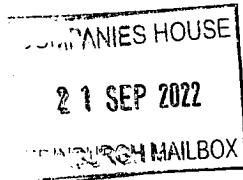


COMPANY REGISTRATION NUMBER: SC294870



PPP Services (North Ayrshire) Limited
Annual Report and Financial Statements
31 December 2021



PPP Services (North Ayrshire) Limited

Annual Report and Financial Statements

Year Ended 31 December 2021

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PPP Services (North Ayrshire) Limited

Officers and Professional Advisers

The Board of Directors

J Hanley
J Wrinn
S Cook
J Cavill
D Davies
J George

Company Secretary

Infrastructure Managers Limited

Registered Office

2nd Floor
11 Thistle Street
Edinburgh
EH2 1DF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Level 4
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Bankers

Barclays Bank Plc
Market Place
Leicester
LE87 2BB

Solicitors

Dentons UKMEA LLP
Quartermile One
15 Lauriston Place
Edinburgh
EH3 9EP

PPP Services (North Ayrshire) Limited

Directors' Report

Year Ended 31 December 2021

The directors present their report and the audited Annual Report and Financial Statements of PPP Services (North Ayrshire) Limited ("the Company") for the year ended 31 December 2021.

Principal Activities

The principal activity of the Company is the provision of design, construction, finance and facilities management services for four schools to North Ayrshire Council under the Government's Public Private Partnership (PPP) programme. The concession commenced in 2007 and runs for 30 years until 2037.

Performance Review

The profit for the financial year, after taxation, amounted to £550,902 (2020: £623,071).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the Group loan agreement.

Going Concern

The financial statements are prepared on a going concern basis notwithstanding net liabilities of £20,373,016 (2020: £23,763,937) which the directors believe to be appropriate for the following reasons.

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions, that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

J Hanley
S Cook
J Cavill
D Davies
J George
J Wrinn
D Gilmour

(Appointed 1 November 2021)
(Resigned 1 November 2021)

PPP Services (North Ayrshire) Limited

Directors' Report *(continued)*

Year Ended 31 December 2021

Dividends Paid and Payable

Particulars of recommended dividends are detailed in note 11 to the Annual Report and Financial Statements.

Financial Instruments

Due to the nature of the Company's business, the only financial risks the directors consider relevant to this Company is credit, cash flow, interest rate and liquidity risk. The credit and cash flow risks are not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash flow and liquidity risk

Many of the Cash Flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

Qualifying Third Party Indemnity Provisions

The Company 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.

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

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

The independent auditors, PricewaterhouseCoopers LLP, are deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 29 April 2022 and signed by order of the board by:



Mike Forrest on behalf of Infrastructure Managers Limited
Company Secretary

PPP Services (North Ayrshire) Limited

Directors' Responsibilities Statement

Year Ended 31 December 2021

The directors are responsible for preparing the Directors' Report and the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and applicable law).

Under company law the directors must not approve the Annual Report and Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing the Annual Report and Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Financial Statements; and
- prepare the Annual Report and 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.

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited

Year Ended 31 December 2021

Report on the Audit of the Financial Statements

Opinion

In our opinion, PPP Services (North Ayrshire) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions Relating to Going Concern

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

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

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

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited *(continued)*

Year Ended 31 December 2021

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited *(continued)*

Year Ended 31 December 2021

Auditors' Responsibilities for the Audit of the Financial Statements

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

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 posting inappropriate journal entries and the risk of management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding of management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on assumptions and judgements made in their significant accounting estimates, in particular in relation to the fair value of derivative financial instruments;
- Identifying and testing journal entries to assess whether any of the journals appeared unusual, for example impacting revenue and distributable reserves.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

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

Use of This Report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited *(continued)*

Year Ended 31 December 2021

Other Required Reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited *(continued)*

Year Ended 31 December 2021

Entitlement to Exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh
29 April 2022

PPP Services (North Ayrshire) Limited

Statement of Comprehensive Income

Year Ended 31 December 2021

	Note	2021 £	2020 £
Turnover	4	6,154,520	5,819,090
Cost of sales		(3,754,160)	(3,514,383)
Gross profit		2,400,360	2,304,707
Administrative expenses		(726,137)	(676,507)
Other operating income	5	25,987	25,989
Operating profit	6	1,700,210	1,654,189
Interest receivable and similar income	8	3,663,803	3,806,124
Interest payable and similar expenses	9	(4,681,094)	(4,812,218)
Profit before taxation		682,919	648,095
Tax on profit	10	(132,017)	(125,024)
Profit for the financial year		550,902	523,071
Fair value movements on cash flow hedging instruments, net of tax		3,382,019	(421,319)
Total comprehensive income for the year		3,932,921	101,752

All the activities of the Company are from continuing operations.

The notes on pages 13 to 25 form part of these Financial Statements.

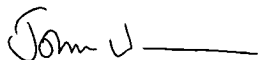
PPP Services (North Ayrshire) Limited

Statement of Financial Position

As at 31 December 2021

	Note	2021 £	2020 £
Current assets			
Debtors: amounts falling due within one year	12	5,408,426	5,791,172
Debtors: amounts falling due after more than one year	12	70,146,236	71,538,722
Cash at bank and in hand		9,134,849	7,576,117
		<u>84,689,511</u>	<u>84,906,011</u>
Creditors: amounts falling due within one year	13	<u>(5,131,507)</u>	<u>(4,473,175)</u>
Net current assets		<u>79,558,004</u>	<u>80,432,836</u>
Total assets less current liabilities		<u>79,558,004</u>	<u>80,432,836</u>
Creditors: amounts falling due after more than one year	14	(99,918,012)	(104,182,446)
Provisions for liabilities			
Taxation including deferred taxation	15	<u>(13,008)</u>	<u>(14,327)</u>
Net liabilities		<u>(20,373,016)</u>	<u>(23,763,937)</u>
Capital and reserves			
Called up share capital	18	370,000	370,000
Hedging reserve	19	(20,889,969)	(24,271,988)
Retained Earnings	19	<u>146,953</u>	<u>138,051</u>
Total shareholders' deficit		<u>(20,373,016)</u>	<u>(23,763,937)</u>

The Financial Statements were approved by the board of directors and authorised for issue on 29 April 2022, and are signed on behalf of the board by:



J Wrinn
Director

Company registration number: SC294870

The notes on pages 13 to 25 form part of these Financial Statements.

PPP Services (North Ayrshire) Limited

Statement of Changes in Equity

Year Ended 31 December 2021

	Called up share capital £	Hedging reserve £	Retained Earnings £	Total £
At 1 January 2020	370,000	(23,850,669)	222,980	(23,257,689)
Profit for the financial year			523,071	523,071
Other comprehensive expense for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	(421,319)	—	(421,319)
Total comprehensive income for the year	—	(421,319)	523,071	101,752
Dividends paid and payable	11	—	(608,000)	(608,000)
Total investments by and distributions to owners	—	—	(608,000)	(608,000)
At 31 December 2020	370,000	(24,271,988)	138,051	(23,763,937)
Profit for the financial year			550,902	550,902
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	3,382,019	—	3,382,019
Total comprehensive income for the year	—	3,382,019	550,902	3,932,921
Dividends paid and payable	11	—	(542,000)	(542,000)
Total investments by and distributions to owners	—	—	(542,000)	(542,000)
At 31 December 2021	370,000	(20,889,969)	146,953	(20,373,016)

Included in the fair value movement on cash flow hedging instruments is £2,927,638 (2020: £2,829,411) that was recycled through Interest Payable in the Statement of Comprehensive Income.

The notes on pages 13 to 25 form part of these Financial Statements.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements

Year Ended 31 December 2021

1. General Information

PPP Services (North Ayrshire) Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in Scotland. The address of its registered office is 2nd Floor, 11 Thistle Street, Edinburgh, EH2 1DF.

The principal activity of the Company is the provision of design, construction, finance and facilities management services for four schools to North Ayrshire Council under the Government's Public Private Partnership (PPP) programme. The concession commenced in 2007 and runs for 30 years until 2037.

The Company's functional and presentation currency is the pound sterling.

2. Statement of Compliance

The individual financial statements of PPP Services (North Ayrshire) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The financial statements are prepared on a going concern basis notwithstanding net liabilities of £20,373,016 (2020: £23,763,937) which the directors believe to be appropriate for the following reasons.

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions, that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

3. Accounting Policies *(continued)*

(c) Disclosure exemptions

The Company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compare that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Fair values for derivative contracts

Fair values for derivative contracts are based on market-to-market valuations provided by the contract counterparty. Whilst these can be tested for reasonableness, the exact valuation methodology and forecast assumptions for future interest rates or inflation rates are specific to the counterparty.

iii) Service concession contract

Accounting for the service concession contract and finance debtor requires estimation of service margin, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract.

(e) Revenue recognition

Turnover represents the services' share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of the finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

3. Accounting Policies *(continued)*

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

(g) Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

The Company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the Company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

3. Accounting Policies *(continued)*

(h) Cash and cash equivalents

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

The company is obligated to keep cash reserves as at the balance sheet date in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown within the "cash at bank and in hand" balance amounts to £4,985,000 (2020: £4,101,000).

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

(k) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. 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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

3. Accounting Policies *(continued)*

(I) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

The UK Financial regulator (the FCA) legislated that sterling LIBOR would cease to be published after 31 December 2021, however, has confirmed it will allow the temporary use of 'synthetic' sterling LIBOR rates in all legacy LIBOR contracts that had not been changed at or ahead of 31 December 2021. As described at Note 14, the Company's borrowings and hedge agreements are linked to LIBOR.

The Company is currently in negotiations with the lender to agree an amendment to both the loan and swap agreement to provide for the replacement of LIBOR, with an interest rate based on the Compounded Reference Rate. The Compounded Reference rate will be SONIA (sterling overnight index average) plus a 5 day credit adjustment spread. The use of the same LIBOR replacement rate for both the loan and swap agreement means that the LIBOR Transition Amendments are materially net cash neutral for the company and that the current hedge effectiveness continues.

4. Turnover

Turnover arises from:

	2021	2020
	£	£
Rendering of services	<u>6,154,520</u>	<u>5,819,090</u>

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

5. Other Operating Income

	2021	2020
	£	£
Other operating income	<u>25,987</u>	<u>25,989</u>

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

6. Operating Profit

Operating profit or loss is stated after charging:

	2021	2020
	£	£
Impairment of trade debtors	24,737	–
Fees payable for the audit of the annual report and financial statements	11,130	10,900

Included in the fee above is £2,260 (2020: £2,240) for the audit of the immediate parent entity PPP Services (North Ayrshire) Holdings Limited.

7. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year amounted to nil (2020: nil). The directors are not employed by the Company and did not receive any remuneration from the Company during the year (2020: £nil).

8. Interest Receivable and Similar Income

	2021	2020
	£	£
Interest on cash and cash equivalents	–	9,798
Interest receivable on finance debtor	3,663,803	3,796,326
	<u>3,663,803</u>	<u>3,806,124</u>

9. Interest Payable and Similar Expenses

	2021	2020
	£	£
Interest on bank loans and overdrafts	3,573,302	3,722,592
Interest due to Group undertakings	1,071,467	1,076,784
RPI swap interest	21,904	–
Other interest payable and similar expenses	14,421	12,842
	<u>4,681,094</u>	<u>4,812,218</u>

10. Tax on Profit

Major components of tax expense

	2021	2020
	£	£
Current tax:		
UK current tax expense	133,336	126,720

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

10. Tax on Profit *(continued)*

	2021 £	2020 £
Deferred tax:		
Origination and reversal of timing differences	<u>(1,319)</u>	<u>(1,696)</u>
Tax on profit	<u>132,017</u>	<u>125,024</u>

Reconciliation of tax expense

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

	2021 £	2020 £
Profit before taxation	<u>682,919</u>	<u>648,095</u>
Profit before taxation by rate of tax	<u>129,755</u>	<u>123,138</u>
Change in tax rates	<u>2,262</u>	<u>1,886</u>
Total tax charge	<u>132,017</u>	<u>125,024</u>

During the year, as a result of the increase in the UK main corporation tax rate from 19% to 25% that was enacted in May 2021 to take effect from 1 April 2023, the relevant deferred tax balances have been remeasured at 25%. This change has increased the deferred tax asset at the balance sheet date, and so has decreased the profit in the year by £2,262.

11. Dividends Paid and Payable

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

	2021 £	2020 £
Interim dividend of £1.46 (2020: £1.64) per ordinary share	<u>542,000</u>	<u>608,000</u>

12. Debtors

Debtors amounts falling due within one year are as follows:

	2021 £	2020 £
Trade debtors	<u>6,268</u>	<u>28,928</u>
Prepayments and accrued income	<u>206,136</u>	<u>437,842</u>
Finance debtor	<u>2,662,366</u>	<u>2,522,468</u>
Other debtors	<u>2,533,656</u>	<u>2,801,934</u>
	<u>5,408,426</u>	<u>5,791,172</u>

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

12. Debtors *(continued)*

Debtors amounts falling due after more than one year are as follows:

	2021	2020
	£	£
Deferred tax asset	6,963,323	5,693,429
Finance debtor	63,182,913	65,845,293
	<u>70,146,236</u>	<u>71,538,722</u>

The movement in the finance debtor is analysed as follows:

	2021	2020
	£	£
At beginning of year	68,367,761	70,757,721
Amortisation	(2,522,482)	(2,389,960)
At end of year	<u>65,845,279</u>	<u>68,367,761</u>

13. Creditors: amounts falling due within one year

	2021	2020
	£	£
Trade creditors	400,007	328,697
Amounts owed to Group undertakings	226,804	226,184
Accruals and deferred income	1,766,782	1,386,935
Corporation tax	134,130	50,564
Taxation and social security	473,656	487,459
Bank loans and overdrafts	2,130,128	1,993,336
	<u>5,131,507</u>	<u>4,473,175</u>

The amounts owed to Group undertakings is accrued interest on the Fixed Rate Unsecured Loan Notes. This is not interest bearing, unsecured and is repayable on demand.

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

	2021	2020
	£	£
Bank loans and overdrafts	63,974,130	66,104,233
Amounts owed to Group undertakings	7,679,342	7,679,342
Accruals and deferred income	411,247	433,454
Derivative financial liability	27,853,293	29,965,417
	<u>99,918,012</u>	<u>104,182,446</u>

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

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

Included within creditors: amounts falling due after more than one year is an amount of £53,222,880 (2020: £56,430,794) in respect of liabilities payable or repayable by instalments which fall due for payment after more than 5 years from the reporting date.

a) The bank loan is secured by a bond and floating charge over all the assets, rights and undertakings of the Company. The loan is repayable under an instalment scheme whereby small repayments are made in the first few years of the loan. The final repayment is due on 15 December 2036. The bank loan bears an interest at LIBOR plus 0.88% however the Company has an interest rate swap arrangement receiving LIBOR and paying interest fixed at 4.505% for the full amount of the loan drawn, hence fixing the total interest payable on the bank loan to 5.385%. The full amount of loan drawdown at 31 December 2021 is £66,423,187 (2020: £68,430,919). Issue costs of £318,929 (2020: £333,350) have been set off against the total loan drawdowns.

The company is currently in discussions with the lenders to replace the LIBOR reference in the loan agreement with SONIA, adjusted for a historic credit adjustment spread.

b) Amounts owed to Group undertakings: In December 2012, the Company issued a £7,679,000 Fixed Rate Unsecured Loan Notes to its immediate parent company, PPP Services (North Ayrshire) Holdings Limited. The Coupon bears an interest of 14% per annum and payment of capital falls due in the year 2037. The Note on the principal amount accrues daily and is payable in cash on 30 September and 31 March each year. Interest not settled by cash on these dates is added to the principal and the Note accrues on this uplifted amount in the next interest period. The subordinated debt is unsecured. Interest settled in the year was £1,071,467 (2020: £1,076,784). The investment sum was advanced under a subordinated loan agreement and is therefore unsecured, and would rank alongside ordinary creditors in the event of a winding up.

15. Provisions for Liabilities

	Deferred tax (note 16) £
At 1 January 2021	14,327
Deferred tax	(1,319)
At 31 December 2021	<u>13,008</u>

16. Deferred Tax

The deferred tax included in the Statement of Financial Position is as follows:

	2021 £	2020 £
Included in debtors (note 12)	6,963,323	5,693,429
Included in provisions for liabilities (note 15)	(13,008)	(14,327)
	<u>6,950,315</u>	<u>5,679,102</u>

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

	2021 £	2020 £
Derivative financial instruments	(6,963,323)	(5,693,429)
Short term timing differences	13,008	14,327
	<u>(6,950,315)</u>	<u>(5,679,102)</u>

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

16. Deferred Tax *(continued)*

The net deferred tax liability expected to reverse in 2022 is £3,582 (2021: £3,582). This relates to the reversal of short term timing differences.

	2021 £
Opening balance	(5,679,102)
Movement through the profit or loss	(1,319)
Movement through other comprehensive income	(1,269,894)
Closing balance	<u>(6,950,315)</u>

17. Financial Instruments

The carrying amount for each category of financial instrument is as follows:

	2021 £	2020 £
Financial assets that are debt instruments measured at amortised cost		
Financial assets that are debt instruments measured at amortised cost	<u>77,726,188</u>	<u>79,212,583</u>
Financial liabilities measured at fair value through profit or loss		
Financial liabilities measured at fair value through profit or loss	<u>(9,464,324)</u>	<u>(3,555,829)</u>
Financial liabilities measured at amortised cost		
Financial liabilities measured at amortised cost	<u>14,907,799</u>	<u>(108,515,840)</u>

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

17. Financial Instruments *(continued)*

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

Interest rate and RPI swaps

The Company has entered into both interest rate swaps and RPI swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into on 24 November 2009 and expire on 15 October 2036. The RPI swaps were entered into on 15 March 2007 and expire on 30 September 2036.

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 December 2021 amounted to liabilities of £18,388,969 (2020: £26,409,589) for interest rate swaps and £9,464,324 (2020: £3,555,829) for RPI Swaps. All of the movements during the year in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £3,382,018 (2020: debit of £421,320).

18. Called Up Share Capital

Issued, called up and fully paid

	2021		2020	
	No.	£	No.	£
Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and the repayment of capital.

19. Reserves

The hedging reserve records fair value movements on cash flow and net investment hedging instruments.

Retained earnings records retained earnings and accumulated losses.

PPP Services (North Ayrshire) Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2021

20. Related Party Transactions

The company is wholly owned by PPP Services (North Ayrshire) Holdings Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

The following disclosures are with entities in the group that are not wholly owned:

The company paid £24,360 (2020: £23,905) to BIIF Bidco Limited and its subsidiaries for the provision of 2 directors and the provision of management services.

The company paid £5,904 (2020: £23,616) to Nord/LB Project Holding Limited for the provision of 2 directors.

The company paid £nil (2020: £52,994) to Infrastructure Investments General Partners Limited for the provision of 2 directors and for the provision of management services.

21. Controlling Party

The immediate parent undertaking is PPP Services (North Ayrshire) Holdings Limited.

The company is a wholly owned subsidiary of PPP Services (North Ayrshire) Holdings Limited, a company incorporated in Scotland, registered number SC294861. The financial statements of PPP Services (North Ayrshire) Holdings Limited can be obtained from Companies House.

Ownership of PPP Services (North Ayrshire) Holdings Limited is split between Schools Capital Limited (50%), PFI Infrastructure Finance Limited (30%) and Nord/LB Project Holding Company Limited (20%). Accordingly there is no overall parent company and no ultimate controlling party.