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# Merseyside Special Investment Fund Limited

Annual report and consolidated financial statements

Registered No. 02981031

for the year ended 31 March 2017

## Contents

## Company Information

**Directors**
Mr R Swainson
Mr B McCann
Mr A Rigby
Mrs L Greenhalgh
Mr M Basnett
Ms E O'Donnell

**Secretary**
Mrs L Greenhalgh

**Independent Auditors**
KPMG LLP
Chartered Accountants and Statutory Auditors
8 Princes Parade
Liverpool
L3 1QH

**Principal Bankers**
Natwest Bank
22 Castle Street
Liverpool
L2 0UP

**Solicitors**
Davies Wallis Foyster
5 St Paul's Square
Liverpool
L3 9AE

**Registered Office**
2nd Floor
Exchange Court
1 Dale Street
Liverpool
L2 2PP

## Chairman's Statement
## for the year ended 31 March 2017

MSIF's primary business remains lending and investing to SME's in the Liverpool City Region where there is market failure, whilst at the same time maintaining its own sustainable fund available to SME's across the North West. This strategy will result in MSIF continuing to be a sustainable long term stimulator of growth for the Region.

2016/17 has been a good year for both realisations and money out with 116 businesses assisted during the year, with funding and grant commitments of over £8.6 million.

Other achievements in 2016/17 include:-

- Jointly winning the tender to deliver Northern Powerhouse Investment Fund's loan and equity investments in the Liverpool City Region and the surrounding area.

- The launch of the MSIF Finance Hub. The Finance Hub is a free gateway for SMEs in the Liverpool City Region who are wishing to access funding. The MSIF Finance Hub team aims to provide support and assistance, making the process of accessing funding less confusing.

MSIF remains vigilant as to any new Funds or Finance available throughout the North West and wherever these funds align with our core strategy then we are happy to bid to manage them.

Our team has been strengthened this year with several new recruits who are all well known in the local business and professional community. Our added value to SME's in providing initial and ongoing advice combined with speed of response for requests for funding continues to be our differentiating feature.

Finally I would like to acknowledge and thank all those operating within MSIF for their hard work, dedication and commitment over the last year and look forward to a successful year ahead.

**Mr A Rigby**
**Chairman**
**Merseyside Special Investment Fund Limited**
**18 July 2017**

## Director's report

The directors present their report and audited financial statements of the Group and the Company for the year ended 31 March 2017.

Merseyside Special Investment Fund (MSIF) is a company limited by guarantee and was established in 1994 by the Bank of England, Liverpool Chamber of Commerce and representatives of the local community including Local Authorities, Training and Enterprise Councils, Business Links and Higher Education Authorities (MSIF Partners Limited) who act as guarantors. At the end of the 2007 Financial Year, The Liverpool LEP (previously The Mersey Partnership) replaced the Bank of England as guarantor.

### Principal activities

The Company and Group's principal activity is to facilitate the investment of venture and loan capital investment funds in small and medium sized enterprises (SMEs) and provide support and monitoring of those investments, thereby assisting to regenerate business in the region. The Company and Group is largely financed from its own resources.

### Business review

MSIF has now completed its twenty-second year, and currently has five active funds. During the year it finished investing two of the loans funds discussed below and was appointed to deliver loan and equity funds as part of the the Northern Powerhouse Investment Fund (NPIF) on behalf The British Business Bank. Further commentary on the business is referred to in the Chairman's statement on page 2 of this report.

### Financial results

The Group made a loss in the year of £35,233 (2016: profit of £4,598,003).

At 31 March 2017 the amount available for future investment on behalf of MSIF was £23,734,673 (2016: £25,294,791).

No dividends have been recommended to be paid during the year (2016· £Nil).

### Future outlook

The fully invested Seed, Equity and Loan funds (the "funds") which finished investing on 31 December 2008 continue to be managed through to full repayment of loans and realisation of equity investments. MSIF continues to receive distributions from these funds which increase the value of its Merseyside Loan & Equity Fund which is available for investment in SMEs in Merseyside.

These funds are managed by Alliance Fund Managers Limited, the fund manager subsidiary of MSIF, who fully invested the Small Loans for Business fund by 31 March 2013, and now continues to reinvest the legacy returns.

From October 2013, MSIF was awarded monies from the Regional Growth Fund to invest in companies in Merseyside and the surrounding areas. This fund completed investing in June 2016.

In October 2014 MSIF entered into a partnership to deliver the Micro Loan Fund on behalf of North West Fund. Within that partnership MSIF is targeted with providing loans within the Merseyside area. This fund completed investing in June 2016.

In February 2017 MSIF entered into a partnership to deliver the NPIF Micro Loan Fund, and has been subcontracted to deliver the NPIF Equity Fund on behalf of The British Business Bank. Within those arrangements MSIF is targeted with providing loans and equity investments within Merseyside and the surrounding areas.

**Director's report**
**(continued)**

**Risks and uncertainties**

The directors believe that whilst there is inherent risk of non-recovery in providing loan and equity funds, that risk affects MSIF's ability to reinvest its returns. MSIF's portfolio is managed so as to minimise the risk to it and believe that income will be received as planned.

MSIF is currently looking at how to invest its legacy funds to deliver optimum success for SMEs in the region.

**Key Performance Indicators**

The key performance indicators measured by MSIF are the number and value of investments made within the loan and equity funds, number of jobs created and the number of jobs preserved.

The investment statistics can be found within the Chairman's statement on page 2 of this report, and to date MSIF has created and preserved over 14,000 jobs.

**Directors**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Mr R Swainson
Mr B McCann
Mr A Rigby
Mrs L Greenhalgh
Mr M Basnett
Ms E O'Donnell

No director of the Company has any interest in the company within the meaning of the Companies Act 2006.

**Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**Auditor**

KPMG LLP are deemed to be reappointed as auditors under section 487(2) of the Companies Act 2006.

By order of the board

**L Greenhalgh**
Director

2nd Floor Exchange Court
1 Dale Street
Liverpool
L2 2PP
18 July 2017

## Statement of directors' responsibilities in respect of the Annual Report, the Director's Report and the financial statements

The directors are responsible for preparing the Annual 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

**Independent auditor's report to the members of Merseyside Special Investment Fund Limited**

We have audited the financial statements of Merseyside Special Investment Fund Limited for the year ended 31 March 2017 set out on pages 7 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year 31 March 2017 is consistent with the financial statements.

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

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

**Hywel Jones (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
***Chartered Accountants***
**8 Princes Parade**
**Liverpool**
**L3 1QH**
**18 July 2017**

## Consolidated Profit and Loss Account and Other Comprehensive Income for the year ended 31 March 2017

| | Notes | 2017 £ | 2016 £ |
|---|---|---|---|
| **Turnover** | | | |
| Fee and other income | | **992,526** | **1,064,601** |
| Investment income | 2 | - | **65,856** |
| | | **992,526** | **1,130,457** |
| Administrative expenses | | **(1,134,546)** | **(1,187,372)** |
| Release from bad debt provision | | - | **4,182,450** |
| **Operating (loss)/profit before interest** | | **(142,020)** | **4,125,535** |
| Interest receivable and similar income | 5 | **106,787** | **213,225** |
| **(Loss)/Profit on ordinary activities before taxation** | 6 | **(35,233)** | **4,338,760** |
| Tax on (loss)/profit on ordinary activities | 6 (a) | - | **259,243** |
| **(Loss)/Profit for the financial year** | | **(35,233)** | **4,598,003** |

The results shown above derive from continuing operations in both the current and preceding year.

The Company has no other recognised income other than those included in the results above and therefore no separate Other Comprehensive Income statement has been presented.

The accounting policies and notes on pages 11 to 21 form part of these financial statements.

**Consolidated and Company Balance Sheet**
**as at 31 March 2017**

| | Notes | Group 2017 £ | Group 2016 £ | Company 2017 £ | Company 2016 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 7 | **31,519** | 32,242 | **16,685** | 16,710 |
| Financial assets | 8 (a) | **7,011,038** | 9,602,645 | **-** | 1,011,578 |
| Investments | 8 (c) | **-** | - | **296,529** | 296,529 |
| | | **7,042,557** | 9,634,887 | **313,214** | 1,324,817 |
| **Current assets** | | | | | |
| Debtors amounts falling due within one year | 9 | **117,840** | 113,049 | **5,259,801** | 7,688,674 |
| Cash at bank and in hand | | **30,284,268** | 29,484,170 | **25,016,360** | 22,691,556 |
| | | **30,402,108** | 29,597,219 | **30,276,161** | 30,380,230 |
| **Creditors: amounts falling due within one year** | 11 | **(25,940,907)** | (27,174,703) | **(21,338,230)** | (22,408,055) |
| **Net current assets** | | **4,461,201** | 2,422,516 | **8,937,931** | 7,972,175 |
| **Total assets less current liabilities** | | **11,503,758** | 12,057,403 | **9,251,145** | 9,296,992 |
| **Creditors: amounts falling due after one year** | 12 | **(423,941)** | (942,353) | **-** | - |
| Provisions for liabilities | 14 | **(2,275,648)** | (2,275,648) | **(2,275,648)** | (2,275,648) |
| **Net assets** | | **8,804,169** | 8,839,402 | **6,975,497** | 7,021,344 |
| **Reserves** | | | | | |
| Profit and loss | | **8,804,169** | 8,839,402 | **6,975,497** | 7,021,344 |

These financial statements were approved by the board of directors on 18 July 2017 and were signed on its behalf by:

**L Greenhalgh**
Director

## Consolidated and Company Statement of Changes in Equity

| | Group Profit and loss account | Company Profit and loss account |
|---|---|---|
| | £ | £ |
| Balance at 1 April 2015 | 4,241,399 | 2,803,303 |
| **Total comprehensive income for the period** | | |
| Profit for the period | 4,598,003 | 4,218,041 |
| **Balance at 31 March 2016** | 8,839,402 | 7,021,344 |

| | Profit and loss | Profit and loss account |
|---|---|---|
| | £ | £ |
| Balance at 1 April 2016 | 8,839,402 | 7,021,344 |
| **Total comprehensive income for the period** | | |
| Loss for the period | (35,233) | (45,847) |
| **Balance at 31 March 2017** | 8,804,169 | 6,975,497 |

**Consolidated Cashflow Statement**
**for the year ended 31 March**

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | £ | £ |
| **Net cash inflow from operating activities before interest** | 18 | **2,515,927** | 6,092,248 |
| Interest received | | **106,787** | 213,225 |
| **Net cash inflow from operating activities** | | **2,622,714** | 6,305,473 |
| **Capital expenditure and financial investment** | | | |
| Loan and Equity investments made | | **(3,732,775)** | (3,648,083) |
| Fixed assets acquired | | **(7,715)** | (7,372) |
| Loan repayments received | | **2,436,286** | 3,157,042 |
| | | **(1,304,204)** | (498,413) |
| **Net cash inflow before financing** | | **1,318,510** | 5,807,060 |
| **Financing** | | | |
| Loans received | | **-** | 470,000 |
| Loans repaid | | **(518,412)** | (407,647) |
| **Increase in cash in year** | | **800,098** | 5,869,413 |
| Cash and cash equivalents at 1 April | | 29,484,170 | 23,614,757 |
| **Cash and cash equivalents at 31 March** | 10 | 30,284,268 | 29,484,170 |

**Notes to the financial statements**

## 1 Accounting policies

Merseyside Special Investment Fund Limited (the "Company") is a company limited by guarantee and incorporated and domiciled in the UK

### 1.1 *Basis of preparation*

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014 The amendments to FRS 102 issued in July 2015 and effective immediately have been applied The presentation currency of these financial statements is sterling.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements The Company has changed its accounting policy in respect of movement in provisions and returns on investments.

### 1.2 *Measurement convention*

The financial statements are prepared on the historical cost basis, except for equity investments which are measured at fair value

### 1.3 *Going concern*

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, based on forecast funding The group has significant investment reserves which it will continue to invest, alongside the NPIF funds which it is investing on behalf of the British Business Bank, therefore it continues to adopt the going concern basis in preparing the annual financial statements.

### 1.4 *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2017 A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities In assessing control, the Group takes into consideration potential voting rights that are currently exercisable

An associate is an entity in which the Group has significant influence, but not control, over the operating and financial policies of the entity Significance influence is presumed to exists when the investors holds between 20% and 50% of the equity voting rights

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

In the parent financial statements, investments in subsidiaries are carried at cost less impairment

### 1.5 *Basic financial instruments*

*Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

*Interest-bearing borrowings classified as basic financial instruments*

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

**Notes to the financial statements (continued)**

**1 Accounting policies (continued)**

**1.5 *Basic financial instruments (continued)***

*Fair value measurement*

Fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged,

between knowledgeable, willing parties in an arm's length transaction The following hierarchy is used to estimate fair values:

(a) The best evidence of fair value is a quoted price for an identical asset in an active market Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis The quoted price is usually the current bid price.

(b) When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted

(c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations

The group determines the fair value of the investments with reference to the hierarchy

*Loan investments*

Loan investments are measured at amortised cost using the effective interest rate method, which includes a reduction for impairment or uncollectability where necessary

*Investments in preference and ordinary shares*

Investments in equity instruments are measured initially at fair value, which is normally the transaction price Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement

**1.6 *Other financial instruments***

*Financial instruments not considered to be Basic financial instruments (Other financial instruments)*

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss or investment reserve as appropriate

**1.7 *Tangible fixed assets***

Tangible fixed assets are stated at cost less accumulated depreciation
The company assesses at each reporting date whether tangible fixed assets are impaired.
Depreciation is charged to the profit and loss account on a reducing balance basis at the following rate

- fixtures and fittings 25% per year

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits

**1.8 *Government grants***

Amounts received from government agencies by the Company have been invested in Merseyside enterprises through a number of limited partnerships and limited liability partnerships. Due to the nature of the investments made through the partnerships, the amounts invested are fully provided for, and the corresponding creditor to the government agencies released due to the significant uncertainty over recovery. Amounts that have been generated by the partnerships, have been remitted back to the Company, and the provision against the investment in the partnerships has been reversed An investment reserve is then created which is included in other creditors This balance represents amounts that must be either reinvested in Merseyside enterprise, or are due back to the government agencies who initially provided the funding.

**Notes to the financial statements**
**(continued)**

**1 Accounting policies (continued)**

**1.9 *Impairment excluding deferred tax assets***

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate Interest on the impaired asset continues to be recognised through the unwinding of the discount Impairment losses are recognised in profit or loss When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**1.10 *Provisions***

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date

Where the parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee

**1.11 *Turnover***

*Fees and other income*
Fees and other income represents principally fund management, investment arrangement and monitoring fees Income is recognised as it accrues.

*Investment income*
Investment income represents loan interest receivable on fixed asset investments Income is recognised as it accrues

**1.12 *Expenses***

*Operating lease*
Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation, in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

*Interest receivable and interest payable*
Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.
Other interest receivable and similar income include interest receivable on funds invested
Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method

**1.13 *Employee Benefits***

*Defined contribution plans and other long term employee benefits*
A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees

**1.14 *Taxation***

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

**Notes to the financial statements (continued)**

## 1 Accounting policies (continued)

### 1.14 *Taxation (continued)*

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date Deferred tax balances are not discounted

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 1.15 Audit exemption for subsidiaries

Advantage has been taken of the audit exemption available for small companies conferred by section 479a of the Companies Act 2006 on the grounds:

a. that for the year ended 31 March 2017 the company was entitled to the exemption from a statutory audit under section 479a of the Companies Act 2006 relating to small companies, and

b. that no notice has been deposited under section 476 of the Companies Act 2006 in relation to the financial statements for the financial year

The directors acknowledge their responsibilities for.

a. ensuring that the company keeps adequate accounting records which comply with section 386 of the Companies Act 2006; and

b. preparing financial statements which give a true and fair view of the state of the affairs of the company at 31 March 2017 and of its profit or loss for the year then ended in accordance with the requirement of section 394 of the Companies Act 2006, and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements so far as applicable to the company

The following companies have taken advantage of the exemption from audit under Section 479a of the Companies Act 2006.-

AFM Merseyside Mezzanine Limited (04274232), AFM Merseyside Ventures Limited (04274737), AFM Small Firms Fund Limited (04275276), Alliance Fund Managers Nominees Limited (04277713), AFM R101 Ventures Limited (04274723), AFM Seed Fund Limited (05303817), BCE Fund Managers (Merseyside) Limited (03147091), Liverpool Ventures Limited (04894769), LVL Seed Fund Limited (05303818), Merseyside Special Investment Mezzanine Fund Two Limited (04257322), MSIF Seed Fund Limited (05303819), Merseyside Special Investment Venture Two Limited (04257309), Merseyside Special Investment Venture Fund Limited (03104077), Merseyside Special Investment (Small Firms) Fund Two Limited (04257331), AFM NWF General Partner LLP (OC392158)

## 2 Turnover

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| Income from loan investments | - | 65,856 |
| | - | 65,856 |

## 3 Staff costs

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| Wages and salaries | **539,739** | 521,091 |
| Social security costs | **51,521** | 49,365 |
| | **591,260** | 570,456 |

The monthly average number of employees during the year was.

| | **2017** | 2016 |
|---|---|---|
| Finance and administration | **7** | 6 |
| Fund management | **7** | 7 |
| | **14** | 13 |

The company operates two defined contribution pension schemes.

**Notes to the financial statements**
**(continued)**

**4 Directors' remuneration**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Aggregated emoluments | 109,923 | 101,736 |
| Sums paid to third parties for directors' services | 55,037 | 60,000 |
| | 164,960 | 161,736 |

The amount in respect of sums paid to third parties relates to amounts payable to Liverpool Chamber of Commerce, KYC Limited, Liverpool LEP and Kinnagoe Ventures Ltd for the services of Messrs Brian McCann, Andrew Rigby, Mark Basnett and Elaine O'Donnell respectively. 2016 included payments to Atherton Consulting for the services of Terence Atherton

**5 Interest receivable and similar income**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Bank | 106,787 | 97,697 |
| Partner company | - | 115,528 |
| | 106,787 | 213,225 |

**6 (Loss)/Profit on ordinary activities before taxation**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| (Loss)/Profit on ordinary activities before taxation is stated after charging. | | |
| Depreciation of tangible fixed assets | 8,438 | 9,537 |
| Auditors' remuneration for | | |
| Audit fees | | |
| Fees payable to the company auditors for the audit of the parent company and consolidated financial statements | 31,000 | 19,500 |
| Fees payable to the company's auditors and its associates for other services | | |
| - The audit of the company's subsidiaries pursuant to legislation | 10,080 | 10,341 |
| - Other services pursuant to legislation | 5,000 | - |
| - Tax Services | 31,395 | 29,400 |
| - *Other* | 2,000 | *10,000* |
| Operating lease cost-land and buildings | 36,652 | 37,265 |

**6 (a) Tax on loss on ordinary activities**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| UK Corporation tax at 20% (2016. 20%) | - | - |
| Deferred tax | - | (259,243) |
| | - | (259,243) |

The tax credit for the year is different to the standard rate of corporation tax in the UK 20% (20%: 2016) as explained below

**6 (b) Factors affecting tax charge for year**

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| (Loss)/profit for the year | (35,233) | 4,598,003 |
| Total tax credit | - | (259,243) |
| | | |
| (Loss)/profit on ordinary activities before tax | (35,233) | 4,338,760 |
| (Loss)/profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 20% (2016· 20%) | (7,047) | 867,752 |
| *Effects of* | | |
| Fixed asset differences | 853 | - |
| Adjustments to brought forward values | 86,953 | - |
| Other permenant differences | 19 | - |
| Group income | (8,530) | - |
| Income/expenses not chargeable for tax purposes | 11,656 | 16,033 |
| Profits allocated from partnership | - | 1,193,005 |
| Group relief not paid | (9,235) | 13,053 |
| Adjustment to tax charge in respect of pior periods | - | (792,199) |
| Deferred tax not recognised | (74,669) | (1,556,887) |
| Total tax credit for the year (note 6(a)) | - | (259,243) |

**Notes to the financial statements (continued)**

### 6 (c) Deferred tax

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Excess of depreciation over tax allowances | - | - |
| Origination and reversal of timing differences | - | - |
| Adjustments in respect of previous periods | - | - |
| Losses | - | - |
| | - | - |
| Provision at start of year | - | 259,240 |
| Deferred tax charge in profit and loss account | - | (259,240) |
| Provision at end of year | - | - |

The Group has net of other timing differences, losses available to be carried forward for tax purposes of approximately £4.4 million (2016: £4 8 million) (company £0.6 million (2016: £0 7 million)) at 31 March 2017, which have not been recognised

***Factors that may future current and total tax charges***

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013 Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015 An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016

### 7 Tangible fixed assets

| | Group | Company |
|---|---|---|
| | | £ |
| **Cost** | | |
| At 1 April 2016 | 211,263 | 54,600 |
| Additions during the year | 7,715 | 4,241 |
| At 31 March 2017 | **218,978** | **58,841** |
| **Accumulated depreciation** | | |
| At 1 April 2016 | 179,021 | 37,890 |
| Provided during year | 8,438 | 4,266 |
| At 31 March 2017 | **187,459** | **42,156** |
| **Net book value at 31 March 2017** | **31,519** | **16,685** |
| Net book value at 31 March 2016 | 32,242 | 16,710 |

### 8 Fixed asset investments

### 8 (a) Group financial assets

**Loan investments made by MSIF Limited t/as Start Up Loans**

| | Loan investment |
|---|---|
| | £ |
| **Cost** | |
| At 1 April 2016 | 1,348,771 |
| Transferred in year | (1,348,771) |
| Repayments | - |
| **At 31 March 2017** | - |
| **Net amounts provided in year** | |
| At 1 April 2016 | 337,193 |
| Transferred in year | (337,193) |
| **At 31 March 2017** | - |
| **Net book value at 31 March 2017** | - |
| Net book value at 31 March 2016 | 1,011,578 |

**Notes to the financial statements (continued)**

**8 (a) Group financial assets (continued)**

**Loan investments made by Merseyside Small Loans for Business Investment Fund Limited**

| | Loan investment |
|---|---|
| **Cost** | **£** |
| At 1 April 2016 | 1,566,158 |
| Additions in year | 407,500 |
| Written off in the year | (10,000) |
| Repayments | (439,670) |
| **At 31 March 2017** | **1,523,988** |
| **Net amounts provided in year** | |
| At 1 April 2016 | 973,601 |
| Movement in provision for the year | (34,943) |
| **At 31 March 2017** | **938,658** |
| **Net book value at 31 March 2017** | **585,330** |
| Net book value at 31 March 2016 | 592,557 |

**Loan investments made by Small Business Loans Limited**

| | Loan investment |
|---|---|
| **Cost** | **£** |
| At 1 April 2016 | 1,845,862 |
| Additions in year | 188,295 |
| Written off in the year | (5,595) |
| Repayments | (423,116) |
| **At 31 March 2017** | **1,605,446** |
| **Net amounts provided in year** | |
| At 1 April 2016 | 522,954 |
| Movement in provision for the year | 41,479 |
| **At 31 March 2017** | **564,433** |
| **Net book value at 31 March 2017** | **1,041,013** |
| Net book value at 31 March 2016 | 1,322,908 |

**Loan investments made by North West Transitional Loan Investment Fund LLP**

| | Loan investment |
|---|---|
| **Cost** | **£** |
| At 1 April 2016 | 1,892,223 |
| Additions in year | 365,000 |
| Loan repayments | (337,527) |
| Written off in year | (71,681) |
| **At 31 March 2017** | **1,848,015** |
| **Net amounts provided in year** | |
| At 1 April 2016 | 1,203,334 |
| Movement in provision for the year | 171,427 |
| **At 31 March 2017** | **1,374,761** |
| **Net book value at 31 March 2017** | **473,254** |
| Net book value at 31 March 2016 | 688,889 |

**Notes to the financial statements**
**(continued)**

**8 (a) Group financial assets (continued)**

**Loan and equity investments made by Merseyside Loan & Equity Fund LLP**

| | Equity | Non Equity | Loan & Equity Investment |
|---|---|---|---|
| **Cost or valuation** | £ | £ | £ |
| At 1 April 2016 | 1,306,465 | 9,365,255 | 10,671,720 |
| Amounts invested in year | 141,980 | 2,630,000 | 2,771,980 |
| Movement in fair value | (809,436) | - | (809,436) |
| Repayments | - | (1,235,973) | (1,235,973) |
| Loans novated | - | 689,290 | 689,290 |
| Written off in year | - | (42,894) | (42,894) |
| **At 31 March 2017** | **639,009** | **11,405,678** | **12,044,687** |
| **Net amounts provided for** | | | |
| At 1 April 2016 | - | 4,685,007 | 4,685,007 |
| Movement in provision for the year | - | 1,758,949 | 1,758,949 |
| Loans novated | - | 689,290 | 689,290 |
| **At 31 March 2017** | **-** | **7,133,246** | **7,133,246** |
| **Net book value at 31 March 2017** | **639,009** | **4,272,432** | **4,911,441** |
| Net book value at 31 March 2016 | 1,306,465 | 4,680,248 | 5,986,713 |

Equity investments are valued using an appropriate valuation technique For an established business we use a multiple of maintainable earnings and apply a marketability discount To ensure that we use an appropriate multiple, we will use our entry multiple for new investments, or the multiple used in any offers received or valuation excercises performed for recent comparible deals.

**8 (b) Investments in Limited Partnerships made by other group companies**

| | Investments | Capital grants recognised |
|---|---|---|
| | £ | £ |
| **Cost** | | |
| At 1 April 2016 | 40,447,815 | (40,447,815) |
| Movement in year | (1,029,400) | 1,029,400 |
| **At 31 March 2017** | **39,418,415** | **(39,418,415)** |
| **Amounts written off/released** | | |
| At 1 April 2016 | (40,447,815) | 40,447,815 |
| Movement in year | 1,029,400 | (1,029,400) |
| At 31 March 2017 | **(39,418,415)** | **39,418,415** |
| **Net book value at 31 March 2016 and 31 March 2017** | **-** | **-** |

**8 (c) Investments in subsidiary undertakings**

| **Company** | £ |
|---|---|
| At 1 April 2016 | 296,529 |
| **At 31 March 2017** | **296,529** |

As at the year-end the company holds the entire share capital of the following principal subsidiaries, all of which have a year-end of 31 March. All subsidiaries are registered in England.

**8 (c) Investments in subsidiary undertakings (continued)**

| **Name of undertaking** | **Principal activity** |
|---|---|
| **Companies:** | |
| Merseyside Special Investment Venture Fund Limited | Investment Company |
| Merseyside Special Investment Venture Fund Two Limited | Investment Company |
| Merseyside Special Investment (Small Firms) Fund Two Limited | Investment Company |
| Merseyside Special Investment Mezzanine Fund Two Limited | Investment Company |
| Merseyside Small Loans for Business Investment Fund Limited | Investment Company |
| MSIF Seed Fund Limited | Investment Company |
| Merseyside Loan & Equity Fund LLP | Investment Company |
| Small Business Loans Limited | Investment Company |
| North West Transitional Loan Investment Fund LLP | Investment Company |
| Alliance Fund Managers Limited | Management Company |

In addition Merseyside Special Investment Fund Limited is the sole guarantor of Liverpool Ventures Limited (a company limited by guarantee)

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

**Notes to the financial statements (continued)**

**9 Debtors**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£** | £ | **£** | £ |
| **Amounts falling due within one year:** | | | | |
| Other debtors | **1,204** | 21,683 | | 6,972 |
| Amounts owed by group undertakings | **-** | - | **5,223,091** | 7,650,172 |
| Other taxation and social security | **37,545** | 37,491 | **-** | - |
| Prepayments and accrued income | **79,091** | 53,875 | **36,710** | 31,530 |
| | **117,840** | 113,049 | **5,259,801** | 7,688,674 |

The amounts owed by group undertakings are unsecured, repayable on demand and at a variable rate of interest

**10 Cash and cash equivalents/bank overdrafts**

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| Cash at bank and in hand | **30,284,268** | 29,484,170 |
| Cash and cash equivalents per cash flow statements | **30,284,268** | 29,484,170 |

**11 Creditors: amounts falling due within one year**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£** | £ | **£** | £ |
| Trade creditors | **27,625** | 27,591 | **13,674** | 16,619 |
| Amounts owed to group undertakings | **-** | - | **4** | 5,380 |
| Taxation and social security | **35,116** | 56,304 | **35,116** | 56,304 |
| Other creditors | **25,712,142** | 26,922,711 | **21,223,838** | 22,254,068 |
| Accruals and deferred income | **166,024** | 168,097 | **65,598** | 75,684 |
| | **25,940,907** | 27,174,703 | **21,338,230** | 22,408,055 |

The amounts owed to group undertakings are unsecured, repayable on demand and at a nil rate of interest
Other creditors include amounts totalling £23,734,673 (2016 £25,294,791) that Merseyside Special Investment Fund Limited is obliged to invest in future Merseyside enterprise. Of this £2,442,712 (2016. £1,044,113) has been released in the year to reflect investments previously made but subsequently written off and increases in provisions for doubtful debts

**12 Creditors: amounts falling due after more than one year**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£** | £ | **£** | £ |
| Bank loans repayable within five years | **423,941** | 942,353 | **-** | - |
| | **423,941** | 942,353 | **-** | - |

At 31 March 2017 the bank loans represents borrowings under drawdown loan facilities of £450,000 entered into on 10 July 2013, £530,000 entered into on 31 July 2014 and £370,000 entered into on 10 June 2015 for a period of 4 years

Interest is charged at the Bank of England rate plus 3 5% on the agreement entered into on 10 July 2013, at the Bank of England rate plus 4% on the agreement entered into on 31 July 2014 and at the Bank of England rate plus 4% on the agreement entered into on 10 June 2015

**13 Interest-bearing loans and borrowings**

This note provides information about the contractual terms of the Group's and parent company's interest-bearing loans and borrowings, which are measured at amortised cost

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| **Creditors falling due after more than one year** | | |
| Bank Loans | **423,941** | 942,352 |
| | **423,941** | 942,352 |

**Notes to the financial statements (continued)**

## 13 Interest-bearing loans and borrowings (continued)

*Terms and debt repayment schedule*

| Group | Currency | Nominal Interest Rate | Year of maturity | 2017 | 2016 |
|---|---|---|---|---|---|
| | | | | £ | £ |
| Unity year 1 | GBP | 3 5% | 2017 | 29,716 | 104,117 |
| Unity year 2 | GBP | 4 0% | 2018 | 106,904 | 365,013 |
| Unity year 3 | GBP | 4.0% | 2019 | 257,605 | 369,105 |
| Co Operative Bank | GBP | 3.5% | 2017 | 29,716 | 104,117 |
| | | | | 423,941 | 942,352 |

## 14 Provisions for liabilities

Deferred tax assets have not been carried forward, as recovery in future years is not considered to be probable The amount of deferred tax provided and not recognised comprises

| Group | Deferred Tax Provided 2017 | Deferred Tax Provided 2016 | Deferred tax not recognised 2017 | Deferred tax not recognised 2016 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| At start of year | - | 259,243 | (4,895,645) | (4,099,756) |
| Excess of depreciation over tax allowance | - | - | (8,309) | (5,815) |
| Other timing differences | - | - | - | - |
| Profit and loss account movement in year | - | (259,243) | 531,134 | (790,074) |
| **At end of year** | - | - | (4,372,820) | (4,895,645) |

| Other provisions | Group and Company 2017 | Group and Company 2016 |
|---|---|---|
| | £ | £ |
| At start of year | 2,275,648 | 4,551,297 |
| Provided in year | - | - |
| Paid in the year | - | (2,275,649) |
| At end of year | 2,275,648 | 2,275,648 |

There is a liability to repay some of the funds returned from the company's investments to one of its original investors The group intends to settle this when it falls due and has provided for the balance in full

| Analysis of total provision | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Current | - | - |
| Non Current | 2,275,648 | 2,275,648 |
| | 2,275,648 | 2,275,648 |

## 15 Called up share capital

The company does not have share capital and is limited by guarantee. The liability of the members is limited to a minimum of £1 and a maximum of £100 each. At 31 March 2017 the company had 3 members (2016 3)

## 16 Operating lease commitments

At 31 March 2017 the company had annual commitments under non-cancellable operating leases as set out below:

| | Land and buildings 2017 | Land and buildings 2016 |
|---|---|---|
| | £ | £ |
| Expiring: | | |
| Within one year | 13,335 | 34,935 |
| Between one and two years | - | 13,335 |
| Between two and three years | - | - |

**Notes to the financial statements (continued)**

## 17 Contingent liabilities

One of the group entities (Merseyside Special Investment Venture Fund Two Limited) has provided a guarantee to Mersey Pension Fund (MPF) in respect of its capital account with Merseyside Special Investment Venture Fund No 3 Limited Partnership. Merseyside Special Investment Venture Fund Two Limited guarantees to pay an amount equal to 50% of the shortfall between the total amounts received by MPF and their initial loan of £2,000,000

At 31 March 2017, £1,625,142 (2016: £1,534,542) had been repaid to MPF, leaving the partnership capital account at £372,858 (2016 £463,458) This means that the maximum potential liability to the group is £186,429 (2016: £231,729)

## 18 Reconciliation of operating loss to net cash inflow from operating activities

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| (Loss)/Profit for the year | **(35,233)** | 4,598,003 |
| Depreciation | **8,438** | 9,537 |
| Loans written off | **130,170** | 96,484 |
| Increase in provisions against fixed assets | **-** | 168,459 |
| Interest receivable and similar income | **(106,787)** | (213,225) |
| Taxation | | (259,243) |
| | **(3,412)** | 4,400,015 |
| (Increase)/Decrease in debtors under 1 year | **(4,791)** | 29,196 |
| Decrease in creditors | **2,524,130** | 3,938,686 |
| Increase in provision for liabilities | **-** | (2,275,649) |
| Net cash inflow from operating activities | **2,515,927** | 6,092,248 |

## 19 Capital commitments

The Group had capital commitments of £520,500 (2016 £1,559,667).

## 20 Related party transactions

The emoluments of certain directors were paid to third parties (see note 4)

The Group has taken advantage of the exemption available under Section 33 of FRS 102 to not disclose transactions with other companies in the group headed by Merseyside special Investment Fund Ltd.

Transactions with limited partnerships of the group are not considered to be related party transactions, as Merseyside Special Investment Fund Limited does not gain any economic benefits from these vehicles, as any return on these investments must be reinvested