

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**ANNUAL REPORT  
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2021**



## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **COMPANY INFORMATION**

**Directors** G Doctor (resigned 18 May 2022)  
G Martina  
D J Moss  
N Poupard  
C M D Gill (appointed 9 August 2021)  
A J McErlane (appointed 18 May 2022)

**Company secretary** J Cheadle

**Registered number** 05887685

**Registered office** 10 St. Giles Square  
London  
WC2H 8AP

**Independent auditor** Deloitte LLP  
Statutory Auditor  
London  
United Kingdom

**Bankers** Bank of Scotland

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

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## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021**

The directors of Kajima Newcastle Libraries Limited ("the company") present their annual report and the financial statements for the year ended 31 December 2021. This Directors' report has been prepared in accordance with the special provisions relating to small companies under Part 15 of the Companies Act 2006. No Strategic report has been prepared, in accordance with the provisions applicable to companies entitled to the small companies' exemption.

#### **Business review and principal activities**

The company is a wholly-owned subsidiary of Kajima Newcastle Libraries Holding Limited ("KNLH").

The principal activity of the company is to develop and operate two public libraries for the Newcastle Upon Tyne City Council under the UK Government's Private Finance Initiative. The libraries are now operational.

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

#### **Results and dividends**

As shown in the company's Income statement on page 9 and Note 4, the company's revenue (excluding deemed sales) decreased by 1.84%, with the gross profit decreasing by 0.71% compared to the previous year and Operating loss increased from £16,669 to £23,572. Overall, the company made a post tax profit of £80,179 (2020: £114,996).

The statement of financial position on page 11 shows net liabilities of £2.9m (2020: £4.8m). The movement is mostly attributable to a decrease in borrowings.

#### **Financial risk management**

The financial risks to which the company is exposed are credit risk, interest rate risk, cash flow risk, inflation risk and liquidity risk.

##### ***Credit risk***

The company's credit risk is attributable to its unitary charge income from its sole customer, the Newcastle Upon Tyne City Council. As this is a quasi-governmental organisation, the credit risk and associated cash flow risk are not considered significant.

##### ***Interest rate risk***

The company's bank loan bears interest at a rate that fluctuates with the money market. The company mitigates the risk of an increased interest rate by the use of swap agreements to convert the floating interest rate to a fixed rate.

##### ***Cash flow risk***

The company's activities expose it primarily to the financial risks of changes in interest rates. The company uses interest rate swap contracts to hedge these exposures. Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

##### ***Inflation risk***

The company is exposed to inflation risk due to contractual obligations to its suppliers. The company mitigates this by linking an element of the unitary charge to inflation.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021**

#### ***Liquidity risk***

The company mitigates its liquidity risk by the use of long-term borrowings and by maintaining reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements. In addition, the company maintains a rolling cash flow forecast based on the bank-approved financial model, which is regularly updated to reflect actual cash movements and any projected changes. This forecast is used to monitor the company's ability to meet its future cash commitments and ensure compliance with the bank covenants.

#### **Going concern**

The Directors have assessed the liquidity and forecast covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Company to meet all loan and interest repayments and other liabilities as they fall due.

The Directors have considered the impact of the ongoing Covid-19 virus pandemic on Kajima Newcastle Libraries Limited, both retrospectively and for a period of 12 months from the date of approval of the financial statements. To date, the Covid-19 virus pandemic has not resulted in any adverse impact on the services provided or the wider industry. The Directors do not consider this to be a material risk.

The company meets its day to day working capital requirements principally through unitary charge receipts from the Council. The Directors do not consider the ability of government authorities to pay unitary fees to be a material risk.

The Directors have further assessed the ability of key sub-contractors to continue to meet their contractual commitments including the unlikely event of a sub-contractor failure. In making their assessment, the Directors have tested various stress scenarios which show that, even in the unlikely event of a sub-contractor failure, the Company can continue to meet loan covenants and other liabilities as they fall due (including covenant compliance and the funding of reserves) in the next twelve months. The principal loan covenants are historic and forecast financial ratios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

#### **Share capital**

Issued share capital at the year end was £120,000 (2020: £120,000).

#### **Directors**

The directors who served during the year and up to the date of signing were:

G Doctor (resigned 18 May 2022)  
G Martina  
D J Moss  
N Poupard  
C M D Gill (appointed 9 August 2021)  
A McErlane (appointed 18 May 2022)

Qualifying third party indemnity provisions are currently in force for the benefit of certain directors.

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**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 the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the 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.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Auditor**

Under section 487(2) of the Companies Act 2006, Deloitte 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.

This report was approved by the board and signed on its behalf.



**J Cheadle**  
Secretary

Date: 31 May 2022

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)', including FRS 101 'Reduced Disclosure Framework'. 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 judgments and accounting estimates that are reasonable and prudent; 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 to 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.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAJIMA NEWCASTLE LIBRARIES LIMITED**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Kajima Newcastle Libraries Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

##### **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 Auditors' 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

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



## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAJIMA NEWCASTLE LIBRARIES LIMITED**

#### **Other information**

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

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

We have nothing to report in this regard.

#### **Responsibilities of directors**

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

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

#### **Auditors responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAJIMA NEWCASTLE LIBRARIES LIMITED (CONTINUED)**

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Revenue recognition is based upon the allocated proportion of the unitary charge received in line with the PFI model. The PFI model is updated every six months and there is judgement over how the unitary charge is split across the constituent parts. In response to this we have challenged the model and the updates to it, understood the rationale for the movements, considered the banks approval for those amendments and assessed the allocation and accuracy of the revenue recognised.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

#### **Report on other legal and regulatory requirements**

##### **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.

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 any material misstatements in the directors' report.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAJIMA NEWCASTLE LIBRARIES LIMITED (CONTINUED)**

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

#### **Use of this 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.



James Wright FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
31 May 2022

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £	2020 £
Revenue	4	907,039	924,051
Cost of sales		(739,446)	(755,264)
<b>Gross profit</b>		<u>167,593</u>	<u>168,787</u>
Administrative expenses		(191,165)	(185,456)
<b>Operating (loss)</b>	7	<u>(23,572)</u>	<u>(16,669)</u>
Finance income	6	1,565,924	1,667,465
Interest payable		(1,445,478)	(1,509,998)
<b>Profit before taxation</b>		<u>96,874</u>	<u>140,798</u>
Tax on profit	9	(16,695)	(25,802)
<b>Profit for the financial year</b>		<u><u>80,179</u></u>	<u><u>114,996</u></u>

All results are derived from continuing operations.

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £	2020 £
Profit for the financial year		80,179	114,996
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Gains/ (losses) arising during the year		2,003,876	(236,939)
Deferred tax in relation to cash flow hedges	9	(91,001)	176,936
<b>Total other comprehensive income/ (expense) for the year</b>		<b>1,912,875</b>	<b>(60,003)</b>
 <b>Total comprehensive income for the year</b>		 <b>1,993,054</b>	 <b>54,993</b>

The notes on pages 13 to 27 form part of these financial statements.

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2021**

	Note	2021 £	2020 £
<b>Non-current assets</b>			
Financial asset	10	17,919,169	19,156,399
Deferred tax	11	1,214,360	1,305,456
<b>Current assets</b>			
Debtors: amounts falling due within one year	12	339,551	389,324
Cash at bank and in hand	13	3,096,291	2,788,530
		<u>3,435,842</u>	<u>3,177,854</u>
Creditors: amounts falling due within one year	14	(2,481,400)	(2,520,602)
<b>Net current assets</b>		<u>954,442</u>	<u>657,252</u>
<b>Total assets less current liabilities</b>		<u>20,087,971</u>	<u>21,119,107</u>
Creditors: amounts falling due after more than one year	15	(23,001,561)	(25,925,751)
		<u>(2,913,590)</u>	<u>(4,806,644)</u>
<b>Net liabilities</b>		<u><u>(2,913,590)</u></u>	<u><u>(4,806,644)</u></u>
<b>Equity</b>			
Called up share capital	18	120,000	120,000
Other reserves	17,19	(3,621,696)	(5,534,571)
Profit and loss account	19	588,106	607,927
<b>Equity attributable to owners of the company</b>		<u><u>(2,913,590)</u></u>	<u><u>(4,806,644)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



**N Poupard**

Director

Date: 31 May 2022

The notes on pages 13 to 27 form part of these financial statements.

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital £	Hedging reserve £	Retained earnings £	Total equity £
<b>At 1 January 2020</b>	120,000	(5,474,568)	567,931	(4,786,637)
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	114,996	114,996
OCI - Gains recognised on cash flow hedges	-	(236,939)	-	(236,939)
OCI - deferred tax on gains	-	176,936	-	176,936
Dividends: Equity capital (note 20)	-	-	(75,000)	(75,000)
<b>At 31 December 2020</b>	120,000	(5,534,571)	607,927	(4,806,644)
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	80,179	80,179
OCI - Gains recognised on cash flow hedges	-	2,003,876	-	2,003,876
OCI - deferred tax on gains	-	(91,001)	-	(91,001)
Dividends: Equity capital (note 20)	-	-	(100,000)	(100,000)
<b>At 31 December 2021</b>	120,000	(3,621,696)	588,106	(2,913,590)

The notes on pages 13 to 27 form part of these financial statements.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **1. General information**

Kajima Newcastle Libraries Limited is a private Company, limited by shares, incorporated in the United Kingdom and registered in England and Wales, registration number 05887685. The address of the registered office is given on the Company information page. The nature of the Company's operations and principal activities are set out in the directors' report on pages 1 - 3.

#### **2. Accounting policies**

##### **Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

These financial statements are prepared in pounds sterling because that is the currency of the primary economic activity in which the company operates.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Redwood Partnership Ventures Limited ("RPVL"). The group accounts of RPVL are available to the public and can be obtained as set out in note 21.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.



## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **2. Accounting policies (continued)**

##### **2.1 Going concern**

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report on pages 1 - 3. The Directors' report also describes the financial position of the company; its cash flows, liquidity position and borrowing facilities and exposure to credit, liquidity and cash flow risk.

The Directors have assessed the liquidity and forecast covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Company to meet all loan and interest repayments and other liabilities as they fall due.

The Directors have considered the impact of the ongoing Covid-19 virus pandemic on Kajima Newcastle Libraries Limited, both retrospectively and for a period of 12 months from the date of approval of the financial statements. To date, the Covid-19 virus pandemic has not resulted in any adverse impact on the services provided or the wider industry. The Directors do not consider this to be a material risk.

The company meets its day to day working capital requirements principally through unitary charge receipts from the Council. The Directors do not consider the ability of government authorities to pay unitary fees to be a material risk.

The Directors have further assessed the ability of key sub-contractors to continue to meet their contractual commitments including the unlikely event of a sub-contractor failure. In making their assessment, the Directors have tested various stress scenarios which show that, even in the unlikely event of a sub-contractor failure, the Company can continue to meet loan covenants and other liabilities as they fall due (including covenant compliance and the funding of reserves) in the next twelve months. The principal loan covenants are historic and forecast financial ratios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

##### **2.2 New and amended IFRS Standards that are effective for the current year**

*Interest Rate Benchmark Reform: Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

The entity, due to the interest rate swap(s) held, is affected by the interest rate benchmark (IBOR) reform. The relevant disclosures fall under IFRS 9 Financial Instruments and the exemption from these disclosure requirements allowed by IFRS 101 has been taken; these disclosures have been included within the financial statements of Redwood Partnerships Ventures Limited, the ultimate parent and controlling company into which the company is consolidated

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **2. Accounting policies (continued)**

##### **2.3 Taxation**

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

##### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit may differ from net profit as reported in the Income statement because it may exclude items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of financial position date.

##### ***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the Statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each Statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the Statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

##### ***Current tax and deferred tax for the year***

Current and deferred tax are recognised in the Income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

##### **2.4 Revenue**

Revenue, which is stated net of value added tax, represents amounts invoiced for services provided in the year after allowing for the repayment of, and interest imputed on, the finance asset (see below).

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **2. Accounting policies (continued)**

##### **2.5 Operating profit**

Operating profit is stated after charging professional fees but before investment income and finance costs.

##### **2.6 Financial instruments**

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

###### ***Financial assets***

The company has adopted IFRIC 12 - Service Concession Arrangements whereby the client, Newcastle Upon Tyne City Council, has contracted with the company to develop and operate two public libraries for 25 years. IFRIC 12 draws a distinction between two types of concession arrangement; financial asset and intangible asset. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the income statement, which are initially measured at fair value.

In accordance with IFRIC 12 the company has an unconditional right to receive specified or determinable amounts of cash from the client in return for constructing and then operating and maintaining the libraries. In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on these costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method giving rise to interest income. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty. Investment income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, the rate that exactly discounts estimated future cash receipts through the expected life of the PPP financial asset to that asset's net carrying amount on initial recognition.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

###### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **2. Accounting policies (continued)**

##### ***Impairment of financial assets***

The company recognises a loss allowance for expected credit losses on financial assets measured at fair value through other comprehensive income ("FVTOCI"), trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The company recognises a lifetime expected credit loss for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to the income statement when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Income statement in the period in which they are incurred.

##### ***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

## KAJIMA NEWCASTLE LIBRARIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

#### 2. Accounting policies (continued)

##### ***Financial liabilities at FVTPL***

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the Income statement. The net gain or loss recognised in the Income statement incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the Income statement.

##### ***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

##### ***Derecognition of financial liabilities***

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability recognised and the consideration paid and payable is recognised as profit or loss.

##### ***Derivative financial instruments***

The company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in Note 15.

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 Statement of financial position date. The resulting gain or loss is recognised in the Income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship. The company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

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.

#### **2.7 Interest receivable**

Interest is accounted for on an accruals basis.

## **KAJIMA NEWCASTLE LIBRARIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

#### **2. Accounting policies (continued)**

##### **2.8 Hedge accounting**

The Company uses variable to fixed interest rate swaps to manage its exposure to fair value risk on its derivatives. These derivatives are designated as hedging instruments and are measured at fair value at each reporting date.

Changes in fair value on hedging instruments in fair value hedges are recognised in profit or loss except where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income in which case these are recognised in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at fair value through other comprehensive income, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at fair value at other comprehensive income, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

To the extent the cash flow hedge is effective, movements in the fair value of hedging instruments are recognised in other comprehensive income and presented in a separate cash flow hedge reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. Any ineffective portions of those movements are recognised immediately in profit or loss for the year.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. The transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. For discontinued fair value hedges, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. For discontinued cash flow hedges, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains 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.

## KAJIMA NEWCASTLE LIBRARIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

#### 3. Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in Note 2 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Critical judgements in applying the company's accounting policies*

The directors have made the following critical judgment in the process of applying the company's accounting policies.

#### **Service concession arrangement**

As disclosed in Note 2, the company accounts for the project as a service concession arrangement. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

#### **Key sources of estimation uncertainty**

##### *Derivative financial instruments*

The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

The company uses derivative financial instruments which are principally swaps to manage the interest rate risks to which the company is exposed by its long term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each reporting date at their fair value. The fair value of the derivatives changes in response to prevailing market conditions. A loss of £2,003,876 (2020: gain of £236,941) was taken to equity in the year to 31 December 2021.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

# KAJIMA NEWCASTLE LIBRARIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 4. Revenue

An analysis of turnover by class of business is as follows:

	2021 £	2020 £
Operating income	886,928	896,348
Minor works income	20,111	27,703
	<u>907,039</u>	<u>924,051</u>

All revenue arose in the United Kingdom and from one operation.

### 5. Finance costs

	2021 £	2020 £
Bank loan interest	1,094,474	1,158,033
Subordinated loan interest	351,004	351,965
	<u>1,445,478</u>	<u>1,509,998</u>

### 6. Finance income

	2021 £	2020 £
Other interest receivable	<u>1,565,924</u>	<u>1,667,465</u>

### 7. Operating loss

The operating loss is stated after charging:

	2021 £	2020 £
For the audit of the annual accounts: Company	8,031	7,923
For the audit of the annual accounts: Parent (borne by the company)	1,000	1,000
	<u>9,031</u>	<u>8,923</u>

### 8. Employees

The Company has no employees other than the directors, who did not receive any remuneration (2020 - £NIL).



**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**9. Taxation**

	2021 £	2020 £
<b>Corporation tax</b>		
Current tax on profits for the year	16,600	24,946
Adjustments in respect of previous periods	95	856
<b>Total current tax</b>	<u>16,695</u>	<u>25,802</u>
<b>Deferred tax</b>		
Movement in temporary differences	<u>-</u>	<u>-</u>
<b>Taxation on profit</b>	<u>16,695</u>	<u>25,802</u>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £	2020 £
Profit before tax	<u>96,874</u>	<u>140,798</u>
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	18,406	26,752
<b>Effects of:</b>		
Deferred tax rate differential on current year movement	(1,806)	(1,806)
Adjustments to tax charge in respect of prior periods	95	856
<b>Total tax charge for the year</b>	<u>16,695</u>	<u>25,802</u>

# KAJIMA NEWCASTLE LIBRARIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### 9. Taxation (continued)

#### Factors that may affect future tax charges

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. The impact of this changes has been accounted for in the current period's deferred tax asset.

### 10. Financial assets

	2021 £	2020 £
Fixed asset investments	17,919,169	19,156,399

### 11. Deferred tax

	2021 £	2020 £
Deferred tax asset on fair value of derivative financial instruments	1,207,231	1,298,232
Deferred tax relating to other temporary differences	7,129	7,224
	<u>1,214,360</u>	<u>1,305,456</u>

The movements in deferred tax arising from temporary differences have been charged to profit or loss and those arising from derivative valuations have been charged to other comprehensive income.

The deferred tax is deemed recoverable on the basis of future cash flows over the period of the service concession arrangement.

Deferred tax is calculated at the tax rate that has been enacted or substantively enacted at the Statement of financial position date. Deferred tax assets and liabilities at the end of the reporting period have been measured at 25% (2020: 19%), as it is anticipated that the timing differences will reverse at this rate.

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

### 12. Debtors

	2021 £	2020 £
Trade debtors	3,632	367,162
Prepayments and accrued income	335,919	22,162
	<u>339,551</u>	<u>389,324</u>

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**13. Cash and cash equivalents**

	2021 £	2020 £
Cash at bank and in hand	3,096,291	2,788,530

**14. Creditors: Amounts falling due within one year**

	2021 £	2020 £
Bank loans	937,733	921,041
Trade creditors	148,900	73
Corporation tax	41,546	24,946
Other taxation and social security	62,150	137,114
Accruals and deferred income	1,291,071	1,437,428
	<u>2,481,400</u>	<u>2,520,602</u>

Amounts due to group companies are repayable on demand.

**15. Creditors: Amounts falling due after more than one year**

	2021 £	2020 £
Bank loan (secured)	15,247,602	16,167,916
Subordinated loans (unsecured)	2,925,032	2,925,032
Derivative financial instruments - interest rate swap	4,828,927	6,832,803
	<u>23,001,561</u>	<u>25,925,751</u>

The company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk and inflation risks, including interest rate swaps.

Under interest rate swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**16. Loans**

Analysis of the maturity of loans is given below:

	2021 £	2020 £
<b>Amounts falling due within one year</b>		
Bank loans	937,733	921,041
<b>Amounts falling due 1-5 years</b>		
Bank loans	4,522,101	4,165,884
<b>Amounts falling due after more than 5 years</b>		
Bank loans	10,725,501	12,002,032
	<u>16,185,335</u>	<u>17,088,957</u>

The bank loan, secured by a charge of the company's shares, is under a facility agreement with a consortium of banks and is subject to a swap contract to fix the interest rate and minimise the interest rate exposure. The bank loan bears interest at a margin over LIBOR and is repayable in instalments to 2033. As of the date of approval of these accounts the interest rate has been changed to SONIA. As a result of this contract, the effective rate for the loan is 6.67%.

There have been no borrowing costs capitalised in the year (2020: £NIL).

The unsecured subordinated loan, which is repayable in instalments to 2033, has an interest rate of 12.0% and has been provided by the company's parent, KNLH.

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**17. Hedging Reserve**

	<b>Hedging reserve £</b>
<b>Balance at 1 January 2020</b>	<u>(5,474,568)</u>
Loss recognised on cash flow hedges: Interest rate swaps	(236,939)
Tax related to gains recognised in other comprehensive income	176,936
<b>Movement in the year</b>	<u>(60,003)</u>
<b>Balance at 31 December 2020</b>	<u>(5,534,571)</u>
Gain recognised on cash flow hedges: Interest rate swaps	2,003,876
Tax related to gain recognised in other comprehensive income	(91,001)
<b>Movement in the year</b>	<u>1,912,875</u>
<b>Balance at 31 December 2021</b>	<u><u>(3,621,696)</u></u>

**18. Share capital**

	2021 £	2020 £
<b>Allotted, authorised, called up and fully paid</b>		
120,000 (2020: 120,000) Ordinary shares of £1.00 each	<u>120,000</u>	<u>120,000</u>

**19. Reserves**

**Profit and loss account**

The profit and loss accounts cumulative profits and losses net of dividends and other adjustments.

**20. Dividends per equity share**

Dividend per share 83.33p (2020: 62.50p).

**KAJIMA NEWCASTLE LIBRARIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**21. Ultimate and immediate parent company**

The company's immediate parent company is KNLH, a company incorporated in the United Kingdom. Its ultimate parent and controlling company, and the smallest and largest group into which the company is consolidated is RPVL, a company also incorporated in the United Kingdom. Copies of its financial statements are available at this company's registered office as shown on the company information page.