
Investment Company Eastbourne Limited

Company Registration No. 11276378 (England and Wales)

**INVESTMENT COMPANY EASTBOURNE
LIMITED**

**FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 MARCH 2019**

Investment Company Eastbourne Limited

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Investment Company Eastbourne Limited

Directors R K Cottrill
I J Fitzpatrick
R J Cooke

Secretary J K R McCarthy-Penman

Company number 11276378

Registered office 1 Grove Road
Eastbourne
East Sussex
BN21 4TW

Independent auditors Dominic Hill Associates Ltd
Archer House, Britland Estate,
Northbourne Road,
Eastbourne,
East Sussex,
BN22 8PW

Bankers Lloyds Bank plc
City Office
PO Box 1000
Gillingham
Kent
BX1 1LT

Investment Company Eastbourne Limited

Directors' report for the period ended 31 March 2019

The directors present their report and the audited financial statements of the company for the period from 26 March 2018 to 31 March 2019.

Incorporation

The company was incorporated on 26 March 2018.

Dividends

No dividends were proposed or paid during the period.

Directors

The following directors served during the period:

R J Cooke (appointed 26 March 2018)

R K Cottrill (appointed 26 March 2018)

I J Fitzpatrick (appointed 26 March 2018)

Post balance sheet events

The directors are not aware of any events after the balance sheet date that would impact the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and;
- 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.

The directors 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.

Investment Company Eastbourne Limited

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, Dominic Hill Associates Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the board:



R K Cottrill
Director

Date: 20.05.2020

Investment Company Eastbourne Limited

Strategic report for the period ended 31 March 2019

In May 2018, the Council's wholly owned the Investment Company Eastbourne Limited (ICE) entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee.

The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, this supports the Council income generation activities to help provide services and improve their financial position.

IIL owns and operates the Property, known as St George's Tower, which is a large and predominately commercial building in Leicester. IIL also acts as a landlord and leases the building to a number of tenants, which include a hotel, a gym, student facilities and commercial offices. IIL is a privately-owned company, which was incorporated and is registered in England.

IIL refinanced its previous loans from Investec Bank and Leicester City Council with a £48m, 30-year loan provided by Canada Life (the Loan) in respect of the Property (the Scheme). As part of the refinancing arrangements, Eastbourne Borough Council (the Council) was approached by the Shareholders to provide a guarantee in respect of the Loan via a special purpose vehicle, ICE, which is a wholly owned subsidiary of the Council. ICE acts as the principal guarantor, with the Council being the ultimate guarantor (the Guarantee).

In return for providing the Guarantee, ICE received from IIL a £5.5m initial guarantee fee upfront and will receive a £0.3m annual guarantee fee (which is indexed annually on RPI but up to a 4.4% cap). The Council (as ultimate guarantor), ICE and IIL entered into a Development and Asset Management Agreement (DAMA) which outlines the responsibilities of each party with respect to the management of the Property and the guarantee fees attributable to ICE. Under the DAMA, ICE will receive the guarantee fee before any payment of the asset management fee

As part of the Guarantee arrangement, ICE purchased a share option from the IIL's for a sum of £3.5m, whereby ICE is entitled to acquire, at any time (irrespective of whether the loan is in default), 49.5% of the issued share capital of IIL for £1. ICE is entitled to a preferential priority waterfall on the sale of the shares, after 30 years, i.e., first £35m to go to ICE, the balance up to £70m is to the remaining shareholders of IIL and any amount over £70m will be split equally across all shareholders of IIL.

On behalf of the board:



R K Cottrill – Director

Date: 20.05.2020

Investment Company Eastbourne Limited

Report of the independent auditors to the members of Investment Company Eastbourne Limited

Opinion

We have audited the financial statements of Investment Company Eastbourne Limited (the 'company') for the period ended 31 March 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' 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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information in the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Investment Company Eastbourne Limited

Report of the independent auditors to the members of Investment Company Eastbourne Limited

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
 - the financial statements are not in agreement with the accounting records and returns;
- or
- certain disclosures of directors' remuneration specified by law are not made; or
 - we have not received all the information and explanations we require for our audit; or
 - the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Directors.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page two, 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 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.

Investment Company Eastbourne Limited

Report of the independent auditors to the members of Investment Company Eastbourne Limited

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors 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 Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

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 a Report of the Auditors 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.

Peter D Hill

Peter D Hill FCA
Dominic Hill Associates Limited
Archer House
Britland Estate
Northbourne Road
Eastbourne
East Sussex
BN22 8PW

Date: *21 May 2020*

Investment Company Eastbourne Limited

Audited statement of comprehensive income
For the period ended 31 March 2019

	Notes	26 March 2018 to 31 March 2019 £'000
Other Expenses	4	(17)
Profit for the financial period		<u>(17)</u>
Other comprehensive income		-
Total comprehensive income for the period		<u>(17)</u>

No other movements occurred in the period.

The notes on pages 11 to 17 are an integral part of these financial statements.

Investment Company Eastbourne Limited

Audited statement of financial position
For the period ended 31 March 2019

	Notes	31 March 2019 £'000
Non-current assets		
Investment in joint venture	6	3,500
		<hr/> 3,500
Current assets		
Other receivables	7	-
		<hr/> -
Total assets		<hr/> 3,500 <hr/>
Equity		
Share capital	8	-
Capital contribution	9	3,517
Retained earnings		(17)
Total shareholder's funds		<hr/> 3,500 <hr/>

The notes on pages 11 to 17 are an integral part of these financial statements.

The financial statements on pages 5 to 17 were authorised for issues by the board of directors on 20. 05. 2020 and were signed on its behalf.

R K Cottrill
Director

Investment Company Eastbourne Limited

Audited statement of changes in equity

	Share capital	Capital	Retained	Total
	£'000	contribution	earnings	£'000
	£'000	£'000	£'000	£'000
Balance at 28 March 2019	-	-	-	-
Transaction with owner	-	3,500	-	3,500
	-	3,500	-	3,500
Profit (loss) for the financial period	-	17	(17)	-
Balance at 31 March 2019	-	3,517	(17)	3,500

Investment Company Eastbourne Limited

Notes to the financial statements For the period ended 31 March 2019

1. General information

Investment Company Eastbourne Limited ('the company') is a private limited company and is incorporated and domiciled in the United Kingdom. The address of its registered office is 1 Grove Road, Eastbourne, East Sussex, England, England, BN21 4TW.

The principal activity of the company is to act as an agent in guaranteeing an external financial liability, and the future rental income, of Infrastructure Investments (Leicester) Limited ('IIL'), a joint venture by virtue of contractual arrangement.

2. 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 periods presented, unless otherwise stated.

2.1 Basis of preparation

These are the first financial statements of Investment Company Eastbourne Limited. The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'.
- 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).

Investment Company Eastbourne Limited

2.1 Basis of preparation (continued)

- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B–D (additional comparative information);
 - 111 (cash flow statement information); and
 - 134–136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

2.1.1 Going Concern

The directors expect the company will continue to have adequate resources to continue operations for the foreseeable future. This expectation is based on forecasted income and cash flows in the future from the joint venture IIL based on medium term tenancy agreements that tenants have signed with IIL. The company has therefore adopted to the going concern basis in preparing its financial statements.

2.1.2 New standards, amendments and IFRIC interpretations

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' are new accounting standards that are effective for the period ended 31 March 2019. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 31 March 2019 have had a material impact on the company.

The contract to guarantee the loan of IIL meets the definition of a financial guarantee contract because the guarantee is on a specified loan. The contract is therefore in scope of IFRS 9 'Financial Instruments'. The company is required to recognise an issued financial guarantee at fair value in respect of the guarantee. The company's parent has provided an equivalent Guarantee Agreement that has resulted in a transfer of the obligation to the parent.

IFRS 15 has not been determined to have material impact on the financial statements.

Investment Company Eastbourne Limited

2.2 Consolidation

The company is a wholly owned subsidiary of Eastbourne Borough Council ('the council'). It is included in the consolidated financial statements of Eastbourne Borough Council, which are publicly available. Therefore, the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is Eastbourne Homes Ltd, 1 Grove Road, Eastbourne, BN21 4TW.

These financial statements are separate financial statements.

2.3 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 company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

2.4 Investment in joint venture

Investment in joint venture is held at cost less accumulated impairment loss.

2.5 Derivative financial instruments and hedging activities

The company has not applied hedge accounting, and all derivatives are measured at fair value through profit and loss.

Default options held by the company have been included in other receivables on the statement of financial position.

2.6 Other receivables

Amounts due from IIL in consideration for the company providing a financial guarantee against an external loan taken out by IIL have been derecognised. The risks and rewards under the guarantee have been contractually passed to Eastbourne Borough Council and will therefore be reflected in the Council's own accounts.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.8 Share capital

Investment Company Eastbourne Limited

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3 Critical accounting estimates and judgements

Judgement has been applied to the assessment of the contractual arrangement between the company and IIL. The classification of IIL as a joint venture is a judgement based on an analysis of the Development and Management Agreement between ICE and the shareholders of IIL that demonstrates joint control over key decision making activities.

The Council through its wholly owned subsidiary ICE entered into an arrangement with IIL whereby ICE guarantees the Canada Life loan taken out by IIL to refinance its existing obligations, in return for a guarantee fee and an option to acquire 49.5% of IIL for no consideration and to further acquire the remaining stake in IIL in the event of a default on the loan. The value of the capital contribution is £3.5m. This contribution allowed ICE to acquire the share option in IIL. In consideration of the obligations assumed by the Council in the guarantee, the rental guarantee and the put option deed ICE covenants to pay to the Council:

- 1) Initial guarantee fee - £2,000,000
- 2) The guarantee fee (within 10 days) - £300k pa for 30 years
- 3) The disposal proceeds (within 10 days) - on eventual sale

The receivables / liability, expected credit loss provision, and all income and expenditure relating to the guarantee are reflected within the EBC Accounts.

4 Auditors' remuneration

	2019 £'000
Fees payable to the company's auditors for the audit of the company	17

The company's auditors' remuneration has been paid for by its parent.

5 Employees

The company has no employees other than directors. During the year the directors received no remuneration.

Investment Company Eastbourne Limited

6	Investment in joint venture	2019
		£'000
	Cost of investment in joint venture	3,500
	Impairment recognised to date	-
	Carrying value of investment	3,500

The company holds a single investment in its joint venture, IIL. The company exercises joint control over IIL by virtue of the Development and Management Agreement.

The cost of acquiring the joint venture is deemed to be the amount paid to the shareholders in respect of an option for the right to acquire a 49.5% stake in IIL at a nominal exercise price.

The principal activity of the company's joint venture (Infrastructure Investments (Leicester) Limited (IIL)) is to own and manage investment property from which it derives rental income. The company owns one £1 B class share in IIL and an option worth £3.5 million to acquire 49.5% of ordinary shares for £1. IIL is incorporated in the United Kingdom and its registered address is 27/28 Eastcastle Street, London, W1W 8DH.

7	Other receivables	2019
		£'000
	Amounts due after 1 year	
	Default option	-
		-
	Amounts due within 1 year	
	Other receivables	-
		-

The default option represents the fair value of an option acquired on acquisition of the joint venture to buy the remaining 50.5% of shares in the joint venture for no consideration. This option is only exercisable if the joint venture defaults on its external loan.

Investment Company Eastbourne Limited

8 Share capital

Ordinary shares of £1 each

Allotted and fully paid	No.	£'000
At 26 March 2018	2	-
Issued during the year	-	-
At 31 March 2019	2	-

The company issued 2 Ordinary shares of £1 each on incorporation on 26 March 2018.

9 Capital contribution

	2019 £'000
Capital contributed by the council	3,500
Auditors Remuneration payable by the council	17
	<u>3,517</u>

The company has entered into a counter guarantee agreement via the Guarantee Agreement with its parent, the council. The amount paid for the services of this counter guarantee was £2 million plus all cash flows received from IIL in respect of the guarantee fee over 30 years. This is less than the amount to be received from IIL by £3.5 million.

The difference between the fair value and the transaction price for the counter guarantee as a result of the agreement not being at an arm's length price is treated as a capital contribution.

The Council paid the 'Auditors Remuneration' of £16,800 including VAT (rounded to £17k) and included within ICE Account as Capital Contribution.

10 Contingent liabilities

The company has no contingent liabilities as at 31 March 2019.

11 Capital and other commitments

The company has no other commitments as at 31 March 2019.

Investment Company Eastbourne Limited

12 Related party transactions

The company has applied the exemption from the requirements of IAS 24 'Related party disclosures' to disclosure related party transactions entered into between two or more members of a group.

No other related party transactions took place in the period.

13 Controlling parties

The immediate parent undertaking is Eastbourne Borough Council ('the council').

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Eastbourne Homes Ltd. Copies of Eastbourne Homes Ltd consolidated financial statements can be obtained from 1 Grove Road, Eastbourne, BN21 4TW.

14 Events after the reporting period

There were no events after the reporting period that impact the financial statements for the period to 31 March 2019.