

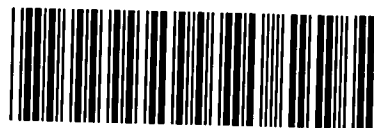
Registered number: 07007467

SURREY LIGHTING SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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SURREY LIGHTING SERVICES LIMITED

COMPANY INFORMATION

Directors	T S Cunningham K Rahuf J A Scott (appointed 1 July 2021)
Company secretary	N Brodie
Registered number	07007467
Registered office	3rd Floor, South Building 200 Aldersgate Street London EC1A 4HD
Independent auditor	BDO LLP Statutory Auditor London
Bankers	MUFG Bank Ltd Ropemaker Place 25 Ropemaker Street London EC2Y 9AN

SURREY LIGHTING SERVICES LIMITED

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SURREY LIGHTING SERVICES LIMITED

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

The Directors present their report and the financial statements for the year ended 31 December 2021.

Principal activity and business review

The Company is principally engaged in the performance of a PFI contract with Surrey County Council for the design, installation, refurbishment and maintenance of certain street lighting. Financial Close was achieved on 27 November 2009. The concession period is 25 years. The completion certificate for the construction works was received on 12 January 2015.

There have not been any significant changes in the Company's principal activities in the year under review.

In November 2020, the Company refinanced its debt from Barclays Bank and Lloyds Bank and replaced with MUFG Bank and The Norinchukin Bank. The refinance reduced the borrowing margin from 2.54% to 1.45%.

There were two swaps in place prior to the refinance; one with Aviva and one with Lloyds Bank. The swap with Lloyds was novated to MUFG at refinance, resulting in a cash rebate of £100,000. The swap with Aviva remained unchanged. An additional swap was put in place with MUFG to ensure the hedging remained effective against the new loan.

The refinance produced a gain which was shared between the Authority and the Shareholders. Surrey Council's share of the refinancing gain included a £3,743k upfront payment, followed by an ongoing reduction to the unitary fee until the end of the concession. The Shareholder refinancing gain is achieved through increased distributions and has been accounted for by reducing the Finance Debtor interest.

In the annual review of the Company's going concern status, the Directors have considered the potential long term impact of the Covid-19 pandemic. The Company has entered into long-term contracts with both the client and subcontractors, and after careful review of these contracts the Directors are confident that the Company can operate as normal for the next twelve months. The Directors have committed to carrying out regular reviews of the Company's cash flows to monitor the ongoing situation.

The continued uncertainty in respect of Brexit poses a risk to the UK economy however the Directors consider the risk to the PFI contract to be minimal given the majority of the costs are fixed, the income due to be received over the life of the concession arrangement has been agreed, the service concession arrangement is with a public sector body and the finance costs are fixed due to the interest rate swaps in place.

Results and dividends

The loss for the year, after taxation, amounted to £18,000 (2020 - loss £2,831,000).

The Company proposes no dividends for 2021 (2020: £102,000).

Directors

The Directors who served during the year and to up to the signing of these financial statements were:

T S Cunningham
K Rahuf
J A Scott (appointed 1 July 2021)

Qualifying third party indemnity provisions

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

SURREY LIGHTING SERVICES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31ST 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.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Small companies' note

In preparing this report, the Directors have taken advantage of the small companies' exemptions provided by section 415A of the Companies Act 2006.

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

DocuSigned by:

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J A Scott
Director

Date: 25 August 2022

SURREY LIGHTING SERVICES LIMITED

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 Section 1A '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 the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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.

SURREY LIGHTING SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY LIGHTING SERVICES LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Surrey Lighting Services Limited (the 'Company') for the year ended 31st December 2021, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 Section 1A 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (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 Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

SURREY LIGHTING SERVICES LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY LIGHTING SERVICES LIMITED
(CONTINUED)**

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Director's report other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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 material misstatements in 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; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 3, 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.

SURREY LIGHTING SERVICES LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY LIGHTING SERVICES LIMITED
(CONTINUED)**

Auditor's responsibilities for the audit of the financial statements

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

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

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

Based on our understanding of the Company and industry, we identified the principal risk of non-compliance with laws and regulations that might have a material effect on the financial statements and direct impact on the preparation of the financial statements, to be the Companies Act 2006 and the applicable accounting framework.

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

Audit procedures performed by the engagement team included:

- We obtained an understanding of the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We reviewed minutes of Board meetings throughout the year for any evidence of non-compliance with laws and regulations;
- We tested journal entries based on identified characteristics the audit team considered could be indicative of fraud, as well as large and unusual transactions based upon our knowledge of the business by agreeing to supporting documentation;
- We made enquiries of Management, those charged with governance and those responsible for legal and compliance procedures as to whether there was any correspondence from relevant regulators in so far as the correspondence related to financial statements;
- We held discussions with Management to consider any known or suspected instances of non-compliance with laws and regulations or fraud identified by them; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

SURREY LIGHTING SERVICES LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY LIGHTING SERVICES LIMITED
(CONTINUED)**

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
BDO LLP
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Richard Willis (Senior Statutory Auditor)
For and on behalf of
BDO LLP
Statutory Auditor
London

25 August 2022

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

SURREY LIGHTING SERVICES LIMITED

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

	Note	2021 £000	2020 £000
Turnover		15,138	9,678
Cost of sales		(14,337)	(8,923)
Gross profit		<u>801</u>	<u>755</u>
Interest receivable and similar income		4,993	5,515
Interest payable and similar expenses		(5,773)	(9,728)
Profit/(loss) before tax		<u>21</u>	<u>(3,458)</u>
Tax on profit/(loss)	6	(39)	627
Loss for the financial year		<u>(18)</u>	<u>(2,831)</u>
Other comprehensive income for the year			
Movement in the fair value of the cash flow hedge		8,308	(3,619)
Deferred taxation in respect of the fair value of the cash flow hedge		(640)	1,094
Other comprehensive income/(loss) for the year		<u>7,668</u>	<u>(2,525)</u>
Total comprehensive income/(loss) for the year		<u><u>7,650</u></u>	<u><u>(5,356)</u></u>

The notes on pages 11 to 23 form part of these financial statements.

SURREY LIGHTING SERVICES LIMITED
REGISTERED NUMBER: 07007467

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Current assets			
Debtors: amounts falling due after more than one year	7	72,621	73,195
Debtors: amounts falling due within one year	7	6,117	9,619
Cash at bank and in hand	8	2,473	1,946
		<u>81,211</u>	<u>84,760</u>
Creditors: amounts falling due within one year	9	(10,286)	(10,003)
Net current assets		<u>70,925</u>	<u>74,757</u>
Total assets less current liabilities		<u>70,925</u>	<u>74,757</u>
Creditors: amounts falling due after more than one year	10	(82,085)	(93,567)
Net liabilities		<u>(11,160)</u>	<u>(18,810)</u>
Capital and reserves			
Cash flow hedge reserve	14	(11,732)	(19,400)
Profit and loss account	14	572	590
Total shareholders' funds		<u>(11,160)</u>	<u>(18,810)</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

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

DocuSigned by:

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J A Scott
Director

Date: 25 August 2022

The notes on pages 11 to 23 form part of these financial statements.

SURREY LIGHTING SERVICES LIMITED

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

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total equity £000
At 1st January 2020	-	(16,875)	3,523	(13,352)
Comprehensive income for the year				
Loss for the year	-	-	(2,831)	(2,831)
Taxation in respect of items of other comprehensive income	-	1,094	-	1,094
Movement in the fair value of the cash flow hedge	-	(3,619)	-	(3,619)
Total comprehensive income for the year	-	(2,525)	(2,831)	(5,356)
Dividends	-	-	(102)	(102)
At 1st January 2021	-	(19,400)	590	(18,810)
Comprehensive income for the year				
Loss for the year	-	-	(18)	(18)
Taxation in respect of items of other comprehensive income	-	(640)	-	(640)
Movement in the fair value of the cash flow hedge	-	8,308	-	8,308
Total comprehensive income for the year	-	7,668	(18)	7,650
At 31st December 2021	-	(11,732)	572	(11,160)

The notes on pages 11 to 23 form part of these financial statements.

SURREY LIGHTING SERVICES LIMITED

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

1. General information

Surrey Lighting Services Limited is a private company limited by shares incorporated in England and Wales. The registered office is The registered office address of the Company is 3rd Floor (South), 200 Aldersgate Street, London, EC1A 4HD.

2. Accounting policies

2.1 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 Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

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

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of the financial statements which indicate that the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement and the Directors expect these amounts to be received even in severe but plausible downside scenarios. The Company continues to provide the assets in accordance with the contract and are available to be used. As a result the Company does not believe there is any likelihood of a material impact to the unitary payment.

In the annual review of the Company's going concern status, the Directors have also considered the potential long term impact of the Covid-19 pandemic. The Company has entered into long-term contracts with both the underlying customer and sub-contractors, and after careful review of these contracts the Directors are confident that the Company can operate as normal for the next twelve months. The Directors have committed to carrying out regular reviews of the Company's cash flows to monitor the ongoing situation.

The continued uncertainty in respect of Brexit poses a risk to the UK economy however the Directors consider the risk to the PFI contract to be minimal given the majority of the costs are fixed, the income due to be received over the life of the concession arrangement has been agreed, the service concession arrangement is with a public sector body and the finance costs are fixed due to the interest rate swaps in place.

In addition, although the Company is in a net liabilities position as at 31 December 2021 due to the fair value of the interest rate swaps, the Directors have reviewed the Company's forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the Company can continue to meet its debts as they fall due.

SURREY LIGHTING SERVICES LIMITED

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

2. Accounting policies (continued)

2.2 Going concern (continued)

Consequently, the Directors at the time of approving the financial statements have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

2.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Income received in respect of the service concession is allocated between revenue and capital repayment of, and interest income on, the PFI finance debtor using the effective interest rate method. Service revenue is recognised as a margin on non-pass-through operating and maintenance costs.

Pass-through income represents the direct pass-through of recoverable costs, as specified in the Project Agreement.

Variation income relates to the recharge of costs incurred for the alteration of the facilities or the services provided, requested by the Authority.

2.4 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.5 Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

2.6 Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

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

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

SURREY LIGHTING SERVICES LIMITED

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

2. Accounting policies (continued)**2.6 Current and deferred taxation (continued)**

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.8 Financial instruments

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

Financial instruments are recognised in the Company's Statement of financial position when the Company becomes party to the contractual provisions of the instrument.

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

Basic financial assets

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

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

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

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

SURREY LIGHTING SERVICES LIMITED

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

2. Accounting policies (continued)

2.8 Financial instruments (continued)

If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

Derecognition of financial assets

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

Classification of financial liabilities

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

Basic financial liabilities

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

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

SURREY LIGHTING SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2021****2. Accounting policies (continued)****2.9 Derivatives**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

The Company does not hold or issue derivative financial instruments for speculative purposes.

2.10 Hedge accounting

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

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

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

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

2.11 Dividends

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

SURREY LIGHTING SERVICES LIMITED

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

2. Accounting policies (continued)**2.12 Service concession**

The Company is an operator of a Public Finance Initiative ("PFI") contract. As the Company entered into the contract prior to the date of transition to FRS 102, the Company has taken advantage of the exemption in section 35.10 (i) of FRS 102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the Company under old UK GAAP, 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 was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 102 section 23. The Company recognises revenue 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.

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

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount 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 where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Hedge accounting

The Directors consider the Company to have met the criteria for cash flow hedge accounting. The Company has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

The fair value of the swaps recorded in the accounts are based on mark to market estimates provided by the bank. It is expected that changes to the hedging instrument and the loan will be materially consistent and limited to the transition from LIBOR to the new benchmark, as both the loan and the swap will be transitioned to the new benchmark at similar times in a broadly matching fashion.

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:

SURREY LIGHTING SERVICES LIMITED

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

3. Judgements in applying accounting policies (continued)

Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Company uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the Statement of financial position date was a liability of £15,643,000 (2020 - £24,754,000 liability). The Directors do not consider the impact of own credit risk to be material.

Service concession arrangement

As disclosed in accounting policy 2.12, the Company accounts for the project as a service concession arrangement. The Directors use their judgement in selecting the appropriate finance debtor rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the finance debtor; and also the service margin that is used to recognise service revenue.

The Company refinanced its debt in November 2020 from Barclays Bank and Lloyds Bank and replaced with MUFG Bank and The Norinchukin Bank. The refinance reduced the borrowing margin from 2.54% to 1.45% and produced a gain which was shared between the Authority and the Shareholders. Surrey Council's share of the refinancing gain included a £3,743,000 upfront payment, followed by an ongoing reduction to the unitary fee until the end of the concession. The finance debtor rate was adjusted in the prior year to ensure that the ongoing allocation of income received between revenue, and capital repayment of and interest income on the finance debtor remains appropriate.

4. Auditor's remuneration

	2021	2020
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	12	22

5. Employees

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

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**NOTES TO THE FINANCIAL STATEMENTS
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6. Taxation

	2021	2020
	£000	£000
Corporation tax		
Current tax on profits for the year	30	-
Adjustments in respect of previous periods	(21)	-
Total current tax	<u>9</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	30	(627)
Total deferred tax	<u>30</u>	<u>(627)</u>
Taxation on profit/(loss) on ordinary activities	<u>39</u>	<u>(627)</u>

Factors affecting tax charge for the year

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

	2021	2020
	£000	£000
Profit/(loss) on ordinary activities before tax	<u>21</u>	<u>(3,458)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	4	(657)
Effects of:		
Tax effect of expenses that are not deductible in determining taxable profit	<u>35</u>	<u>30</u>
Total tax charge for the year	<u>39</u>	<u>(627)</u>

Factors that may affect future tax charges

The Chancellor announced in the Budget on 3 March 2021, that there would be an increase in the top rate of corporation tax to 25% for companies generated taxable profits of more than £250,000. A corporation tax rate of 19% will apply to companies generating taxable profits of less than £50,000. A marginal rate will be applied for profits between these taxable profit bandings. This change becomes effective from 1 April 2023. This will increase the Company's future tax charge accordingly and the deferred tax asset has been calculated on this basis.

SURREY LIGHTING SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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7. Debtors

	2021 £000	2020 £000
Due after more than one year		
Finance debtor	68,114	68,018
Deferred tax asset (Note 12)	4,507	5,177
	72,621	73,195
 Due within one year		
Trade debtors	1,015	869
Corporation tax recoverable	32	32
Prepayments and accrued income	1,586	1,911
Finance debtor	3,484	6,807
	6,117	9,619

8. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	2,473	1,946

9. Creditors: Amounts falling due within one year

	2021 £000	2020 £000
Bank loans	3,233	3,913
Trade creditors	1,342	979
Amounts owed to parent undertaking	368	387
Other taxation	444	402
Derivative financial instruments	1,927	2,413
Bank loan accrued interest	261	93
Other creditors	1,546	1,649
Accruals and deferred income	1,165	167
	10,286	10,003

SURREY LIGHTING SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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10. Creditors: Amounts falling due after more than one year

	2021	<i>2020</i>
	£000	<i>£000</i>
Bank loans	61,504	<i>63,620</i>
Amounts owed to parent undertaking	6,865	<i>7,606</i>
Derivative financial instruments	13,716	<i>22,341</i>
	82,085	<i>93,567</i>

Derivative financial instruments

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Company's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps. The hedge is highly effective in the current and prior period and 100% of the change in fair value of the interest rate swaps of £8,308,000 (2020: negative £3,619,000) was recognised in other comprehensive income in the period.

11. Loans

	2021	<i>2020</i>
	£000	<i>£000</i>
Bank loans	64,737	<i>67,533</i>
Loans from parent undertakings - subordinated debt	7,233	<i>7,749</i>
	71,970	<i>75,282</i>

SURREY LIGHTING SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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11. Loans (continued)

	2021 £000	2020 £000
Payable within one year	3,601	4,056
Payable after one year	68,369	71,226
	71,970	75,282

The loans are secured by a fixed and floating charge over all the assets of the Company and a charge over the shares of the Company.

Bank loans

Bank loans incur interest at a floating rate of 1.45% plus LIBOR with full repayment due by 31 August 2034. Fluctuations in LIBOR have been hedged through various interest rate swaps as detailed below.

The amount shown above for bank loans include £46,070,000 for installments payable after more than 5 years (2020: £63,620,000).

There are two swaps with MUFG. The first has a maturity date of 28 February 2034. This interest rate swap is for a fixed rate of 5.3575% against LIBOR. The second has a maturity date of 31 August 2034 and is for a fixed rate of 0.701% against LIBOR.

There is also a swap with Aviva which has a maturity in March 2034. This interest rate swap is for a fixed rate of 4.8375% against LIBOR.

The Company will settle the difference between the fixed and floating interest rate on a net basis, semi-annually.

On 14 March 2022 the Company signed agreements with its bank loan and swap providers to transition the floating interest rates from LIBOR to SONIA. The SONIA rate will be determined five business days before the end of each calendar month. The transition will commence on 1 April 2022 and it is not expected to have any material impact on the results of the company due to the effectiveness of the cash flow hedge.

Subordinated loans

The amounts owed to parent undertakings comprise subordinated loans of £7,233,000 (2020: £7,749,000).

The loans are subject to interest rates at an agreed arm's length rate of 12.5% per annum and are repayable by 2035 in line with the agreed repayment schedules. Interest accrued on these loans at 31 December 2021 amount to £233,000 (2020: £244,000).

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**NOTES TO THE FINANCIAL STATEMENTS
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12. Deferred taxation

	2021	2020
	£000	£000
At beginning of year	5,177	3,456
(Charged)/credited to profit or loss	(30)	627
(Charged)/credited to other comprehensive income	(640)	1,094
At end of year	4,507	5,177

The deferred tax asset is made up as follows:

	2021	2020
	£000	£000
Tax losses carried forward	597	627
Taxation in respect of the fair value of the cash flow hedge	3,910	4,550
	4,507	5,177

13. Share capital

	2021	2020
	£	£
Allotted, called up and fully paid		
100 (2020 - 100) Ordinary shares of £1.00 each	100	100

14. Reserves**Cash flow hedge reserve**

The movements in the fair value of the cash flow hedge less the deferred tax asset are included in this reserve.

Profit and loss account

The profit and loss reserve includes all current and prior period retained profit and losses.

SURREY LIGHTING SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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15. Related party transactions

The following entities are considered to be related parties under the definition of Section 33 of FRS 102:

- SLS Holding Company Limited (Parent Company)
- Equitix Bright Holdco Limited (Shareholder of SLS Holding Company Limited)
- JLIF Holdings (Street Lighting) Limited (Shareholder of SLS Holding Company Limited)

The extent of transactions with these parties during the year are summarised below:

	2021	<i>2020</i>
	£000	<i>£000</i>
Director fees to Equitix Bright Holdco Limited	26	<i>36</i>
Director fees to JLIF Holdings (Street Lighting) Limited	26	<i>28</i>
Subordinated loan interest to SLS Holding Company Limited	1,598	<i>3,366</i>
	1,650	<i>3,430</i>

The following amounts were outstanding at the reporting end date:

	2021	<i>2020</i>
	£000	<i>£000</i>
Director fees to Equitix Bright Holdco Limited	13	<i>13</i>
Director fees to JLIF Holdings (Street Lighting) Limited	13	<i>13</i>
Subordinated loan and accrued interest to SLS Holding Company Limited	7,466	<i>7,992</i>
	7,492	<i>8,018</i>

16. Controlling party

The Company's immediate parent undertaking is SLS Holding Company Limited, a company incorporated and registered in England and Wales with a registered address of 3rd Floor, South Building, 200 Aldersgate Street, London, EC1A 4HD.

In the Directors opinion the Company's ultimate parent and controlling entity is Equitix Fund V LP, a company incorporated and registered in England and Wales with a registered address of 3rd Floor, South Building, 200 Aldersgate Street, London, EC1A 4HD.