



Highway Management (City) Holding Limited
Financial Statements
31 December 2021



Highway Management (City) Holding Limited

Financial Statements

Year ended 31 December 2021

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Highway Management (City) Holding Limited

Strategic Report

Year ended 31 December 2021

The directors present their Strategic Report on the group for the year ended 31 December 2021.

Principal activities and business review

Principal activities and business review are detailed in the Directors' Report on page 2.

Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks.

The key business risks affecting the group are considered to relate to cash flow management, operation and maintenance compliance of the insurance cover and lifecycle profile.

Formal Board meetings are held during which quarterly management accounts are produced, which compare actual financial performance with a detailed financial model. Variances in the forecast are investigated and appropriate processes are put in place to mitigate the risk.

Key performance indicators

The group is required to maintain levels of expected net cash flow equal to 1.05 times the actual debt service payment due in the next 12 months. The debt service payment due in the next 12 months is expected to be £8,224,000.

Financial performance

The group has modelled the anticipated financial performance of its concession across its full term. Quarterly management accounts are produced, which compare actual financial performance with a detailed financial model. The directors believe the performance for the year to be satisfactory.

This report was approved by the Board of directors on 29 April 2022 and signed on behalf of the Board by:



A Naafs
Director

Registered office:
Unit 310
Moat House
54 Bloomfield Avenue
Belfast
BT5 5AD

Highway Management (City) Holding Limited

Directors' Report

Year ended 31 December 2021

The directors present their report and the audited financial statements of the group for the year ended 31 December 2021.

Principal activities and business review

The principal activity of the company is that of a holding company with two subsidiaries, Highway Management (City) Limited and Highway Management (City) Finance Plc.

The principal activity of the group is the provision of operational and maintenance services on four highway improvement schemes for the M1 (Westlink) motorway in Belfast, Northern Ireland, over a 30 year concession term, in accordance with a Project Agreement entered into with the Department for Infrastructure. Construction was completed on 27 November 2009, on which date the project became operational.

As part of the Project Agreement, Highway Management (City) Finance Plc, entered into a number of financing arrangements, which were on-loaned to a fellow subsidiary undertaking, Highway Management (City) Limited, with identical terms for the payment of interest and principal. The objective is to upgrade, increase capacity and relieve congestion on this stretch of the motorway network.

The result for the group for the year is shown in the Consolidated Profit and Loss Account on page 10.

Directors

The directors who served the company during the year and up to the date of this report are shown below:

A Naafs
F Schramm

Dividends paid and payable

The directors recommended and paid dividends of £nil (2020: dividends paid £140,000) during the year.

Future developments

The project continues to perform in line with the modelled expectations and management of the scheme both logistically and financially remains under control. The directors remain confident that the group will maintain the current level of performance and keep meeting the obligations under the contract.

Financial risk management objectives and policies

The group's operations expose it to a variety of financial risks that include liquidity risk, interest rate risk and credit risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group by monitoring levels of debt finance and the related finance costs.

Avison Young Infrastructure Management Limited, as the provider of management and financial services to the group under a contractual arrangement, implements the policies set by the Board of directors.

Highway Management (City) Holding Limited

Directors' Report *(continued)*

Year ended 31 December 2021

Liquidity risk

The group minimises the risk of uncertain funding in its operations by having long-term committed facilities available. In addition, the group is required to maintain levels of expected net cash flow equal to 1.05 times the actual debt service payment due in the next 12 months. The debt service payment due in the next 12 months is expected to be £8,224,000.

Interest rate risk

The group is exposed to market related interest rate risk in relation to its index-linked debt through movements in RPI and on its floating rate mezzanine bank loan through movements in LIBOR. This is mitigated as the loans within Highway Management (City) Finance Plc have identical terms for the payment of interest and principal. The transition to SONIA in relation to the mezzanine facility is still on-going.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge its obligation under the contract giving rise to the financial instrument. The group's credit risk is concentrated as its cash flows are generated from the PFI roadway concession asset. The concentration of risk is mitigated as the cash flows are secured under contract with the Department for Infrastructure, a government body.

Donations

The group and company made no political donations during the year (2020: £nil).

Disclosure of information to the auditor

In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Johnston Carmichael LLP will therefore continue in office.

Going concern

The directors have reviewed the group's projected cash flows by reference to a financial model covering accounting periods up to 31 December 2036. The directors have also examined the current status of the group's principal contracts and likely developments in the foreseeable future. Having reviewed the available information, the directors consider that the group and company will be able to meet its financial obligations on the due dates for the foreseeable future.

Highway Management (City) Holding Limited

Directors' Report *(continued)*

Year ended 31 December 2021

This report was approved by the Board of directors on 29 April 2022 and signed on behalf of the Board by:



A Naafs
Director

Registered office:
Unit 310
Moat House
54 Bloomfield Avenue
Belfast
BT5 5AD

Highway Management (City) Holding Limited

Directors' Responsibilities Statement

Year ended 31 December 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

This report was approved by the Board of directors on 27 April 2022 and signed on behalf of the Board by:



A Naafs
Director

Registered office:
Unit 310
Moat House
54 Bloomfield Avenue
Belfast
BT5 5AD

Highway Management (City) Holding Limited

Independent Auditor's Report to the Members of Highway Management (City) Holding Limited

Year ended 31 December 2021

Opinion

We have audited the consolidated financial statements of Highway Management (City) Holding Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent 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.

Highway Management (City) Holding Limited

Independent Auditor's Report to the Members of Highway Management (City) Holding Limited *(continued)*

Year ended 31 December 2021

Other information

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

We have nothing to report in this regard.

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 requirement.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Highway Management (City) Holding Limited

Independent Auditor's Report to the Members of Highway Management (City) Holding Limited *(continued)*

Year ended 31 December 2021

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was considered capable of detecting irregularities and 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 specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below.

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

- United Kingdom Accounting Standards, including Financial Reporting Standard FRS 102;
- UK Companies Act; and
- UK Corporation taxes legislation.

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

We assessed the susceptibility of the group and parent company's financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls. In areas of the financial statements where the risks were considered to be higher, we performed procedures to address each identified risk.

The following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- reviewing minutes of meetings of those charged with governance for reference to breaches of laws and regulation or for any indication of any potential litigation and claims;
- reviewing the level of and reasoning behind the group's and parent company's procurement of legal and professional services;
- performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias.

Highway Management (City) Holding Limited

Independent Auditor's Report to the Members of Highway Management (City) Holding Limited *(continued)*

Year ended 31 December 2021

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

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. 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.



Grant Roger (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP
Chartered Accountants and Statutory Auditors
7-11 Melville Street
Edinburgh
EH3 7PE

Date: 30 April 2022

Highway Management (City) Holding Limited

Consolidated Profit and Loss Account

Year ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	4	7,774	8,607
Cost of sales		(6,023)	(6,538)
Administrative expenses		(190)	(172)
Operating profit		1,561	1,897
Interest receivable and similar income	7	5,336	5,612
Interest payable and similar expenses	8	(6,424)	(6,673)
Profit before taxation		473	836
Tax on profit	9	(105)	(224)
Profit for the financial year		368	612

The notes on pages 16 to 25 form part of these financial statements.

All the activities of the group are from continuing operations.

The group has no other comprehensive income and expenses other than the results for the year as set out above. Accordingly, no separate statement of comprehensive income is presented.

Highway Management (City) Holding Limited

Consolidated Balance Sheet

As at 31 December 2021

	Note	2021 £000	2020 £000
Current assets			
Debtors: amounts falling due within one year	12	6,998	6,724
Debtors: amounts falling due after more than one year	12	115,938	121,619
Cash at bank and in hand		17,830	17,051
Total current assets		140,766	145,394
Creditors: amounts falling due within one year	13	(10,933)	(10,798)
Net current assets		129,833	134,596
Total assets less current liabilities		129,833	134,596
Creditors: amounts falling due after more than one year	14	(124,444)	(129,575)
Net assets		5,389	5,021
Capital and reserves			
Called up share capital	16	50	50
Profit and loss account		5,339	4,971
Total equity		5,389	5,021

The notes on pages 16 to 25 form part of these financial statements.

The financial statements on pages 10 to 25 were approved by the Board of directors on 29 April 2022 and signed on behalf of the Board by:


A Naafs
Director

Company registration number: NI056489

Highway Management (City) Holding Limited

Company Balance Sheet.

As at 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Investments	11	50	50
Current assets			
Debtors: amounts falling due within one year	12	397	381
Debtors: amounts falling due after more than one year	12	10,574	10,541
Total current assets		10,971	10,922
Creditors: amounts falling due within one year	13	(397)	(381)
Net current assets		10,574	10,541
Total assets less current liabilities		10,624	10,591
Creditors: amounts falling due after more than one year	14	(10,574)	(10,541)
Net assets		50	50
Capital and reserves			
Called up share capital	16	50	50
Total equity		50	50

The profit for the financial year of the parent company was £nil (2020: £140,000).

The notes on pages 16 to 25 form part of these financial statements.

The financial statements on pages 10 to 25 were approved by the Board of directors on 29 April 2022, and signed on behalf of the Board by:


A Naafs
Director

Company registration number: NI056489

Highway Management (City) Holding Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Note	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2020		50	4,499	4,549
Profit for the financial year		–	612	612
Total comprehensive income for the financial year		–	612	612
Dividends paid and payable	10	–	(140)	(140)
Total investments by and distributions to owners		–	(140)	(140)
At 31 December 2020		50	4,971	5,021
Profit for the financial year		–	368	368
Total comprehensive income for the financial year		–	368	368
At 31 December 2021		50	5,339	5,389

The notes on pages 16 to 25 form part of these financial statements.

Highway Management (City) Holding Limited

Company Statement of Changes in Equity

Year ended 31 December 2021

	Note	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2020		50	–	50
Profit for the financial year		–	140	140
Total comprehensive income for the financial year		–	140	140
Dividends paid and payable	10	–	(140)	(140)
Total investments by and distributions to owners		–	(140)	(140)
At 31 December 2020		50	–	50
Result for the financial year		–	–	–
At 31 December 2021		50	–	50

The notes on pages 16 to 25 form part of these financial statements.

Highway Management (City) Holding Limited

Consolidated Cash Flow Statement

Year ended 31 December 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Profit for the financial year	368	612
<i>Adjustments for:</i>		
Interest receivable and similar income	(5,336)	(5,612)
Interest payable and similar expenses	6,424	6,673
Tax on profit	105	224
<i>Changes in:</i>		
Trade and other debtors	5,407	3,900
Trade and other creditors	(475)	(2,382)
Cash generated from operations	6,493	3,415
Interest paid	(3,126)	(4,402)
Interest received	5,336	5,612
Tax paid	(183)	(252)
Net cash generated from operating activities	8,520	4,373
Cash flows from financing activities		
Repayment of bond and bank loans	(7,741)	(7,150)
Dividends paid	–	(140)
Net cash used in financing activities	(7,741)	(7,290)
Net increase/(decrease) in cash and cash equivalents	779	(2,917)
Cash and cash equivalents at beginning of year	17,051	19,968
Cash and cash equivalents at end of year	17,830	17,051

Analysis of changes in net debt

	At 1 Jan 2021 £000	Cash flows £000	Other non-cash changes £000	At 31 Dec 2021 £000
Net cash:				
Cash at bank and in hand	17,051	779	–	17,830
Debt:				
Debt due within 1 year	(8,310)	7,741	(8,316)	(8,885)
Debt due after more than 1 year	(123,415)	–	4,847	(118,568)
	(131,725)	7,741	(3,469)	(127,453)
Net debt	(114,674)	8,520	(3,469)	(109,623)

The notes on pages 16 to 25 form part of these financial statements.

Highway Management (City) Holding Limited

Notes to the Financial Statements

Year ended 31 December 2021

1. General information

The company is a private company limited by shares incorporated in the United Kingdom, which is registered and domiciled in the United Kingdom at Unit 310, Moat House, 54 Bloomfield Avenue, Belfast, BT5 5AD. The company's principal activity is that of a holding company with two subsidiaries, Highway Management (City) Limited and Highway Management (City) Finance Plc.

2. Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is Pound Sterling and is rounded to the nearest thousand.

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

3. Summary of significant accounting policies

Measurement convention

The financial statements were prepared under the historical cost convention.

Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible changes in operations, believe that the group and company will be able to settle liabilities as they fall due for payment for the foreseeable future and therefore consider that it is appropriate to prepare these financial statements on a going concern basis.

Exemptions for qualifying entities under FRS 102

The company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemption available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes.
- Basic Financial Instruments and Other Financial Instrument Issues.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Certain critical accounting estimates in applying the group's accounting policies are described below:

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

3. Summary of significant accounting policies *(continued)*

Critical accounting estimates and judgements *(continued)*

Accounting for the service concession requires an estimation of service margins which is based on the forecasted results of the PFI contract. Quarterly management accounts are produced, which compare actual financial performance with a detailed financial model. Variances are investigated and consideration given to the impact of any major variances. The financial model is updated on a six-monthly basis, to reflect actual performance to date and accommodate any changes in economic assumptions such as, RPI and the UK corporation tax rate. These processes ensure that the project remains robust and viable throughout the life of the contract.

Interest payable on the senior secured funding and mezzanine loan are calculated using the effective interest rate method. The effective interest rate calculations are based on index-linked coupon rates and LIBOR, under the terms of the funding agreements. The transition to SONIA in relation to the mezzanine facility is still on-going.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings, Highway Management (City) Limited and Highway Management (City) Finance Plc up to 31 December 2021. The acquisition method of accounting has been adopted. The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

Turnover

Turnover represents the value of services rendered, excluding sales related taxes, and is recognised to the extent that the group obtains the right to consideration in exchange for its performance. During the construction phase, which completed on 27 November 2009, revenues in excess of net operating and finance costs were deferred until completion of construction, whereupon they will be released to the Profit and Loss Account over the remaining life of the concession. During the operational phase, turnover is recognised as contract activity progresses at a mark-up on costs related to the provision of services. In line with FRS 102 23.22(a), the mark-up is calculated based upon the forecast service revenues and costs over the concession period.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

3. Summary of significant accounting policies *(continued)*

Taxation *(continued)*

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Investments

Investments in subsidiary undertakings are stated at cost, less an appropriate provision to reflect any impairment in the value of the investments.

Financial instruments

Financial instruments are recognised when the group becomes a party to the contractual provisions of the instrument.

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and treasury deposits.

Restricted cash balance

The group is obligated to keep a separate cash reserve in respect of future major maintenance costs and to keep cash reserves in accordance with the funding documents. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £10,674,000 at the year-end (2020: £9,354,000).

LIBOR reform

On 5 March 2021, the Financial Conduct Authority (FCA) announced that LIBOR rates will cease on 31 December 2021. For most sectors in the UK, LIBOR will be replaced by a new benchmark interest rate called SONIA (Sterling Overnight Index Average). SONIA is based on actual historic transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from financial institutions and other institutional investors. SONIA is administered and produced by the Bank of England. Some LIBOR rates may continue in 2022, as 'Synthetic LIBOR', on financing arrangements deemed by the FCA as tough legacy contracts. However, the use of Synthetic LIBOR is only intended to be temporary and will be calculated very differently from historical panel bank LIBOR, which will no longer be available. The transition to SONIA in relation to the mezzanine facility is still on-going. There is no financial impact on the group.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

3. Summary of significant accounting policies *(continued)*

Financial assets

The group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. Financial assets are initially measured at fair value, plus, in the case of financial assets not at 'fair value through profit or loss', directly attributable transaction costs. The group has categorised its financial assets as loans and receivables. Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either 'fair value through profit or loss' or 'available for sale'. Such assets are carried at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. Gains and losses are recognised in the Profit and Loss Account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires. Finance charges and directly attributable transaction costs are accounted for in the Profit and Loss Account using the effective interest rate method, and added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest rate is calculated using the RPI in relation to the reporting period for the group's index-linked bond and index-linked bank loan.

Finance debtor

The group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the group under FRS 102 section 34.12C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase, income is allocated between interest receivable and the finance debtor using an asset specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 102 section 23.22(a). The group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

3. Summary of significant accounting policies *(continued)*

Interest payable

Interest payable and similar expenses include interest payable on borrowings and associated on-going financing fees. Interest payable is recognised in the Profit and Loss Account, using the effective interest rate method.

Interest receivable

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

4. Turnover

Turnover arises from:

	2021 £000	2020 £000
Service income	<u>7,774</u>	<u>8,607</u>

The whole of the turnover is attributable to the principal activity of the group wholly undertaken in the United Kingdom.

5. Auditor's remuneration

	2021 £000	2020 £000
Audit of these financial statements	<u>25</u>	<u>24</u>

The audit fee in respect of the group was £25,000 (2020: £24,000) and for the company £2,000 (2020: £2,000). All the group audit fees have been borne by the company's subsidiary undertaking, Highway Management (City) Limited.

6. Staff costs and directors' remuneration

The group and company had no employees during the year (2020: nil). No key management personnel received any remuneration during the year (2020: nil). The directors have no contract of service with the group. During the year the group incurred charges of £125,000 (2020: £123,000) from BBGI Management HoldCo S.à r.l. (a direct and wholly owned subsidiary of BBGI Global Infrastructure S.A., the ultimate parent undertaking and controlling party), for making available the services of the directors.

7. Interest receivable and similar income

	2021 £000	2020 £000
Bank interest receivable	2	38
Finance debtor interest receivable	<u>5,334</u>	<u>5,574</u>
	<u>5,336</u>	<u>5,612</u>

Interest is imputed on the finance debtor using an asset specific interest rate of 4.93%.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

8. Interest payable and similar expenses

	2021 £000	2020 £000
Interest payable on subordinated debt	1,227	1,256
Interest and indexation on bank loans	2,746	2,847
Interest and indexation on bond	2,451	2,570
	<u>6,424</u>	<u>6,673</u>

9. Tax on profit

Tax expense

	2021 £000	2020 £000
Current tax:		
UK current tax expense	258	327
Adjustments in respect of prior periods	(144)	(24)
Total current tax	<u>114</u>	<u>303</u>
Deferred tax:		
Origination and reversal of timing differences	(9)	(79)
Tax on profit	<u>105</u>	<u>224</u>

Reconciliation of tax expense

The tax assessed on the profit before taxation for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK of 19% (2020: 19%).

	2021 £000	2020 £000
Profit before taxation	<u>473</u>	<u>836</u>
Profit before taxation by rate of tax	90	159
Adjustments in respect of prior periods	15	65
Tax on profit	<u>105</u>	<u>224</u>

Tax rate changes

In the budget on 3 March 2021, the Chancellor of the Exchequer announced that the UK corporation tax rate will increase to 25% from 1 April 2023, which was substantively enacted on 10 June 2021. This will increase the group's future current tax charge accordingly. Deferred tax at 31 December 2021 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

10. Dividends paid and payable

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2021 £000	2020 £000
Dividends on ordinary shares	–	140

During the year the company made a dividend payment of £nil (2020: £140,000) to its shareholder, BBGI (NI) Limited (an indirect and wholly owned subsidiary of BBGI Global Infrastructure S.A., the ultimate parent undertaking and controlling party).

11. Investments

Company	Shares in subsidiary undertakings £000
Cost	
At 1 January 2021 and 31 December 2021	50
Accumulated impairment	
At 1 January 2021 and 31 December 2021	–
Carrying amount	
At 31 December 2021	50
At 31 December 2020	50

The company owns 100% of the issued share capital (£100) of Highway Management (City) Limited and 100% of the issued share capital (£50,000) of Highway Management (City) Finance Plc, which are both registered and domiciled in the United Kingdom at Unit 310, Moat House, 54 Bloomfield Avenue, Belfast, BT5 5AD.

12. Debtors

Debtors falling due within one year are as follows:

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade debtors	30	30	–	–
Amounts owed by group undertakings	–	–	397	381
Finance debtor	5,270	5,017	–	–
Prepayments and accrued income	1,698	1,677	–	–
	<u>6,998</u>	<u>6,724</u>	<u>397</u>	<u>381</u>

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

12. Debtors *(continued)*

Debtors falling due after one year are as follows:

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Amounts owed by group undertakings	–	–	10,574	10,541
Finance debtor	99,749	105,019	–	–
Prepayments and accrued income	16,189	16,600	–	–
	<u>115,938</u>	<u>121,619</u>	<u>10,574</u>	<u>10,541</u>

Amounts owed by group undertakings are unsecured, fully repayable by 2036 and attract interest at 11.4%.

13. Creditors: amounts falling due within one year

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Loans and bonds	8,488	8,310	–	–
Trade creditors	468	173	–	–
Corporation tax	258	327	–	–
Other taxation and social security	509	533	–	–
Subordinated debt (including accrued interest)	397	381	397	381
Retention	91	103	–	–
Accruals and deferred income	722	971	–	–
	<u>10,933</u>	<u>10,798</u>	<u>397</u>	<u>381</u>

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

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Loans and bonds	107,994	112,874	–	–
Subordinated debt	10,574	10,541	10,574	10,541
Deferred tax liability	661	669	–	–
Other creditors	–	3	–	–
Accruals and deferred income	5,215	5,488	–	–
	<u>124,444</u>	<u>129,575</u>	<u>10,574</u>	<u>10,541</u>

Included within Loans and bonds is an amount repayable after five years of £72,358,000 (2020: £78,840,000) and included within subordinated debt are amounts repayable after five years of £10,413,000 (2020: £10,413,000).

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

14. Creditors: amounts falling due after more than one year *(continued)*

Borrowings relate to senior secured funding totalling £123,100,000 and a mezzanine loan of £8,440,000 granted by a consortium of banks led by Royal Bank of Canada Europe Limited ("RBC"). The senior facility is split as follows: index-linked bonds of £61,700,000 with a 1.609% coupon, and a bank loan of £61,400,000 with a 1.34% index-linked coupon with the European Investment Bank ("EIB"). Scheduled payments of interest and principal under the bond and EIB loan are guaranteed by Assured Guaranty (Europe) Limited.

The senior bond facility of £61,700,000 is repayable in 53 six-monthly instalments up until 27 February 2036. As at 31 December 2021, the senior bond includes an outstanding bond facility of £54,264,000 (2020: £56,601,000), and an effective interest rate adjustment of £(712,000) (2020: £(755,000)) in relation to the senior bond facility. At the year-end, interest payable on the senior bond facility was £222,000 (2020: £229,000). The senior bond facility is secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the group and by a floating charge over the group's undertakings and assets.

The EIB loan is repayable in 49 six-monthly instalments up until 15 February 2034. As at 31 December 2021, the EIB loan includes an outstanding loan facility of £56,722,000 (2020: £59,018,000), and an effective interest rate adjustment of £(675,000) (2020: £(722,000)) in relation to the EIB loan facility. At the year-end, interest payable on the EIB loan facility was £193,000 (2020: £198,000). The EIB loan is secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the group and by a floating charge over the group's undertakings and assets.

The mezzanine facility of £8,440,000 is repayable in 53 six-monthly instalments up until 27 February 2036. As at 31 December 2021, the mezzanine loan includes an outstanding loan facility of £6,647,000 (2020: £6,874,000), and an effective interest rate adjustment of £(245,000) (2020: £(325,000)) in relation to the mezzanine loan facility. Interest is charged on amounts drawn under the facility at LIBOR + 3.75%. At the year-end, interest payable on the mezzanine facility was £66,000 (2020: £66,000). The mezzanine facility is secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the group and by a floating charge over the group's undertakings and assets.

Subordinated debt of £10,971,000 (2020: £10,922,000) includes an unsecured loan facility of £10,413,000 (2020: £10,413,000) due to the immediate parent undertaking, Highway Management (City) Holding Limited, and an effective interest rate adjustment of £165,000 (2020: £128,000) in relation to the subordinated loan facility and is fully repayable by 2036. The subordinated loan facility bears interest at a fixed rate of 11.4%. At the year-end, interest payable on the subordinated loan facility was £393,000 (2020: £381,000).

15. Deferred tax

The deferred tax account consists of the tax effect of timing differences in respect of:

	Group		Company	
	2021	2020	2021	2020
	£000	£000	£000	£000
Deferred tax in relation to the effective interest rate adjustment (note 14)	661	669	–	–

The net deferred tax liability expected to reverse in 2022 is £220,000. This primarily relates to the reversal of timing differences on the effective interest rate adjustment. There is no unrecognised deferred tax asset or liability for the group (2020: £nil).

Highway Management (City) Holding Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2021

16. Called up share capital

Group and company

Issued, called up and fully paid

	2021		2020	
	No.	£000	No.	£000
Ordinary shares of £1 each	50,100	50	50,100	50

17. Related parties

During the year the group entered into the following transactions with related parties:

	Transactions with related parties		Payables to related parties	
	2021	2020	2021	2020
	£000	£000	£000	£000
BBGI Management HoldCo S.à r.l.	125	123	33	—
BBGI (NI) Limited	1,227	1,256	10,971	10,922

The group incurred directors' fees of £125,000 (2020: £123,000) from BBGI Management HoldCo S.à r.l. (a direct and wholly owned subsidiary of BBGI Global Infrastructure S.A., the ultimate parent undertaking and controlling party). At the year-end there was £33,000 (2020: £nil) payable to BBGI Management HoldCo S.à r.l. in respect of directors' fees.

The group incurred interest of £1,227,000 (2020: £1,256,000) on the subordinated loan facility payable to BBGI (NI) Limited (an indirect and wholly owned subsidiary of BBGI Global Infrastructure S.A., the ultimate parent undertaking and controlling party). At the year-end there was £10,971,000 (2020: £10,922,000) payable to BBGI (NI) Limited in respect of the subordinated loan facility.

18. Parent undertaking

At 31 December 2021 and 31 December 2020, 100% of the company's share capital was held by BBGI (NI) Limited.

BBGI (NI) Limited is an indirect and wholly owned subsidiary of BBGI Global Infrastructure S.A., a Luxembourg investment company listed on the London Stock Exchange.

BBGI Global Infrastructure S.A. is the ultimate parent undertaking and controlling party during the years ended 31 December 2021 and 31 December 2020.

The largest and smallest group in which the results of the company are consolidated is that headed by Highway Management (City) Holding Limited, registered and domiciled in the United Kingdom at Unit 310, Moat House, 54 Bloomfield Avenue, Belfast, BT5 5AD. Copies of the Highway Management (City) Holding Limited financial statements can be obtained from Companies House, 2nd Floor, The Linenhall, 32-38 Linenhall Street, Belfast, BT2 8BG.