Paradigm (Sheffield BSF) Limited

Annual Report and Financial Statements

31 March 2023

Registered number: 06084831

Contents

Directors and advisors

Directors	Alexander Thorne Andrew McErlane
Secretary	Semperian Group Secretariat Services Limited Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Registered office	Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Auditor	Johnston Carmichael 7-11 Melville Street Edinburgh EH3 7PE
Banker	Sumitomo Mitsui Banking Corporation Europe Limited 100 Liverpool Street London EC2M 2AT

Strategic report

The Director's presents the strategic report for Paradigm (Sheffield BSF) Limited (the "Company") for the year ended 31 March 2023.

Principal activities
The principal activity of the Company is the provision of design, construction, finance and facilities management services for three schools for Sheffield City Council under the Government's Public Finance Initiative (PFI) programme. The contract was entered into in 2007 and the duration of the contract will be 27 years. The Directors have assessed the future prospects of the Company and expect the PFI contract to continue until the end of the concession.

Business review and strategy
The Company is in the operational phase of the contract and is performing to the required standards underwritten by the contracts entered into which govern the management of the Company. The Company has made solid progress during the year in terms of delivery and profitability.

The Company expects to continue in line with the contractual obligations for the remaining term of the Project Agreement. The Company has modelled its anticipated financial performance for the full term of the project and expects to perform in line with this for the remaining concession period. The operational model has forecast continued profits for the Company.

The Company has no employees.

Development and financial performance during the year
As reported in the Company's Profit and Loss account, revenue has increased from £4,025,000 in 2022 to £4,735,000 in 2023. Revenue is calculated using a mark-up on cost set by the operational model.

The profit for the year after taxation was £954,000 (2022: £808,000). Operations were in line with expectation for the period as forecast in the operational model.

The majority of the Company's revenues and costs are fixed and agreed in the initial contracts entered into at the commencement of the project. The Company, from time to time, will agree certain variations with the Authority which are agreed to have a small profit mark up for the Company.

The Company had net liabilities of £2,894,000 (2022: £8,174,000) at the reporting date, in line with expectation.

Key performance indicators
The Company has modelled the anticipated financial outcome of the Project across its full term. The Company monitors actual financial performance against this anticipated performance. As at 31 March 2023, the Company's performance reflects an acceptable variance to this model.

The Company is required to comply with a number of financial covenants implemented by the senior Lender at certain calculation dates throughout the year, of which failure to meet would result in a default of the senior loan agreement. The ratios required to be met are defined in the credit agreement as Loan Life Cover Ratio and Annual Debt Service Cover Ratio. These are required to remain above 1.150 and 1.100 respectively.

Current and future ratios are presented to the senior lender for approval on a 6 monthly basis to ensure compliance with the Credit Agreement. To date, and in all future periods as detailed in the latest operational model, the Company has met and is forecast to meet these requirements for the remainder of the concession.

The results for the year are set out in the profit and loss account and the statement of other comprehensive income on page 10.

Principal risks and uncertainties
Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. Unavailability deductions are passed on 100% to the Facilities management provider as and when they occur. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

Strategic report *(continued)*

Principal risks and uncertainties (continued)

The Company holds 100% of the risks and rewards from any potential variance with the Lifecycle profile modelled at financial close. The Company is therefore exposed to the risk that the actual cost for Lifecycle in the future is above the modelled profile, and would therefore be liable to this additional cost which is not forecast. The Company monitors the condition of the asset to manage the lifecycle risk. The directors believe the risk of the Company being exposed to a deficit is low.

Financial risk management
The Company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the Company's performance. The Directors have policies for managing each of these risks and they are summarised below:

Interest rate risk
The bank loan and subordinated debt interest rates have been fixed through use of interest rate swaps to fix the funding rates, plus a margin. Details of these can be found in note 14.

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

Liquidity risk
The Company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due. This is done through regular periodic cash flow forecasting of operating accounts through the operating model and requirements under the credit agreement to hold liquid resources in reserve accounts at the calculation dates.

Credit risk
The Company receives the bulk of its revenue from the Authority and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

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

Position of the Company at the year end
The Company is performing to the required standards of the contract.

By order of the board

Alex Thorne

A Thorne
Director

Dated: 02 November 2023

Directors' report

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

Results for the period
The result for the period is set out at page 10. The directors are satisfied with the overall performance and progress to date of the Company.

Dividends
The directors do not propose to pay a dividend in respect of the year *(2022: £nil)*.

Going Concern
The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment is contained within note 1.

The Company was able to meet the financial covenants as at 30 September 2022 and 31 March 2023, and is forecast to meet them for the foreseeable future. Taking into account reasonable possible risks in operations to the Company, the fact the obligations of the Company's sole customer are underwritten by the Secretary of State for Education, the Directors have a reasonable expectation that the Company will be able to settle its liabilities as they fall due to the foreseeable future. It is therefore appropriate to prepare these financial statements on the going concern basis.

Directors
The directors of the Company who held office during the year and up to date of this report are as follows:

Mark Holden (resigned 3 January 2023)
Alexander Thorne
Andrew McErlane (appointed 3 January 2023)

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Disclosure of information to auditor
The directors who held office at the date of approval of this director's report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events
There are no post balance sheet events to report.

Political contributions
The Company made no political contributions during the year *(2022: £nil)*.

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

By order of the board

Alex Thorne

A Thorne
Director

Dated: 02 November 2023

Registered office:
Third Floor Broad Quay House
Prince Street
Bristol
BS1 4DJ

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARADIGM (SHEFFIELD BSF) LIMITED

Opinion
We have audited the financial statements of Paradigm (Sheffield BSF) Limited (the 'company') for the year ended 31 March 2023 which comprise of profit and loss account and statement of other comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 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 responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Other information
The 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARADIGM (SHEFFIELD BSF) LIMITED *(continued)*

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of our audit:

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

Matters on which we are required to report by exception
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARADIGM (SHEFFIELD BSF) LIMITED *(continued)*

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

- United Kingdom Generally Accepted Accounting Practice, including FRS 102;
- UK Companies Act 2006
- UK Corporation Tax legislation; and
- VAT legislation.

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

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

- Management override of controls
- Revenue recognition

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

- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulation or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Recalculating the unitary charge received by taking the base charge per the project agreement and uplifting for RPI;
- Agreeing a sample of months' income receipts to invoice and bank statements.
- Performing an assessment on the service margins used in the year and agreeing margins used to the active financial models;
- Reconciling the finance income and amortisation to the finance debtor reconciliation to ensure allocation methodology is in line with contractual terms and relevant accounting standards;
- Reviewing the level of and reasoning behind the company's procurement of legal and professional services;
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias;
- Completion of appropriate checklists and use of our experience to assess the Company's compliance with the Companies Act 2006;
- Agreement of the financial statement disclosures to supporting documentation.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARADIGM (SHEFFIELD BSF) LIMITED *(continued)*

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.

Johnston Carmichael LLP

Allison Dalton (Senior Statutory Auditor)
For and on behalf of Johnston Carmichael

Date: 9 November

Chartered Accountants
Statutory Auditor

7-11 Melville Street
Edinburgh
EH3 7PE

Profit and loss account and statement of other comprehensive income
for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	2	**4,735**	4,025
Cost of sales		**(3,468)**	(2,921)
Gross profit		**1,267**	1,104
Interest receivable and similar income	6	**3,010**	3,072
Interest payable and similar expenses	7	**(3,109)**	(3,205)
Profit before taxation	5	**1,168**	971
Tax on profit	8	**(214)**	(163)
Profit after taxation		**954**	808
Other comprehensive income for the year			
Effective portion of fair value changes in cash flow hedges	14	**5,768**	5,414
Tax recognised in relation to change in fair value cash flow hedges	8	**(1,442)**	(471)
Other comprehensive income for the year		**4,326**	4,943
Total comprehensive income for the year		**5,280**	5,752

The profit for the financial period has been derived from continuing activities.

The notes on pages 13 to 22 form part of these financial statements.

Balance sheet
at 31 March 2023

	Note	2023	2022
		£'000	£'000
Current assets			
Debtors: amounts falling due after more than one year	9	**44,028**	48,828
Debtors: amounts falling due within one year	9	**3,243**	3,074
Cash at bank and in hand		**7,801**	8,265
		55,072	60,167
Creditors: amounts falling due within one year	10	**(15,731)**	(17,421)
Net current assets		**39,341**	42,746
Total assets less current liabilities		**39,341**	42,746
Creditors: amounts falling due after more than one year	11	**(42,235)**	(50,920)
Net liabilities		**(2,894)**	(8,174)
Capital and reserves			
Called up share capital	13	**13**	13
Profit and loss account	13	**(257)**	(1,211)
Cashflow hedge reserve	13	**(2,650)**	(6,976)
Total shareholder's deficit		**(2,894)**	(8,174)

The financial statements were approved by the board of directors and authorised for issue on 02 November 2023 and are signed on its behalf by:

Alex Thorne

A Thorne
Director

The notes on pages 13 to 22 form part of these financial statements.

Statement of changes in equity
for the year ended 31 March 2023

	Called up share capital £'000	**Cashflow hedge reserve £'000**	**Profit and loss account £'000**	**Total shareholder's deficit £'000**
Balance as at 1 April 2021	**13**	**(11,919)**	**(2,019)**	**(13,925)**
Total comprehensive income				
Profit for the year	-	-	808	808
Other comprehensive income	-	4,943	-	4,943
Total comprehensive income for the period	-	4,943	808	5,751
Balance as at 31 March 2022	**13**	**(6,976)**	**(1,211)**	**(8,174)**
Total comprehensive income				
Profit for the year	-	-	**954**	**954**
Other comprehensive income	-	**4,326**	-	**4,326**
Total comprehensive income for the period	-	4,326	954	5,280
Balance as at 31 March 2023	**13**	**(2,650)**	**(257)**	**(2,894)**

The notes on pages 13 to 22 form part of these financial statements.

Notes

(forming part of the financial statements)

1. Accounting policies

Paradigm (Sheffield BSF) Limited (the "Company") is a private company limited by shares and incorporated, registered and domiciled in England & Wales, in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102)*. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 17.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

Going concern

The Company had net liabilities of £2,894,000 as at 31 March 23 and generated a profit for the year then ended of £5,280,000. The directors acknowledge that the Company is in net liabilities, however this is primarily a result of the swap instruments, which are significantly out of the money. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the Company's ability to meet its liabilities as they fall due.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period and to operate within the covenants on its external borrowings.

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

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

Notes *(continued)*

1. Accounting policies *(continued)*

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

The Company is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £2,727,000 at the year end *(2022: £1,573,000)*.

Notes *(continued)*

1. Accounting policies *(continued)*

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss immediately.

Turnover

Turnover is recognised in accordance with the finance debtor and services income policies below and excludes VAT.

Interest

Interest costs have been capitalised during the construction phase of the contract and will be amortised over the period of the concession.

Interest payable and similar expenses include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy below.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Impairment excluding stocks and deferred tax assets

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

Notes *(continued)*

1. Accounting policies *(continued)*

Impairment excluding stocks and deferred tax assets *(continued)*

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

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

Taxation

Taxation is based on the profit for the financial year and where relevant takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax, if recognised, is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

Finance debtor and services income

The Company is an operator of a Private Finance Initiative (PFI) contract. The Company entered into a project agreement (the "contract") with Sheffield City Council (the "Authority") to design, build, finance, operate and maintain 3 school sites. Under the contract, the company has contracted to provide hard and soft facilities management services to the Authority. The Company has passed these obligations down to Taylor Woodrow Construction Limited respectively via subcontracts. The obligation to provide major maintenance works (lifecycle) is undertaken by Taylor Woodrow, the risk that the costs exceed those forecast in the financial model is borne by the Company. The contract entitles the Authority to a share in any savings made by the Company on the actual insurance premiums incurred versus those assumed during the contract negotiations. Any savings are shared with the Authority. The Authority is entitled to terminate the Contract at anytime by giving 20 working days written notice. If the Authority exercises this right it is liable to pay the Company compensation as set out in the Contract, which would include the senior debt, redundancy costs and other FM provider losses and the market value of the subordinated debt.

As the Company entered into the contract prior to transition to FRS 102. The accounting has been continued using the accounting policies applied prior to the date of transition to FRS 102 as follows. The underlying asset was not deemed to be an asset of the Company under FRS 5, Application Note G, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs are transferred to the finance debtor. During the operational phase unitary charge receipts are included within turnover in accordance with the long term contract accounting policy below.

The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services. Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when the services are performed.

Notes *(continued)*

2. Turnover

The turnover and profit before taxation are attributable to the one activity of the Company.	**2023**	2022
	£'000	£'000
Services income	**4,735**	4,025

All turnover arose within the United Kingdom.

3. Employee information

The Company had no employees during the current or preceding financial year.

4. Directors' remuneration

The directors received no remuneration for their services *(2022: £nil)*. Amounts payable to related parties for directors services were £138,000 *(2022: £128,000)*.

5. Profit before taxation

	2023	2022
	£'000	£'000
The profit before taxation is stated after charging:		
Auditor's remuneration:		
Audit of these financial statements	**20**	13

Auditor's remuneration is payable to Johnston Carmichael LLP.

6. Interest receivable and similar income

	2023	2022
	£'000	£'000
Interest receivable on finance debtor	**2,902**	3,068
Bank interest receivable	**108**	4
	3,010	3,072

7. Interest payable and similar expenses

	2023	2022
	£'000	£'000
Senior debt	**2,690**	2,878
Subordinated loan stock	**419**	327
	3,109	3,205

Notes *(continued)*

8. Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2023	2022
	£'000	£'000
UK corporation tax		
Current tax	**20**	(21)
	20	(21)
Deferred tax (see note 9)		
Origination and reversal of timing differences	**1,636**	655
Total deferred tax	**1,636**	655
Total tax	**1,656**	634

	2023			2022		
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**(20)**	**(194)**	**(214)**	21	(184)	(163)
Recognised in Other comprehensive income	**-**	**(1,442)**	**(1,442)**	-	(471)	(471)
Total tax	**(20)**	**(1,636)**	**(1,656)**	21	(655)	(634)

Reconciliation of effective tax rate

	2023	2022
	£'000	£'000
Profit after taxation	**954**	808
Total tax expense	**(214)**	(163)
Profit before taxation	**1,168**	971
Taxation using the UK corporation tax rate of 19% (2022: 19%)	**(222)**	(184)
Adjustment to prior year	**-**	21
Effect of change in tax rate	**8**	-
Total tax recognised in the profit and loss account	**(214)**	(163)

A change to the future UK corporation tax rate was announced in the March 2021 Budget. The rate will increase to 25% for the main rate for periods from 1 April 2023.

Notes *(continued)*

9. Debtors

	2023	2022
	£'000	£'000
Amounts falling due within one year		
Trade debtors	**12**	35
Prepayments and accrued income	**161**	145
Finance debtor	**3,070**	2,894
	3,243	3,074
Amounts falling due after more than one year		
Finance debtor	**43,024**	46,188
Deferred tax	**1,004**	2,640
	44,028	48,828
	47,271	51,902

The finance debtor includes original capitalised interest of £3,791,000 *(2022: £3,791,000).* The finance debtor represents payments due from Sheffield City Council as covered under the Project Agreement. These payments are recoverable over the remaining life of the agreement through to 2034.

	2023	2022
Deferred tax	**£'000**	£'000
Tax losses	**121**	315
Interest rate swaps	**883**	2,325
	1,004	2,640

The deferred tax asset recognised on tax losses has been on the basis to which these can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

The deferred tax asset at 31 March 2023 has been calculated at 25% *(2022: 25%)* being the rate substantively enacted at the balance sheet date.

A deferred tax asset is also recognised on the revaluation of the interest rate swaps held by the company. These swaps have been designated as cash flow hedges (see note 14) and therefore the reversal of the deferred tax asset is shown through the cash flow hedge reserve.

Notes *(continued)*

10. Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	**178**	221
VAT	**439**	374
Accruals and unitary charge control account	**11,840**	13,728
Senior loan debt	**3,077**	2,958
Subordinated loan stock	**177**	140
	15,731	17,421

11. Creditors: amounts falling due after more than one year

	2023 £'000	2022 £'000
Senior loan debt	**36,743**	39,776
Interest rate swaps	**3,533**	9,301
Subordinated loan stock	**1,959**	1,843
	42,235	50,920

12. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2023 £'000	2022 £'000
Senior loan debt	**39,820**	42,734
Subordinated loan stock	**2,136**	1,983
	41,956	44,717
Analysis of debt		
Within one year	**3,254**	3,098
Between one and two years	**3,523**	3,185
Between two and five years	**10,744**	10,886
In five years or more	**24,694**	27,851
	42,215	45,020
Less unamortised issue costs	**(259)**	(303)
	41,956	44,717

Notes *(continued)*

12. Interest-bearing loans and borrowings *(continued)*

The senior loan bears interest based on SONIA, adjusted for a historic credit adjustment spread of 0.2766% per annum. As part of the interest rate management strategy the Company entered into an interest rate swap in respect of part of the debt maturing in June 2033 (refer to note 14).

The senior loan is secured by a fixed and floating charge over the assets of the Company.

The senior loan is repayable on a 6 monthly basis that commenced on 30 September 2009. The final repayment date is 30 June 2033.

The subordinated loan stock, is owned by Paradigm (Sheffield BSF) Holdings Limited, is unsecured and interest is payable at 9.22% plus indexation based on RPIX. The final repayment date is 31 July 2034.

13. Called up share capital

	2023	2022
	£	£
Issued, called up and fully paid		
12,500 ordinary shares of £1 each	**12,500**	12,500

All shares are ranked pari passu with regards to both voting rights and dividends.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Profit and loss reserve

The profit and loss reserve contains the cumulative retained earnings carried forward less distributions to owners.

14. Financial Instruments

(a) Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(b) Hedge accounting

Derivative financial instruments designated as hedges of variable interest rate risk comprise of an interest rate swap.

To hedge the potential movement in the interest cash flows associated with the SONIA rate used for the bank term loan described in note 12, the Company has entered into floating to fixed interest rate swaps with a nominal value equal to the initial borrowings with the same term as the loans and interest payment dates. These result in the Company paying 5.6252% per annum and receiving SONIA.

The company has taken advantage of the option to adopt temporary amendments to specific hedge accounting requirements in FRS 102 paragraphs12.25C to 12.25F, and assumes that the interest benchmark is not altered as a result of interest rate benchmark reform.

The cashflows on the loan and interest rate swaps are paid semi-annually on 31 March and 30 September each year and expire on 30 June 2033.

Notes *(continued)*

15. Ultimate parent company

The Company is a wholly owned subsidiary of Paradigm (Sheffield BSF) Holdings Limited, registered address Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ, a company incorporated in England and Wales, registered number 6084827, the immediate parent.

The largest and smallest group in which the results of the Company are consolidated is that headed by Paradigm (Sheffield BSF) Holdings Limited, incorporated in England and Wales. The consolidated financial statements of Paradigm (Sheffield BSF) Holdings Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

There is no ultimate controlling party.

16. Related party transactions

The share capital of the Company is held wholly by Paradigm (Sheffield BSF) Holdings Limited. The amount payable on loan notes owed to Paradigm (Sheffield BSF) Holdings Limited at the year end was £2,136,000 *(2022: £1,983,000)*. The interest payable on the loan notes in the current and preceding financial years is shown in note 12.

Sheffield LEP Ltd who hold 10% of the share capital of the Company's immediate parent, Paradigm (Sheffield BSF) Holdings Limited were paid £285,000 *(2022: £253,000)* for management services provided to the Company during the financial year. The amount outstanding to Sheffield LEP Limited at year end was £nil *(2022: £nil)*.

Infrared Infrastructure Yield Holdings Ltd who hold 36% of the share capital of the Company's immediate parent, Paradigm (Sheffield BSF) Holdings Limited, and Infrastructure Investments Holdings Ltd who hold 54% of the share capital of the Company's immediate parent both received directors' fees of £69,000 *(2022: £64,000)* during the year. The amount outstanding at year end was £69,000 *(2022: £nil)*.

17. Accounting estimates and judgements

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Certain critical accounting judgements in applying the company's accounting policies are described below:

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Services concession arrangement

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure.

Given the length of the Company's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle expenditure over the life of the project increased by 5%, the service margin would decrease by 2%, resulting in a reduction in both revenue and profit before tax in 2022 of £64,000 (*2022: £52,000*).