Registration number: 04698798

Connect M77/GSO plc

Annual Report and Financial Statements

for the Year Ended 31 March 2020

Connect M77/GSO plc

Contents

Strategic Report	1 to 3
Directors' Report	4 to 5
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7 to 11
Profit and Loss Account	12
Balance Sheet	13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 to 27

Connect M77/GSO plc

Strategic Report for the Year Ended 31 March 2020

The Directors present their strategic report for the year ended 31 March 2020.

Principal activity
The Company is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

On 7 May 2003 Connect M77/GSO plc signed a contract with East Renfrewshire Council (the "Contracting Authority") (on behalf of the Scottish Government for the M77 and South Lanarkshire Council and East Renfrewshire Council for the Glasgow Southern Orbital (GSO)) to design, build, finance and operate the M77 from Fenwick to Malletsheugh and the GSO from Malletsheugh to Philipshill, East Kilbride and sections of the A726 and to maintain these roads under a licence over a 32 year period as well as modify certain sections of the A77 (the "Concession Agreement"). In accordance with the Concession Agreement the Company is responsible for operating the roads together with carrying out all of the routine and major life cycle maintenance for the life of the concession.

The new road sections were opened to the public in April 2005 and the final completion certificate was issued in September 2005.

There have been no changes to the Company’s activities in the year under review and none are currently contemplated.

Review of business
The results for the year are set out on page 12. The profit for the year before taxation was £242k (2019: loss of £14k) and the net liabilities position as at 31 March 2020 was £29,057k (2019: £29,139k) for the Company.

The Directors expect the Company to continue its operations for the foreseeable future and the Directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

Key performance indicators
As part of the stewardship of the project the Directors regularly consider Board reports related to the performance of the Company and the information and Key Performance Indicators ("KPI's") contained therein. These include, amongst other things, variance against budget in the financial statements and forward cash flow forecasting and other qualitative and quantitative indicators of performance that, as a whole, provide the basis for the management of the Company.

The Company has set specific business objectives, which are monitored using a number of KPI's. The relevant KPI's for this report are detailed below.

	2020 **£ 000**	**2019** **£ 000**
Turnover	2,763	2,926
Profit/(loss) after taxation	82	(12)
Net liabilities	(29,057)	(29,139)

Despite the Company showing net liabilities, the Company's projections, taking account of reasonably possible counterparty performance, show that the Company expects to be able to continue to operate for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Principal risks and uncertainties

The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the Private Finance Initiative ("PFI") contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil our contractual obligations.

Credit and cash flow risk

The relevant financial risks to the Company are credit and cash flow risks, which arise from its primary client, East Renfrewshire Council. The credit and cash flow risks are not considered significant as the client is a government organisation.

Interest rate risk

The financial risk management objective of the Company is to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. There are no derivatives, risk is mitigated through a fixed rate loan instrument. Financial instruments are not used for speculative purposes.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings, with an amortisation profile that matches the expected availability of funds from the Company's operating activities. In addition, the Company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

The Company has a net liability position which is caused by the rolled up subordinated debt interest and principal amounts due to the shareholders. This does not cause an issue for going concern since the shareholders have waived their rights to receive interest for the year to 31 March 2021. As such the Company has the required funds to meet debt obligations as they fall due for the following year.

Contractual relationships

The Company operates within a contractual relationship with its primary customer, East Renfrewshire Council. A significant impairment of this relationship could have a direct and detrimental effect on the Company's results and could ultimately result in termination of the concession.

To manage this risk the Company has regular meetings with East Renfrewshire Council including discussions on performance, project progress, future plans and customer requirements.

The Directors do not believe that the Company is exposed to any significant Financial Risk. The Company’s principal activity as detailed above is low risk as all relationships with the customer, funders and sub-contractors within the Company in which it sits are determined by the terms of the respective contracts.

Brexit

The Directors have considered the potential consequences to the Company of the United Kingdom leaving the European Union and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Company. This is primarily because the Company’s contractual agreements, including those which cover its financing, are unlikely to be affected.

Connect M77/GSO plc

Strategic Report for the Year Ended 31 March 2020 (continued)

COVID-19

The Directors have considered the potential impacts on the Company of the COVID-19 emergency and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Company's ability to continue as a going concern.

In making this assessment the Directors have considered the Government Guidance, as issued on 2 April 2020: "Supporting vital service provision in PFI/PF2 (and related) contracts during the COVID-19 emergency".

The Directors expect that the Contracting Authority will adhere to the guidance as issued, and therefore the unitary charge payments will be maintained, and the cash flows of the company are unlikely to be affected. Additionally, the Directors have considered the contingency plans that the Company's supply chain has in place and consider that, in conjunction with the government guidance and taking account of reasonably possible counterparty performance, this will enable services to be maintained.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Future developments

The Directors expect the general level of activity to remain stable in the forthcoming year. There have been no other changes to the Company's activities in the year under review and no others are currently contemplated.

Approved by the Board on 29 July 2020 and signed on its behalf by:

M Mageean

....

M P Mageean

Director

Directors' Report for the Year Ended 31 March 2020

The Directors present their report and the financial statements for the year ended 31 March 2020.

The following information has been disclosed in the Strategic Report:

- Principal activities and business review
- Key performance indicators
- Principal risk management
- Indication of likely future developments in the business

Going concern

The current economic conditions create some general uncertainty. The Directors have reviewed the Company's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the Contracting Authority to continue to pay unitary fees due under the concession contract to the Company and do not consider this to be a material risk. The Company's forecasts and projections, taking account of reasonably possible counterparty performance, show the Company expects to be able to continue to operate for the full term of the concession.

After making enquiries, as further elaborated in the Strategic Report, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Results and dividends

The audited financial statements for the year ended 31 March 2020 are set out on pages 12 to 26. The profit for the year after tax was £82k (2019: loss of £12k).

The Directors declared and paid dividends of £Nil (2019: £Nil) The Directors expect the Company to continue its operations for the foreseeable future.

Directors of the Company

The directors who held office during the year were as follows:

D G Blanchard (resigned 27 September 2019)

D W Bowler (until 21 July 2020)

M J Edwards

M P Mageean

The following director was appointed after the year end:

A M Mughal (appointed 7 May 2020)

Disclosure of information to the auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Connect M77/GSO plc

Directors' Report for the Year Ended 31 March 2020 (continued)

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

Approved by the Board on 29 July 2020 and signed on its behalf by:

....
M P Mageean
Director

Registered office 6th Floor
350 Euston Road
Regent's Place
London
NW1 3AX

Connect M77/GSO plc

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 Company and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Connect M77/GSO plc

Independent Auditor's Report to the Members of Connect M77/GSO plc

1. Our opinion is unmodified

We have audited the financial statements of Connect M77/GSO plc (the 'Company') for the year ended 31 March 2020, which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Directors.

We were first appointed as auditor by the directors on 17 October 2016. The period of total uninterrupted engagement is for the 4 financial years ended 31 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows:

Service revenue recognition
(£2,763k; 2019: £2,926k)
Refer to page 16 (accounting policy) and page 20 (financial disclosures).

The risk
Service revenue recognition
The amount of service revenue recognised is calculated via a mark-up being applied to costs incurred during the year. The mark-up is determined from a long term financial model which acts as a long term forecast of the revenues and costs to be incurred on the project. A significant portion of the service provision and the associated performance risk, are outsourced to subcontractors with costs contractually agreed over the life of the contract. Lifecycle replacement risk remains with the Company and is a significant estimate.

A fraud risk exists as management could manipulate the amount of revenue recognised either through amending the future forecast assumptions, particularly through the lifecycle costs which are a key estimate (see note 2 for details) and hence change the mark-up applied to the costs on which revenue is recognised or by applying the mark-up to costs which are not related to the provision of the services under the concession contract.

Independent Auditor's Report to the Members of Connect M77/GSO plc (continued)

Our response
Our procedures included:

- **Service revenue recalculation:** We recalculated service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- **Comparing forecasts**: We challenged the appropriateness of cost estimates and assessed whether or not estimates showed any evidence of management bias. Our challenge was based upon our assessment of historical accuracy of the Company's forecasts through comparison of current year actual costs, a sample of which have been verified to supplier invoices, versus prior year forecast, comparison of forecast cost estimates in current year versus the prior year and expectations based on our knowledge of the Company and experience of the industry in which it operates.

Going concern
Risk vs 2019: ▲
Refer to page 16 (accounting policy).

The risk
Disclosure quality
The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.

That judgement is based on an evaluation of the inherent risks to the Company’s business model and how those risks might affect the Company’s financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements.

The risks most likely to adversely affect the Company’s available financial resources over this period is the impact of COVID-19 on contract performance, subcontractor failure and compliance with borrowing covenants.

Our response
Our procedures included:

- **Our sector experience:** We critically assessed the directors’ going concern assessment, including the reasonableness of the key assumptions used in cash flow forecasts and the level of downside sensitivities applied using our knowledge of COVID-19 scenarios being applied by other entities in the same sector.
- **Evaluating directors’ intent:** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.
- **Assessing transparency:** We assessed the accuracy and completeness of the matters covered in the going concern disclosure.

Our results
We found the going concern disclosure without any material uncertainty to be acceptable.

3. Our application of materiality and an overview of the scope of our audit
Materiality for the statutory financial statements as a whole was set at £1,400,000 (2019: £1,410,000) determined with reference to a benchmark of total assets, of which it represents 1% (2019: 1%).

We reported to the directors any corrected or uncorrected identified misstatements exceeding £70,000 (2019: £70,000) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit was performed using the materiality levels set out above, covering 100% of the profit before taxation and total assets held.

4. We have nothing to report on going concern
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- We have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the Strategic Report and Directors' Report
The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report
Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Connect M77/GSO plc (continued)

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities - ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Independent Auditor's Report to the Members of Connect M77/GSO plc (continued)

8. The purpose of our audit work and to whom we owe our responsibilities

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.

....
Tom Eve (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date:.....29 July 2020.......

Connect M77/GSO plc

Profit and Loss Account for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	6	2,763	2,926
Cost of sales		(2,566)	(2,448)
Gross profit		197	478
Administrative expenses		(65)	(346)
Operating profit		132	132
Interest receivable and similar income	7	9,469	9,532
Interest payable and similar expenses	8	(9,359)	(9,678)
Profit/(loss) before tax		242	(14)
Taxation	9	(160)	2
Profit/(loss) for the financial year		82	(12)

The above results were derived from continuing operations.

The Company has no recognised gains or losses for the year other than the results above. Accordingly no statement of comprehensive income is presented.

Connect M77/GSO plc

(Registration number: 04698798)
Balance Sheet as at 31 March 2020

	Note	2020 £ 000	2019 £ 000
Non current assets			
Financial asset	11	117,292	120,695
Current assets			
Debtors	12	1,683	1,676
Investments	13	-	16,688
Financial assets	11	2,960	1,759
Cash at bank and in hand		18,702	1,908
		23,345	22,031
Creditors: Amounts falling due within one year	14	(7,523)	(7,196)
Net current assets		15,822	14,835
Total assets less current liabilities		133,114	135,530
Creditors: Amounts falling due after more than one year	14	(160,557)	(163,119)
Deferred tax liabilities	10	(1,614)	(1,550)
Net liabilities		(29,057)	(29,139)
Capital and reserves			
Called up share capital	17	50	50
Profit and loss account		(29,107)	(29,189)
Total equity		(29,057)	(29,139)

Approved and authorised by the Board on 29 July 2020 and signed on its behalf by:

....

M P Mageean
Director

Connect M77/GSO plc

Statement of Changes in Equity for the Year Ended 31 March 2020

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2018	50	(29,177)	(29,127)
Total comprehensive income	-	(12)	(12)
At 31 March 2019	50	(29,189)	(29,139)

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2019	50	(29,189)	(29,139)
Total comprehensive income	-	82	82
At 31 March 2020	50	(29,107)	(29,057)

1 Accounting policies

Connect M77/GSO plc (the 'Company') is a company limited by shares and incorporated, domiciled and registered in England and Wales in the UK. The registered number is 04698798 and the registered address is 6th Floor, 350 Euston Road, Regent's Place, London , NW1 3AX .

A summary of the principal accounting policies of the Company, all of which have been applied consistently throughout the current and preceding year, is set out below.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000, unless otherwise stated.

The Company's immediate parent undertaking, Connect M77/GSO Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Connect M77/GSO Holdings Limited are available to the public and may be obtained from the address in note 19.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Connect M77/GSO Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1 of the Companies Act 2006.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Measurement convention
The financial statements are prepared on the historical cost basis, except that financial instruments classified as fair value through profit or loss are stated at their fair value.

1 Accounting policies (continued)

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report and Directors' Report.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of 15 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by The Cabinet Ministers.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Company's operating cash inflows are largely dependent on unitary charge receipts receivable from East Renfrewshire Council and the Directors expect these amounts to be received even in severe but plausible possible downside scenarios. The Company's unitary charge receipts due in April 2020 to June 2020 were received on time in the normal fashion from East Renfrewshire Council.

The contract is an availability-based project. The Company continues to provide the asset in accordance with the contract and the asset is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

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

Turnover

In the operational phase, revenue is recognised by allocating a proportion of total unitary income receivable over the life of the project to service costs by means of a deemed constant rate of return on these costs. Revenue is recognised by applying a 5% mark-up on the operational costs, representing the fair value of operational services.

1 Accounting policies (continued)

Financial asset
Classification
Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, reduced by allowances for estimated irrecoverable amounts and expected credit losses in the case of trade debtors.

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

Term loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Secured subordinated debt is initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period.

Investments realisable within one year held by the Company represent amounts held on deposit with a financial institution which are not available for withdrawal without penalty in under 24 hours. Investments realisable within one year are stated at amortised cost with the interest receivable being recognised at a constant rate over the life of the investment.

Cash and cash equivalents comprise cash balances and call deposits.

Impairment
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Finance costs
Finance costs in relation to the fixed rate senior secured bonds and the secured loan stock are recognised using the effective interest rate method under FRS 102 whereby expected interest over the life of the project is spread and recognised in each period.

1 Accounting policies (continued)

Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

2 Critical accounting estimates and judgements

Judgements
In the application of the Company'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.

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
The Company accounts for the project as a service concession arrangement. The directors have used their judgement in selecting the appropriate accounting basis for the concession. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin currently 5% that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the Company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

3 Auditors' remuneration

The audit fee for the Company amounted to £24k (2019: £18k).

There were no non-audit fees (2019: £nil).

4 Directors' remuneration

The Directors received an insignificant amount of salary, fees, or other benefits in the performance of their duties in respect of the Company in the current and prior year.

5 Staff costs

All staff costs are borne by Balfour Beatty Investments Limited, which seconds its employees to the Company and charges related service costs. The Company had no employees during the year.

6 Analysis of turnover

Turnover by origin and destination from the Company's principal activity

	2020 £ 000	2019 £ 000
UK	2,763	2,926

7 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Interest income on financial assets	9,377	9,493
Interest on bank accounts and deposits	92	39
	9,469	9,532

8 Interest payable and other expenses

	2020 £ 000	2019 £ 000
Secured bond interest	7,298	7,522
Secured loan stock interest	2,061	2,156
	9,359	9,678

9 Taxation

Tax charged/(credited) in the income statement

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	96	-
Deferred taxation		
Arising from origination and reversal of timing differences	(51)	(2)
Arising from changes in tax rates and laws	182	-
Arising from adjustments to prior periods	(67)	-
Total deferred taxation	64	(2)
Tax expense/(receipt) in the income statement	160	(2)

9 Taxation (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit/(loss) before tax	242	(14)
Corporation tax at standard rate	46	(3)
Effect of expense not deductible in determining taxable profit (tax loss)	(1)	1
Deferred tax expense relating to changes in tax rates or laws	182	-
Deferred tax credit from temporary difference from a prior period	(67)	-
Total tax charge/(credit)	160	(2)

The Company earns its results primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the current UK corporation tax rate of 19% (2019: 19%).

For the year end 31 March 2020, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2016. The Finance Act 2016, which was substantively enacted on 6 September 2016, provided for a reduction in the main rate of UK corporation tax to 19% effective from 1 April 2016 and a further reduction to 17% from 1 April 2020. However, the Finance Bill 2020 substantively enacted on 17 March 2020 supersedes this, and states, that the UK corporation tax rate will remain at 19% for the financial years ended 2020 and 2021.

10 Deferred tax asset/(liability)

	2020 £ 000	2019 £ 000
At 1 April	(1,550)	(1,552)
Charged to income statement	(64)	2
	(1,614)	(1,550)

	Trading losses £ 000	Capitalised interest £ 000
At 1 April	17	(1,567)
Movement	(17)	(47)
At 31 March	-	(1,614)

10 Deferred tax asset/(liability) (continued)

The deferred tax balances in the financial statements were measured at the future rate of 17% in the prior period, in line with the Finance Act 2016 which was substantively enacted on 6 September 2016. The Finance Bill 2020 which was substantively enacted on 17 March 2020 stated that the UK corporation tax rate will remain at 19% for the financial years ended 2020 and 2021. The prior year closing deferred tax balances were recognised at 17%. The deferred tax balances recognised in the accounts for the year ended 31 March 2020, have been recalculated and recognised at 19%. The impact of recalculating the deferred tax balances at 19% as at 31 March 2020, gives rise to a charge to the profit and loss of £182k.

11 Financial asset

	2020 £ 000	2019 £ 000
Balance brought forward	122,454	123,893
Service income received in the year	(14,955)	(14,557)
Operating revenues	2,589	2,786
Lifecycle replacement costs	787	839
Notional interest	9,377	9,493
Balance carried forward	120,252	122,454

Financial asset comprising:

	2020 £ 000	2019 £ 000
Amounts falling due within one year	2,960	1,759
Amounts falling due after more than one year	117,292	120,695
	120,252	122,454

12 Debtors

	2020 £ 000	2019 £ 000
Trade debtors	1,515	1,461
Prepayments and accrued income	168	215
	1,683	1,676

13 Current asset investments

The following current asset investments include restricted cash which cannot be used to fund the on-going operations of the Company:

	2020 £ 000	2019 £ 000
Debt service reserve	-	8,679
Tax reserve account	-	8,009
	-	16,688

The cash balance increased in the current year due to maturity of time deposit amounts on 25 March 2020. Therefore the outstanding balance on deposit accounts was reclassified to cash from investments balances in the prior year. The cash balance as at 31 March 2020 £18,702k includes restricted cash of £17,786k that is required to be restricted per the Collateral Deed. This restricted cash was placed on time deposit subsequently on 1 April 2020 and recognised as an investment balance from this date until time deposit maturity.

14 Creditors

	2020 £ 000	2019 £ 000
Due within one year		
Fixed rate senior secured bonds	4,808	4,344
Trade creditors	-	479
Accruals and deferred income	1,999	1,994
VAT payable	652	202
Corporate tax liability	64	177
	7,523	7,196
Due after one year		
Fixed rate senior secured bonds	117,718	122,342
Secured loan stock	14,865	14,865
Secured loan stock interest	27,974	25,912
	160,557	163,119

14 Creditors (continued)

Fixed rate guaranteed senior secured bonds due 2034 of £152,429k were issued on 7 May 2003. The bonds have been unconditionally and irrevocably guaranteed by Syncora Guarantee (UK) Limited (formerly XL Capital Assurance (UK) Limited) for payment of principal and interest.

Interest on the bonds is payable semi-annually in arrears on 31 March and 30 September in each year at a fixed rate of 5.404% per annum commencing on 30 September 2003.

Unless previously redeemed or purchased and cancelled, the bonds will mature on 31 March 2034 and are subject to redemption in part from, and including, 30 September 2006 in accordance with the amortisation schedule set out in the bonds offering circular.

The secured loan stock bears interest at 12.1% per annum and accrues from the date of final completion. It is redeemable in instalments between 2015 and 2035, or as the Company elects, but subject to certain restrictions in the collateral deed. The secured loan stock issued by the Company is held by the Company's immediate parent companies. The Company's immediate parent companies have waived their rights to receive interest within 12 months for the years ending 31 March 2019 and 31 March 2020.

All borrowings contain either a fixed or varying security interest over the assets of the Company, as defined by an intercreditor agreement. The bonds have certain covenants attached.

Fixed rate guaranteed senior secured bonds are stated net of unamortised issue costs of £1,806k (2019: £1,989k). The Company incurred total issue costs of £4,403,000 in respect of the fixed rate bonds. These costs, together with the interest expense, are allocated to the profit and loss amount over the term of the bonds. Interest is calculated using the effective interest rate method.

The Company has committed borrowing facilities available of £167,294k which have been fully drawn as at 31 March 2020 (2019 - £167,294k).

15 Loans and borrowings

Loans not wholly repayable within five years:

	2020 £ 000	2019 £ 000
Fixed rate guaranteed senior secured bonds	124,332	128,676
Secured loan stock	14,865	14,865
	139,197	143,541

Analysis of maturity of debt:

	2020 £ 000	2019 £ 000
Within one year or on demand	4,808	4,344
Between one and two years	5,306	4,808
Between two and five years	18,807	17,256
After five years	110,276	117,133
	139,197	143,541

16 Financial instruments

Capital risk management

The Company manages its capital to ensure its ability to continue as a going concern, to meet the requirements of its collateral deed and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital and profit and loss account and cash and cash equivalents and borrowings. The Company has complied with capital requirements imposed by the collateral deed throughout the year. There have been no changes in the Company's management of capital from previous years.

The principal risks and uncertainties faced are highlighted in the strategic report on page 2**.**

The Company has the following financial instruments:

	2020 £ 000	2019 £ 000
Due on demand or within one year	11,571	11,459
Due within one to two years	11,897	11,674
Due within two to five years	36,663	36,098
Due after more than five years	164,328	178,044
	224,459	237,275

17 Share capital

Allotted, called up and fully paid shares

	2020 No.	2020 £	2019 No.	2019 £
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The Company's other reserves are as follows:

- The profit and loss reserve represents cumulative profits or losses, net of dividends paid.

18 Related party transactions

Transactions during the year

	2020 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	3,824
Balfour Beatty Investments - staff secondment charges	241
	4,065

	2019 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	3,759
Balfour Beatty Investments - staff secondment charges	234
	3,993

Outstanding balances at the end of the year

	2020 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	203
Balfour Beatty Investments - staff secondment charges	1,035
	1,238

	2019 £ 000
Balfour Beatty Civil Engineering - operation and maintenance	202
Balfour Beatty Investments - staff secondment charges	1,047
	1,249

19 Parent and ultimate parent undertaking

The Company's immediate parent is Connect M77/GSO Holdings Limited, incorporated in United Kingdom and registered in England and Wales, with registered office of Level 6, 350 Euston Road, London, NW1 3AX.

The ultimate parents are Balfour Beatty plc and BIIF LP (acting by its manager, 3i BIFM Investments Ltd), incorporated in United Kingdom and registered in England and Wales.

The largest and smallest group in which the results of Connect M77/GSO plc are consolidated is Connect M77/GSO Holdings Limited, copies of whose financial statements are available from Level 6, 350 Euston Road, London, NW1 3AX.

20 Subsequent events

The Directors are aware that following the maturity of restricted cash £17,786k from time deposit on 25 March 2020. This has been subsequently been placed on time deposit on 1 April and is recognised as an investment balance from this date until time deposit maturity. This is a non adjusting for year ended 31 March 2020.