

Company Registration No. 03871198 (England and Wales)

**MODUS SERVICES (HOLDINGS) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2021**



# **MODUS SERVICES (HOLDINGS) LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	G Beazley-Long P Francis M Webber B Watson K Rahuf A Thakrar
<b>Company Secretary</b>	S Brooks
<b>Company number</b>	03871198
<b>Registered office</b>	46 Charles Street Cardiff Wales CF10 2GE
<b>Auditor</b>	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ
<b>Bankers</b>	Commerzbank AG London Branch PO Box 52715 London EC2P 2XY

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# **MODUS SERVICES (HOLDINGS) LIMITED**

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# **MODUS SERVICES (HOLDINGS) LIMITED**

## **STRATEGIC REPORT**

**FOR THE YEAR ENDED 31 MARCH 2021**

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The Directors present the strategic report for the year ended 31 March 2021.

### **Business review**

There have been no significant changes in the Group's principal activities in the year under review, and we continue to maintain and operate certain Ministry of Defence office facilities in London.

The Group has sub-contracted out some of the Hard and Soft Facilities management activities to other companies, including certain parties related to its Shareholders.

Financial Close was achieved on 4 May 2000. Construction of the Ministry of Defence facility was completed on 21 July 2004 and is now operational.

The Government's continued focus on rationalisation and utilisation of the wider estate continues to impact on the Group. Following the success of the Optimisation project the Group was awarded another project for the reconfiguration of floors one and two for other government departments. The work was successfully completed to time and budget in 2018. This is now known as the High Classification Area (HCA). The Group accommodated the arrival of DExEU ministry at short notice and to time and budget. The proposed Parliamentary decant project in Richmond Terrace has involved the Group in discussions with a view to a reconfiguration of the external areas. The Group has worked with the client to review the upgrading of the interior in the coming years. Both these projects will generate workload and revenue.

The COVID-19 pandemic continues to represent a huge challenge for all public and private sector organisations. However, there is nothing that currently suggests it will impact the Group's ability to continue as a going concern. The Group is contracted with government to provide an essential government facility until 2030 and this revenue stream cannot be reassigned to a party outside of government, or government guarantee, without the Group's prior consent. The Group will continue to receive its agreed income for the provision of services and has robust contingency plans for continuation of services should any of its providers enter financial difficulty.

### **Principal risks and uncertainties**

The Group's activities expose it to a number of financial risks including liquidity risk, interest rate risk, credit risk and lifecycle risk. The Group is also exposed to potential risks posed by Brexit, climate change and the ongoing impact of the COVID-19 pandemic.

These risks are further explained in the Directors' Report.

### **Future developments**

The Directors are not aware, at the date of this report, of any major changes in the Group's activities in the next year.

### **Key performance indicators**

The key performance indicator for the Group is the level of performance and unavailability deductions levied by the client, since this reflects the quality of the service being provided. During the year, the Group suffered nominal deductions.

Profit after tax of £14,006,000 (2020: £14,885,000) has decreased due to the deferral of non-essential work streams in response to the COVID-19 global pandemic. It is anticipated these works will be completed in the near future.

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2021**

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### **Section 172 Companies Act 2006 Statement**

The Directors have a duty to promote the success of the Group for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies Act 2006 ("section 172").

The Directors have identified the Group's main stakeholders as the following:

#### *The Group's shareholders and senior lenders*

Principal considerations of the Board are whether the investment objective of the Group is meeting shareholder and senior lender expectations and the how Vercity Social Infrastructure (UK) Limited (formerly HCP Social Infrastructure (UK) Limited) (the "Manager") implements the objective. These are discussed at all Board meetings, which are held regularly throughout the year. Senior lenders are sent regular reports on the Group's performance and regular dialogue is maintained to keep them informed on any key developments, including an annual presentation held in February where the client and Group meet the senior lenders.

#### *The Manager*

The delivery by Vercity Social Infrastructure (UK) Limited (formerly HCP Social Infrastructure (UK) Limited) (the "Manager") of its services is fundamental to the long term success of the company. The Board seeks to engage regularly with the Manager through a number of forums, including at board meetings, portfolio briefings, subgroups that have specific focus and through engagement with the Manager's senior leadership team. Regular reporting is provided to the Board by the Manager, which will alert the Board to changes to regulation or market practice, which will inform the Board's decision making.

#### *The client*

The Board recognises the importance of working in partnership with its public sector client to successfully deliver a key public infrastructure asset. On behalf of the Company, the Manager fosters this partnership through regular meetings with the client representative and other key managers. The Manager provides regular monthly reporting to the public sector client on the performance of its obligations under the PFI arrangement. Periodically the Directors will also meet with the public sector client to discuss key service delivery matters. The Group has been awarded International Standard for Collaborative Working ("ISO 44001") accreditation for its partnership with the client.

#### *The service providers*

On behalf of the Group, the Manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the Company contain service provision information and relevant information about their performance in line with the Project Agreement. These reports are reviewed by both the Manager and the Board. Periodically the Directors will also meet with the service provider to discuss key service delivery matters. The Group has been awarded ISO 44001 accreditation for its partnership with its Facility Management providers.

#### *The community and the environment*

The Board recognises that the Group is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering Environmental, Social and Governance (ESG) values and initiatives to achieve socially responsible investing.

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2021**

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Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

**a. The likely consequences of any decision in the long term**

The Group has made no decisions during the year that have material long term consequences.

**b. The interests of the Group's employees**

As an externally managed company, the Group's activities are all outsourced and therefore it does not have any employees. The Group does however, pay due regard to the interests and safety of all those engaged by contractors to the Group to perform services on its behalf.

**c. The need to foster the Group's business relationships with suppliers, clients and others**

The Group is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the Group has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that Group obligations to its public sector client and service providers can be upheld. All this is evidenced by the gain and retention of ISO 44001 with both the client and service providers.

**d. The impact of the Group's operations on the community and the environment**

The Group operates large volumes of equipment and supports a large number of personnel all of which impacts the environment. It works with the client to support, where practical, Government policies and ambitions to manage and reduce that impact. The Group is committed to minimizing environmental disruption from its activities. The Board upholds the Group's environmental policy in all its activities and requires all parties to the arrangement to do the same.

**e. The desirability of the Group maintaining a reputation for high standards of business conduct**

The Group is committed, in its day to day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The Directors are not responsible for setting a "business culture" in the traditional sense but are committed to ensuring an appropriate culture and behaviour of the Manager and service providers and raise any concerns in this regard if necessary.

**f. The need to act fairly between members of the Group**

The members of the Group are represented at board meetings by their appointed directors. Conflicts on matters to be discussed are identified at each meeting of the Board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regards to it.

The Directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the Board take into account the interests of all the Group's key stakeholders and reflect the Board's belief that the long term sustainable success of the Group is linked directly to its key stakeholders.

On behalf of the board



G Beazley-Long

Director

30 June 2021

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2021**

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The Directors present their annual report and audited financial statements for the year ended 31 March 2021.

#### **Principal activities**

The principal activity of the Group is to design, refurbish, redevelop, finance, maintain and operate certain Ministry of Defence office facilities in London covered by a Project Agreement between Modus Services Limited and the Secretary of State for Defence, dated 4 May 2000, under the Government's Private Finance Initiative. The primary contract period of the Project Agreement is 30 years.

The Company is owned and jointly controlled between: Palio (No 2) Limited (26.0%), a UK limited company under the control of Fenton Hold Co Limited; Innisfree M&G PPP LP (13.4%); Innisfree PFI Continuation Fund LP (48.0%) and Innisfree PFI Secondary Fund (12.6%).

#### **Results and dividends**

The results for the year are set out on page 12.

Ordinary dividends were paid amounting to £19,996,000 (2020: £16,910,000). The Directors do not recommend payment of a final dividend (2020: £Nil).

#### **Directors**

The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

G Beazley-Long  
P Francis  
M Webber  
B Watson  
K Rahuf  
A Thakrar

#### **Qualifying third party indemnity provisions**

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

#### **Financial instruments**

##### ***Liquidity risk***

The Group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the Group negotiated debt facilities with an external party to ensure that the Group has sufficient funds over the life of the PFI concession.

##### ***Interest rate risk***

The Group's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The Group uses interest rate swaps to manage the risk and reduce its exposure to changes in interest rates.

##### ***Credit risk***

The Group's principal financial assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a central government authority.

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2021**

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### ***Lifecycle risk***

Lifecycle expenditure is the main risk to the Group. The risk being that the allowance for lifecycle costs factored into the financial model is insufficient to cover future lifecycle expenditure, thus resulting in lower profitability and reduced distributions. This is mitigated by regular lifecycle reviews undertaken by the management services provider and a detailed lifecycle review performed every five years.

### **Future developments**

Details of future developments and events that have occurred after the balance sheet date can be found in the strategic report on page 1 and form part of this report by cross-reference.

### **Auditor**

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

### **Energy and carbon report**

As the Group has not consumed more than 40,000 kWh of energy in this reporting year, it qualifies as a low energy user under these regulations and is not required to report on its emissions, energy consumption or energy efficiency activities.

### **Brexit**

The risks from Brexit are a result of the risk it poses to the sub-contracted service providers, rather than the Group itself. This is therefore linked to the service performance and service provider failure risks discussed here- in. The Group is insulated from these risks because non-performance will result in deductions being passed down to the service providers, however, there remains a risk that in extreme circumstances non-performance may result in the Trust having the right to terminate the Project Agreement.

Since Brexit the service providers have continued to monitor and review their exposure to spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU and have implemented procedures to ensure disruption is kept to a minimum.

Any increase in cost to the service provider will not impact the Group itself. The Group is comfortable that the increased costs and disruption will not threaten the services providers to such an extent as to put the project at risk.

To date the Group has not experienced any significant disruption as a result of Brexit.

### **Climate change**

The Group is exposed to additional risks as a result of climate change but has not identified any risks that would significantly impact the Group. This is primarily due to nature of the operations of the project, where the majority of work is performed by subcontractors who are responsible for the associated risks. Whilst, the Group is subject to SPV costs through the provision and maintenance of facilities including, for instance, heating systems, the Group's contractual protections are expected to protect the Group from changes in law that result in any longer term pricing risk associated with climate change.



# **MODUS SERVICES (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2021**

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### **Going concern**

The Directors, at the time of approving the financial statements, have a reasonable expectation that the Company had adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in Note 1.3.

### **COVID-19**

The group is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The group is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Due to the ongoing impact of Covid-19 in the year to 31 March 2021, there has been some restrictions to access which has impacted our performance of non-routine maintenance. Lifecycle was delivered successfully in spite of the restrictions.

### **Statement of disclosure to auditor**

Each of the Directors in office at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board



G Beazley-Long  
Director

30 June 2021

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2021**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company, and of the profit or loss of the Group for that period. 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 responsible for keeping adequate accounting records that are sufficient to show and explain the Group's 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. They 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.

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF MODUS SERVICES (HOLDINGS) LIMITED**

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#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Modus Services (Holdings) Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group statement of comprehensive income;
- the Group balance sheet;
- the Company balance sheet;
- the Group statement of changes in equity;
- the Company statement of changes in equity;
- the Group statement of cash flows; and
- the related notes 1 to 25.

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).

##### **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 the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF MODUS SERVICES (HOLDINGS) LIMITED**

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#### **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.

#### **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 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.

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

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

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

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF MODUS SERVICES (HOLDINGS) LIMITED**

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

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

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

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

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

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

- **Revenue Recognition:** We challenged the revenue recognised and operating margin applied to costs by reviewing the financial model and understanding changes to previous forecasts. We also performed testing on the design and implementation of controls around the financial model. We agreed Variation Revenue to invoices and Variation Orders approved by the Defence Infrastructure Organisation (DIO), and also agreed amounts received to the bank statement.
- **Finance Debtor Asset and Interest Received:** We agreed the allocation of the unitary payment to the financial model, on which we have performed the procedures outlined above.
- **Forecast Lifecycle Expenditure:** We identified changes that had been made to the lifecycle profile over the remaining concession period, and sought explanations from Management to understand movements. We also made enquiries with Management to ascertain whether the current profile was the best estimate.

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

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

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

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF MODUS SERVICES (HOLDINGS) LIMITED**

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#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

##### **Matters on which we are required to report by exception**


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

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

We have nothing to report in respect of these matters.

##### **Use of our report**

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



**Jacqueline Holden FCA (Senior Statutory Auditor)**  
**for and on behalf of Deloitte LLP**

Statutory Auditor  
London  
United Kingdom  
30 June 2021

# MODUS SERVICES (HOLDINGS) LIMITED

## GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
Turnover	4	41,864	45,481
Cost of sales		(29,403)	(31,409)
<b>Gross profit</b>		<b>12,461</b>	<b>14,072</b>
Interest receivable and similar income	8	26,692	30,832
Interest payable and similar expenses	9	(20,031)	(20,335)
<b>Profit before taxation</b>		<b>19,122</b>	<b>24,569</b>
Tax on profit	10	(5,116)	(9,684)
<b>Profit for the financial year</b>		<b>14,006</b>	<b>14,885</b>
<b>Other comprehensive income</b>			
Cash flow hedges gain arising in the year		12,656	8,520
Tax relating to other comprehensive income		(2,405)	(531)
<b>Total comprehensive income for the year</b>		<b>24,257</b>	<b>22,874</b>

Profit for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

The group statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

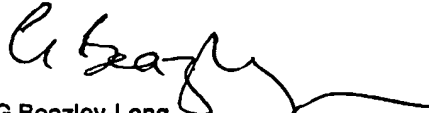
# MODUS SERVICES (HOLDINGS) LIMITED

## GROUP BALANCE SHEET

AS AT 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
<b>Current assets</b>			
Debtors falling due after more than one year	15	273,000	296,565
Debtors falling due within one year	15	59,677	57,316
Cash at bank and in hand		3,646	1,026
		<u>336,323</u>	<u>354,907</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(114,536)</u>	<u>(92,515)</u>
<b>Total assets less current liabilities</b>		221,787	262,392
<b>Creditors: amounts falling due after more than one year</b>	17	(204,324)	(249,473)
<b>Provisions for liabilities</b>	19	(24,599)	(24,316)
<b>Net liabilities</b>		<u>(7,136)</u>	<u>(11,397)</u>
<b>Capital and reserves</b>			
Called up share capital	20	100	100
Hedging reserve		(26,899)	(37,150)
Profit and loss reserves		19,663	25,653
<b>Total deficit</b>		<u>(7,136)</u>	<u>(11,397)</u>

The financial statements were approved by the board of directors and authorised for issue on 30 June 2021 and are signed on its behalf by:

  
G Beazley-Long  
Director



# MODUS SERVICES (HOLDINGS) LIMITED

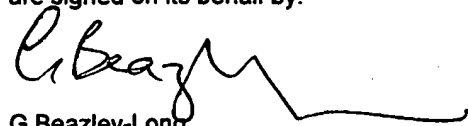
## COMPANY BALANCE SHEET

AS AT 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
<b>Fixed assets</b>			
Investments	12	100	100
<b>Current assets</b>			
Debtors falling due after more than one year	15	12,407	12,407
<b>Net current assets</b>		12,407	12,407
<b>Total assets less current liabilities</b>		12,507	12,507
<b>Creditors: amounts falling due after more than one year</b>	17	(12,407)	(12,407)
<b>Net assets</b>		100	100
<b>Capital and reserves</b>			
Called up share capital	20	100	100

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £19,996,000 (2020: £16,910,000 profit).

The financial statements were approved by the board of directors and authorised for issue on 30 June 2021 and are signed on its behalf by:

  
G Beazley-Long  
Director

Company Registration No. 03871198

# MODUS SERVICES (HOLDINGS) LIMITED

## GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Share capital £'000	Hedging reserve £'000	Profit and loss reserves £'000	Total £'000
<b>Balance at 1 April 2019</b>		100	(45,139)	27,678	(17,361)
<b>Year ended 31 March 2020:</b>					
Profit for the year		-	-	14,885	14,885
Other comprehensive income:					
Fair value gain arising on cash flow hedges in the year		-	8,520	-	8,520
Deferred tax relating to other comprehensive income		-	(531)	-	(531)
<b>Total comprehensive income for the year</b>		-	7,989	14,885	22,874
<b>Dividends</b>	11	-	-	(16,910)	(16,910)
<b>Balance at 31 March 2020</b>		100	(37,150)	25,653	(11,397)
<b>Year ended 31 March 2021:</b>					
Profit for the year		-	-	14,006	14,006
Other comprehensive income:					
Fair value gain arising on cash flow hedges in the year		-	12,656	-	12,656
Deferred tax relating to other comprehensive income		-	(2,405)	-	(2,405)
<b>Total comprehensive income for the year</b>		-	10,251	14,006	24,257
<b>Dividends</b>	11	-	-	(19,996)	(19,996)
<b>Balance at 31 March 2021</b>		100	(26,899)	19,663	(7,136)

# MODUS SERVICES (HOLDINGS) LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 April 2019		100	-	100
Year ended 31 March 2020:				
Profit and total comprehensive income for the year		-	16,910	16,910
Dividends	11	-	(16,910)	(16,910)
Balance at 31 March 2020		100	-	100
Year ended 31 March 2021:				
Profit and total comprehensive income for the year		-	19,996	19,996
Dividends	11	-	(19,996)	(19,996)
Balance at 31 March 2021		100	-	100

# MODUS SERVICES (HOLDINGS) LIMITED

## GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 £'000	2020 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	79,935	72,069
Income taxes paid		(7,411)	(9,884)
<b>Net cash inflow from operating activities</b>		<u>72,524</u>	<u>62,185</u>
<b>Investing activities</b>			
Interest received		103	389
Movements in other financial assets		(169)	2,838
<b>Net cash (used in)/generated from investing activities</b>		<u>(66)</u>	<u>3,227</u>
<b>Financing activities</b>			
Interest paid		(17,662)	(20,009)
Repayment of bank loans		(32,180)	(29,887)
Dividends paid		(19,996)	(16,910)
<b>Net cash used in financing activities</b>		<u>(69,838)</u>	<u>(66,806)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>2,620</u>	<u>(1,394)</u>
Cash and cash equivalents at beginning of year		1,026	2,420
<b>Cash and cash equivalents at end of year</b>		<u><u>3,646</u></u>	<u><u>1,026</u></u>

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **NOTES TO THE GROUP FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2021**

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### **1 Accounting policies**

#### **Company information**

Modus Services (Holdings) Limited is a private company limited by shares, domiciled and incorporated in the United Kingdom and registered in England and Wales. The registered office is 46 Charles Street, Cardiff, Wales CF10 2GE.

#### **1.1 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

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

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value and in accordance with FRS 102. The principal accounting policies adopted are set out below.

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

#### **1.2 Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 March each year.

# **MODUS SERVICES (HOLDINGS) LIMITED**

## **NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2021**

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### **1 Accounting policies**

**(Continued)**

#### **1.3 Going concern**

The Company exists to hold investments in its subsidiary that provides services under certain private finance agreements. The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made.

The Directors have reviewed the cash flow forecast and financial position of the Group. Although the balance sheet shows net liabilities of £7,135,000 (2020: liabilities of £11,397,000) due to recognising the fair value of the interest rate swap, which will unwind over the course of the project agreement, the Directors believe that the Group will be able to settle its liabilities as they fall due for the foreseeable future. The COVID-19 pandemic represents a huge challenge for all public and private sector organisations. However, there is nothing that currently suggests it will impact the Group's ability to continue as a going concern. The Group is contracted with government to provide an essential government facility until 2030 and this revenue stream cannot be reassigned to a party outside of government, or government guarantee, without the Group's prior consent. During the COVID-19 pandemic both the Ministry of Defence and the Group can temporarily amend the services provided with no risk of financial penalties being awarded to the Group. The Group will continue to receive its agreed income for the provision of services and has robust contingency plans for continuation of services should any of its providers enter financial difficulty.

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

#### **1.4 Turnover**

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

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

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

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

#### **1.5 Fixed asset investments**

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

---

### 1. Accounting policies

(Continued)

#### 1.6 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.7 Financial instruments

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

Financial instruments are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

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

##### *Basic financial assets*

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

##### *Loans and receivables*

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

##### *Service concession*

The Group has been established to provide services under certain private finance agreements with The Secretary of State for Defence (the "Authority"). Under the terms of these Agreements, the Authority (as grantor) controls the services to be provided by the Company over the contract term. Based on the contractual arrangements the Company has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

The Group has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10(i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied prior to the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed; however, there was a change in the description from Finance Debtor to Financial Asset.

Under the terms of the arrangement, the Group has the right to receive a baseline contractual payment stream for the provision of the services from or at the direction of the grantor (the Authority), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in line with FRS 102.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 1 Accounting policies

(Continued)

#### 1.7 Financial instruments (continued)

##### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

##### **Derecognition of financial assets**

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

##### **Classification of financial liabilities**

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

##### **Basic financial liabilities**

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

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. The effective interest method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments.

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



# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

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### 1 Accounting policies

(Continued)

#### 1.7 Financial Instruments (continued)

##### *Other financial liabilities*

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

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

##### *Derecognition of financial liabilities*

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

#### 1.8 Equity Instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Group.

#### 1.9 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in the group statement of comprehensive income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the group statement of comprehensive income depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

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

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 1 Accounting policies

(Continued)

#### 1.9 Derivatives (continued)

##### **Hedge accounting**

The Group designates certain hedging instruments, including derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item along with risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

##### **Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

The gain or loss relating to the ineffective portion is recognised immediately in the group statement of comprehensive income, and is included in the 'other gains and losses' line in this item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the group statement of comprehensive income in the periods when the hedged item is recognised in the group statement of comprehensive income in the same line as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability concerned.

#### 1.10 Taxation

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

##### **Current tax**

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

##### **Deferred tax**

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is 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.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

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### 1 Accounting policies

(Continued)

#### 1.11 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

### 2 Change in accounting policy

#### Amendments to FRS102: Interest rate reform

The Group's hedged items and hedging instruments continue to be linked to Sterling LIBOR. The Group has early adopted the transitional provisions set out in the amendments to FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Interest Rate Benchmark Reform, issued in December 2019, to those hedging relationships directly affected by IBOR reform. In accordance with these amendments, for the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform and can continue to apply hedge effectiveness throughout the transition period.

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### Critical judgements

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

#### Hedge accounting

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

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

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

### 3 Critical accounting judgements and key sources of estimation uncertainty

(Continued)

#### Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

#### Service concession arrangement

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the Group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of the concession increased by 5%, the impact on revenue and profit in the year would be a decrease in revenue of £724,412 and a decrease in profit before tax of £724,412.

#### Deemed Lease Premium Relief claim

The Group has claimed Deemed Lease Premium Relief on its corporation tax returns since 2007 (the "DLPR claim"). The value of the DLPR claim is under query by HMRC. The Directors believe the Group is fully entitled to the DLPR claim and continue to apply it to corporation tax returns and calculations. Should the DLPR claim be rejected in its entirety by HMRC the additional corporation tax owed by the Group would be £1.8m.

### 4 Turnover and other revenue

An analysis of the Group's turnover is as follows:

	2021 £'000	2020 £'000
<b>Turnover analysed by class of business</b>		
Service fee income	37,933	40,880
Passthrough income	862	1,047
Variation income	3,069	3,554
	<u>41,864</u>	<u>45,481</u>
	2021 £'000	2020 £'000
<b>Turnover analysed by geographical market</b>		
United Kingdom	<u>41,864</u>	<u>45,481</u>

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

### 5 Auditor's remuneration

	2021 £'000	2020 £'000
Fees payable to the Company's auditor and associates:		
For audit services		
Audit of the financial statements of the Group and Company	42	34
For other services		
Other assurance services	5	5
All other non-audit services	-	-
	5	5

### 6 Employees

The Group had no employees during the current or prior year.

### 7 Directors' remuneration

Amounts paid to related parties in connection with the provision for services of Non-Executive Directors were £335,000 (2020: £347,000). No Directors received remuneration for services to the Group during the current or prior year.

### 8 Interest receivable and similar income

	2021 £'000	2020 £'000
Interest income		
Interest on bank deposits	103	389
Interest receivable on financial asset	26,589	30,443
Total income	26,692	30,832

### 9 Interest payable and similar expenses

	2021 £'000	2020 £'000
Interest on bank overdrafts and loans	18,790	19,094
Interest payable to group undertakings	1,241	1,241
Total interest expense	20,031	20,335

### 10 Taxation

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on profits for the current year	7,237	7,917

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 10 Taxation

(Continued)

<b>Deferred tax</b>		
Origination and reversal of timing differences	(2,121)	1,767
	<u>          </u>	<u>          </u>
<b>Total tax charge</b>	<b>5,116</b>	<b>9,684</b>
	<u>          </u>	<u>          </u>

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Profit before taxation	19,122	24,569
	<u>          </u>	<u>          </u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	3,633	4,668
Tax effect of expenses that are not deductible in determining taxable profit	1,483	1,354
Effect of change in corporation tax rate	-	3,678
Prior year adjustment	-	(16)
	<u>          </u>	<u>          </u>
<b>Taxation charge</b>	<b>5,116</b>	<b>9,684</b>
	<u>          </u>	<u>          </u>

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax arising on:		
Revaluation of financial instruments treated as cash flow hedges	2,405	531
	<u>          </u>	<u>          </u>

For the year ended 31 March 2021, the UK corporation tax rate of 19% is applied.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The deferred tax asset as at 31 March 2021 has been calculated based on a rate of 19%.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This may have an impact on the Company's tax charge of future years accordingly.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 11 Dividends

	2021 £'000	2020 £'000
Recognised as distributions to equity holders:		
Interim paid	19,996	16,910

### 12 Fixed asset investments

	Notes	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Investments in subsidiaries	13	-	-	100	100

#### Movements in fixed asset investments Company

	Shares in group undertakings £'000
Cost or valuation At 1 April 2020 and 31 March 2021	100
Carrying amount At 31 March 2021	100
At 31 March 2020	100

### 13 Subsidiaries

Details of the Company's subsidiaries at 31 March 2021 are as follows:

Name of undertaking	Registered office	Class of shares held	% Held Direct
Modus Services Limited	46 Charles Street, Cardiff, Wales, CF10 2GE	Ordinary Shares	100.00

### 14 Financial instruments

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Carrying amount of financial liabilities Measured at fair value through other comprehensive income				
- Other financial liabilities	33,207	45,863	-	-

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

### 14 Financial instruments

(Continued)

#### Derivative financial instruments

The swaps have a fixed interest rate of 6.61% and 4.73% and expire in 2027. The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is six months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

The fair value of the derivative financial instrument above comprise the fair value of the interest rate swap designated in an effective hedging relationship. The change in fair value of the interest rate swap that was recognised in other comprehensive income in the year was a gain of £12,656,000 (2020: a gain of £8,520,000).

### 15 Debtors

#### Amounts falling due within one year:

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Trade debtors	473	1,750	-	-
Corporation tax recoverable	269	95	-	-
Financial asset	22,087	19,655	-	-
Other financial asset	27,432	27,264	-	-
Other debtors	385	146	-	-
Prepayments and accrued income	9,031	8,406	-	-
	<u>59,677</u>	<u>57,316</u>	<u>-</u>	<u>-</u>

#### Amounts falling due after more than one year:

Amounts due from subsidiary undertakings	-	-	12,407	12,407
Financial asset	273,000	296,565	-	-
	<u>273,000</u>	<u>296,565</u>	<u>12,407</u>	<u>12,407</u>
<b>Total debtors</b>	<u>332,677</u>	<u>353,881</u>	<u>12,407</u>	<u>12,407</u>

The Group is contractually obliged to hold specified amounts in reserve to cover future operating and finance costs. Other financial assets include these amounts held within deposit accounts with a maturity of not less than three months from the initial deposit.



# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

### 16 Creditors: amounts falling due within one year

	Notes	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Bank loans and overdrafts	18	34,573	31,891	-	-
Trade creditors		2,842	2,731	-	-
Other taxation and social security		2,525	2,387	-	-
Unitary charge control accounts		70,010	51,826	-	-
Accruals and deferred income		4,586	3,680	-	-
		<u>114,536</u>	<u>92,515</u>	<u>-</u>	<u>-</u>

### 17 Creditors: amounts falling due after more than one year

	Notes	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Bank loans	18	158,710	191,203	-	-
Amount due to parent undertakings	18	12,407	12,407	12,407	12,407
Derivative financial instruments measured at fair value through profit or loss	14	33,207	45,863	-	-
		<u>204,324</u>	<u>249,473</u>	<u>12,407</u>	<u>12,407</u>

Amounts included above which fall due after five years are as follows:

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Payable by instalments	<u>18,250</u>	<u>40,659</u>	<u>12,407</u>	<u>12,407</u>

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

### 18 Loans and overdrafts

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Bank loans	193,283	223,094	-	-
Loans from group undertakings	12,407	12,407	12,407	12,407
	<u>205,690</u>	<u>235,501</u>	<u>12,407</u>	<u>12,407</u>
Payable within one year	34,573	31,891	-	-
Payable after one year	171,117	203,610	12,407	12,407
	<u>205,690</u>	<u>235,501</u>	<u>12,407</u>	<u>12,407</u>

#### Bank loans

The Group has bank loans provided by Commerzbank AG, (which have been syndicated out to various banks), which were used to finance the construction of the project. The loans are repayable in instalments based on an agreed percentage amount of the total facilities per annum through to 2027.

Interest on bank loans is charged at rates linked to LIBOR. The Group has entered into fixed interest rate swaps to mitigate its interest rate exposure. The fixed interest rate on the Term A Facility and Term B Facility, after taking into consideration the swaps, are 7.56% and 7.66% respectively during the operational phase. The Group is aware that LIBOR will be discontinued after 2021 and is actively monitoring the output from various working groups on LIBOR reform. The Group will also be carrying out a review of the provisions of its existing facilities and look to implement changes as and when it is appropriate.

#### Subordinated debt

Loans from parent undertaking comprise loans of £12,407,000 (2020: £12,407,000). The loans are subject to interest rates at an agreed arm's length rate of 10% per annum and repayable by 2026 in line with agreed repayment schedules.

### 19 Deferred taxation

Deferred tax assets and liabilities are offset where the Group or Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2021 £'000	Liabilities 2020 £'000
Group		
Accelerated capital allowances	30,908	33,030
Deferred tax asset on interest rate swap fair value	(6,309)	(8,714)
	<u>24,599</u>	<u>24,316</u>

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 19 Deferred taxation

(Continued)

	Group 2021 £'000	Company 2021 £'000
<b>Movements in the year:</b>		
Liability at 1 April 2020	24,316	-
Credit to profit or loss	(2,121)	-
Charge to other comprehensive income	2,404	-
Liability at 31 March 2021	<u>24,599</u>	<u>-</u>

The deferred tax asset in relation to the interest rate swap liability is expected to affect profit or loss over the period to maturity of the interest rate swap.

During the year beginning 1 April 2021, the net reversal of the deferred tax assets and liabilities is expected to be £66,000. The reversal of the deferred tax asset and liability will have no impact on the corporation tax charge next year.

### 20 Share capital

	2021 £'000	2020 £'000
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

The ordinary shares give no right to fixed income.

#### Other reserves

The Group's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 21 Related party transactions

#### Transactions with related parties

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

	2021 £'000	2020 £'000
Directors' Fees incurred		
- Innisfree Limited	210	196
- Laing Investments Management Services Limited	-	3
- Jura Acquisition Limited	124	148
Management Services Fees		
- Vercity Social Infrastructure (UK) Limited	2,885	2,509
- Vercity Management Services Limited	203	202
Subordinated Loan Notes (Shareholder)		
- Palio (No 2) Limited	323	323
- Innisfree M&G PPP LP	166	166
- Innisfree PFI Continuation Fund LP	596	596
- Innisfree PFI Secondary Fund	156	156
Dividends (Shareholder)		
- Palio (No 2) Limited	5,198	4,396
- Innisfree M&G PPP LP	2,680	2,266
- Innisfree PFI Continuation Fund LP	9,598	8,117
- Innisfree PFI Secondary Fund	2,520	2,131
	<u>24,659</u>	<u>21,209</u>

#### Amounts owed to related parties

The following amounts were outstanding at the reporting end date:

Directors' Fees owed at year end		
- Innisfree Limited	210	208
- Jura Acquisition Limited	145	148
	<u>355</u>	<u>356</u>

Vercity Social Infrastructure (UK) Limited (formerly HCP Social Infrastructure (UK) Limited), Vercity Management Services Limited (formerly HCP Management Services Limited), Innisfree PFI Secondary Fund LP, Innisfree M&G PPP LP and Innisfree PFI Continuation Fund LP are under common control. Innisfree PFI Secondary Fund LP, Innisfree M&G PPP LP and Innisfree PFI Continuation Fund LP are ultimate shareholders of Modus Services Limited.

Jura Acquisition Limited and Palio (No 2) Limited have been under common control since 30 April 2019. Palio (No 2) Limited is an ultimate shareholder of Modus Services Limited.

No guarantees have been given or received.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2021

### 22 Controlling party

The Company is owned and jointly controlled between: Palio (No 2) Limited (26.0%), a UK limited company under the control of Fenton Hold Co Limited, a company incorporated in the UK; Innisfree M&G PPP LP (13.4%), an English Limited Partnership jointly managed by Innisfree Limited and M&G Investment Management Limited; Innisfree PFI Continuation Fund LP (48.0%) and Innisfree PFI Secondary Fund (12.6%), each of which are English Limited Partnerships managed by Innisfree Limited. Palio (No 2) Limited, Innisfree Limited and M&G Investment Management Limited are incorporated in Great Britain and registered in England and Wales.

The Directors consider there to be no ultimate controlling entity.

### 23 Contingent Liability

The Group has claimed Deemed Lease Premium Relief on its corporation tax returns since 2007 (the "DLPR claim"). The value of the DLPR claim is under query by HMRC. The Directors believe the Group is fully entitled to the DLPR claim and continue to apply it to corporation tax returns and calculations. Should the DLPR claim be rejected in its entirety by HMRC the additional corporation tax owed by the Group would be £1.8m. It is not certain when the query will be resolved nor when any potential liabilities would be settled. The Group continues to pursue resolution with HMRC.

24 Cash generated from group operations	2021 £'000	2020 £'000
Profit for the year after tax	14,006	14,885
Adjustments for:		
Taxation charged	5,116	9,684
Finance costs	20,031	20,335
Investment income	(103)	(389)
Movements in working capital:		
Decrease in debtors	21,785	18,511
Increase in creditors	19,100	9,043
<b>Cash generated from operations</b>	<b>79,935</b>	<b>72,069</b>

At 31 March 2021, Cash and Cash equivalents includes an amount totalling £2,097,333 (2020: £1,771,421) which is held on behalf of the MOD. This is made up of two balances, one being a replacement Audio Visual fund totalling £524,091 (2020: £524,091) and the other being the Roof Repair fund totalling £1,573,242 (2020: £1,247,330). These funds can not be used for any purpose other than replacing Audio Visual equipment or making repairs to the MOD main building roof.

# MODUS SERVICES (HOLDINGS) LIMITED

## NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2021

### 25 Analysis of changes in net debt

	2021 £'000
<b>Opening net funds/(debt)</b>	
Cash and cash equivalents	1,026
Loans	(235,501)
Net derivative financial instruments	(45,863)
	<u>(280,338)</u>
<b>Changes in net debt arising from:</b>	
Cash flows of the entity	45,087
	<u>(235,251)</u>
<b>Closing net funds/(debt)</b>	
Cash and cash equivalents	3,646
Loans	(205,690)
Net derivative financial instruments	(33,207)
	<u>(235,251)</u>