

**Birmingham Highways Limited**

Annual report and financial statements

For the year ended 30 June 2021

Company number: 07064140

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**Birmingham Highways Limited**

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**Birmingham Highways Limited**

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**COMPANY INFORMATION**

<b>Directors</b>		<b>Appointed</b>	<b>Resigned</b>
	A Clapp		25/08/2021
	C Tanner	25/08/2021	
	A G H Gullan		
	S L Jones		
	R D Knight		
	K Rahuf		
	R E F Wiggins		
	A R J Thakrar	21/01/2022	
<b>Secretary</b>	M G Duggan		
<b>Company Number</b>	07064140		
<b>Registered Office</b>	Unit G1, Ash Tree Court Nottingham Business Park Nottingham NG8 6PY		
<b>Auditors</b>	BDO LLP 55 Baker Street London W1U 7EU		

**Birmingham Highways Limited**

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**STRATEGIC REPORT**

**For the year ended 30 June 2021**

The Directors present their strategic report for the year ended 30 June 2021.

**Performance and financial position at the year end**

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

The results for the period are shown on page 12 in the income statement. This shows total revenue for the year ended 30 June 2021 of £104,322,000 (2020: £43,368,000) and operating loss of £1,062,000 (2020 loss: £16,501,000). Net finance expense for the year ended 30 June 2021, including a profit recognised on a derivative financial instrument of £12,095,000 (2020: loss of £5,166,000) amounted to £38,689,000 (2020: £46,849,000) and the loss after tax was £46,768,000 (2020: £45,142,000 loss after tax). Net Liabilities were £175,187,000 (2020: £137,761,000).

The change in revenue and operating result largely arose from a higher accounting turnover from a Capital Improvement Programme and lower administrative overheads.

At the start of the financial year, the Company's sub-contract agreement was with Kier Highways Ltd ("Kier"). Kier replaced Amey LG Limited ("Amey"), who had agreed to exit the Project as part of the 29 June 2019 settlement ("the Settlement"). Kier commenced their services on 1 April 2020 with an interim contract to 30 June 2021 with an option to extend to 30 December 2021. This option was taken up with an extension to 30 December 2021 further extended to 29 April 2022 (and a subsequent extension has been agreed with Kier to 31 August 2023). To the date of signature this has been running successfully.

The re-procurement process to engage a long-term contractor has been documented by the BHL Board as part of the Outline Business case (OBC) that was submitted to DfT (HM Government Department with overall responsibility) on 6 December 2021. A response has been received from the DfT that has given the BHL Board comfort that it is appropriate to commence the procurement of the long-term contractor. The procurement will run until April 2023.

The Company's costs during the extended Restructuring Period, have been and will continue to be materially higher than previously, principally because sub-contractors' charges are greater than Amey's had been prior to the Settlement but additionally because, following the Settlement, the company has had to increase the scope of its operations and therefore its resources, in order to deliver the procurement of Amey's replacement through to the end of the contract.

At 30 June 2021 the Company also had a receivable of £44.49m from Amey, reflecting the £45m balance of the settlement due from Amey, discounted to reflect its current value. In the year to 30 June 2021 the Company received £10m of the original £215m settlement value so has now received a total of £170m.

At 30 June 2021 the Company had net liabilities of £175,187,000. This primarily reflects the accumulated trading losses of recent years.

During the financial year a restructuring of the Company's senior debt obligations took place with the Company's senior secured lenders ("the Senior Lenders") which saw the Company's cash reserves used to reduce the outstanding senior debt and realign the hedge position with the new level of senior debt. In total, £108m of senior debt was repaid to leave £45m outstanding. The hedge position on the debt was also reduced to align with the remaining senior debt and repayment profile.

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**Birmingham Highways Limited**

**STRATEGIC REPORT** *(continued)*

**Performance and financial position at the year end** *(continued)*

The long-term strategy of the company is to rehabilitate the city of Birmingham's highway infrastructure in line with highway standards and to maintain those standards at an acceptable and value for money level through a long-term management and maintenance contract through to 2035. Decisions and actions through the year including the debt restructuring and transfer to a new interim works provider both work towards that goal by providing a more stable balance sheet that gives all stakeholders confidence in the company and time to work towards finding a long term works provider.

**Key performance indicators**

The Directors consider cashflow, revenue, operating profit; and profit before tax and achievement of milestones under the Project to be the key performance indicators of the Company.

The Directors monitor actual performance against anticipated performance. The financial performance of the Company over the last few years has been significantly impacted by the litigation and subsequently the Settlement. The Covid-19 pandemic that continued throughout the year had only limited effect on performance.

**Principal risks and uncertainties**

The Settlement consensually resolved disputes that had arisen previously between the Company, its key customer Birmingham City Council (BCC) and its subcontractor Amey and the parties entered into two key agreements and a number of related arrangements.

The Settlement provided stability during the Restructuring Period in which the Company and BCC would work collaboratively to procure a replacement long-term contractor. As part of the Settlement BCC agreed to continue making sufficient cash available to the Company to cover the Company's operating costs and all debt service. The Settlement also provided continued Senior Lender support.

Under the terms of the Settlement Agreement there will be no risk on asset renewal expenditure; and operational deductions have ceased.

The Company has individual committed senior term loan facilities granted by the Senior Lenders, which are secured by the assets and future revenues of the Company, and on 29 June 2021 the debt restructuring saw these facilities reduced by £107,838,000 and the repayment re-profiled.

The Company has a floating interest rate on the long-term facilities, which is managed by entering into fixed interest rate swaps to mitigate interest rate exposure. These interest rate swaps were re-aligned during the financial year to match with the remaining senior debt and new repayment profile put in place as part of the senior debt restructuring. The Company does not undertake speculative financial instrument transactions. With respect to financial instrument risk, further detail is provided in Note 10 of the Financial Statements.

The term of the Restructuring Period has been extended from 3 December 2021 to 29 April 2022. The Interim Services procurement was completed, and the expiry date of the Interim Services Contract has been extended from 30 December 2021 to August 2023.

Throughout the year, the global Covid-19 pandemic had been affecting the UK. The impact of this on BHL's operations was minimal. Management ran the business remotely, and work on the Project by contractors continued to occur with the addition of increased safety equipment and personal distancing. Core income was not affected.

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

**Birmingham Highways Limited**

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**STRATEGIC REPORT** *(continued)*

**Section 172(1) Statement**

The following disclosure describes how the directors have regard to the matters set out in section 172(1)(a) to (f) and forms the directors statement required under section 414 of The Companies Act 2006:

**Customers** – The company maintains open and honest communications with its customer Birmingham City Council and holds regular meetings with them.

**Employees** – As a PFI scheme only minimal employees are in place and as they are all Board Members, they are kept well informed on company matters

Although there are less than a handful of employees, the group operates an equal opportunity policy.

**Suppliers** – Partnership and collaboration are key to ensure good relationships are kept in place with key contractors.

**Shareholders** – There is regular sharing of company performance and strategy with the parent firm and its shareholders, with shareholder requirements taken into account with regard strategic decision making.

**Communities and the Environment** – Company culture is supportive of work that is done by employees and suppliers in relation to their communities and the environment.

This report was approved by the board on 7 April 2022 and signed on its behalf by:



Robert Wiggins  
**Director**  
Company number: 07064140

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**Birmingham Highways Limited**

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**DIRECTORS' REPORT**  
**For the year ended 30 June 2021**

The Directors present their report together with the audited financial statements for the year ended 30 June 2021.

**Matters covered by Strategic report**

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

The Company has chosen in accordance with Section 414C(11) of the Companies Act 2006 (as inserted by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) to set out within this Directors' report the Company's Strategic Report information required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes information that would have been included in the business review, details of the principal risk and uncertainties and 'future developments' paragraph.

**Principal activities**

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

**Dividends**

The Directors do not recommend the payment of a dividend.

**Going concern and impact of COVID-19**

As referenced in the Strategic Report, the extension of the Restructuring Agreement from 29th June 2021 to 30 December 2021 and then to 29th April 2022 provided the Directors with greater certainty about going concern. Under the terms of the Restructuring Agreement to which the Company, BCC and the Senior Lenders were party, BCC will fund the Company and, save for an operational cash balance of £5m, all cash in the Company will be held in restricted accounts that can only be operated with the consent of the Senior Lenders.

A key operational variable is currently the long-term procurement which, on a programme set following the settlement, should have started on 1 July 2021. Instead, the programme has been delayed. The Restructuring Period has been extended to 29 April 2022 with a view to agreeing a further extension. The additional time is needed to secure the long term procurement.

Given the delay to the long-term procurement timetable agreed at the time of concluding the Settlement, the DfT requested a business plan in relation to the strategy. This was submitted in September 2021 and the outcome of the DfT review was positive. A more detailed plan was then prepared and presented to DfT in December 2021 and an initial positive response, received back along with requests for more information. Given the above, material uncertainty exists which may cast doubt on the company's ability to continue as a going concern in relation to receiving full approval from the DfT in relation to the company's business plans.

**Birmingham Highways Limited**

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**DIRECTORS' REPORT** *(continued)*

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

With respect to the period beyond 29 April 2022, whilst there is no mechanism within the Restructuring Agreement to extend it, the Directors have carefully considered the prospects of its key stakeholders consensually agreeing the terms for such an extension. The Directors have concluded a material uncertainty exists which may cast doubt on the company's ability to continue as a going concern in relation to securing an extension to the restructuring agreement. However they do have reasonable confidence that such an extension could be agreed, providing that the Senior Lenders are satisfied that the Company and BCC are aligned in their procurement strategy for a long term replacement for the sub-contractor and are working collaboratively. This conclusion is informed by the explicit language in the documents underpinning the extension to 29 April 2022, with regard to the parties' intention to work towards a further extension.

In relation to liquidity, a cash flow forecast to the end of June 2023 shows that funding from BCC is required beyond the contractual level. This is principally because BCC have requested incremental capital investment over the extension period. Under the legal agreements currently in place, BCC would be required to fund any shortfall to 29 April 2022.

In relation to the above operational variable, it needs to be noted that an extension past the 29 April 2022 could lead to adjustments in the amended cash flow forecast to June 2023 that shows an additional, unfunded, liquidity need.

In weighing up the risk that this outcome presents to the Company, the Directors have considered three principal factors. Firstly, the recent agreement to extend the Restructuring Period to 29 April 2022 and the approach being taken by all stakeholders to further extend by that date. Secondly, the quality of the detailed business plans submitted to the DfT in September and December 2021. Thirdly, the Company's detailed cash flow forecasts, which indicate that there will be sufficient liquidity until at least 30 June 2023.

Having taken the above into account, the Directors are confident that the Company will be able to continue as a going concern until the cash flow forecast date of 30 June 2023 and so these accounts have therefore been prepared on a going concern basis.

The Directors have assessed the impact of the COVID-19 pandemic on the Company's operations and have concluded that road maintenance requirements were not significantly reduced or impacted and that this is unlikely to change. During the lockdown period in place throughout significant parts of 2020 and 2021, a large part of the road maintenance workforce were classified as being 'key workers' so works continued largely as normal, with contractor attendance at over 90% throughout. The Company has therefore been able to maintain its services levels to BCC and has received its expected level of income during the pandemic period to date and the directors are not currently aware of any reason why the services levels should be significantly impacted by COVID-19 in the next twelve months.

Some changes were implemented because of Covid-19. Extra controls were built-in around social distancing workers and personal protection equipment which meant work could carry on largely as normal whilst being in strict compliance with Standard Operating Procedures required by HM Government.

**Birmingham Highways Limited**

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**DIRECTORS' REPORT** *(continued)*

**Future developments**

The re-procurement process to engage a long-term contractor is ongoing and is documented as part of the business plan that was submitted to DfT December 2021. Following receipt of approval of that business plan, BHL will commence the procurement of the long-term contractor. It is currently anticipated that the procurement will run until April 2023.

**Directors**

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

	<b>Appointed</b>	<b>Resigned</b>
A Clapp		25/08/2021
C Tanner	25/08/2021	
A G H Gullan		
S L Jones		
R D Knight		
K Rahuf		
R E F Wiggins		
A R J Thakrar	21/01/2022	

**Directors' responsibilities**

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

Company law requires the Directors to prepare financial statements for each financial period. The Directors believe that the approach they have taken to the evaluation of the PFI/PPP financial asset as at 30 June 2020 is the most appropriate one in all the circumstances but recognise that there were material uncertainties at that time which may subsequently prove to be inappropriate, especially as a result of the settlement agreement. Subject to that uncertainty, which is fully disclosed, the Directors believe they have fulfilled their responsibilities under company law.

**Birmingham Highways Limited**

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**DIRECTORS' REPORT** *(continued)*

**Directors' responsibilities** *(continued)*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

**Auditors**

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

This report was approved by the board on 7 April 2022 and signed on its behalf by:



Robert Wiggins  
**Director**

Company number: 07064140

**Birmingham Highways Limited**

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM HIGHWAYS LIMITED**  
**For the year ended 30 June 2021**

**Opinion on the financial statements**

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2021 and of its loss 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Birmingham Highways Limited ("the Company") for the year ended 30 June 2021 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

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

**Material uncertainty related to going concern**

We draw attention to note 1 to the financial statements concerning the Company's ability to continue as a going concern, which states that the Company will need to secure the extension of the Restructuring Agreement and approval of the business plan submitted to the Department for Transport, regarding the procurement of a long term sub-contractor. As stated in note 1, these events or conditions, along with other matters as set out in note 1, indicate that material uncertainties exist that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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

**Birmingham Highways Limited**

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM HIGHWAYS LIMITED  
(continued)**

**Other information**

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

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

We have nothing to report in this regard.

**Other Companies Act 2006 reporting**

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 material misstatements in the Strategic report and Director's report.

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

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

**Birmingham Highways Limited**

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

**Responsibilities of Directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

Audit procedures performed by the engagement team included:

- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in areas involving significant estimates; and
- Identifying and testing journal entries, in particular any material journal entries posted and/or with unusual descriptions.

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

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

**Birmingham Highways Limited**

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM HIGHWAYS LIMITED**  
**(continued)**

**Use of our report**

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

DocuSigned by:  
**BDO LLP**  
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Richard Willis (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
London, UK.

Date: 11 April 2022

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

**Birmingham Highways Limited**

**INCOME STATEMENT**  
**For the year ended 30 June 2021**

	Notes	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Revenue	4	104,322	43,368
Cost of sales		(97,130)	(48,820)
Impairment of PFI / PPP financial asset		-	(400)
<b>Gross profit / (loss)</b>		<b>7,192</b>	<b>(5,852)</b>
Administrative expenses		(8,254)	(10,649)
<b>Operating loss</b>	5	<b>(1,062)</b>	<b>(16,501)</b>
Finance income	7	1,011	2,299
Finance costs	7	(34,946)	(27,481)
Other financial expense	7	(3,692)	(5,166)
<b>Loss before tax</b>		<b>(38,689)</b>	<b>(46,849)</b>
Tax	8	(8,079)	1,707
<b>Loss after tax on continuing operations</b>		<b>(46,768)</b>	<b>(45,142)</b>

All of the above relates to continuing activities.

The notes on pages 19 to 45 form part of these financial statements.

**Birmingham Highways Limited**

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2021**

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
<b>Loss after tax for the period</b>	<b>(46,768)</b>	<b>(45,142)</b>
Settlement of cash flow hedge (Equity)	12,095	2,075
Cashflow hedge reclassified to profit or loss	(3,671)	
Deferred tax relating to other comprehensive income	918	(331)
<b>Other comprehensive income</b>	<b>9,342</b>	<b>1,744</b>
<b>Total comprehensive expense</b>	<b>(37,426)</b>	<b>(43,398)</b>
<b>Loss and total comprehensive expense for the period attributable to:</b>		
Equity shareholders of the Company	<b>(37,426)</b>	<b>(43,398)</b>

The notes on pages 19 to 45 form part of these financial statements.

**Birmingham Highways Limited**

**BALANCE SHEET**  
**As at 30 June 2021**

	Notes	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
PFI/PPP financial asset	9	28,473	5,378
Trade and other receivables	11	34,490	44,330
Deferred tax assets	14	918	8,079
		<b>63,881</b>	<b>57,787</b>
<b>Current assets</b>			
PFI/PPP financial asset	9	3,779	1,803
Trade and other receivables	11	16,710	18,607
Operating cash and cash equivalents		4,789	5,000
Restricted cash and cash equivalents		10,000	169,458
		<b>35,278</b>	<b>194,868</b>
<b>Total assets</b>		<b>99,159</b>	<b>252,655</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	13,598	4,999
Loans and borrowings	13	98,260	194,152
Derivative financial liabilities	10	1,530	7,146
		<b>113,388</b>	<b>206,297</b>
<b>Non-current liabilities</b>			
Loans and borrowings	13	158,817	148,741
Derivative financial liabilities	10	2,141	35,378
		<b>160,958</b>	<b>184,119</b>
<b>Total liabilities</b>		<b>274,346</b>	<b>390,416</b>
<b>NET LIABILITIES</b>		<b>(175,187)</b>	<b>(137,761)</b>

**Birmingham Highways Limited**

**BALANCE SHEET** *(continued)*

	Notes	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
<b>Issued capital and reserves attributable to Equity shareholder of the Company</b>			
Share capital	15	50	50
Hedge reserve	16	(2,753)	(12,095)
Retained earnings	16	(172,484)	(125,716)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>		<b>(175,187)</b>	<b>(137,761)</b>

The financial statements on pages 12 to 45 were approved and authorised for issue by the Board of Directors on 7 April 2022 and were signed on its behalf by:



Robert Wiggins  
Director

Company number: 07064140

The notes on pages 19 to 45 form part of these financial statements.

**Birmingham Highways Limited**

**STATEMENT OF CHANGES IN EQUITY**

	<b>Share capital £'000</b>	<b>Hedge reserve £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
Balance at 1 July 2020	50	(12,095)	(125,716)	(137,761)
Loss after tax for the period	-	-	(46,768)	(46,768)
Settlement of cash flow hedge	-	12,095	-	12,095
Cash flow hedge reclassified to profit and loss		(3,671)		(3,671)
Deferred tax thereon	-	918	-	918
Total comprehensive profit / (expense)	-	9,342	(46,768)	(37,426)
<b>Balance at 30 June 2021</b>	<b>50</b>	<b>(2,753)</b>	<b>(172,484)</b>	<b>(175,187)</b>
	<b>Share capital £'000</b>	<b>Hedge reserve £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
Balance at 1 July 2019	50	(13,839)	(80,574)	(94,363)
Loss after tax for the period	-	-	(45,142)	(45,142)
Other comprehensive loss:				
Cash flow hedge reclassified to profit or loss	-	2,075	-	2,075
Deferred tax thereon	-	(331)	-	(331)
Balance at 30 June 2020	50	(12,095)	(125,716)	(137,761)

The notes on pages 19 to 45 form part of these financial statements.

**Birmingham Highways Limited**

**STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2021**

		<b>Year ended 30 June 2021 £'000</b>	<b>Year ended 30 June 2020 £'000</b>
<b>Cash flows from operating activities</b>			
Loss before tax for the period		(38,689)	(46,849)
<i>Adjustments for:</i>			
Finance income	7	(1,011)	(2,299)
Finance expense	7	34,946	27,481
Other financial expense	7	3,692	5,166
BHHL loan impairment		-	400
		<b>(1,062)</b>	<b>(16,101)</b>
Decrease in trade and other receivables		11,736	154,729
Increase / (decrease) in trade and other payables		8,022	(8,938)
<b>Cash generated from operations</b>		<b>18,696</b>	<b>129,690</b>
<b>Net cash flows from operating activities</b>		<b>18,696</b>	<b>129,690</b>
<b>Cash flows from investing activities</b>			
Cash outflow on PFI/PPP financial asset		(106,749)	(42,886)
Proceeds from repayment of PFI/PPP financial asset		77,561	75,440
<b>Net cash from investing activities</b>		<b>(29,188)</b>	<b>32,554</b>
<b>Cash flows from financing activities</b>			
Proceeds from authority borrowings		4,953	-
Repayment of bank borrowings		(116,030)	(6,286)
Interest received		1,011	2,299
Interest paid		(4,990)	(12,490)
Settlement of SWAP costs		(34,121)	-
Commitment fees paid		-	(781)
<b>Net cash from financing activities</b>		<b>(149,177)</b>	<b>(17,258)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(159,669)</b>	<b>144,986</b>
Cash and cash equivalents at beginning of year		174,458	29,472
<b>Cash and cash equivalents at end of year</b>		<b>14,789</b>	<b>174,458</b>

The notes on pages 19 to 45 form part of these financial statements.

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**Birmingham Highways Limited**

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**Notes to the financial statements**

**1 ACCOUNTING POLICIES**

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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements for the year ended 30 June 2021 and the comparative information presented in these financial statements for the year ended 30 June 2020.

**Basis of preparation**

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

These financial statements have been prepared in accordance with International Accounting Standards in conformity with the Companies Act 2006.

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

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

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**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

**Basis of preparation** *(continued)*

**Going Concern and the impact of COVID-19**

As referenced in the Strategic Report, the extension of the Restructuring Agreement from 29th June 2021 to 30 December 2021 and then to 29th April 2022 provided the Directors with greater certainty about going concern. Under the terms of the Restructuring Agreement to which the Company, BCC and the Senior Lenders were party, BCC will fund the Company and, save for an operational cash balance of £5m, all cash in the Company will be held in restricted accounts that can only be operated with the consent of the Senior Lenders.

A key operational variable is currently the long-term procurement which, on a programme set following the settlement, should have started on 1 July 2021. Instead, the programme has been delayed. The Restructuring Period has been extended to 29 April 2022 with a view to agreeing a further extension. The additional time is needed to secure the long term procurement.

Given the delay to the long-term procurement timetable agreed at the time of concluding the Settlement, the DfT requested a business plan in relation to the strategy. This was submitted in September 2021 and the outcome of the DfT review was positive. A more detailed plan was then prepared and presented to DfT in December 2021 and an initial positive response, received back along with requests for more information. Given the above, material uncertainty exists which may cast doubt on the company's ability to continue as a going concern in relation to receiving full approval from the DfT in relation to the company's business plans.

With respect to the period beyond 29 April 2022, whilst there is no mechanism within the Restructuring Agreement to extend it, the Directors have carefully considered the prospects of its key stakeholders consensually agreeing the terms for such an extension. The Directors have concluded a material uncertainty exists which may cast doubt on the company's ability to continue as a going concern in relation to securing an extension to the restructuring agreement. However they do have reasonable confidence that such an extension could be agreed, providing that the Senior Lenders are satisfied that the Company and BCC are aligned in their procurement strategy for a long term replacement for the sub-contractor and are working collaboratively. This conclusion is informed by the explicit language in the documents underpinning the extension to 29 April 2022, with regard to the parties' intention to work towards a further extension.

In relation to liquidity, a cash flow forecast to the end of June 2023 shows that funding from BCC is required beyond the contractual level. This is principally because BCC have requested incremental capital investment over the extension period. Under the legal agreements currently in place, BCC would be required to fund any shortfall to 29 April 2022.

In relation to the above operational variable, it needs to be noted that an extension past the 29 April 2022 could lead to adjustments in the amended cash flow forecast to June 2023 that shows an additional, unfunded, liquidity need.

In weighing up the risk that this outcome presents to the Company, the Directors have considered three principal factors. Firstly, the recent agreement to extend the Restructuring Period to 29 April 2022 and the approach being taken by all stakeholders to further extend by that date. Secondly, the quality of the detailed business plans submitted to the DfT in September and December 2021. Thirdly, the Company's detailed cash flow forecasts, which indicate that there will be sufficient liquidity until at least 30 June 2023.

Having taken the above into account, the Directors are confident that the Company will be able to continue as a going concern until the cash flow forecast date of 30 June 2023 and so these accounts have therefore been prepared on a going concern basis.

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

**Basis of preparation** *(continued)*

**Going Concern and the impact of COVID-19** *(continued)*

The Directors have assessed the impact of the COVID-19 pandemic on the Company's operations and have concluded that road maintenance requirements were not significantly reduced or impacted and that this is unlikely to change. During the lockdown period in place throughout significant parts of 2020 and 2021, a large part of the road maintenance workforce were classified as being 'key workers' so works continued largely as normal, with contractor attendance at over 90% throughout. The Company has therefore been able to maintain its services levels to BCC and has received its expected level of income during the pandemic period to date and the directors are not currently aware of any reason why the services levels should be significantly impacted by COVID-19 in the next twelve months.

Some changes were implemented because of Covid-19. Extra controls were built-in around social distancing workers and personal protection equipment which meant work could carry on largely as normal whilst being in strict compliance with Standard Operating Procedures required by HM Government.

**Carrying value of the PFI/PPP financial asset**

The Directors have carefully considered whether, as at 30 June 2021, the PFI/PPP financial asset should be impaired. The Settlement Agreement between the Company, Birmingham City Council and Amey plc is considered to be an impairment indicator in respect of the finance debtor at 30 June 2021. In carrying out their impairment review the Directors made the judgement that it was appropriate to consider assumptions regarding future revenues and costs. At 30 June 2021, using these assumptions, the Directors concluded that an impairment is not required.

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

***New standards, interpretations and amendments effective from 1 January 2020***

The new or revised standards or interpretations that are effective for accounting periods commencing on or after 1 January 2020 and that are applicable to the Company are as follows.

Effective for accounting periods commencing on or after 1 January 2020:

Amendments to IFRS 3 (Definition of a Business) were mandatorily effective for reporting periods beginning on or after 1 January 2020. The adoption of the standard has had no impact on the Company's financial statements as the Company does not hold any business combinations or make acquisitions in scope of the standard.

Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). These amendments to various IFRS standards are mandatorily effective for reporting periods beginning on or after 1 January 2021. The Company has no loans that fall within the scope of the standard.

COVID-19-Related Rent Concessions (Amendments to IFRS 16) Effective 1 June 2020. IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic. The Company does not hold any leases or receive any rental income.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material). This standard has been adopted but has not lead to any changes in the financial year.

***Functional and presentation currency***

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

***Measurement convention***

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

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

**Revenue**

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

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

All revenue excludes value added tax.

**Service concessions**

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

*Service concessions treated as financial assets*

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

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

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

**Financial assets**

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

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

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

**Financial assets** *(continued)*

***(i) Financial assets - measured at amortised cost***

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

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

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

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

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

**Financial liabilities**

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

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

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

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

***(ii) Financial liabilities - other financial liabilities***

Other financial liabilities include the following items:

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

**Birmingham Highways Limited**

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**Notes to the financial statements (continued)**

**1 ACCOUNTING POLICIES (continued)**

**Fair value measurement hierarchy**

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

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

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

**Hedge accounting**

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

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

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

**Derivative financial instruments at fair value – cash flow hedges**

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

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

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**1 ACCOUNTING POLICIES** *(continued)*

**Share capital**

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

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

**Deferred taxation**

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

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

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

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

**2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

***Judgements***

**(a) Revenue recognition and contract costs**

The Company's activities are undertaken via long term contracts which are accounted for in accordance with IFRIC 12 Service Concession Agreements.

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

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**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** *(continued)*

**Judgements** *(continued)*

**(b) Carrying value of PFI/PPP financial asset**

Following achievement of the Settlement Agreement of 29 June 2019 with Birmingham City Council and Amey plc, this is considered to be an impairment indicator in respect of the finance debtor at 30 June 2021. In carrying out their impairment review the Directors made the judgement that it was appropriate to impair the Finance Debtor in the prior year. Further information is provided in note 9.

**(c) Assessment of hedge effectiveness**

The Directors must assess each year whether the company is meeting the criteria for cash flow hedge accounting. For the reasons explained in Note 7 the Company meets the requirements for cash flow hedge accounting.

**Estimates**

**Fair value of financial instruments**

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

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

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT**

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

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

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

**Birmingham Highways Limited**

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**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT** *(continued)*

***Principal financial instruments***

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

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

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

***Financial Assets***

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

***Financial Liabilities***

***Financial instruments measured at fair value***

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

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

**Financial Liabilities (continued)**

*Financial instruments measured at fair value (continued)*

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

Derivative financial instrument	Fair value measurement using Level 2 at:	
	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Non current liability	2,141	35,378
Current liability	1,530	7,146
	<b>3,671</b>	<b>42,524</b>

**Amount recognised in the income statement**

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Decrease / (increase) in derivative liability	38,853	(3,091)
Deferred tax	-	1,376
<b>In respect of financial liabilities</b>	<b>38,853</b>	<b>(1,715)</b>

As a condition of the lending, the Company is required to take out interest rate hedges to fix the interest rate, to hedge against cash flow interest rate risk until the debt has been repaid. This expires July 2025.

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

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

**General objectives, policies and processes**

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

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

*Credit risk*

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

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

*Interest rate risk*

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

*Credit quality of financial assets and impairment losses*

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

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Not past due	83,452	70,054
Past due	-	64
	<b>83,452</b>	<b>70,118</b>

At 30 June 2021, there were trade receivables past due, but not impaired, of £nil (2020: £64,000). The Directors consider that no impairment is necessary in respect of the current year.

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

**General objectives, policies and processes (continued)**

*Liquidity risk*

Liquidity risk is defined as the risk that the Company would not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding and settlement management. In addition, liquidity and funding risks, as well as related processes and policies, are overseen by management. The Company manages its liquidity risk based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility. In accordance with IFRS 7 (Financial Instruments Disclosures), the table below sets out the repayment of principal and associated interest payments. In accordance with IAS1 requirements, the PFI non-recourse loans continue to be classified as a current liability at the end of June 2021. This arises because the Company has breached the provisions of the facilities agreement and, although the lenders have not declared the loans to be immediately due and payable, the Company did not have an unconditional right to defer settlement for at least 12 months after the reporting date.

	1 year or less	1 to 2 years	2 to 5 years	5 years and over and later	Total
	£'000	£'000	£'000	£'000	£'000
PFI non-recourse loans	45,000	-	-	-	45,000
Authority loan	90,257	-	-	-	90,257
Subordinated shareholder loans	-	-	-	68,560	68,560
Accrued interest on shareholder loans	53,260	-	-	-	53,260
Derivatives	1,530	2,141	-	-	3,671
Trade payables	3,217	-	-	-	3,217
	193,264	2,141	-	68,560	263,965

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

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

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

**General objectives, policies and processes (continued)**

**Liquidity risk (continued)**

The following are the contractual cash flows of financial liabilities.

**30 June 2021**

	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
PFI non- recourse loans	45,000	45,000	45,000	-	-	-
Authority loan	90,257	90,257	90,257	-	-	-
Subordinated shareholder loans	68,560	68,560	-	-	-	68,560
Accrued interest on shareholder loans	53,260	53,260	53,260	-	-	-
Trade payables	3,217	3,217	3,217	-	-	-
	<b>260,294</b>	<b>260,294</b>	<b>191,734</b>	<b>-</b>	<b>-</b>	<b>68,560</b>
Derivative financial liabilities:						
Interest rate swaps used for hedging	3,671	3,671	1,530	2,141	-	-

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)**

**General objectives, policies and processes (continued)**

*Liquidity risk (continued)*

30 June 2020

	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
PFI non- recourse loans	151,396	204,145	14,117	16,088	49,129	124,812
Authority loan	80,181	87,130	-	87,130	-	-
Subordinated shareholder loans	68,560	135,165	1,614	7,416	26,169	99,965
Accrued interest on shareholder loans	42,756	42,756	42,756	-	-	-
Trade payables	2,340	2,340	2,340	-	-	-
	<u>345,233</u>	<u>471,536</u>	<u>60,827</u>	<u>110,634</u>	<u>75,298</u>	<u>224,777</u>
Derivative financial liabilities:						
Interest rate swaps used for hedging	42,524	42,524	7,146	6,352	14,517	14,509

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

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

**Birmingham Highways Limited**

**Notes to the financial statements** *(continued)*

**3 FINANCIAL INSTRUMENTS - RISK MANAGEMENT** *(continued)*

*Capital Structure*

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

The Company's capital was summarised as follows:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Cash and cash equivalents	<b>(14,789)</b>	(174,458)
Authority loan	<b>90,257</b>	80,181
Bank and shareholder loans	<b>166,820</b>	262,712
Total shareholders' deficit	<b>(175,187)</b>	(137,761)
 Total capital	 <b>67,101</b>	 30,674

**4 REVENUE**

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

**5 OPERATING PROFIT**

Operating profit is stated after charging:

	<b>Year ended</b>	Year ended
	<b>30 June</b>	30 June
	<b>2021</b>	2020
	<b>£'000</b>	£'000
Auditors' remuneration	<b>90</b>	90

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**6 KEY MANAGEMENT PERSONNEL COMPENSATION**

From 1 April 2021, two Independent Directors were directly employed by the Company. Previously all services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractors service charge.

In the year, payments of £621,000 were made for the services of Directors to their employers (2020: £889,000).

**7 FINANCE INCOME AND COSTS**

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
<b>Finance income</b>		
Interest income on bank deposits	-	488
Interest income on financial assets measured at amortised cost	1,011	1,811
<b>Total finance income</b>	<b>1,011</b>	<b>2,299</b>
<b>Finance costs</b>		
Bank charges	-	-
Interest expense on financial liabilities	(34,946)	(27,481)
<b>Total finance costs</b>	<b>(34,946)</b>	<b>(27,481)</b>
<b>Other financial expenses</b>		
Gain/(Loss) recognised on derivative financial instrument	8,403	(3,091)
Settlement of cash flow hedge classified to profit and loss	(12,095)	(2,075)
	<b>(3,692)</b>	<b>(5,166)</b>

The previously ineffective SWAP Agreements were cancelled on 29 June 2021. These were renewed at an effective level based upon the loan value at that date. The cash flow hedge relating to the cancelled SWAPs has been reclassified to profit and loss.

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

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**8 TAXATION**

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
<b>Current tax expense</b>		
UK corporation tax at 19% (2020: 19%)	-	-
<b>Deferred tax charge</b>		
Origination and reversal of timing differences	(10,631)	918
Effect of tax rate change on opening balance	2,552	789
<b>Total income tax credit</b>	<b>(8,079)</b>	<b>1,707</b>
	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Loss for the period	(46,768)	(44,774)
Tax on loss on ordinary activities at the UK standard rate of corporation tax of 19.00% (2020: 19%)	5,053	8,901
Remeasurement of deferred tax for changes in tax rates	8,714	2,012
Unrecognised tax losses	(21,846)	(9,206)
Impact of statutory rate change	-	-
<b>Total income tax credit</b>	<b>(8,079)</b>	<b>1,707</b>

The Company has £141,556,000 (2020: £102,516,000) of tax losses to carry forward to offset against future profits (see note 14).

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**9 PFI/PPP FINANCIAL ASSET**

	Fair Value 2021 £'000	Carrying amount 2021 £'000	Fair Value 2020 £'000	Carrying amount 2020 £'000
Current	3,779	3,779	1,803	1,803
Non-current	28,473	28,473	5,378	5,378
	<b>32,252</b>	<b>32,252</b>	<b>7,181</b>	<b>7,181</b>

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

The Directors have carefully considered whether, as at 30 June 2021, the PFI/PPP financial asset should be impaired. The Settlement Agreement between the Company, Birmingham City Council and Amey plc is considered to be an impairment indicator in respect of the finance debtor at 30 June 2021. In carrying out their impairment review the Directors made the judgement that it was appropriate to consider assumptions regarding future revenues and costs. At 30 June 2021, using these assumptions, the Directors concluded that an impairment is not required.

**10 DERIVATIVE FINANCIAL LIABILITIES**

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Derivatives designated as hedging instruments:		
Interest rate swaps – cash flow hedges	3,671	42,524
	<b>3,671</b>	<b>42,524</b>
Current	1,530	7,146
Non-current	2,141	35,378
	<b>3,671</b>	<b>42,524</b>

**Cash flow interest rate swaps**

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

At 30 June 2021, the main floating rates were based on LIBOR. Gains and losses will be recognised in the cash flow hedge reserve on interest rate swap contracts as of 30 June 2021.

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**11 TRADE AND OTHER RECEIVABLES**

	Year ended 30 June 2021	Year ended 30 June 2020
	£'000	£'000
Trade receivables	3,677	6,960
Settlement Agreement debtor - Amey plc	44,490	54,255
Accrued income	1,526	1,526
Prepayments	1,507	196
Trade and other receivables	51,200	62,937
Included in the balance sheet as follows:		
Current	16,710	18,607
Non-current: Amey plc	34,490	44,330
	51,200	62,937

Book values approximate to fair value at 30 June 2021.

The Settlement Agreement debtor has been discounted by £510,000 (2019: £1,129,000) under the provisions of IFRS9, to reflect that the Amey plc debtor is payable by installments over the next five years. Subsequently, the unwinding of this discount is recognised in the Income Statement.

**12 TRADE AND OTHER PAYABLES**

	Year ended 30 June 2021	Year ended 30 June 2020
	£'000	£'000
Trade payables	3,217	2,340
Other payables	-	-
Accruals	11,046	3,209
<b>Total financial liabilities, excluding loans and borrowings classified as financial liability measured at amortised cost</b>	<b>14,263</b>	<b>5,549</b>
Other tax and social security	(665)	(550)
Total trade and other payables	13,598	4,999

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**13 LOANS AND BORROWINGS**

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

	Year ended 30 June 2021	Year ended 30 June 2020
	£'000	£'000
Current		
Bank loans	45,000	151,396
Subordinated shareholder loans	-	-
Accrued interest on shareholder loans	53,260	42,756
	<b>98,260</b>	<b>194,152</b>
Non-current		
Subordinated shareholder loans	68,560	68,560
Authority loan	90,257	80,181
	<b>158,817</b>	<b>148,741</b>
Total loans and borrowings	<b>257,077</b>	<b>342,893</b>

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

Principal terms and the debt repayment schedule of the Company's loans and borrowings are as follows as at 30 June 2021:

	Currency	Nominal rate	Year of maturity
Bank loan fixed interest rate	Sterling	6.97%	2025
Bank loan floating interest rate	Sterling	LIBOR +2.5%	2025
Shareholder loan fixed interest	Sterling	10%	2034
Birmingham City Council fixed interest rate	Sterling	8%	2022

**Bank borrowings**

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

The amount payable to Birmingham City Council in respect of the overpayment claim was converted into a secured loan. This originally had an Authority Repayment Longstop Date of 31 July 2021. On 3 December 2021 this was extended to 29 April 2022.

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**13 LOANS AND BORROWINGS (continued)**

**Bank borrowings (continued)**

The Company has no undrawn committed borrowing facilities in the current and previous year.

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

**14 DEFERRED TAX**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2020: 19%).

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

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
At the start of the period	8,079	6,703
<i>Recognised in the income statement</i>		
Tax charge	(8,079)	1,376
Credited to equity	918	
At the end of the period	918	8,079

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**14 DEFERRED TAX (continued)**

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

There are unrecognised tax losses of £141,556,000 as at 30 June 2021.

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

	Credited to profit or loss £'000	Credited to equity £'000	Total £'000
At 1 July 2020	8,079	-	8,079
Available tax losses	-	-	-
Derivative financial instruments (cash flow hedges)	(8,079)	918	(7,161)
<b>Tax asset at 30 June 2021</b>	<b>-</b>	<b>918</b>	<b>918</b>
At 1 July 2019	6,703	-	6,703
Available tax losses	1,376	-	1,376
Derivative financial instruments (cash flow hedges)	-	-	-
<b>Tax asset at 30 June 2020</b>	<b>8,079</b>	<b>-</b>	<b>8,079</b>

Deferred tax assets are attributable to the following:

	Year ended 30 June 2021 £000	Year ended 30 June 2020 £000
Derivative financial instruments	918	8,079
Tax losses	-	-
<b>Deferred tax assets</b>	<b>918</b>	<b>8,079</b>

**15 SHARE CAPITAL**

	Authorised, issued and fully paid			
	2021 Number	2021 £'000	2020 Number	2020 £'000
Ordinary shares of £1 each	50,000	50	50,000	50

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**16 RESERVES**

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

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

**Analysis of amount recognised in other comprehensive income**

	Interest rate hedging reserve £'000	Retained earnings £'000
<b>At 1 July 2020</b>	(12,095)	(125,716)
Loss after tax	-	(46,768)
Settlement of cash flow hedge	12,095	-
Amortization of cash flow hedge	(3,671)	-
Deferred taxation	918	-
<b>At 30 June 2021</b>	<b>(2,753)</b>	<b>(172,484)</b>
<b>At 1 July 2019</b>	(13,839)	(80,574)
Loss after tax	-	(45,142)
Interest rate hedges	2,075	-
Deferred taxation	(331)	-
<b>At 30 June 2020</b>	<b>(12,095)</b>	<b>(125,716)</b>

A new SWAP arrangement was entered into on 29 June 2021. The old SWAP arrangements were cancelled on the same date.

**17 LEGAL DISPUTES AND CONTINGENT LIABILITIES**

On 29 June 2019, a consensual settlement was signed for Amey to exit the Birmingham Highways PFI contract. The agreement involves the payment by Amey of £215m, of which £10m was paid in the year, £160m in previous years; and the remaining £45m over the next four years, or earlier under certain circumstances. Amey continued to provide services on an interim basis until 31 March 2020, and then were replaced by Kier on a fixed-term interim basis.

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

**Birmingham Highways Limited**

**Notes to the financial statements (continued)**

**18 RELATED PARTY TRANSACTIONS**

*Trading transactions*

During the year, the Company entered into the following transactions with related parties at arms-length.

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

	<b>Purchase of goods/ services</b>	<b>Interest payable</b>	<b>Amounts owed to related parties</b>
<b>30 June 2021</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b><i>Amey UK PLC and Subsidiaries</i></b>			
Amey LG Limited	946	-	2,136
Amey Ventures Management Services Limited		-	-
<b><i>Birmingham Highways Holdings Limited</i></b>	-	10,504	123,511
<b><i>Equitix Highways II LP and Subsidiaries</i></b>			
Equitix Highways 2 Limited	57	-	269
<b><i>Pension Infrastructure Platform Limited and Subsidiaries</i></b>			
PIP Infrastructure Investments (No 5) Limited	57	-	266
	<b>1,060</b>	<b>10,504</b>	<b>126,182</b>
<b>30 June 2020</b>			
<b><i>Amey UK PLC and Subsidiaries</i></b>			
Amey LG Limited	48,978	-	2,125
Amey Ventures Management Services Limited	136	-	-
<b><i>Birmingham Highways Holdings Limited</i></b>	-	9,844	111,229
<b><i>Equitix Highways II LP and Subsidiaries</i></b>			
Equitix Highways 2 Limited	245	-	702
<b><i>PIP Multi-Strategy Infrastructure PPP LP</i></b>			
PIP Infrastructure Investments (No 5) Limited	245	-	676
	<b>49,604</b>	<b>9,844</b>	<b>114,732</b>

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

From 1 April 2021 two of the Directors received emoluments directly from the Company. For the remaining Directors a payment is made for services as Directors to their employers.

**Birmingham Highways Limited**

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**Notes to the financial statements** *(continued)*

**19 ULTIMATE PARENT UNDERTAKING**

The immediate parent company is Birmingham Highways Holdings Limited (BHHL), a company incorporated in the United Kingdom. This company entered administration on 19 September 2018. The registered address of BHHL is the same as Birmingham Highways Limited.

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

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

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

**20 SUBSEQUENT EVENTS**

On 9 August 2021 BHL and BCC jointly submitted a Strategic Outline Business Case (SOBC) to the Department for Transport (DfT) regarding the long-term future of the project. The SOBC was approved by DfT on 13 September 2021, and the parties were requested to refine the SOBC into an Outline Business Case (OBC).

On 3 December 2021 an Agreement was entered into with BCC and the Company's Lenders to extend the repurchase Long-Stop Date to 29 April 2022 to allow for the OBC to be submitted and reviewed. The contract with Kier, and the Authority Loan repayment date was also extended.

On 6 December 2021 the OBC was submitted to DfT. This has been reviewed and approved subject to a number of conditions being met. BHL is responding to these concerns and is proceeding with the procurement of a permanent subcontractor.

On 24 December 2021, Amey plc paid £10m as per the 29th June 2019 Settlement Agreement. On 31 January 2022 BHL repaid £10m of its Bank Loans in line with Facility Agreements.