTY****a) Key sources of estimation uncertainty**

In preparing these financial statements, the directors have made the following estimates:

i) Service margin rates

A margin of risk was applied to the costs incurred in calculating the value of the financial asset. The margins are determined by the level of risk incurred by the company. It is the policy of the directors that the service margin is reviewed and adjusted for any fundamental changes in the contractual arrangements to generate a new margin rate which is applied to the following year. This treatment is applied to the following costs which has been agreed in the market as the standard percentages for both the current and prior year:

- Construction costs - 1% (2022: 1%)
- Operating costs - 8% (2022: 8%)
- Lifecycle costs - 8% (2022: 8%)

ii) Financial asset interest rate

The calculation of the financial asset interest rate is back-solved on 1 April every year by applying the expected cashflows, reducing the financial asset to zero by the end of the concession period.

iii) Financial asset

The calculation of the amortised cost of the financial asset requires an estimate of the financial value of the property at the end of the lease term. This estimate has been based on the residual value allocated to the contract in the financial models, which form the basis for the calculation of rent to the lessees.

iv) Swap valuations

Fair value of swap liabilities (Note 15) - Derivatives are professionally valued annually. The estimated value of derivative transactions is the valuation at the reporting date and this valuation can change significantly even over a very short space of time. The valuation of derivative transactions is complex and such transactions can be calculated in a number of different ways and using a variety of methods. There are a number of factors that can affect the value of a transaction and which may not be taken into account in the valuation estimate provided. This may result in the transaction having an actual value which is higher or lower than the estimate included in these financial statements.

Interest rate swaps are valued by a third party using a pricing model. The values were calculated at the mid-point of the relevant yield curve and do not reflect (i) any bid / offer spread customary for these transactions, and (ii) other factors which may affect value, including, without limitation or portfolio configuration, credit policies and prevailing market factors as well as general business consideration. A small 0.25% shift in the interest rate forward curve is likely to shift the valuation by £850k in relation to the interest rate swap valuations provided by the bank and subsequently disclosed in the financial statements and note 15. The interest rate linked swap is a structured product and valuations of this type of product can differ significantly between different valuers (market-makers / banks and third party valuation firms) due to variations in the subjective market data inputs

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1. ACCOUNTING POLICIES (CONTINUED)

b) Critical Judgements

Concession arrangements - The concession arrangements undertaken by the company are considered to fall within the scope of section 34 of FRS 102 "Service Concession Arrangements" as described in the Turnover note. This judgement has been based on a consideration of the nature and terms of the agreements and, in all contracts, the existence of an option for the grantor to purchase the property at the end of the concession.

1.9 DIVIDENDS

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

BBH - LSL (FUND CO TRANCHE 1) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

2. TURNOVER

Turnover comprises of Contract Revenues according to FRS 102, Section 34 recognised by the Company during the financial year.

	2023 £	2022 £
Pass through income	543,713	379,224
Project management income	-	1,436,870
Contract revenue	3,477,502	1,260,139
Total turnover	4,021,215	3,076,233

All turnover arose within the United Kingdom.

3. AUDITOR'S REMUNERATION

Audit fees are borne by Building Better Health - Lambeth Southwark Lewisham Limited, a group company.

4. EMPLOYEES

The Company has no employees other than the directors, who did not receive any remuneration (2022 - £NIL).

5. INTEREST RECEIVABLE

	2023 £	2022 £
Bank interest receivable	37,658	1,285
Financial asset interest	2,720,748	2,462,317
	2,758,406	2,463,602

6. INTEREST PAYABLE

	2023 £	2022 £
On bank loans and overdrafts	1,688,060	1,637,390
On loans from group undertakings	360,618	366,787
	2,048,678	2,004,177

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**NOTES TO THE FINANCIAL STATEMENTS
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7. TAXATION

	2023 £	2022 £
Analysis of tax charge in the year		
TOTAL CURRENT TAX	-	-
DEFERRED TAX		
Origination and reversal of timing differences	697,204	852,199
Effect of increased tax rate on opening liability	(9,615)	-
Adjustment in respect of prior periods	(32,258)	(316,660)
TOTAL DEFERRED TAX	655,331	535,539
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	655,331	535,539

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2022 - higher than) the standard rate of corporation tax in the UK of 19% (2022 - 19%). The differences are explained below:

	2023 £	2022 £
Profit on ordinary activities before tax	1,067,067	727,165
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022 - 19%)	202,743	138,161
EFFECTS OF:		
Capital allowances for year	(54,780)	(66,806)
Utilisation of tax losses	507,368	(380,549)
Other differences leading to an increase in the tax charge	-	844,733
TOTAL TAX CHARGE FOR THE YEAR	655,331	535,539

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a charge of £920,920 (2022: credit of £326,233). The entire amounts in both years comprised taxation in respect of the change in fair value of the hedge.

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7. TAXATION (CONTINUED)

Factors that may affect future tax charges

The Finance Bill 2021 published on 11 March 2021 increased the main rate of corporation tax to 25% effective from 1 April 2023. This has now been enacted and is reflected in the deferred tax balances at the reporting date.

8. FINANCIAL ASSET

	2023 £	2022 £
Service concession financial asset		
As at the start of the year (1 April)	36,888,420	38,175,449
Cash received	(1,917,808)	(3,749,346)
Other interest receivable	2,720,748	2,462,317
As at 31 March	<u>37,691,360</u>	<u>36,888,420</u>

9. DIVIDENDS

	2023 £	2022 £
ORDINARY		
Dividends paid £5.50 per share (2022 - £6.07 per share)	330,000	364,000
	<u>330,000</u>	<u>364,000</u>

10. DEBTORS

	2023 £	2021 £
Due after more than one year		
Due within one year		
Trade debtors	217,394	55,330
Amounts owed by group undertakings	598	-
Other financial assets	1,256,638	1,881,588
Prepayments and accrued income	9,255	72,617
	<u>1,483,885</u>	<u>2,009,535</u>

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10. DEBTORS (CONTINUED)

Other financial assets include amounts held within deposit accounts with a maturity greater than 3 months from initial deposit.

11. CASH AND CASH EQUIVALENTS

	2023 £	2022 £
Cash at bank and in hand	2,583,098	3,189,930
	<u>2,583,098</u>	<u>3,189,930</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2023 £	2022 £
Bank loans (see note 14)	1,566,165	1,595,700
Amounts owed to group undertakings	-	37
Amounts owed to related parties	916,690	34,750
VAT creditor	157,086	212,135
Accruals and deferred income	320,879	546,753
	<u>2,960,820</u>	<u>2,389,375</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2023 £	2022 £
Bank loans (see note 14)	25,377,225	26,943,577
Amounts owed to group undertakings (see note 14)	3,178,827	3,266,068
Loan arrangement fees	(139,848)	(155,386)
Interest rate and inflation swaps - cashflow hedges	5,259,093	8,942,771
	<u>33,675,297</u>	<u>38,997,030</u>

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14. LOANS

Analysis of the maturity of loans is given below:

	2023 £	2022 £
Amounts falling due within one year		
Bank loans	1,566,165	1,595,700
	<u>1,566,165</u>	<u>1,595,700</u>
Amounts falling due 1-2 years		
Bank loans	213,857	1,566,352
	<u>213,857</u>	<u>1,566,352</u>
Amounts falling due 2-5 years		
Bank loans	2,898,554	1,037,842
	<u>2,898,554</u>	<u>1,037,842</u>
Amounts falling due after more than 5 years		
Bank loans	22,264,814	24,339,383
Amounts owed to group undertakings	3,178,827	3,266,068
	<u>25,443,641</u>	<u>27,605,451</u>

**NOTES TO THE FINANCIAL STATEMENTS
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14. LOANS (continued)

	2023 £	2022 £
Repayable by instalments	22,264,814	24,339,383
Repayable other than by instalments	3,178,827	3,266,068
	<u>25,443,641</u>	<u>27,605,451</u>

The bank loans bear interest at SONIA plus a margin, and are secured by various fixed and floating charges over the Company's assets. Bank loans are repayable by instalments, with the final instalment due on 11 May 2033.

Loans from group entities bear interest at a fixed rate of 11.14% p.a. payable every six months. No principal is due to be repaid within the next 12 months. The loans will be repaid on 11 May 2033.

The amendments to FRS 102 in respect of the interest rate benchmark reform provide relief to the company in respect of certain loans whose contractual terms are affected by interest benchmark reform. The amendments provide relief in applying the requirements of FRS 102 to certain hedges, including allowing the company to assume that interest rate benchmarks on which hedged cash flows are based (e.g. SONIA) will not be altered as a result of the interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place as no additional ineffective portion of the hedge has been recognised.

**NOTES TO THE FINANCIAL STATEMENTS
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15. FINANCIAL INSTRUMENTS**Hedge of variable interest rate risk arising from bank loan liabilities**

To hedge the potential volatility in future interest cash flows arising from movements in SONIA, the Company has entered into floating to fixed interest rate swaps with a nominal value equal to that initial borrowings, the same term as the loans and interest re-pricing dates identical to those of the variable rate loans. These result in the Company paying 5.1035% and 5.035% and receiving SONIA (through cash flows are settled on a net basis) and effectively fix the total interest costs on loans and interest rates swaps at 5.1035% and 5.035% per annum.

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £ (1,250,493) (2022: £ (5,192,496)) at the reporting date. The cash flow arising from the interest rate swap will continue until their maturity on 31 January 2031 and 31 July 2030, coincidental with the repayment of the term loans. The change in fair value in the period was a movement of £3,942,003 (2022 - movement of £3,225,481) with the entire charge being recognised in other comprehensive income as the swaps were 100% effective hedges.

In 2004, the Company entered into two LPA agreements having fixed contractual terms which caused their turnover to increase by RPI on a yearly basis.

To hedge the potential volatility in future cash flows arising from movements in RPI, the Company has entered into an RPI swap with a nominal value below that of the LPA contract but having the same term as the agreement and RPI re-pricing dates identical to those of the LPA contract. These result in the Company effectively fixing the inflation on a determined portion of the LPA contract.

The derivative is accounted for as a hedge of variable rate RPI rate risks, in accordance with FRS 102 and had a fair value of £ (4,008,591) (2022: £ (3,750,276)) at the reporting date. The cash flow arising from the RPI rate swap will continue until its maturity in 2031 coincidental with the LPA contractual terms. The change in fair value in the period was a movement of (£258,315) (2022 - movement of £ (2,118,463)) with the entire charge being recognised in other comprehensive income as the swaps were 100% effective hedges.

15.1 Financial instruments by category

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value measurements of the swap financial arrangements are considered a Level 3 by the directors.

The Company considers that the fair value of cash and cash equivalents, loans, trade and other receivables, and trade and other payables are not materially different to their carrying value.

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The fair value of the service concession financial asset reflects the carrying amount for the period ended 31 March 2023. The carrying amount of the service concession financial asset for the period comprises construction revenue, service revenue and interest offset by the unitary charge received since incorporation up to the reporting date.

The Company's financial instrument may be analysed as follows:

	2023 £	2022 £
Financial Assets		
Financial assets that are debt instruments measured at amortised cost	41,749,088	42,080,068
	<u>41,749,088</u>	<u>42,080,068</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(31,359,786)	(32,386,885)
Derivative financial instruments designated as hedges of variable interest / inflation rate risk	(5,259,093)	(8,942,771)
	<u>(36,618,879)</u>	<u>(41,329,656)</u>

Financial asset measured at amortised cost comprise cash at bank, other financial assets, trade debtors, other debtors, amounts owned by associated undertakings and service concession financial assets.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, bank loans and overdrafts, amounts owned to group undertakings and related parties.

Derivative financial instruments designated as hedges of variable interest/inflation rate risk comprise interest and inflation rate swaps.

16. DEFERRED TAXATION

	2023 £	2022 £
At 1 April	(193,426)	15,880
Credited / (Charged) to Profit and loss	(655,331)	(535,539)
(Charged) / Credited to other comprehensive income	(920,920)	326,233
	<u>(1,769,677)</u>	<u>(193,426)</u>

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16. DEFERRED TAXATION (CONTINUED)

The deferred tax asset is made up as follows:

	2023 £	2022 £
Accelerated capital allowances	(2,261,393)	(2,134,186)
Tax losses carried forward	692,350	1,188,217
Fair value of derivative Financial Instrument	1,314,771	2,235,693
Deferred tax associated with the service concession financial asset	(1,515,408)	(1,483,150)
	<u>(1,769,680)</u>	<u>(193,426)</u>

17. SHARE CAPITAL

	2023 £	2022 £
Allotted, called up and fully paid		
60,000 Ordinary shares of £1 each	<u>60,000</u>	<u>60,000</u>

18. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided in FRS 102 not to disclose transactions with companies within the Group of which it is a member where these transactions occur between entities that are 100% owned members of that Group.

	Income / (expense) 2023 £	Income / (expense) 2022 £	Debtor / (creditor) 2023 £	Debtor / (creditor) 2022 £
Financial asset income				
Community Health Partnerships Ltd, a shareholder in Building Better Health Lambeth Southwark Lewisham Ltd	6,740,256	3,988,728	223,339	56,707
Bad Debt				
Community Health Partnerships Ltd, a shareholder in Building Better Health Lambeth Southwark Lewisham Ltd	-	-	(1,377)	(1,377)

From 1 February 2020, the company's facilities management services have been provided by Kudos Services Limited, a company 100% owned by Fulcrum Infrastructure Group Limited, a parent company. Costs of £2,779,293 (2022: £2,067,376) were recognised in the year. At the year end £912,090 (2022: £34,750) was due and included within amounts owed to related parties.

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19. ULTIMATE PARENT UNDERTAKING

The Company is a 100% subsidiary of BBH-LSL (FundCo HoldCo Tranche 1) Limited, a company incorporated in England and Wales.

The parent company of BBH-LSL (FundCo HoldCo Tranche 1) Limited is Building Better Health - Lambeth Southwark Lewisham Limited, a company incorporated in England and Wales. As the group qualifies as small, no consolidated financial statements are prepared for the group of which the Company is a member.

The Company is ultimately 60% owned by Meridiam Infrastructure Finance s.a.r.l., a company based in Luxembourg. However as a result of the shareholders' agreement of Building Better Health - Lambeth Southwark Lewisham Limited there is no effective control by any individual shareholder.