

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Annual report and financial statements

For the year ended 30 June 2019

Company number: 07064140

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Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

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Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

COMPANY INFORMATION

Directors	Appointed	Resigned
A Clapp	24/06/2019	
J G Connelly		20/09/2018
P E Gill		14/08/2019
A G H Gullan	20/09/2018	
S L Jones		
R D Knight		
A C Lovell	20/08/2018	20/09/2018
M L McKillop	20/09/2018	11/07/2019
C G A McLeod		17/12/2018
K A L Pearman		20/09/2018
K Rahuf	02/08/2019	(alternate to S L Jones)
R E F Wiggins	23/10/2019	

Secretary

Sherard Secretariat Services Limited (resigned 28 June 2019)
M G Duggan (appointed 1 July 2019)

Company Number 07064140

Registered Office Unit G1, Ash Tree Court
Nottingham Business Park
Nottingham
NG8 6PY

Auditors BDO LLP
55 Baker Street
London
W1U 7EU

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

STRATEGIC REPORT

For the year ended 30 June 2019

The Directors present their strategic report for the year ended 30 June 2019.

Performance and financial position at the year end

The principal activity of the Company is to finance, rehabilitate, operate and maintain the Birmingham highways, under a PFI/PPP concession known as the Birmingham Highways PFI Project ("the Project"), for the period of 25 years from May 2010 to May 2035, pursuant to a project agreement dated 6 May 2010.

The results for the period are shown on page 11 in the income statement. This shows total revenue for the year ended 30 June 2019 of £22,252,000 (2018: £5,049,000) and operating loss of £28,028,000 (2018 loss: £4,628,000). Net finance expense for the year ended 30 June 2019, including a loss recognised on a derivative financial instrument of £5,306,000 (2018: gain of £6,220,000) amounted to £12,251,000 (2018: £12,783,000 net finance gain) and the loss after tax was £39,377,000 (2018: £18,765,000 loss after tax). Net Liabilities were £94,363,000 (2018: £56,708,000).

The decrease in revenue and operating result and increase in net finance charge largely arose as a result of the £215m settlement income from Amey plc offset by a £233.7m asset impairment. The improvement in the net finance charge resulted from lower interest costs due to loan repayments.

The Company's performance in these financial statements also reflects the position under the Project calculated using management's revised estimates following the financial settlement of 29 June 2019. This has resulted in the recognition of an impairment provision of £233.2m taken against the PFI/PPP financial asset, and £0.5m against an loan to its parent company. Through the year, the Company's sub-contract with Amey LG Limited (Amey) was still under strain and behind the planned construction programme prior to the settlement on 29 June 2019, when the sub-contractor's terms were varied. In Autumn 2019 a re-procurement strategy was started to ensure a contractor was in place after 31 March 2020. Subsequently the re-procurement exercise was successfully concluded with Kier Highways Ltd being engaged to operate the contract from 1 April 2020 to 30 June 2021.

At 30 June 2019 the Company also had a receivable of £213.871m from Amey, reflecting the £215m settlement due from Amey, discounted to reflect its current value.

At 30 June 2019 the Company had net liabilities of £94,363,000. This primarily reflects the accumulated trading losses of recent years. However, it also includes £13,818,000 of accumulated hedge reserve losses arising when the interest rate swap was effective.

Key performance indicators

The Directors consider revenue, operating profit, profit before tax and profit after tax and achievement of milestones under the Project to be the key performance indicators of the Company. The Directors monitor actual performance against anticipated performance. The financial performance of the Company over the last two years has been significantly impacted by the litigation and subsequent settlement with Birmingham City Council.

Principal risks and uncertainties

Under the terms of the Project, the Company is required to meet certain key performance targets. The Directors review actual performance against those targets on a regular basis to mitigate risks arising from contract activities.

The Directors have previously reported a dispute that had arisen between the Company, its key customer Birmingham City Council (BCC) and its subcontractor Amey. In February 2018 the Court of Appeal found against the Company and awarded BCC £54,950,547 in respect of overpayments claimed (the Overpayment Award).

The disputes between the parties were consensually settled on 29 June 2019, when the Company, its senior lenders, BCC and Amey entered into two key agreements and a number of related arrangements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

STRATEGIC REPORT *(continued)*

Principal risks and uncertainties *(continued)*

The terms for Amey to exit the Project were agreed, including the payment by Amey of £215m, of which £160m is paid in the calendar year 2019 and thereafter £10m is due annually with the final payment due in 2025 of £5m, or earlier under certain circumstances. Amey agreed to continue to provide services until 31 March 2020.

The Company's main commercial risks during the period, until 31 March 2019, were attributable to the delivery of the capital infrastructure on the Project. Under the terms of the settlement, from 1 April 2019 the risk of operational revenue deductions on the service and maintenance elements of the Project, and the extent to which they were passed to the sub-contractors as a pass-through cost, were capped. Under the settlement, there will be no risk on asset renewal expenditure during the Restructuring Period.

Subsequent to the year-end date Kier Highways Limited was engaged as interim subcontractor, for a fixed term to June 2021, and Amey made a complete operational exit.

The Company, its senior lenders and BCC agreed various arrangements in order to provide stability during a two-year period in which the Company and BCC would work collaboratively to procure a replacement long term contractor (the Restructuring Period). These include BCC agreeing to continue making available to the Company sufficient cash to cover its operating costs and all debt service, the senior lenders agreeing not to accelerate the senior debt except in limited circumstances and the Company agreeing to maintain prescribed minimum levels of cash in bank accounts that are subject to security and contractual restrictions in favour of the senior lenders until the end of the Restructuring Period.

In agreements between the Company and BCC, the Company agreed to spend a minimum amount of £50 million on capital works in the Restructuring Period (unless agreed otherwise) and BCC agreed to convert the Overpayment Award into an interest-bearing loan that is subordinated to the senior debt and has no fixed repayment terms.

The Company has individual committed term loan facilities, which are secured on the assets and future revenues of the Company. Project revenues are linked to inflation at the inception of each financial period. The Company's Lenders are parties to the settlement agreement with Amey and arrangements exist to keep facilities in place for the sub-contractor repurchase period.

The Company has a floating interest rate, which is managed by entering into fixed interest rate swaps to mitigate interest rate exposure on the long term facilities. The Company does not undertake speculative financial instrument transactions. With respect to financial instrument risk, further detail is provided in Note 3 of the Financial Statements.

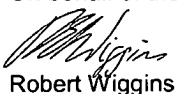
With respect to pricing risk, through the year to 30 June 2019 the sub-contractor was on a fixed price contract with no pricing risk. From the 1 April 2020, when the sub-contractor changed to Kier Highways Ltd, the contract changed to a cost-plus basis rather than fixed price. Any price changes that occur through this process are backed by an interim pricing arrangement with the main customer.

Although an interim procurement strategy has been finalised, there is no formal contractor in place past June 2021. The re-procurement process to engage a long-term contractor is in place but there is a risk that this is not finalised on a timely basis.

Also subsequent to the year-end has been the global Covid-19 pandemic. The impact of this has been minimal. Management have been able to run the business remotely, and work on the Project by contractors has continued with the addition of increased safety equipment and personal distancing. Core income has also not been affected.

This report was approved by the board on 26 June 2020 and signed on its behalf by:

On behalf of the Board


Robert Wiggins

Director

Company number: 07064140

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

DIRECTORS' REPORT

For the year ended 30 June 2019

The Directors present their report together with the audited financial statements for the year ended 30 June 2019.

Strategic report

A review of the business and performance of the Company are included in the strategic report on pages 2 and 3.

Change of name

On 5 July 2019 the Company changed its name to Birmingham Highways Limited.

Principal activities

The principal activity of the Company is to finance, rehabilitate, operate and maintain the Birmingham highways, under a PFI/PPP concession known as the Birmingham Highways PFI Project ("the Project"), for the period of 25 years from May 2010 to May 2035, pursuant to a project agreement dated 6 May 2010.

Dividends

The Directors do not recommend the payment of a dividend.

Going concern and impact of COVID-19

As referenced in the Strategic Report, the Company, its Client Birmingham City Council (BCC); and its subcontractor Amey entered into a Settlement Agreement on 29 June 2019 to settle various disputes that hitherto had created significant uncertainty about the ability of the Company to continue as a going concern.

On the same date, the Company, BCC and the Company's Senior Lenders also entered into a Restructuring Agreement, the key terms of which are outlined in the Strategic Report.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

DIRECTORS' REPORT *(continued)*

Going concern and impact of COVID-19 *(continued)*

As a result of the Settlement Agreement Amey are required to pay £215m, of which £160m was paid in accordance with the Agreement in 2019. The Company, BCC and the Senior Lenders have agreed that subject to compliance with criteria, other than the operational cash balance of £5m, the cash in the project will not be made available for any purposes (pending successful re-procurement by the 30 June 2021). Funding instead is being made available from BCC. As a result of these agreements and ancillary agreements, having considered the Company's detailed cash flow forecasts, the Directors are confident that the Company will be able to continue as a going concern until at least 30 June 2021 and these accounts have therefore been prepared on a going concern basis.

With respect to the period beyond 30 June 2021, whilst there is no mechanism within the Restructuring Agreement to extend it, the Directors have carefully considered the prospects of its key stakeholders consensually agreeing the terms for such an extension. The Directors have concluded that they have reasonable confidence that such an extension could be agreed, providing that the Senior Lenders are satisfied that the Company and BCC are aligned in their procurement strategy for a long term replacement for the sub-contractor and are working collaboratively. However, currently this re-procurement has not been completed and the forecast free cash available for operational purposes at the 30 June 2021 is low. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

The Directors have also assessed the impact of the COVID-19 pandemic on the Company's operations and have concluded that road maintenance requirements are unlikely to be significantly reduced or impacted. During the lockdown period, a large part of the road maintenance workforce were classified as being 'key workers' so trading continued largely as normal, with contractor attendance at over 90% throughout. The Company has therefore been able to maintain its services levels to BCC and has received its expected level of income during the pandemic period to date and the directors are not currently aware of any reason why the services levels should be significantly impacted by COVID-19 in the next twelve months.

Extra controls have been built-in around social distancing workers and personal protection equipment which meant work could carry on largely as normal whilst being in strict compliance with Standard Operating Procedures required by HM Government.

Financial risk management and exposure to financial risks

Information in respect of financial risk management and financial risks is provided in note 3 to the financial statements.

Likely future developments

As detailed in the Strategic Report the re-procurement process to engage a long-term contractor is in place and has a current planned completion date that is within the next twelve months. An earlier section of this report highlights the risks associated with this.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

DIRECTORS' REPORT *(continued)*

Directors

The Directors of the Company during the period, and up to the date of this report were:

	Appointed	Resigned
A Clapp	24/06/2019	
J G Connelly		20/09/2018
P E Gill		14/08/2019
A G H Gullan	20/09/2018	
S L Jones		
R D Knight		
A C Lovell	20/08/2018	20/09/2018
M L McKillop	20/09/2018	11/07/2019
C G A McLeod		17/12/2018
K A L Pearman		20/09/2018
K Rahuf	02/08/2019	
R E F Wiggins	23/10/2019	

Directors' responsibilities

The Directors are responsible for preparing the Strategic report, 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 period. The Directors believe that the approach they have taken to the evaluation of the PFI/PPP financial asset as at 30 June 2018 is the most appropriate one in all the circumstances but recognise that there were material uncertainties at that time which may subsequently prove to be inappropriate, especially as a result of the settlement agreement. Subject to that uncertainty, which is fully disclosed, the Directors believe they have fulfilled their responsibilities under company law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records, that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

DIRECTORS' REPORT *(continued)*

Directors' responsibilities *(continued)*

All of the current Directors have taken all the steps that they ought to have taken, to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information, of which the auditors are unaware.

Auditors

BDO LLP were reappointed as auditors during the period and have expressed their willingness to continue in office. A resolution to reappoint them will be proposed at a Board Meeting.

This report was approved by the board on 26 June 2020 and signed on its behalf by:

On behalf of the Board



Robert Wiggins
Director

Company number: 07064140

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)
For the year ended 30 June 2019**

We have audited the financial statements of Birmingham Highways Limited ("the Company") for the year ended 30 June 2019 which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of its loss for the year then ended;
- has been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which indicates that the Company is yet to re-procure a sub-contractor and the level of forecast free cash as at 30 June 2021 is low due to the restrictions over cash pending the re-procurement. As stated in note 1, these events or conditions, along with other matters as set out in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Birmingham Highways Limited (formerly Amey Birmingham Highways Limited) (continued)

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Birmingham Highways Limited (formerly Amey Birmingham Highways Limited) (continued)

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://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.

TBD O LLP

Stuart Barnsdall (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK.

Date: 26 June 2020

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

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

INCOME STATEMENT

For the year ended 30 June 2019

	Notes	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Revenue	4	22,252	5,049
Other income: Settlement Agreement 29 June 2019		213,871	-
Cost of sales		(14,931)	(4,086)
Impairment of PFI / PPP financial asset		(233,743)	-
Gross profit		(12,551)	963
Administrative expenses		(15,477)	(5,591)
Operating (loss)/profit	5	(28,028)	(4,628)
Finance income	7	19,413	16,535
Finance costs	7	(26,358)	(27,987)
Other financial expense	7	(5,306)	(1,331)
Gross loss before tax		(40,279)	(17,411)
Tax	8	902	(1,354)
Loss after tax on continuing operations		(39,377)	(18,765)

All of the above relates to continuing activities.

The notes on pages 17 to 42 form part of these financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Loss after tax for the period		(39,377)	(18,765)
Cashflow hedge reclassified to profit or loss		2,075	7,551
Deferred tax relating to other comprehensive income		(353)	(1,510)
Other comprehensive income		1,722	6,041
Total comprehensive expense		(37,655)	(12,724)
(Loss)/profit and total comprehensive expense for the period attributable to:			
Equity shareholders of the Company		(37,655)	(12,724)

The notes on pages 17 to 42 form part of these financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

BALANCE SHEET

As at 30 June 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
PFI/PPP financial asset	9	22,027	256,383
Trade and other receivables	11	53,871	-
Deferred tax assets	14	6,703	6,154
		82,601	262,537
Current assets			
PFI/PPP financial asset	9	5,719	11,082
Trade and other receivables	11	163,795	995
Cash and cash equivalents		29,472	28,521
		198,986	40,598
Total assets		281,587	303,135
Liabilities			
Current liabilities			
Trade and other payables	12	13,938	69,569
Loans and borrowings	13	189,976	185,513
Derivative financial liabilities	10	6,436	5,581
		210,350	260,663
Non-current liabilities			
Loans and borrowings	13	132,605	68,560
Derivative financial liabilities	10	32,997	30,620
		165,602	99,180
Total liabilities		375,952	359,843
NET LIABILITIES		(94,364)	(56,708)

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

BALANCE SHEET *(continued)*

	Notes	2019 £'000	2018 £'000
Issued capital and reserves attributable to Equity shareholder of the Company			
Share capital	15	50	50
Hedge reserve	16	(13,839)	(15,561)
Retained earnings	16	(80,574)	(41,197)
TOTAL SHAREHOLDERS' DEFICIT		(94,363)	(56,708)

The financial statements on pages 11 to 42 were approved and authorised for issue by the Board of Directors on 26 June 2020 and were signed on its behalf by:



Robert Wiggins
Director

Company number: 07064140

The notes on pages 17 to 42 form part of these financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

STATEMENT OF CASH FLOWS
For the year ended 30 June 2019

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Cash flows from operating activities		
Loss before tax for the period	(40,279)	(17,411)
<i>Adjustments for:</i>		
Finance income	7 (19,413)	(16,535)
Finance expense	7 26,358	27,987
Other financial expense	7 5,306	1,331
PFI/PPP financial asset impairment	233,243	-
BHHL loan impairment	500	-
	205,715	(4,628)
(Increase) / decrease in trade and other receivables	(216,671)	19,476
Increase in trade and other payables	10,085	(20,575)
Cash generated from operations	(871)	(5,727)
Net cash flows from operating activities	(871)	(5,727)
Cash flows from investing activities		
Cash outflow on PFI/PPP financial asset	(67,880)	(62,117)
Proceeds from repayment of PFI/PPP financial asset	74,356	86,966
Net cash from investing activities	6,476	24,849
Cash flows from financing activities		
Proceeds from bank borrowings	-	-
Repayment of bank borrowings	(5,804)	(7,217)
Repayment of shareholder loan	-	-
Interest received	19,413	16,535
Interest paid	(17,636)	(13,260)
Bank charges paid	(2)	(2)
Commitment fees paid	(625)	(495)
Taxation paid	-	-
Net cash from financing activities	(4,654)	(4,439)
Net increase in cash and cash equivalents	951	14,683
Cash and cash equivalents at beginning of year	28,521	13,838
Cash and cash equivalents at end of year	29,472	28,521

The notes on pages 17 to 42 form part of these financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Hedge reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2018	50	(15,561)	(41,197)	(56,708)
Profit after tax for the period	-	-	(39,377)	(39,377)
Cash flow hedge reclassified to profit or loss	-	2,075	-	2,075
Deferred tax	-	(353)	-	(353)
Total comprehensive profit / (expense)	-	1,722	(39,377)	(37,655)
Balance at 30 June 2019	50	(13,839)	(80,574)	(94,363)
	Share capital £'000	Hedge reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2017	50	(21,602)	(22,432)	(43,984)
Loss after tax for the period	-	-	(18,765)	(18,765)
Other comprehensive loss:				
Cash flow hedge reclassified to profit or loss		7,551		7,551
Deferred tax		(1,510)		(1,510)
Balance at 30 June 2018	50	(15,561)	(41,197)	(56,708)

The notes on pages 17 to 42 form part of these financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements

1 ACCOUNTING POLICIES

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited) (the Company) is a private limited company incorporated and domiciled in the United Kingdom. The principal activity of the Company is to finance, rehabilitate, operate and maintain the Birmingham highways, under a PFI/PPP concession for the period of 25 years from May 2010 to May 2035, pursuant to a project agreement dated 6 May 2010.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements for the year ended 30 June 2019 and the comparative information presented in these financial statements for the year ended 30 June 2018.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to the period presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

The financial statements have been prepared on an accruals basis and on the historical cost basis, except for derivative financial instruments, which are measured at fair value. Cost is based on fair value of consideration given in exchange for assets.

The preparation of financial statements in compliance with adopted IFRSs, requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

Going Concern and the impact of COVID-19

As referenced in the Strategic Report, the Company, its Client Birmingham City Council (BCC); and its subcontractor Amey entered into a Settlement Agreement on 29 June 2019 to settle various disputes that hitherto had created significant uncertainty about the ability of the Company to continue as a going concern.

On the same date, the Company, BCC and the Company's Senior Lenders also entered into a Restructuring Agreement, the key terms of which are outlined in the Strategic Report.

As a result of the Settlement Agreement Amey are required to pay £215m, of which £160m was paid in accordance with the Agreement in 2019. The Company, BCC and the Senior Lenders have agreed that subject to compliance with criteria, other than the operational cash balance of £5m, the cash in the project will not be made available for any purposes (pending successful re-procurement by the 30 June 2021). Funding instead is being made available from BCC. As a result of these agreements and ancillary agreements, having considered the Company's detailed cash flow forecasts, the Directors are confident that the Company will be able to continue as a going concern until at least 30 June 2021 and these accounts have therefore been prepared on a going concern basis.

With respect to the period beyond 30 June 2021, whilst there is no mechanism within the Restructuring Agreement to extend it, the Directors have carefully considered the prospects of its key stakeholders consensually agreeing the terms for such an extension. The Directors have concluded that they have reasonable confidence that such an extension could be agreed, providing that the Senior Lenders are satisfied that the Company and BCC are aligned in their procurement strategy for a long term replacement for the sub-contractor and are working collaboratively. However, currently this re-procurement has not been completed and the forecast free cash available for operational purposes at the 30 June 2021 is low. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

The Directors have also assessed the impact of the COVID-19 pandemic on the Company's operations and have concluded that road maintenance requirements are unlikely to be significantly reduced or impacted. During the lockdown period, a large part of the road maintenance workforce were classified as being 'key workers' so trading continued largely as normal, with contractor attendance at over 90% throughout. The Company has therefore been able to maintain its services levels to BCC and has received its expected level of income during the pandemic period to date and the directors are not currently aware of any reason why the services levels should be significantly impacted by COVID-19 in the next twelve months.

Extra controls have been built-in around social distancing workers and personal protection equipment which meant work could carry on largely as normal whilst being in strict compliance with Standard Operating Procedures required by HM Government.

Carrying value of the financial asset

The Directors have carefully considered whether, as at 30 June 2019, the PFI/PPP financial asset should be impaired. The Settlement Agreement between the Company, Birmingham City Council and Amey plc is considered to be an impairment indicator in respect of the finance debtor at 30 June 2019. In carrying out their impairment review the Directors made the judgement that it was appropriate to consider assumptions regarding future revenues and costs. At 30 June 2019, using these assumptions, the Directors concluded that an impairment is required and one has been undertaken and included within these accounts.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

1 ACCOUNTING POLICIES *(continued)*

New standards, interpretations and amendments effective from 1 January 2018

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The Company has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU, relevant to its operations and effective for accounting periods beginning 1 January 2018.

The new or revised standards or interpretations that are effective for accounting periods commencing on or after 1 January 2018 and that are applicable to the Company are as follows.

Effective for accounting periods commencing on or after 1 January 2018:

IFRS 2 (amendment)

IFRS 4 (amendment)

IFRS 9

IFRS 15

Effective for accounting periods commencing on or after 1 January 2019:

IFRS 16

introduced new requirements for the recognition, classification and measurement of financial instruments. In addition, the adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with the forward looking expected credit loss model. The level of credit risk the Company is exposed to has not given rise to material allowances under the expected credit loss model. The adoption of IFRS 9 has had no other material impact on the Company financial statements.

IFRS 15, Revenue from Contracts with Customers replaced IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The core principle of the standard is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. Specifically, IFRS 15 introduces the five-step approach to recognising revenue. The factors of IFRS 15 were considered with the company concluding the adoption of this standard has not had a material effect on the existing revenue recognition policy.

Functional and presentation currency

The functional currency of the Company is pounds sterling. The presentation currency of the Company is pounds sterling, rounded to the nearest thousand pounds.

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.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Revenue

PFI revenue has been accounted for in accordance with IFRIC 12, using the financial asset model, where it has been determined that the Company has an unconditional right to receive cash for the construction service. Revenue is determined by the fair value of consideration received or receivable in respect of goods and services provided in the same way as other long-term contracts. The amounts recoverable from the infrastructure enhancement element of PFI contracts are shown separately on the face of the balance sheet

Revenue from other contract activities represents fee income receivable in respect of services provided during the year. Estimates are included of amounts not yet invoiced.

All revenue excludes value added tax.

Service concessions

In accordance with IFRIC 12 and the various provisions of Adopted IFRS, the Company has determined the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Results of all service concessions which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions:

Service concessions treated as financial assets

The Company recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are held at amortised cost.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the operational stage, cash received in respect of the service concessions is allocated to service and maintenance revenue based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method.

Financial assets

The Company classifies its financial assets at amortised cost as discussed below. The Company has not classified any of its financial assets as held to maturity or available for sale.

Other than financial assets in a qualifying hedging relationship, the Company's accounting policy for each category is as follows:

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(i) Financial assets - measured at amortised cost

These assets are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables) under PFI/PPP contracts, but also incorporate other types of contractual monetary asset. They are carried at cost, less any provision for impairment. For PFI/PPP contracts, cost is determined by the fair value of goods and services, as adjusted for the expected payment date at the time of providing the services. Interest bearing financial assets are subsequently measured at amortised costs, using the effective interest rate (EIR) method. Interest calculated in accordance with this policy is recognised in finance income in the income statement.

The financial assets measured at amortised costs comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and, for the purpose of the statement of cash flows, bank overdrafts.

Impairment provisions are recognised when there is objective evidence, such as significant financial difficulties on the part of the counterparty or default or significant delay in payment, that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account, with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Other than financial liabilities in a qualifying hedging relationship, the Company's accounting policy for each category is as follows:

(i) Financial liabilities - fair value through profit or loss

This category comprises only out-of-the-money derivatives (see financial assets for in-the-money derivatives). They are carried in the balance sheet at fair value, with changes in fair value recognised in the statement of comprehensive income. The Company does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Company does not have any liabilities held for trading, nor has it designated any financial liabilities as being at fair value through profit or loss.

(ii) Financial liabilities - other financial liabilities

Other financial liabilities include the following items:

- Bank borrowings are recognised at the amount advanced, net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost, using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense, in this context, includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, are recognised at amortised cost.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (*continued*)

1 ACCOUNTING POLICIES (*continued*)

Fair value measurement hierarchy

Certain disclosures are required to the classification of financial assets and financial liabilities measured at fair value, using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 3). The fair value hierarchy has the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised, is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Hedge accounting

Hedge accounting is applied to financial assets and liabilities only where all of the following criteria are met;

- at the inception of the hedge, there is a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for the undertaking;
- for cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect income or
- the cumulative change in the fair value of the hedging instruments is expected to be between 80% and 125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged, i.e. it is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge effectiveness is assessed on a regular basis and remains highly effective.

The Company does not hold or issue derivative instruments for speculative purposes, although derivatives not meeting the above criteria are designated for accounting purposes at fair value through the income statement, as appropriate.

Derivative financial instruments at fair value – cash flow hedges

The Company uses derivative financial instruments ("derivatives") to manage interest rate risk and, where the hedge accounting criteria are met, designates these as cash flow hedges. Changes in the fair value of the effective portion of derivatives that are designated as qualifying hedges, are recognised in other comprehensive income.

Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the underlying transaction occurs. The Company is amortising the hedge reserve arising whilst the hedge was effective over the remaining term of the derivatives by reference to the estimated interest costs of the hedged item.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's ordinary shares are classified as equity instruments.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the deferred tax assets are recovered.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the same taxable Company. Deferred tax is not discounted.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Judgements

(a) Revenue recognition and contract costs

A significant amount of the Company's activities are undertaken via long term contracts which are accounted for in accordance with IFRIC 12 Service Concession Agreements.

During the year, Management's judgement was that revenue should continue to be recognised in accordance with the existing contractual arrangements and calculated in accordance with the finance debtor model, reflecting the continuing provision of services in accordance with the contract.

However, following the Court judgement in 2018 against the Company the Directors also determined that certain contractual revenue recognised in prior periods should be derecognised. Further information is provided in note 4, and was reflected in the prior year financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (*continued*)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (*continued*)

Judgements (*continued*)

(b) Carrying value of PFI/PPP financial asset

The dispute between the Company and Birmingham City Council was concluded in the Settlement Agreement of 29 June 2019. This is considered to be an impairment indicator in respect of the finance debtor at 30 June 2019. In carrying out their impairment review the Directors made the judgement that it was appropriate to impair the Finance Debtor. Further information is provided in note 9.

(c) Credit value adjustment

The derivative financial instruments relate to interest rate swaps and where the default risk is assessed as material the valuation of the derivative should be adjusted to reflect the price of the default risk. The Directors consider the default risk to be immaterial and a credit value adjustment has not been made in arriving at the fair value of the derivatives. The credit assessment methodology included consideration of:

- Country and customer risk
- Contract completion and financial risk
- The Settlement Agreement dated 29 June 2019

Details of the adjustment is provided in note 3.

Estimates

Fair value of financial instruments

The Company determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in note 10.

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Cash flow interest rate risk
- Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT *(continued)*

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- trade receivables
- cash and cash equivalents
- trade and other payables
- financial assets
- floating rate bank loans
- fixed rate bank loans
- interest rate swaps
- fixed rate authority loan

A summary of the financial instruments held by category is provided below.

Financial Assets

Financial assets are classified as trade and other receivables and PFI financial assets.

Financial Liabilities

Financial instruments measured at fair value

IFRS 7 (Financial Instruments: Disclosure) requires the Company to analyse its financial assets and liabilities held at fair value, according to the valuation basis applied. Level 1 represents fair values based on quoted prices in active markets; level 2 represents fair values where valuation inputs are based on observable market data; level 3 represents fair values where any significant valuation input is not based on observable market data.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Financial Liabilities (continued)

Financial instruments measured at fair value (continued)

The Company has no level 1 or level 3 financial assets or liabilities. The amounts held at level 2 basis of valuation and included within the balance sheet in respect of derivative contracts are as follows:

Derivative financial instrument	Fair value measurement using Level 2 at	
	30 June	30 June
	2019	2018
	£'000	£'000
Non current liability	32,997	30,620
Current liability	6,436	5,581
	39,433	36,201
Amount recognised in the income statement		
	Year ended	Year ended
	30 June	30 June
	2019	2018
	£'000	£'000
(Increase) / Decrease in derivative liability	(3,232)	6,220
Deferred tax	549	(1,057)
In respect of financial liabilities	(2,683)	5,163

As a condition of the lending, the Company is required to take out interest rate hedges to fix the interest rate, to hedge against cash flow interest rate risk until the debt has been repaid. This expires in 2032.

All financial liabilities with the exception of derivatives are classified as other financial liabilities measured at amortised cost.

The valuation of the derivative includes a credit value adjustment of £nil (2018: £1,584k) to reflect the assessment of the Company's business and financial risk profile. This adjustment reduces the valuation of the derivative liability.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

General objectives, policies and processes

The board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

The Company's main financial assets are cash and cash equivalents, a PFI/PPP financial asset, trade, and other receivables from Amey plc. The Company's credit risk is mainly attributable to its public sector trade receivables from local authorities. The amounts are carried on the balance sheet net of any provision for doubtful receivables estimated by the Directors, based on experience and an evaluation of prevailing economic conditions.

The PFI/PPP financial asset will be recovered over the life of the contract.

Interest rate risk

The Company is exposed to interest rate risk from long term borrowings at variable rate. The Company's exposure to variable rate long term borrowings is eliminated through the use of interest rate hedge contracts. A sensitivity analysis has not been performed, on the basis that the majority of variable interest rates are swapped for fixed rates and therefore the exposure to interest rate risk is minimised.

Credit quality of financial assets and impairment losses

The ageing of trade and other receivables and other financial receivables at the balance sheet date was:

	Gross	Gross
	2019	2018
	£'000	£'000
Not past due	244,502	267,465
Past due	883	893
	245,385	268,358

At 30 June 2019, there were trade receivables past due, but not impaired, of £883,000 (2018: £893,000). The Directors consider that no impairment is necessary in respect of the current year.

Following the Court judgement against the company the prior year overdue amount was derecognised in the prior year with a corresponding derecognition of the related revenue.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT *(continued)*

General objectives, policies and processes *(continued)*

Liquidity risk

Liquidity risk is defined as the risk that the Company would not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding and settlement management. In addition, liquidity and funding risks, as well as related processes and policies, are overseen by management. The Company manages its liquidity risk based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility. In accordance with IFRS 7 (Financial Instruments Disclosures), the table below sets out the repayment of principal and associated interest payments. In accordance with IAS1 requirements, the PFI non-recourse loans continue to be classified as a current liability at the end of June 2019. This arises because the Company has breached the provisions of the facilities agreement and, although the lenders have not declared the loans to be immediately due and payable, the Company did not have an unconditional right to defer settlement for at least 12 months after the reporting date.

	1 year or less	1 to 2 years	2 to 5 years	5 years and over and later	Total
	£'000	£'000	£'000	£'000	£'000
PFI non-recourse loans	157,064				157,064
Authority loan		64,045			64,045
Subordinated shareholder loans	1,614	-	7,049	59,897	68,560
Accrued interest on shareholder loans	32,912	-	-	-	32,912
Derivatives	6,436	5,743	13,234	14,020	39,433
Trade payables	1,088	-	-	-	1,088
	199,114	69,788	20,283	73,917	363,102

Shareholder loans are subordinated to the senior loans and the liability repayable to Birmingham City Council in respect of overpayments.

Details of the committed funding to be drawn down, is disclosed in note 13.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

General objectives, policies and processes (continued)

Liquidity risk (continued)

The following are the contractual cash flows of financial liabilities.

30 June 2019

	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
PFI non- recourse loans	157,064	216,675	12,530	14,117	50,439	139,589
Authority loan	64,045	74,292	-	74,292	-	-
Subordinated shareholder loans	68,560	135,165	1,614	7,416	26,170	99,965
Accrued interest on shareholder loans	32,912	32,912	32,912	-	-	-
Trade payables	1,088	1,088	1,088	-	-	-
	323,669	460,133	48,144	95,825	76,609	239,554
Derivative financial liabilities:						
Interest rate swaps used for hedging	39,433	39,433	6,436	5,743	13,234	14,020

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

General objectives, policies and processes (continued)

Liquidity risk (continued)

30 June 2018

	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
PFI non- recourse loans	161,732	242,784	13,873	12,201	42,727	173,983
Subordinated shareholder loans	68,560	170,572	27,301	6,447	23,208	113,616
Accrued interest on shareholder loans	23,781	23,781	23,781	-	-	-
Trade payables	946	946	946	-	-	-
	<u>255,019</u>	<u>438,083</u>	<u>65,901</u>	<u>18,648</u>	<u>65,935</u>	<u>287,599</u>
Derivative financial liabilities:						
Interest rate swaps used for hedging	36,201	36,201	5,581	4,966	11,558	14,096

More details in regard to the line items are included in the respective notes:

- trade and other payables – note 12
- loans and borrowings – note 13
- derivative financial liabilities – note 10

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT *(continued)*

Capital Structure

The Company manages its cash, bank loans and overdrafts and equity as capital. The Company's principal objective is to ensure that the Company has sufficient capital to fund its operations. In developing business plans, management consider the likely capital requirements and how to fund these requirements.

The Company's capital was summarised as follows:

	2019	2018
	£'000	£'000
Cash and cash equivalents	(29,472)	(28,521)
Authority loan	64,045	-
Bank and shareholder loans	322,581	254,073
Total shareholders' deficit	(94,363)	(69,432)
 Total capital	 262,791	 156,120

4 REVENUE

The turnover and loss on ordinary activities before taxation are attributable to the continuing operations and principal activities carried on within the United Kingdom. All turnover arises solely in the United Kingdom.

The revenue for 2018 included a reduction in revenue of £57,918,000 reflecting the decision to derecognise revenue and related contract costs following the Court judgement against the Company in 2018.

The other income in 2019 reflects the Settlement Agreement with Amey plc on a fair value basis.

5 OPERATING PROFIT

Operating profit is stated after charging:

	Year ended	Year ended
	30 June	30 June
	2019	2018
	£'000	£'000
Auditors' remuneration	90	67

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

6 KEY MANAGEMENT PERSONNEL COMPENSATION

No staff were directly employed by the Company. Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractors service charge.

None of the Directors received emoluments directly from the Company. In the year, payments of £898,000 were made for the services of Directors to their employers (2018: £108,000).

7 FINANCE INCOME AND COSTS

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Finance income		
Interest income on bank deposits	144	30
Interest income on financial assets measured at amortised cost	19,269	16,505
Total finance income	19,413	16,535
Finance costs		
Bank charges	(3)	(2)
Interest expense on financial liabilities measured at amortised cost	(26,355)	(27,985)
Total finance costs	(26,358)	(27,987)
Other financial (expenses)/income		
(Loss) / gain recognised on derivative financial instrument	(3,231)	6,220
Cash flow hedge reclassified to profit or loss	(2,075)	(7,551)
	(5,306)	(1,331)

The facility agreement default situation, which has impacted the loan drawdown profile and classification of loans to a current liability (refer note 3), has created an ineffective swap arrangement, so that the change of the fair value of the derivative in the year has therefore been treated, above, in the statement, other financial income.

The finance costs in the year includes interest payable on the liability of £54,950,000 for amounts repayable to Birmingham City Council in respect of overpayments made for contract milestones 6-9.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

8 TAXATION

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Current tax expense		
UK corporation tax at 19% (2018: 19%)	-	-
Deferred tax charge		
Origination and reversal of timing differences	902	(1,354)
Effect of tax rate change on opening balance	-	-
Total income tax credit/(charge)	902	(1,354)
	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
(Loss)/profit for the period	(40,279)	(17,411)
Tax on (loss)/profit on ordinary activities at the UK standard rate of corporation tax of 19.00% (2018: 19%)	7,653	3,308
Unrecognised tax losses	(5,955)	(4,999)
Impact of statutory rate change	(796)	337
Other	-	-
Total income tax charge	902	(1,354)

The Company has £61,182,000 (2018: £26,710,000) of tax losses to carry forward to offset against future profits (see note 14).

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

9 PFI/PPP FINANCIAL ASSET

	Fair Value 2019 £'000	Carrying amount 2019 £'000	Fair Value 2018 £'000	Carrying amount 2018 £'000
Current	5,719	5,719	11,082	11,082
Non-current	22,027	22,027	260,615	256,383
	27,746	27,746	271,697	267,465

The PFI/PPP financial asset is a fixed rate financial asset and bore interest during the year at an average rate of 7.25%.

The Directors have carefully considered whether, as at 30 June 2019, the PFI/PPP financial asset should be impaired. The Settlement Agreement between the Company, Birmingham City Council and Amey plc is considered to be an impairment indicator in respect of the finance debtor at 30 June 2019. In carrying out their impairment review the Directors made the judgement that it was appropriate to consider assumptions regarding future revenues and costs. At 30 June 2019, using these assumptions, the Directors concluded that an impairment was required and one has been taken.

10 DERIVATIVE FINANCIAL LIABILITIES

	2019 £'000	2018 £'000
Derivatives designated as hedging instruments:		
Interest rate swaps – cash flow hedges	39,433	36,201
	39,433	36,201
Current	6,436	5,581
Non-current	32,997	30,620
	39,433	36,201

Cash flow interest rate swaps

The Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Normally the Company raises long term borrowings at floating rates and then fixes the interest rate by entering into an interest rate swap contract "derivative".

At 30 June 2019, the main floating rates were based on LIBOR. Gains and losses recognised in the cash flow hedge reserve in equity (note 16), on interest rate swap contracts as of 30 June 2019 will be continuously released to the income statement as the related interest expense is recognised. Information on the maturities of the loans is provided in note 3 and 13.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

11 TRADE AND OTHER RECEIVABLES

	2019	2018
	£'000	£'000
Trade receivables	3,768	893
Settlement Agreement debtor - Amey plc	213,871	-
Corporation tax	-	-
Prepayments	27	102
Trade and other receivables	217,666	995
Included in the balance sheet as follows:		
Current	163,795	995
Non-current: Amey plc	53,871	-
	217,666	995

Book values approximate to fair value at 30 June 2019.

Other receivables have been discounted by £1,129,000 under the provisions of IFRS9, to reflect that the Amey plc Settlement Agreement debtor is payable by installments over the next six years.

12 TRADE AND OTHER PAYABLES

	2019	2018
	£'000	£'000
Trade payables	1,088	946
Other payables	-	60,499
Accruals	7,280	3,676
Total financial liabilities, excluding loans and borrowings classified as financial liability measured at amortised cost	8,368	65,121
Other tax and social security	5,570	4,448
Total trade and other payables	13,938	69,569

Other payables in the prior year reflect an amount of £55m together with accrued interest for amounts payable to Birmingham City Council at 8% per annum in respect of overpayments made for contract milestones 6-9.

Although a current liability as at 30 June 2018, the amount payable to Birmingham City Council in respect of the overpayment claim was converted into a secured loan with a fixed repayment date of 30 June 2021 as part of the settlement agreements signed on 29 June 2019. This has an Authority Repayment Longstop Date of 31 July 2021.

Book values approximate to fair value at 30 June 2019.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

13 LOANS AND BORROWINGS

The book value and fair value of loans and borrowings are as follows:

	2019	2018
	£'000	£'000
Current		
Bank loans	157,064	161,732
Subordinated shareholder loans	-	-
Accrued interest on shareholder loans	32,912	23,781
	189,976	185,513
Non-current		
Subordinated shareholder loans	68,560	68,560
Authority loan	64,045	-
	132,605	68,560
Total loans and borrowings	322,581	254,073

The book value and the fair value are not materially different.

Principal terms and the debt repayment schedule of the Company's loans and borrowings are as follows as at 30 June 2019:

	Currency	Nominal rate	Year of maturity
Bank loan fixed interest rate	Sterling	6.97%	2032
Bank loan floating interest rate	Sterling	Libor + 2.5%	2033
Shareholder loan fixed interest	Sterling	10%	2034
Birmingham City Council fixed interest rate	Sterling	8%	2021

Bank borrowings

The fair values of current bank borrowings are based on cash flows discounted using rates based on the applicable market rate. The discount rates applied were within the range 0.60891% to 2.05654%.

The bank loans are secured by a fixed and floating charge over the assets of the business.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements *(continued)*

13 LOANS AND BORROWINGS *(continued)*

Bank borrowings *(continued)*

The Company has undrawn committed borrowing facilities available at 30 June to be drawn as follows:

30 June 2019	Floating rate £'000	Fixed rate £'000	Total £'000
Within 1 year	-	-	-

The Company facilities were scheduled to be fully drawn by the end of 2015. The undrawn facilities lapsed on 31 March 2018.

30 June 2018	Floating rate £'000	Fixed rate £'000	Total £'000
Within 1 year	-	-	-

14 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2018: 19%).

The movement on the deferred tax account is as shown below:

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
At the start of the period	6,154	9,019
<i>Recognised in the income statement</i>		
Tax charge	549	(2,865)
At the end of the period	6,703	6,154

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

14 DEFERRED TAX (continued)

Deferred tax has been recognised in respect of all tax losses and other temporary differences, giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

There are unrecognised tax losses of £61,182,000 as at 30 June 2019.

Details of the deferred tax asset, amounts recognised in profit or loss and amounts recognised in other comprehensive income are as follows:

	Credited to profit or loss £'000	Credited to equity £'000	Total £'000
At 1 July 2018	6,154	-	6,154
Available tax losses	-	-	-
Derivative financial instruments (cash flow hedges)	549	-	549
Tax asset at 30 June 2019	6,703	-	6,703
At 1 January 2017	9,019	-	9,019
Available tax losses	(1,807)	-	(1,807)
Derivative financial instruments (cash flow hedges)	(1,058)	-	(1,058)
Tax asset at 30 June 2018	6,154	-	6,154

Deferred tax assets are attributable to the following:

	2019 £000	2018 £000
Derivative financial instruments	6,703	6,154
Tax losses	-	-
Deferred tax assets	6,703	6,154

15 SHARE CAPITAL

	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of £1 each	50,000	50	50,000	50

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

16 RESERVES

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Interest rate hedging reserve	Gains/losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge
Retained earnings	All other net gains and losses and transactions with owners, not recognised elsewhere

Analysis of amount recognised in other comprehensive income

	Interest rate hedging reserve £'000	Retained earnings £'000
At 1 July 2018	(15,561)	(41,197)
Loss after tax	-	(39,377)
Amortization of cash flow hedge	1,722	-
At 30 June 2019	(13,839)	(80,574)
At 1 July 2017	(21,602)	(22,432)
Loss after tax	-	(18,765)
Interest rate hedges	-	-
Cash flow hedge reclassified to profit or loss	6,041	-
At 30 June 2018	(15,561)	(41,197)

Profits arising on the ineffective swap arrangement are included in the income statement, but the funding situation is expected to be resolved, so that future cashflows will arise as originally planned and the interest rate hedging reserve will be released over time, in proportion to the effective/ineffective portion of hedging instruments in future periods.

17 LEGAL DISPUTES AND CONTINGENT LIABILITIES

On 29 June 2019, a consensual settlement was signed for Amey to exit the Birmingham Highways PFI contract. The agreement involves the payment by Amey of £215m, of which £160m will be paid in 2019 and the remaining £55m over the next six years or earlier under certain circumstances. Amey continued continue to provide services on an interim basis until 31 March 2020.

This agreement, to which both Birmingham City Council and the Company's Senior Lenders were parties, provides for interim arrangements and a two year period to re-procure a new sub-contractor. Whilst the settlement has provided funds to assist in the resetting of the contract, the full financial impact of the settlement will not be known until re-procurement takes place as the terms of a re-procurement will not be known until it takes place.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (continued)

18 RELATED PARTY TRANSACTIONS

Trading transactions

During the year, the Company entered into the following transactions with related parties.

Administrative, financial and technical services were provided to the Company.

	Purchase of goods/ services	Interest payable	Amounts owed to related parties
30 June 2019	£'000	£'000	£'000
Amey UK PLC and Subsidiaries			
Amey LG Limited	41,386	-	880
Amey Ventures Management Services Limited	832	-	-
Birmingham Highways Holdings Limited	-	9,131	101,472
Equitix Highways II LP and Subsidiaries			
Equitix Highways 2 Limited	299	-	457
Pension Infrastructure Platform Limited and Subsidiaries			
PIP Infrastructure Investments (No 5) Limited	299	-	431
	42,816	9,131	103,240
 30 June 2018			
Amey UK PLC and Subsidiaries			
Amey LG Limited	882	-	882
Amey Ventures Management Services Limited	507	-	-
Birmingham Highways Holdings Limited	-	8,468	92,341
Equitix Highways II LP and Subsidiaries			
Equitix Highways 2 Limited	(7)	-	158
Aberdeen Asset Management PLC Subsidiaries			
Aberdeen Infrastructure Investments (No 5) Limited	(7)	-	132
	1,375	8,468	93,513

The Company has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given or received during the year regarding related party transactions.

None of the Directors received emoluments directly from the Company. A payment is made for services of Directors to their employers.

Birmingham Highways Limited (formerly Amey Birmingham Highways Limited)

Notes to the financial statements (*continued*)

19 ULTIMATE PARENT UNDERTAKING

The immediate parent company is Birmingham Highways Holdings Limited (formerly Amey Birmingham Highways Holdings Limited), a company incorporated in the United Kingdom. This company entered administration on 19 September 2018.

The smallest group in which the results of the Company are consolidated is that headed by Birmingham Highways Holdings Limited.

Birmingham Highways Holdings Limited has no ultimate parent undertaking or controlling related party, by virtue of the Company's joint ownership and control by PiP Infrastructure Investments (No 5) Limited and Equitix Highways 2 Limited.

PiP Infrastructure Investments (No 5) Limited's ultimate parent undertaking is PIP Multi-Strategy Infrastructure PPP LP, a Scottish Limited Partnership.

The ultimate parent undertaking of Equitix Highways 2 Limited is Equitix Fund II LP, an English Limited Partnership.

20 SUBSEQUENT EVENTS

On 1 April 2020 the operational and maintenance contractor, Amey Local Government Limited, was replaced by Kier Highways Limited. The contract placed with Kier Highways Limited is for interim services until 30 June 2021.

Birmingham Highways Limited has now entered into initial procurement discussions with sub-contractors to determine the nature and the feasibility of appointing a permanent sub-contractor replacement on 1 July 2021.

During the COVID-19 lockdown period, a large part of the road maintenance workforce were classified as being 'key workers' so trading continued largely as normal, with contractor attendance at over 90% throughout. The Company has therefore been able to maintain its services levels to BCC and has received its expected level of income during the pandemic period to date.

Extra controls have been built-in around social distancing workers and personal protection equipment which meant work could carry on largely as normal whilst being in strict compliance with Standard Operating Procedures required by HM Government.