Company Registration No. 08864183

Sapphire Extra Care Limited

Annual Report and Financial Statements

Year ended 31 December 2021

TUESDAY
AB56M9IZ
A05 31/05/2022 #136
COMPANIES HOUSE

Sapphire Extra Care Limited

Report and financial statements 2021

Contents

Sapphire Extra Care Limited

Officers and professional advisers

Directors

R I Barnett

C M D Gill

S D Lofthouse (resigned 18 June 2021)

P Marshall
H Whittingham (appointed 25 November 2021)

Secretary

J Cheadle

Registered office

10 St. Giles Square
London
WC2H 8AP
United Kingdom

Bankers

Aviva Public Private Finance Limited

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Sapphire Extra Care Limited

Strategic report

The directors present their annual report on the affairs of Sapphire Extra Care Limited ("the company"), together with the financial statements and auditor's report for the year to 31 December 2021.

Business review and principal activities

The company is a wholly-owned subsidiary of Sapphire Extra Care (Holding) Limited ("SECH").

The principal activity of the company is to design, build and finance three extra care housing facilities in Stoke-on-Trent, under the UK Government's Private Finance Initiative. Pursuant to the Project Agreement, Stoke-on-Trent City Council ("the Authority") has agreed to grant certain leases to Your Housing Limited ("YHL"), previously known as Manchester and District Housing Association Limited, who will deliver landlord services to the Authority. All sites are complete and operational.

Future developments

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

Results

As shown in the company's Income statement on page 9, the company made a profit of £164,582 in the year (2020: £81,524 loss).

Financial position

The directors are satisfied with the net asset position of the company at year end. Net assets of £210,197 (2020: £45,615) are shown in the Statement of financial position on page 10.

Principal risks and uncertainties

The principal risks to which the company is exposed include:

Credit risk

The company's credit risk is attributable to its unitary charge income from its sole customer, Stoke-on-Trent City Council. As this is a quasi-governmental organisation, the credit risk and associated cash flow risk are not considered significant. The company also receives landlord fee income from YHL.

Interest rate risk

The company's bank loan bears interest at a fixed rate. As such the directors consider the interest rate risk to be effectively mitigated.

Liquidity risk

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

Key performance indicators

The company monitors results through one key performance indicator ("KPI"):

- Cash flows being in accordance with the financial close model.

The performance of the KPI is in line with expectations.

Strategic report (continued)

Going concern

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

During the year, the Covid-19 pandemic continued to have a negative impact on the economy as a whole. However, with Covid-19 related restrictions easing through the start of 2022 and expected to ease further, this impact is forecast to reduce. The Directors have considered the potential impact of Covid-19 when making this assessment. The company meets its day to day working capital requirements principally through unitary charge receipts from the Council. The Directors do not consider the ability of government authorities to pay unitary fees to be a material risk.

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

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

The strategic report was approved by the Board of directors on 13 May 2022 and signed on its behalf by:

J Cheadle

J Cheadle
Secretary

Directors' report

The directors present their report with the financial statements of the company for the year ended 31 December 2021.

Details of future developments, going concern, financial risk management policy and events after the statement of financial position date can be found in the Strategic report on pages 2-3 and form part of this report by cross-reference.

Dividends

Dividends of £nil have been paid in the year (2020: £Nil) and the directors recommend that no final dividend be paid (2020: £nil).

Directors

The current directors of the company are shown on page 1. S Lofthouse resigned as director on 18 June 2021. H M Whittingham was appointed as director on 25 November 2021.

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

Share capital

The share capital comprises 50,000 ordinary shares of £1 each (2020: 50,000).

Disclosure of information to the auditor

Each of the directors at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Auditor

Deloitte LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 and, unless the company receives notice under Section 488(1) of the Act, offer themselves for reappointment as auditor in accordance with the Companies Act.

The directors' report was approved by the Board of directors on 13 May 2022 and signed on its behalf by:

J A Cheadle
Secretary

Sapphire Extra Care Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

Independent auditor's report to the members of Sapphire Extra Care Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Sapphire Extra Care Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the notes to the statement of cash flows and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

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

Conclusions relating to going concern

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

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

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

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.

Independent auditor's report to the members of Sapphire Extra Care Limited (continued)

Other information (continued)

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

Independent auditor's report to the members of Sapphire Extra Care Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the 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.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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.

James Wright FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27th May 2022

Sapphire Extra Care Limited

Income statement
For the year ended 31 December 2021

	Note	2021 £	2020 £
Revenue	3	2,422,453	2,260,900
Cost of sales		(1,859,997)	(1,883,074)
Gross profit		562,456	377,826
Administrative expenses		(396,911)	(500,708)
Operating profit/(loss)	4	165,545	(122,882)
Finance costs	6	(3,931,276)	(4,073,210)
Finance income	5	3,966,746	4,079,747
Profit/ (loss) on continuing operations before taxation		201,015	(116,345)
Tax on profit/(loss) on ordinary activities	7	(36,433)	34,821
Profit/(loss) on continuing operations after taxation		164,582	(81,524)

All results are derived from continuing operations. The company had no other recognised gains or losses for the year. Accordingly, no Statement of other comprehensive income is required.

The notes on pages 14 to 26 form part of these financial statements.

Sapphire Extra Care Limited
Registered number: 08864183

Statement of financial position
At 31 December 2021

	Note	2021 £	2020 £
Non-current assets			
Financial asset	9	60,282,372	61,927,055
Deferred tax	7	-	28,093
		60,282,372	61,955,148
Current assets			
Trade and other receivables	10	506,862	492,815
Tax receivable		-	4,919
Cash and bank balances		89,451	75,662
Short- term investments	11	2,479,762	1,943,553
		3,076,075	2,516,949
Current liabilities			
Trade and other payables	12	1,054,020	712,357
Borrowings	13	1,854,036	1,782,068
Net current assets		168,019	22,524
Total assets less current liabilities		60,450,391	61,977,672
Non-current liabilities			
Borrowings	13	60,240,194	61,932,057
Net assets		210,197	45,615
Capital and reserves			
Share capital	14	50,000	50,000
Retained earnings/(deficit)	15	160,197	(4,385)
Total equity		210,197	45,615

The financial statements were approved by the Board of Directors on 13 May 2022 signed on its behalf by:

R I Barnett
Director

The notes on pages 14 to 26 form part of these financial statements.

Statement of changes in equity
31 December 2021

	Share capital	Retained earnings	Total
	£	£	£
At 1 January 2020	50,000	77,139	127,139
Loss for the year	-	(81,524)	(81,524)
At 31 December 2020	50,000	(4,385)	45,615
Profit for the year	-	164,582	164,582
At 31 December 2021	50,000	160,197	210,197

The notes on pages 14 to 26 form part of these financial statements.

Sapphire Extra Care Limited

Statement of cash flows
Year ended 31 December 2021

	Note	2021 £	2020 £
Net cash inflow from operating activities	a	2,169,893	2,585,870
Financing activities			
Decrease in borrowings		(1,619,895)	(1,768,642)
Net cash used in financing activities		(1,619,895)	(1,768,642)
Net increase in cash and cash equivalents	c	549,998	817,228
Cash and cash equivalents at the beginning of the year	b	2,019,215	1,201,987
Cash and cash equivalents at the end of the year	b	2,569,213	2,019,215

The notes on pages 14 to 26 form part of these financial statements.

Sapphire Extra Care Limited

Notes to the statement of cash flows
Year ended 31 December 2021

a) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2021 £	2020 £
Profit/(loss) for the year before tax	201,015	(116,345)
Adjustments for:		
Finance costs	3,931,276	4,073,210
Finance income	(3,966,746)	(4,079,747)
Operating cash flows before movements in working capital	165,545	(122,882)
Movements in finance asset	5,611,429	5,763,771
Decrease in receivables	692	528,169
Increase in payables	323,504	490,022
Cash generated by operations	6,101,170	6,659,080
Finance cost	(3,931,277)	(4,073,210)
Net cash from operating activities	2,169,893	2,585,870

b) CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

	2021 £	2020 £
Cash and cash equivalents	89,451	75,662
Short-term investments	2,479,762	1,943,553
	2,569,213	2,019,215

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

c) ANALYSIS OF CHANGES IN NET DEBT

	At 31 December 2020 £	Cash flow £	At 31 December 2021 £
Cash and cash equivalents	2,019,215	549,998	2,569,213
Borrowings	(63,714,125)	1,619,895	(62,094,230)
Net debt	(61,694,910)	2,169,893	(59,525,017)

Borrowings comprise a senior loan and a subordinated loan, as per note 13.

The notes on pages 14 to 27 form part of these financial statements.

Notes to the financial statements
Year ended 31 December 2021

1. ACCOUNTING POLICIES

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

Basis of preparation

Sapphire Extra Care Limited is a company incorporated in the United Kingdom under the Companies Act. The company is registered in England and Wales and is a private company limited by shares. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the business review on page 2.

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

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

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

Going concern

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

During the year, the Covid-19 pandemic continued to have a negative impact on the economy as a whole. However, with Covid-19 related restrictions easing through the start of 2022 and expected to ease further, this impact is forecast to reduce. The Directors have considered the potential impact of Covid-19 when making this assessment. The company meets its day to day working capital requirements principally through unitary charge receipts from the Council. The Directors do not consider the ability of government authorities to pay unitary fees to be a material risk.

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

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

Notes to the financial statements
Year ended 31 December 2021

1. **ACCOUNTING POLICIES (continued)**

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

All new standards effective in the year were assessed to not have a material impact on the financial statements.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current tax and deferred tax for the year

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

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

Notes to the financial statements
Year ended 31 December 2021

1. ACCOUNTING POLICIES (continued)

Revenue

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

Operating profit

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

Financial instruments

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

Financial assets

The company has adopted IFRIC 12 - Service Concession Arrangements whereby the client, Stoke-on-Trent City Council, has contracted with the company to design, build and finance three extra care housing facilities for 25 years. IFRIC 12 draws a distinction between two types of concession arrangement; financial asset and intangible asset. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

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

1. ACCOUNTING POLICIES (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit and loss ("FVTPL").

Impairment of financial assets

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

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

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

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

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

Borrowing costs

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

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

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

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

Notes to the financial statements
Year ended 31 December 2021

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Service concession arrangement
As disclosed in Note 1, the company accounts for the project as a service concession arrangement. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

Key sources of estimation uncertainty
There are no key sources of estimation uncertainty.

Notes to the financial statements
Year ended 31 December 2021

3. REVENUE

	2021 £	2020 £
Unitary charge and other income	2,422,453	2,260,900

All revenue arose from continuing operations in the United Kingdom.

4. OPERATING PROFIT

Operating profit is stated after charging:

	2021 £	2020 £
Fees payable to the company's auditor:		
For the audit of the annual accounts:		
- Company	9,019	6,735
- Parent (borne by the company)	1,000	1,000
Total audit fees	10,019	7,735

5. FINANCE INCOME

	2021 £	2020 £
Interest receivable		
Deposit account interest	769	6,253
Finance income	3,965,978	4,073,494
	3,966,746	4,079,747

6. FINANCE COSTS

	2021 £	2020 £
Interest payable		
Agency/ management fees	17,605	17,284
Subordinated loan interest	736,000	746,649
Senior debt effective interest	3,177,671	3,309,277
	3,931,276	4,073,210

Sapphire Extra Care Limited

Notes to the financial statements
Year ended 31 December 2021

7. TAXATION

(a) Analysis of tax charge for the year

		2021	2020
		£	£
Current tax:			
UK corporation tax on profit for the year		38,193	(22,105)
Deferred tax	7(c)	(1,760)	(12,716)
Tax on ordinary activities		36,433	(34,821)

UK corporation tax has been charged at 19%.

The Finance Act 2020 maintained the main rate of corporation tax at 19%.

(b) Factors affecting tax charge for the year

The current tax charge for the year differs from that resulting from applying the standard rate of corporation tax in the UK. The differences are explained below:

	2021	2020
	£	£
Profit/(loss) on ordinary activities before tax	201,015	(116,345)
Profit/ (loss) on ordinary activities multiplied by the rate of UK corporation tax of 19%	38,193	(22,106)
Effects of:		
Deferred tax asset released/(created)	20,036	(12,716)
Brought forward losses utilised	(20,036)	-
Prior year adjustment	(1,760)	-
Total tax charge/ credit for the year	36,433	(34,821)

(c) Deferred tax

	2021	2020
Deferred tax asset:	£	£
At 1 January	28,093	15,377
Prior year adjustment	1,760	-
Deferred tax asset (released)/created	(20,036)	12,716
Group relief reclassified	(9,817)	-
At 31 December	-	28,093

Deferred tax is calculated at the tax rate that has been enacted or substantively enacted at the Statement of financial position date. In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. This change has been reflected in the values of any deferred tax assets or liabilities

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

Notes to the financial statements
Year ended 31 December 2021

8. DIVIDENDS

	2021	2020
	£	£
Ordinary shares of £1 each	-	-

9. FINANCIAL ASSET

	Total
	£
FAIR VALUE	
At 1 January 2021	61,927,055
Movement	(1,644,683)
At 31 December 2021	60,282,372
NET BOOK VALUE	
At 31 December 2021	60,282,372
At 31 December 2020	61,927,055

10. TRADE AND OTHER RECEIVABLES

	2021	2020
	£	£
Trade receivables	14,737	3,013
Contract asset	462,557	465,458
Prepayments	29,568	24,344
	506,862	492,815

11. SHORT-TERM INVESTMENTS

	2021	2020
	£	£
Bank deposits	2,479,762	1,943,553

Short term investments comprise of a proceeds account and maintenance reserve deposit account with short term durations.

Notes to the financial statements
Year ended 31 December 2021

12. TRADE AND OTHER PAYABLES

	2021 £	2020 £
Trade payables	-	1,800
Accruals and deferred income	830,317	502,087
VAT	205,545	208,470
Corporation Tax	18,157	-
	1,054,020	712,357

13. FINANCIAL LIABILITIES - BORROWINGS

	2021 £	2020 £
Current:		
Bank loans	1,854,036	1,782,068
Non-current:		
Bank loans	55,332,921	57,109,971
Other loans	4,907,273	4,822,086
	60,240,194	61,932,057
	62,094,230	63,714,125

Terms and debt repayment schedule

	Less than one year £	1 to 5 years £	5 + years £	Total £
2021				
Bank loans	1,854,036	8,231,210	47,101,711	57,186,957
Other loans	-	-	4,907,273	4,907,273
	1,854,036	8,231,210	52,008,984	62,094,230

The bank loan, secured by a charge on the company's shares, is under a facility agreement with a single bank. The bank loan bears a fixed interest rate of 5.31% and is repayable in instalments to 2039. As a result of associated borrowing costs, the effective rate for the loan is 5.59%.

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

The subordinated loan provided by the company's parent, Sapphire Extra Care (Holding) Limited, has a fixed interest rate of 11.5%.

Notes to the financial statements
Year ended 31 December 2021

14. CALLED UP SHARE CAPITAL

Authorised, allotted, called up and fully paid	**2021** £	**2020** £
50,000 (2020: 50,000) ordinary shares of £1 each	50,000	50,000

All shares rank equally in every respect.

15. RESERVES

	Retained earnings £
At 1 January 2021	(4,385)
Profit for the year	164,582
At 31 December 2021	160,197

16. TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

There are no transactions with the directors to be disclosed.

During the year, the company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties and the total value of transactions are shown below:

	2021 Value of transactions £	**Payable at year end** £	**2020** Value of transactions £	**Payable at year end** £
Kajima Partnerships Limited	205,613	-	243,392	-
Kajima Europe Limited	8,789	-	-	-
Eric Wright Group Limited	-	-	12,600	-
Your Housing Limited	774,243	-	904,929	-

Kajima Partnerships Limited ("KPL") holds a 66.67% interest in the company's parent, Sapphire Extra Care (Holding) Limited ("SECH"). Your Housing Limited ("YHL") holds a 33.33% interest in SECH. KPL and KEL are members of the Kajima group of companies. The transactions were in respect of: KPL - management services, directors' fees, audit fees and ESG fees; KEL- audit fees; and YHL - housing management services and directors' fees. During the year Eric Wright Group Limited ("EWG") sold its 25% interest in SECH to KPL and YHL.

Sapphire Extra Care Limited

Notes to the financial statements
Year ended 31 December 2021

17. FINANCIAL INSTRUMENTS

	Held at amortised cost £	Held at fair value through profit or loss £	Total carrying amount £
At 31 December 2021			
Financial asset	60,282,372	-	60,282,372
Trade and other receivables*	-	-	-
Cash and cash equivalents	-	2,569,213	2,569,213
Financial assets	60,282,372	2,569,213	62,851,585
Trade and other payables**	-	-	-
Borrowings	62,094,230	-	62,094,230
Financial liabilities	62,094,230	-	62,094,230
At 31 December 2020			
Financial asset	61,927,055	-	61,927,055
Trade and other receivables*	3,013	-	3,013
Cash and cash equivalents	-	2,019,215	2,019,215
Financial assets	61,930,068	2,019,215	63,949,283
Trade and other payables**	1,800	-	1,800
Borrowings	63,714,125	-	63,714,125
Financial liabilities	63,715,925	-	63,715,925

*Defined as total trade and other receivables excluding prepayments and accrued income

**Defined as total trade and other payables including related party balances excluding accruals, deferred income, taxation and social security and other non-financial liabilities.

Financial risk management
The company is exposed to a variety of risks including interest rate risk, credit risk and liquidity risk as stated and mitigated in the Directors' report.

Interest rate risk management
The company mitigates exposure to interest rate risk because it borrows funds only at fixed interest rates.

The company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

17. FINANCIAL INSTRUMENTS (continued)

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company and is managed as per disclosed in the Directors' report.

Apart from Stoke-on-Trent City Council and Your Housing Limited, the sole customers of the company, the company does not have any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the board of directors, as described in the Directors' report.

Liquidity and interest risk tables
The following table details the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows as owed at the statement of financial position date. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the statement of financial position date. The contractual maturity is based on the earliest date on which the company may be required to pay.

31 December 2021	Subordinated fixed interest rate loan	Senior debt fixed interest rate loan	Total
	£	£	£
Weighted average effective interest rate (%)	11.5%	5.31%	
Within 1 year	-	1,854,036	1,854,036
1-5 years	-	8,231,210	8,231,210
5+ years	6,400,000	47,101,711	53,501,711
Total	6,400,000	57,186,957	63,586,957

Notes to the financial statements
Year ended 31 December 2021

17. FINANCIAL INSTRUMENTS (continued)

Liquidity and interest risk tables (continued)

31 December 2020	Subordinated fixed interest rate loan	Senior debt fixed interest rate loan	Total
	£	£	£
Weighted average effective interest rate (%)	11.5%	5.31%	
Within 1 year	-	1,782,068	1,782,068
1-5 years	-	7,281,925	7,281,925
5+ years	6,400,000	49,828,046	56,228,046
Total	6,400,000	58,892,039	65,292,039

18. DIRECTORS' REMUNERATION

No director received any remuneration for services provided to the company during the year (2020: £nil).

19. EMPLOYEES

The company had no employees in the year (2020: nil).

20. ULTIMATE AND IMMEDIATE PARENT COMPANY

The company's immediate parent company is Sapphire Extra Care (Holding) Limited ("SECH"), a company incorporated in Great Britain. The smallest and largest group of which the company is a member and for which group financial statements are prepared is SECH. Copies of its financial statements are available at this company's registered office: 10 St. Giles Square, London, WC25 8AP. SECH is jointly controlled by Kajima Partnerships and Your Housing Limited. There is therefore no ultimate controlling party.