Babcock Critical Services Limited

Annual report and financial statements

For the year ended 31 March 2023

Company registration number:

SC046710

Babcock Critical Services Limited

Company Information

Directors
A M Phillips
C J L Spicer
K A Robinson

Company secretary
Babcock Corporate Secretaries Limited

Registered number
SC046710

Registered office
103 Waterloo Street
Glasgow
G2 7BW

Independent auditors
Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Contents

Strategic report

The directors present their Strategic report on the company for the year ended 31 March 2023.

Principal activities

The company provides support services operations in the Emergency Services sector. The services relate to the provision of maintenance and fleet management support services, for customer fleets with a view to optimising asset availability.

Review of the business

	2023	2022
		Restated
	£000	£000
Revenue	**63,683**	57,686
Profit / (Loss) before interest and tax	**19,970**	(2,724)
Net assets / (liabilities)	**6,055**	(4,324)

There was an increase in revenue in the year ending March 2023 which is primarily due to an increase in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme. The profit before interest and tax in the year ending March 2023 increased by £22.6m largely due to the reversal of impairment provision relating to investments in a subsidiary undertaking. The net assets have increased by £10.4m largely due to the reversal of impairment provision.

In the year ended 31 March 2023, the company restated the prior year financial information. Details of the restatement are contained in note 25.

Principal risks and uncertainties

The company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed on pages 87 to 103 in its Annual Report for the year ended 31 March 2023, which does not form part of this report.

The key risks and uncertainties affecting the company are considered to be related to changes in government policy, budget allocations and the changing political and regulatory environment. The directors manage this risk by meeting on a regular basis with government funding bodies and by repositioning the business as required to meet their requirements and those of employers.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 87 to 103 of the annual report of Babcock International Group PLC, which does not form part of this report.

Strategic report *(continued)*

Key performance indicators

The company's activities are managed on a divisional basis. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the company, is discussed on pages 48 to 51 of the annual report of Babcock International Group PLC, which does not form part of this report.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles, being response and availability. Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to be satisfied with the level of performance.

We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our company business and strategy.

	2023	2022
Revenue Growth	10.4%	-22.7%
Operating Return on Revenue	31.4%	-4.7%
Order Book	£203.3m	£221.1m
Total injuries per 100,000 hours worked	1.4	2.2

Revenue Growth
Revenue growth in the year ending March 2023 was 10.4%. This increase was primarily due to a increase in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme.

Operating Return on Revenue
Operating return on revenue has increased to 31.4%. This measure is being impacted by a £31.9m reversal of impairment provision, while gross profit has also improved on certain contracts due to revised expectation of overall contract outturn.

Order Book
The company has a number of long-term contracts which provide a significant order book giving strong visibility of revenue for a number of years.

Total Injuries
Ensuring employees and subcontractors who visit our sites are kept safe at work is a primary objective for the company, and we seek to create an environment and culture together with safe working practices that ensures the risk of injuries being sustained is minimised.

Strategic report *(continued)*

S172(1) Statement and Stakeholder engagement

This statement contains an overview of how the directors have performed their duty to promote the success of the company as set out in Section 172(1) of the Companies Act 2006. That section requires a director of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of the shareholders. In doing this, the director must have regard, amongst other matters, to:

a) the likely consequences of any decision in the long term,
b) the interests of the company's employees,
c) the need to foster the company's business relationships with suppliers, customers and others,
d) the impact of the company's operations on the community and the environment,
e) the desirability of the company maintaining a reputation for high standards of business conduct, and
f) the need to act fairly as between members of the company.

The company manages stakeholder engagement in accordance with Group policies and procedures which are discussed on pages 56, 57, and 115 of the annual report of Babcock International Group PLC, which does not form part of this report.

Employees

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose.

These engagement activities form part of the Group-wide People Strategy as described on pages 20-21 and 83 to 85 of the annual report of Babcock International group PLC, which does not form part of this report.

Business relationships

We are committed to conducting business honestly, transparently and with integrity. Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.
We build and maintain long-term relationships with our customers to promote the future success of the company.

To support our global business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 20-21 and 83 to 85 of the annual report of Babcock International group PLC, which does not form part of this report.

Strategic report *(continued)*

The community and environment

The directors recognise that sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: to create a safe and secure world, together. The company has done a lot in the past year as part of the Group-wide sustainability programme, ensuring progress towards our Group corporate commitments and deliver our five ESG (Environmental, Social and Corporate Governance) priorities shown below.

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040.
2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.
3. We will ensure the safety and wellbeing of all our people.
4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.
5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

Climate action is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040. Further information on climate, including climate related risks and uncertainties in the context of the Group as a whole, and other ESG items is included on pages 58 to 86 of the annual report of Babcock International Group PLC. The information provided in the Babcock International Group PLC annual report does not form part of this report.

These activities form part of the company's implementation of the Group-wide ESG Strategy as described on pages 58-86 of the annual report of Babcock International Group PLC which does not form part of this report.

This report was approved by the board on 15 August 2024 and signed on its behalf

A Phillips

A M Phillips

Director

15 August 2024

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2023.

Dividends

An interim dividend of £nil was paid in the year (2022: £nil). No final dividend for the year ended 31 March 2023 has been proposed by the directors (2022: £nil).

Directors

The directors who held office during the year and up to the date of signing the annual report were as follows:

J R Parker (resigned 22 May 2023)
C J L Spicer
A M Phillips (appointed 22 May 2023)
K A Robinson (appointed 26 March 2024)
L C Atkinson (appointed 12 July 2023, resigned 26 March 2024)

The Board is not aware of any contract of significant in relation to the company in which any director has, or has had, a material interest.

Future developments

In early 2023 the company was notified that it had been unsuccessful in its bid to continue delivering services to the Metropolitan Police Service after the conclusion of the current contract term that ends in October 2023. In March 2023, the company was notified that it had been successful in a re-bid to continue providing Security related services at two high profile UK sites for a further 3-years. In September 2023 the company was notified that an existing customer to which it provides resilience services had exercised a 4 year option and so the company will continue to provide services under that contract until the second half of 2028.

The company continues to pursue and develop opportunities within the Fleet Management Sector. New opportunities are expected to come to market as Public Sector Authorities begin to transition existing Fleet's towards future Electric Vehicle (EV) Fleet's. The company is well positioned to support such activity given its experience working with customers on sustainability, while also possessing the Fleet intelligence technological capabilities to provide insight that can add value and reduce lifecycle costs.

Going concern

The company's business activities, together with the factors likely to affect it future development and financial position are set out within the Directors' and Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the directors have highlighted as significant to the business.

As the company is part of the larger Babcock International group, it participates in centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The company is in a net current liabilities position of £93.6m but is not expected to settle the intercompany amounts due to parent and group undertakings until the company has sufficient liquidity to do so and the company has received confirmation from the respective other group companies confirming this position. Additionally, the company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue, and the company has received a letter of support

Directors’ report *(continued)*

Going concern *(continued)*

from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, the Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the company’s ability to continue as a going concern over the next 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial risk management

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discussed in detail with the annual report for Babcock International Group PLC , which does not form part of this report.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues, and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Safety policy

The company recognises the promotion of health and safety at work as an important objective. It is company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the company.

Energy and carbon reporting

The company has taken advantage of the exemption granted under The Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2023 of its ultimate parent, Babcock International Group PLC which does not form part of this report.

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic report on page 5.

Directors' report *(continued)*

Employees

The company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 20-21 and 74-78 of the annual report for Babcock International Group PLC.

Engagement with UK employees has been considered on page 4 of the Strategic report.

Environment

The company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third-party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Post Balance Sheet Events

There has been a number of post balance sheet events – see note 26 of these financial statements for further details.

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in 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 the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information.

This confirmation is given and should be interpreted in accordance with the provisions of the s418 of the Companies Act 2006.

Directors’ report *(continued)*

Appointment of auditors

At the 2023 Annual General meeting of Babcock International Group PLC, the company’s ultimate parent company, Deloitte LLP were reappointed as external auditor to the Group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the company and Deloitte LLP will, therefore, continue in office.

This report was approved by the Board on 15 August 2024 and signed on its behalf by:

A Phillips

A M Phillips
Director

15 August 2024

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). 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 of the company for that period.

In preparing these financial statements, the directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the directors of Babcock Critical Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Babcock Critical Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

Conclusions relating to going concern

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

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

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

Other Information

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

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

Independent auditors' report to the members of Babcock Critical Services Limited

Other Information (continued)

We have nothing to report in this regard.

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

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

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

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 auditor's report.

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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

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

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

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address it are described below:

Independent auditors' report to the members of Babcock Critical Services Limited

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued**)**

Revenue and margin recognition on key long-term contracts with significant management judgment

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- Examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- Enquiring with in-house legal counsel regarding contract related litigation and claims; and
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Independent auditors’ report to the members of Babcock Critical Services Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

Use of our report

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

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
15 August 2024

Income Statement

for the year ended 31 March 2023

	Note	2023	2022 Restated
		£000	£000
Revenue	4	**63,683**	57,686
Cost of sales		**(59,092)**	(55,799)
Gross profit		**4,591**	1,887
Administrative expenses		**(4,014)**	(4,640)
Reversal of previous impairment to investments.	5	**19,393**	29
Operating profit/(loss)	5	**19,970**	(2,724)
Finance income	6	**50**	102
Finance expenses	6	**(238)**	(334)
Other finance income - pensions	23	**421**	57
Profit/(loss) before taxation		**20,203**	(2,899)
Income tax credit /(expense)	9	**103**	(1,070)
Profit/(loss) for the financial year		**20,306**	(3,969)

All of the above results derive from continuing operations.

Statement of Comprehensive Income

for the year ended 31 March 2023

	Note	2023	2022 Restated
		£000	£000
Profit/(loss) for the financial year		**20,306**	(3,969)
Other comprehensive (loss)/income:			
Items that will not be subsequently reclassified to income statement:			
(Loss)/gain on re-measurement of net defined benefit obligation	23	**(13,169)**	11,762
Tax on defined benefit obligation	9	**3,242**	(3,334)
Total other comprehensive (loss)/income		**(9,927)**	8,428
Total comprehensive income		**10,379**	4,459

In the year ended 31 March 2023, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Statement of Financial Position

as at 31 March 2023

	Note	**2023** **£000**	2022 Restated £000
Non-current assets			
Intangible assets	10	**-**	171
Property, plant and equipment	11	**4,553**	6,195
Right-of-use assets	12	**2,153**	4,073
Investments	13	**35,806**	16,413
Trade and other receivables	15	**57,182**	57,137
Pension asset	23	**6,001**	18,333
		105,695	102,322
Current assets			
Inventories	14	**1,685**	1,505
Trade and other receivables	15	**12,821**	18,706
		14,506	20,211
Current liabilities			
Trade and other payables	16	**(107,164)**	(113,939)
Lease liabilities	17	**(949)**	(894)
Cash and cash equivalents		**(8)**	(2,140)
Net current liabilities		**(93,615)**	(96,762)
Total assets less current liabilities		**12,080**	5,560
Non-current liabilities			
Lease liabilities	17	**(2,604)**	(3,491)
Deferred tax	9	**(1,470)**	(4,815)
Provisions for liabilities	18	**(1,951)**	(1,578)
Net assets / (liabilities)		**6,055**	(4,324)
Equity			
Called up share capital	19	**19,908**	19,908
Accumulated losses		**(13,853)**	(24,232)
Total shareholders' funds		**6,055**	(4,324)

The notes on pages 19 to 55 are an integral part of these financial statements.

In the year ended 31 March 2023, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

The financial statements on pages 16 to 55 were approved and authorised for issue by the Board of Directors on 2 August 2024 and signed on its behalf by:

A Phillips

A M Phillips
Director
15 August 2024

Statement of Changes in Equity

for the year ended 31 March 2023

	Called-up share capital £000	Accumulated Losses £000	Total Shareholders' Funds £000
Balance at 31 March 2021 (previously stated)	19,908	(26,820)	(6,912)
Prior year adjustment*		(1,871)	(1,871)
Balance at 31 March 2021 (restated)*	19,908	(28,691)	(8,783)
Loss for the financial year	-	(3,969)	(3,969)
Other comprehensive gain	-	8,428	8,428
Total comprehensive gain for the year (restated)*	**-**	**4,459**	**4,459**
Balance at 31 March 2022 (restated)	**19,908**	**(24,232)**	**(4,324)**
Profit for the financial year	**-**	**20,306**	**20,306**
Other comprehensive loss	**-**	**(9,927)**	**(9,927)**
Total comprehensive gain for the year	**-**	**10,379**	**10,379**
Balance at 31 March 2023	**19,908**	**(13,853)**	**6,055**

*In the year ended 31 March 2023, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Notes to the financial statements

1 General information

Babcock Critical Services Limited is a private company limited by shares, which is incorporated and domiciled in Scotland, UK. The address of the registered office is 103 Waterloo Street, Glasgow, G2 7BW.

Its ultimate controlling party is disclosed in note 27. The principal activity of the company is set out in the Strategic report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework (FRS 101)'. The company applies the recognition, measurement and disclosure requirements in accordance with the international accounting standards and FRS 101, but makes amendments where necessary in order to comply with the Companies Act 2006.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) where relevant equivalent disclosures have been given in the group accounts of Babcock Education and Training Holdings LLP. In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

a) IFRS 7, 'Financial instruments: Disclosures'
b) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 'Share capital and reserves';
- paragraph 73(e) of IAS 16 'Property, plant and equipment'; and
- paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)

d) IAS 7, 'Statement of cash flows'
e) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
f) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
g) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group
h) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS36, 'impairment of assets'

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

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

The company intends to continue to prepare its financial statements in accordance with FRS 101.

The company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Babcock International Group PLC, a company registered in England and Wales. Accordingly, these financial statements present information about the company as an individual and not as a group.

Adoption of new and revised standards

There are no amendments to accounting standards that are effective for the year ended 31 March 2023 that have a material impact on the company’s financial statements.

Going concern

The company’s business activities, together with the factors likely to affect it future development and financial position are set out within the Directors’ and Strategic Report. In addition, within the Directors’ Report there are details of the financial risks that the directors have highlighted as significant to the business.

As the company is part of the larger Babcock International group, it participates in centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The company is in a net current liabilities position of £93.6m but is not expected to settle the intercompany amounts due to parent and group undertakings until the company has sufficient liquidity to do so and the company has received confirmation from the respective other group companies confirming this position. Additionally, the company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue, and the company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, the Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the company’s ability to continue as a going concern over the next 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the company's activities. The company recognises revenue in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, determination of contract price, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

The integrated output nature of many of the services provided by the company results in some contracts only having one performance obligation.

(b) Determination of contract price

The contract price represents the amount of consideration which the company expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(b) Determination of contract price *(continued)*

As part of this judgement, variable consideration may be constrained. The company recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the company provides, standalone selling prices are generally not observable and, in these circumstances, the company allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the company determines, for each performance obligation, whether it is satisfied over time or at a point in time.

Revenue recognised over time

Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the company's performance as it performs; or
- the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for work done; or
- the company's performance creates or enhances an asset controlled by the customer.

Typical performance obligations in the company's contracts that are recognised over time include the delivery of services (such as maintenance and engineering), as the customer simultaneously receives and consumes the benefits of the company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue ***(continued)***

Revenue recognised over time *(continued)*

Where the company satisfies performance obligations over time, the company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the company's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the company uses time elapsed to measure satisfaction of the performance obligation.

Under most of the company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. See section (h) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the company.

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Estimating contract revenues can involve judgements around whether the company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Assessment of contract profitability *(continued)*

If a contract is deemed to be loss making the present obligation is recognised and measured as provisions. Further detail is included in the Provisions accounting policy.

(e) Contract modifications

Claims and variations

The company's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the company in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the company to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Accounting for contract modifications

The company accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract;
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

The company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The company's preferred approach is to approve contract modifications by formal contract amendment.

Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the company. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The company's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(f) Costs of obtaining a contract

Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Directly attributable costs to obtain a contract with a customer that the company would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

(g) Costs to fulfil a contract

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with those standards. Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

i. the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
ii. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
iii. the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

Capitalised contract costs are amortised to cost of revenue on a straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(h) Contract assets and liabilities

Contract assets represent amounts for which the company has a conditional right to consideration in exchange for goods or services that the company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight line basis as follows:

a) Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

b) *Computer software*
Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful life.

Property, plant and equipment

Property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each statement of financial position date) at the following annual rates:

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

Land	Not depreciated
Freehold property	2% to 8% straight line
Leasehold property	Depreciation over duration of lease
Plant and equipment	6.6% to 33.3% straight line

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Impairment of non-current assets

Goodwill and indefinite life intangibles are reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the company performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the company income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

Cash and cash equivalents

Company cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

2 Summary of significant accounting policies *(continued)*

Financial instruments

a) Financial assets and liabilities at amortised cost
Cash and cash equivalents, trade receivables, amounts due from related parties and other debtors are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other debtors, the company measures the provision at an amount equal to 12-month expected credit losses.

Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

Taxation

(a) Current income tax

Current tax, including UK corporation 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 reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

(b) Deferred income tax *(continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Trade and other receivables

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debts is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

The company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies (continued)

Employee benefits

a) Pension obligations

Defined benefit
The company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost.

Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the company's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy using appropriate valuation techniques.

The extent to which the company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme's liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

Defined contribution
The company participates in a defined contribution scheme. Obligations for contributions to the defined contribution pension plan are recognised as an expense in the income statement.

b) Holiday pay
Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

2 Summary of significant accounting policies (continued)

Lessee accounting

For all leases in which the company is a lessee (other than those meeting the criteria detailed below), the company recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the company is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the company's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the company. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight line to the income statement as permitted by IFRS 16, 'Leases'.

Provisions for liabilities

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies (continued)

Provisions for liabilities *(continued)*

A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 21 for details of contingent liabilities.

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the company balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Dividends

Dividends are recognised as a liability in the company's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Identification of prior year restatements

The results of the company have been restated where practicable by retrospectively restating the company's prior period results for the affected periods.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies (continued)

Foreign currencies

a) Functional and presentation currency
Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sterling, which is the Company's functional and presentation currency.
b) Transactions and balances
Foreign currency transactions are translated into the functional currency of the company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements judgements and estimates have been made in applying the company's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the company's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below.

Key sources of estimation uncertainty:

Revenue recognition – estimates of outturn revenues and costs

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 23 for the disclosures of the defined benefit pension scheme.

Impairment of investments in subsidiaries

The company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the company to estimate the value in use which is based on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. See note 13 for the disclosures of the carrying value of investments.

Critical accounting judgements in relation to these financial statements:

Revenue recognition – identification of performance obligations

Revenue recognition is initially dependant on identifying the number of specific performance obligations that exist within a contract. Judgement has been exercised in determining whether certain contracts that provide Repair and Maintenance services, as well as associated services to ensure the Customer has Asset Availability, should be treated as separately identifiable promises where each is accounted for as a separate performance obligation; or whether promises are not separately identifiable but rather part of an integrated service whereby this bundle of services represents a single performance obligation. With reference to both the commercial nature and the practical delivery of the contracts certain contracts have been assessed as having a single performance obligation. In such cases, the way in which the contract is structured and operates is such that these services are not provided individually, and additionally the customer has sought one single provider to integrate all of these aspects into the fully managed service that the company provides.

Revenue recognition – timing of recognition

The timing of revenue recognition is dependent on whether the company transfers control of the good or service over time or at a point in time. Revenue is recognised over time if one of the following criteria is met; the customer simultaneously receives and consumes the benefits provided; the company's performance creates or enhances an asset the customer controls; or the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment.

Determination of whether revenue should be recognised over time or at a point in time can involve a degree of judgement and for certain performance obligations the company has concluded it is appropriate for revenue to be recognised at a point in time and for others it is appropriate for revenue to be recognised over time.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Revenue recognition – timing of recognition *(continued)*

In addition, where contracts are assessed to contain variable revenue, consideration has been given as to whether this variable revenue should be recognised into a distinct time period or recognised over multiple time periods when applying the series guidance of IFRS 15. This determination involves a degree of judgement over whether the terms of a variable payment relate specifically to the entity's efforts to transfer a distinct good or service within a series. When it is determined that it relates to the transfer of good or service within a series, variable consideration will be allocated to the specific time period it relates to. Typically, where variable revenue relates to a specific event that occurs in a discrete time period (eg key performance indicator deductions), the revenue (or deductions to revenue) is recognised in that specific time period.

4 Revenue

Revenue is wholly attributable to the principal activities of the company and arises as follows:

	2023	2022
	£000	£000
By area of activity:		
Rendering of services	**63,683**	57,686
	63,683	57,686

All the revenue in the year ended 31 March 2023 and year ended 31 March 2022 originated in the United Kingdom.

5 Operating profit/(loss)

Operating profit is stated after (crediting)/charging:

	2023	2022
	£000	£000
Depreciation of property, plant and equipment (note 11)	**1,710**	687
Right-of-use asset depreciation (note 12)	**1,146**	1,569
Amortisation of intangible assets (note 10)	**171**	201
Inventory charged to income statement	**1,154**	8,373
Reversal of impairment (note 13)	**19,393**	29

The auditors' remuneration for the current (£74,000) and prior year (£74,000) has been borne by a fellow Group company. Fees paid to the company's auditors, Deloitte LLP and its associates are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

Notes to the financial statements *(continued)*

6 Finance income and expenses

	2023	2022
	£000	£000
Finance income:		
Interest income on financial asset	**47**	75
Foreign exchange	**3**	18
Other income	**-**	9
	50	102

	2023	2022
Finance expenses:	**£000**	£000
Bank interest	**(57)**	(15)
Lease interest	**(181)**	(319)
	(238)	(334)

7 Staff costs

The average monthly number of employees (including directors) employed by the company during the year was as follows:

	2023	2022
	Number	Number
By activity:		
Operations	**389**	445
Management and administration	**33**	50
	422	495

Their aggregate remuneration comprised:

	2023	2022
	£000	£000
Wages and salaries	**17,877**	19,731
Social security costs	**2,020**	2,134
Other pension costs	**2,053**	2,460
	21,950	24,325

Included in other pension costs are £393,000 (2022: £514,000) in respect of the defined benefit schemes and £1,660,000 (2022: £1,946,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other Group companies, as well as staff seconded to other Group companies. These are recharged to those business entities.

Notes to the financial statements *(continued)*

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by the company were as follows:

	2023	2022
The remuneration of the directors which was paid by the company was as follows:	**£000**	£000
Emoluments (including benefits in-kind)	**174**	581
Defined contribution pension scheme	**11**	34
	185	615

During the year three of the directors were paid by the company, (2022: three of the directors were paid by the company.)

The above amounts for remuneration include the following in respect of the highest paid director:

	2023	2022
	£000	£000
Emoluments (excluding pension contributions)	**67**	291
Defined contribution pension scheme	**4**	22

During this year and the prior year 3 of the directors received remuneration from this company.

Where directors received remuneration that was borne by other Babcock group companies it is not possible to make an accurate apportion of these directors' emoluments relating to services provided to the company.

No recharge is made for costs borne by the company in relation to services performed by the directors in relation to other Babcock Group companies.

9 Income tax

Tax expense included in income statement

	2023 £000	2022 Restated £000
Deferred tax:		
Origination and reversal of timing differences	**(40)**	963
Adjustment in respect of prior years	**-**	51
Impact of change in UK tax rate	**(63)**	56
Total deferred tax (credit) /expense	**(103)**	1,070
Total tax (credit) /expense for the year	**(103)**	1,070

Tax (credit)/expense included in other comprehensive income

	2023 £000	2022 Restated £000
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	**(2,502)**	2,235
- Impact of change in UK tax rates	**(740)**	1,100
Tax (credit)/expense included in other comprehensive income	**(3,242)**	3,335

In the year ended 31 March 2023, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

The tax for the year is lower (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 £000	2022 Restated £000
Profit/(loss) before taxation	**20,203**	(2,899)
Profit/(loss) multiplied by standard UK corporation tax rate of 19% (2022: 19%)	**3,839**	(551)
Effects of:		
Expenses not deductible for tax/income not chargeable to tax	**(3,635)**	41
Group relief for nil consideration	**(244)**	1,473
Adjustment in respect of prior years	**-**	51
Impact of change in UK tax rate	**(63)**	56
Total tax charge for the year	**(103)**	1,070

Notes to the financial statements *(continued)*

9 Income tax *(continued)*

The increase in the UK rate of corporation tax to 25% with effect from 1 April 2023 was substantively enacted during the year ended 31 March 2022. The effect has been to decrease the company's net deferred tax liability by £3,345,000 (2022: £4,404,000 increase), comprising a credit to Income Statement of £103,000 (2022: £1,070,000 charge) and a debit to Other Comprehensive Income of £3,242,000 (2022: £3,335,000 credit).

Deferred taxation

The major components of the deferred tax liabilities are recorded as follows:

Deferred tax liabilities	Pension asset £000	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2021:	**289**	**130**	**(8)**	**411**
- Charged to the income statement	960	104	6	1,070
- (Credited) to other comprehensive income	3,334	-	-	3,334
At 31 March 2022:	**4,583**	**234**	**(2)**	**4,815**
- Charged to the income statement	159	(262)	-	(103)
- (Credited) to other comprehensive income	(3,242)	-	-	(3,242)
At 31 March 2023:	**1,500**	**(28)**	**(2)**	**1,470**

In the year ended 31 March 2023, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

10 Intangible assets

	Computer Software £000	Total £000
Cost		
At 1 April 2022	1,222	1,222
Disposals	-	-
At 31 March 2023	**1,222**	**1,222**
Accumulated amortisation		
At 1 April 2022	(1,051)	(1,051)
Amortisation	(171)	(171)
Disposals	-	-
At 31 March 2023	**(1,222)**	**(1,222)**
Net book value		
At 31 March 2023	**-**	**-**
At 31 March 2022	171	171

Notes to the financial statements *(continued)*

11 Tangible fixed assets

	Land	Buildings & Leasehold Improvements	Plant and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2022	1,223	5,488	3,973	10,684
Additions	-	-	68	68
Disposals	-	(3)	(76)	(79)
At 31 March 2023	**1,223**	**5,485**	**3,965**	**10,673**
Accumulated depreciation				
At 1 April 2022	-	(2,735)	(1,754)	(4,489)
Charge for the year	-	(263)	(1,447)	(1,710)
Disposals	-	3	76	79
At 31 March 2022	**-**	**(2,994)**	**(3,125)**	**(6,119)**
Net book value				
At 31 March 2023	**1,223**	**2,490**	**840**	**4,553**
At 31 March 2022	1,223	2,753	2,219	6,195

Contractual commitments for property, plant and equipment at year end is £nil (2022: £nil).

Notes to the financial statements *(continued)*

12 Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2022	6,426	692	7,118
Additions	44	121	165
Disposals	-	(258)	(258)
At 31 March 2023	**6,470**	**555**	**7,025**
Accumulated depreciation			
At 1 April 2022	(2,634)	(411)	(3,045)
Charge for the year	(993)	(153)	(1,146)
Impairment	(894)	-	(894)
Disposals	-	213	213
At 31 March 2023	**(4,479)**	**(351)**	**(4,872)**
Net book value			
At 31 March 2023	**1,949**	**204**	**2,153**
At 31 March 2022	3,792	281	4,073

Notes to the financial statements *(continued)*

13 Investments

	2023 Shares in group undertakings £'000	2022 Shares in group undertakings £'000
Cost		
At 1 April	66,353	66,353
Additions	-	-
Disposals	-	-
At 31 March	**66,353**	**66,353**
Impairment		
At 1 April	(49,940)	(49,969)
Reversal in the year	19,393	29
Disposals	-	-
At 31 March	**(30,547)**	**(49,940)**
Net Book Value		
At 1 April	16,413	16,384
At 31 March	**35,806**	**16,413**

Results of the current year impairment assessment:
The impairment test for the year ended 31 March 2023 resulted in reversals of previously recognised impairments against Babcock Vehicle Engineering Limited of £19,393,000.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the investments are outlined in note 24.

Key assumptions
The key assumptions to which the recoverable amount of the company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 10 of the Group financial statements for the year ending 31 March 2023.

The pre-tax discount rates used to determine the recoverable amount of the company's investment in subsidiary undertakings are 13.1% (2022: 11.3%-11.8%). The long-term growth rates used to determine the recoverable amount of the company's investment in subsidiary undertakings are 2.1% (2022: 2.0% – 2.4%).

Notes to the financial statements *(continued)*

13 Investments *(continued)*

Sensitivity

The directors carried out sensitivity analysis on the reasonably possible changes in key assumptions used to determine the recoverable value of the company's investment in subsidiary undertakings.

The company's calculation of recoverable value presents an impairment reversal of £19,393,000 in the year ending 31 March 2023. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The company carried out sensitivity analysis on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for the company's investment in subsidiary undertakings.

An increase to the pre-tax discount rate of 100 basis points would cause a decrease to the impairment reversal of £4.6m. A decrease to the long-term growth rate of 50 basis points would cause a decrease to the impairment reversal of £1.7m.

The directors consider that key cash flow assumptions in the calculation of the recoverable value of the company's investment in subsidiary undertakings include short-term cash flows. If the year-on-year growth is decreased by 15%, the value in use for the company's investment in subsidiary undertakings decreases by £1.9m.

14 Inventories

	2023	2022
	£000	£000
Finished goods and goods for resale	**1,685**	1,505
	1,685	1,505

Inventories are stated after provision for impairment of £259,099 (2022: £199,304).

Notes to the financial statements *(continued)*

15 Trade and other receivables

	2023 £000	2022 £000
Amounts falling due within one year:		
Trade receivables	**4,049**	5,587
Finance asset	**-**	636
Contract assets	**5,990**	9,554
Amounts owed by group undertakings	**153**	165
Other receivables and prepayments	**2,629**	2,764
	12,821	18,706

	2023 £000	2022 £000
Amounts falling due after one year:		
Amounts owed by group undertakings	**57,182**	57,137
	57,182	57,137

Amounts owed by group undertakings are unsecured and repayable on demand and interest free.

Amounts due from Group undertakings are all due from fellow subsidiary companies of the ultimate parent, Babcock International Group PLC and comprise the following:

- Four loans totalling £57,136,000 (2022: £57,137,000) are repayable on demand, with no interest charge.
- During FY23 Babcock International Group PLC entered into a new BNP cash sweep arrangement where in all the cash balances were auto transferred to another group treasury entity Babcock Marine Holdings (UK) Limited .Babcock Critical Services Limited is also part of this new arrangement and the year-end balance transferred part of this arrangement represents £46,000 2022(£Nil).
- Debtors totalling £153,000 (2022: £165,000)

	Contract asset £'000
At 31 March 2022	9,554
Transfers from contract assets recognised at the beginning of the year to receivables	(9,554)
Increase due to work done not invoiced	5,990
At 31 March 2023	**5,990**

15 Trade and other receivables *(continued)*

During the year, the company has recognised £9,554,000 of revenue in respect of performance obligations satisfied or partially satisfied in previous periods.

At 31 March 2023, there is £10,800,000 (2022: £23,200,000) of transaction price on contracts with customers that has been allocated to unsatisfied or partially satisfied performance obligations (note this metric has been prepared for IFRS 15 disclosure purposes and therefore does not align to the company's contract backlog).

Contract backlog is based on the full contractual term of the company's agreements whilst the IFRS 15 disclosure may be a shorter contractual period in the event that the customer has the ability to exit contracts prior to the full term for non-substantive penalty payments.

16 Trade and other payables

	2023 £000	2022 Restated £000
Amounts falling due within one year:		
Trade payables	**2,651**	1,310
Amounts owed to parent and group undertakings*	**97,616**	101,095
Other taxation and social security	**1,463**	1,110
Accruals	**2,415**	5,876
Contract liabilities	**3,019**	4,548
	107,164	113,939

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand.

Amounts due to Group undertakings are all due to fellow subsidiary companies of the ultimate parent, Babcock International Group PLC and comprise the following:

- Three loans totalling £92,200,000 (Two loans 2022: £94,900,000) are repayable on demand, with no interest charge.
- During FY23 Babcock International Group PLC entered into a new BNP cash sweep arrangement where in all the cash balances were auto transferred to another group treasury entity Babcock Marine Holdings (UK) Limited .Babcock Critical Services Limited is also part of this new arrangement and the year-end balance transferred part of this arrangement represents £523,000 (2022 £Nil).
- Creditors totalling £2,980,000 (2022: £1,864,000)

The company has access to the Babcock International Group PLC overdraft facility. The company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 21).

*In the year ended 31 March 2023, the company restated the prior year financial statements.
Details of the restatement are contained in note 25.

Notes to the financial statements *(continued)*

16 Trade and other payables *(continued)*

	Contract liabilities £'000
At 31 March 2022	4,548
Revenue recognised that was included in contract liabilities at the beginning of the year	(1,529)
At 31 March 2023	**3,019**

17 Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2023 £'000	2022 £'000
Opening value of liability	**4,385**	7,702
Additions	**165**	60
Disposals	**(45)**	(2,157)
Interest charged	**181**	319
Payments	**(1,133)**	(1,539)
Closing value of liability	**3,553**	4,385

The entity leases various premises under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable leases. Discounted future minimum lease payments are as follows:

	2023 £'000	2022 £'000
Within one year	**949**	894
In more than one year, but not more than five years	**2,604**	2,778
After five years	**-**	713
Carrying value of liability	**3,553**	4,385

The following are the amounts recognised in profit or loss:

	2023 £'000	2022 £'000
Expense relating to short-term leases	**31**	70
Expense relating to leases of low-value assets	**89**	292
	120	362

Notes to the financial statements *(continued)*

18 Provisions for liabilities

	Dilapidations provision £000	Employee related provision £000	Contract/ warranty provision £000	Total £000
At 1 April 2022	**1,441**	**137**	-	**1,578**
Charged/(credited) to the income statement	513	72	**38**	652
Released to the income statement	(113)	(137)	-	(268)
At 31 March 2023	**1,841**	**72**	**38**	**1,951**

Dilapidation provisions
Dilapidation provisions relate to the cost of dilapidations to leasehold properties. These provisions are expected to be utilised in the next 3 years.

19 Called up Share capital

	2023 £000	2022 £000
Allotted and fully paid		
19,908,300 ordinary shares of £1 each (2022: 19,908,300)	**19,908**	19,908

20 Dividends

Dividends declared and paid were £nil (2022: £nil), this is equivalent to £nil per share (2022: £nil). There are no plans for a final dividend. Dividends received were £nil (2022: £nil).

21 Contingent liabilities

The company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with utilisation of £21.0m at 31 March 2023 (31 March 2022: £383.6m).

No securities have been provided by the company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystalise.

22 Related party disclosures

The company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

23 Pension commitments

The company accounts for pension costs in accordance with IAS 19. The company contributes to a defined contribution scheme in the UK in respect of a number of its employees, at a cost of £1,660,000 (2022: £1,946,000). The company is also a contributing employer to a defined benefit scheme (the “Babcock International Group Pension Scheme”). The company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme’s members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes’ investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

In the last financial year, the Babcock International Group Pension Scheme was closed to future accrual for some employees. These members moved from active to active deferred members of the scheme, retaining a final salary link.

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2023 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2023. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2023 %**	2022 %
Rate of increase in pensionable salaries	**3.0**	3.4
Rate of increase in pensions	**3.2**	3.5
Discount rate	**4.8**	2.7
Inflation rate (RPI) – year1	**6.9**	3.7
Inflation rate (RPI) - thereafter	**3.3**	3.7
Inflation rate (CPI) – year 1	**4.7**	3.2
Inflation rate (CPI) - thereafter	**2.8**	3.2

The mortality assumptions used were:

	2023 Years	2022 Years
Total life expectancy for current pensioners aged 65 (years) - male	**86.3**	86.8
Total life expectancy for current pensioners aged 65 (years) - female	**88.9**	-
Total life expectancy for future pensioners currently aged 45 (years) - male	**86.8**	87.4
Total life expectancy for future pensioners currently aged 45 (years) - female	**89.4**	-

The Group's cash contribution rates payable to the scheme are expected to be as follows:

Future service contribution rate	30.3%
Future service cash contributions	£3.2m
Deficit contributions	£13.7m
Additional longevity swap payments	£3.6m
Expected employer cash costs for 2023/24	£20.5m
Expected salary sacrifice contributions	£0.4m
Expected total employer contributions	£20.9m

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

The changes to the Babcock International Group PLC statement of financial position at 31 March 2023 and the changes to the Babcock International Group PLC income statement for the year to 31 March 2023, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £000	**Projected income statement 2024 £000**
Initial assumptions	**959,486**	**3,258**
Discount rate assumptions increased by 0.5%	(51,700)	(3,435)
Discount rate assumptions decreased by 0.5%	57,104	3,190
Inflation rate assumptions increased by 0.5%	30,128	1,697
Inflation rate assumptions decreased by 0.5%	(29,168)	(1,631)
Total life expectancy increased by half a year	19,661	981
Total life expectancy decreased by half a year	(18,205)	(907)
Salary increase assumptions increased by 0.5%	2,495	233
Salary increase assumptions decreased by 0.5%	(2,389)	(222)

The weighted average duration of cash flows (years) was 12 (2022: 14 years).

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the statement of financial position date of 31 March 2023 were:

Fair value of plan assets	**2023 £'000**	2022 £'000
Equities	**569**	7,701
Property	**101,475**	121,945
High yield bonds / emerging market debt	**5**	19,785
Absolute return and multi strategy funds	**-**	-
Bonds	**450,971**	662,075
Matching assets	**525,991**	711526
Scheme assets	**1,079,011**	1,523,032
Active position on longevity swaps	**(51,400)**	(65,800)
Total assets	**1,027,611**	1,457,232
Present market value of liabilities - funded	**(959,486)**	(1,283,066)
Pension surplus	**68,125**	174,166

All the assets of the scheme are quoted except for the longevity swaps.

The equity investments and bonds are valued at bid price.

The scheme does not invest directly in assets or shares of Babcock International Group PLC.

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group PLC	**2023 £000**	2022 £000
Current service cost	**5,172**	5,873
Incurred expenses	**2,499**	2,506
Past service cost	**-**	-
Total included within operating profit	**7,671**	8,379
Net interest income	**(4,774)**	(537)
Total charged to the income statement	**2,897**	7,842

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group PLC charge, included £676,000 for service cost and incurred expenses (2022: £882,000), and net interest income of £421,000 (2022: net interest income of £57,000).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")	**2023 £000**	2022 £000
Actuarial (loss)/gain recognised in the SOCI	**(114,297)**	119,728
Experience (loss)/gain	**(18,000)**	(16,961)
Other losses	**16,176**	2,601
	(116,121)	(105,368)

The actuarial loss recognised in the Statement of Comprehensive Income in these financial statements, based on the company's allocation of the total Babcock International Group PLC movement, was £13,169,000 (*2022 restated: gain of £11,762,000).

*In the year ended 31 March 2023, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group PLC	**2023 £000**	2022 £000
At 1 April	**1,523,032**	1,492,970
Interest income	**40,389**	29358
Employee contributions	**71**	71
Employer contributions	**12,977**	58,808
Benefits paid	**(68,359)**	(75,881)
Actuarial (loss)/gain	**(429,099)**	17,706
At 31 March	**1,079,011**	1,523,032

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

	2023	2022
	£000	£000
Reconciliation of present value of scheme liabilities in Babcock International Group PLC		
At 1 April	**1,283,066**	1,408,078
Service cost	**5,172**	5,873
Incurred expenses	**2,499**	2,506
Interest on liabilities	**33,839**	27,480
Employee contributions	**71**	71
Actuarial loss/(gain) – demographics	**(8,864)**	(22,776)
Actuarial (gain)/loss – financial	**(305,938)**	(79,246)
Experience losses/(gains)	**18,000**	16,961
Benefits paid	**(68,359)**	(75,881)
At 31 March	**959,486**	1,283,066

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was an asset of £6,001,000 (2022: asset of £18,333,000).

24 Subsidiary, associate and Joint Venture undertakings

All related undertakings for the company are as listed below:

Company Name	Country	Address	Direct %	Ultimate%
Babcock Vehicle Engineering Limited	England	33 Wigmore Street, London	100.0%	100.0%
Transfleet Distribution Limited	England	33 Wigmore Street, London	100.0%	100.0%

The registered office of all undertakings is 33 Wigmore Street, London, W1U 1QX, England. All subsidiary undertakings are incorporated and operate in the United Kingdom.

Notes to the financial statements *(continued)*

25 Prior year restatement

The following tables show the effect on the 2022 statement of comprehensive income and balance sheet of the prior year restatement:

Impact on the income statement for the year ended 31 March 2022

	2022 As previously stated £000	BIL pension liability £000	2022 Restated £000
Income tax expense	**(602)**	(468)	**(1,070)**
Loss for the financial year	**(3,501)**	(468)	**(3,939)**
Gain/(loss) on re-measurement of net defined benefit obligation	**14,222**	(2,460)	**11,762**
Tax on defined benefit obligation	**(3,802)**	468	**(3,334)**
Total other comprehensive income	**10,420**	(1,992)	**8,428**
Total comprehensive income	**6,919**	(2,460)	**4,459**

Statement of comprehensive income

	2022 as previously stated £000	BIL pension liability £000	2022 Restated £000
Loss for the financial year	**(3,501)**	(468)	**(3,969)**
Loss on re-measurement of net defined benefit obligation	**14,222**	-	**14,222**
Tax on defined benefit obligation	**(3,802)**	468	**(3,334)**
Recognition of amounts due to group undertakings	**-**	(2,460)	**(2,460)**
Total shareholders' funds	**6,919**	(2,460)	**(4,459)**

Restatement of financial position

Current liabilities

	2022 as previously stated £000	BIL pension liability £000	2022 Restated £000
Trade and other payables	**(109,608)**	(4,331)	**(113,939)**
Lease liabilities	**(894)**	-	**(894)**
Cash and cash equivalents	**(2,140)**	-	**(2,140)**
Net current liabilities	**(92,431)**	(4,331)	**(96,762)**
Total assets less current liabilities	**9,891**	(4,331)	**5,560**
Net assets / (liabilities)	**7**	(4,331)	**(4,324)**
Equity			
Called up share capital	**19,908**	-	**19,908**
Accumulated losses	**(19,901)**	(4,331)	**(24,232)**
Total shareholders' funds	**7**	(4,331)	**(4,324)**

25 Prior year restatement *(continued)*

* The tables above include only those financial statement line items which have been restated. The total profit for the year, non-current assets, net current assets/(liabilities) and equity, do not therefore represent the sum of the line items presented above.

a) **BIL pension liability**

Babcock International Limited, a fellow subsidiary, makes payments on behalf of member entities in relation to the Babcock International Group defined benefit pension scheme and recharges those payments to member entities. Babcock International Limited has disclosed intercompany assets equivalent to the amounts to be recharged to member entities. The company has not recorded an equivalent liability, as such the company has restated the prior year financial statements to increase the intercompany liability for the year ending 31 March 2022 by £2.4m and for the year ending 31 March 2021 by £1.9m in relation to amounts owed to Babcock International Limited. The cumulative impact at 31 March 2022 on the balance sheet is £4.3m.

As a participating employer of the scheme, Babcock Critical services Limited is severally liable, along with the other participating employers, for the assets and liabilities of the scheme, and as such, these assets, liabilities and obligations are allocated to each participating entity based on active members. Employee contributions, on the other hand, are allocated on the basis of actual contributions paid, with the net gain or loss on remeasurement of the defined benefit obligation reflected in other comprehensive income. Any change in employer contributions therefore directly impacts on other comprehensive income, hence why the recognition of the intercompany liability at 31 March 2021 and 31 March 2022 has also impacted the Statement of Other Comprehensive Income.

26 Post Balance Sheet Events

In early 2023 the company was notified that it had been unsuccessful in its bid to continue delivering services to the Metropolitan Police Services after the conclusion of the current contract term that ends in October 2023. This contract made up approximately half of the company's revenue in the Year Ending March 2023.

In June 2024, the company became aware that Rivus Fleet Solutions Limited ("Rivus"), the successor supplier to the Metropolitan Police Service, had entered into administration. The company had assigned its lease for two operational sites to Rivus. Depending on the outcome of the administration process the company may have additional future lease obligations in relation to these sites, and depending on the ability to assign these leases to a 3rd party this could give rise to the need to recognise a provision for an onerous lease.

In early 2024 the company sold its property in Park Royal, London, that had been previously used to deliver services to the Metropolitan Police Service resulting in a profit on sale of approximately £17 million.

Since 31 March 2023 the company has taken part in a Group wide loan rationalisation process which involved the netting of intercompany payables and receivables loan balances. This resulted in a net intercompany loan payables balance of £33.4m for which a new loan agreement was established with Babcock Marine Holdings UK Limited on 20 November 2023.

Notes to the financial statements *(continued)*

27 Immediate and ultimate parent undertaking

The company‘s immediate parent company is Babcock Critical Assets Holdings LLP, a limited liability partnership registered in England and Wales. The company’s ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX