

**Exchequer Partnership Holdings Limited**

**Annual report and consolidated  
financial statements**

**Registered number 03810496**

**31 December 2015**

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## **Company information**

### **Non-Executive Directors**

KW Gillespie  
KM Hill  
GS Jackson  
BP Millsom  
CT Solley  
AL Tennant

### **Registered Office**

Adamson House  
Towers Business Park  
Wilmslow Road  
Didsbury  
Manchester  
M20 2YY

### **Independent Auditors**

PricewaterhouseCoopers LLP  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

### **Solicitors**

Macfarlanes LLP  
20 Cursitor Street  
London  
EC4A 1LT

### **Bankers**

National Westminster Bank Plc  
City of London Branch  
PO Box 12258  
1 Princes Street  
London  
EC2R 8BP

### **Company Secretary**

AL Mitchell LLB ACIS  
Adamson House  
Towers Business Park  
Wilmslow Road  
Didsbury  
Manchester  
M20 2YY

## **Strategic report**

### **Group objectives**

The company is a holding company with a single subsidiary, Exchequer Partnership Plc ('EPP'). EPP is engaged in a 35-year contract with HM Treasury to renovate and then manage the facilities at the main Treasury building formerly Government Offices, Great George Street, Whitehall, London. The renovations were completed in July 2002 and HM Treasury then moved into the refurbished accommodation. Management of the facilities commenced from this time.

### **Group's strategy**

To ensure that the group achieves its objective, the strategy is to implement processes, policies and procedures to comply with the control matrices stipulated in the project documentation committed to at the inception of the project. This includes minimising performance and availability deductions, cash monitoring and maintenance of good working relationships between all stakeholders.

### **Development and performance of the business**

The business has operated smoothly with minimal deductions from availability fee payments. The facilities maintenance service has been closely monitored throughout the year. This takes the form of full-time representation on site through the group's management services agent and periodic reporting by the independent Technical Assessor. A number of contract variations have been successfully implemented.

During the year, a dispute arose over certain defects and the level of availability deductions which should be applied as a consequence. The facilities maintenance contractor is undertaking a programme of remedial works and these are substantially complete. The directors have appointed technical experts to determine the full extent of the remedial works required and to provide assurance that the works are being carried out to the appropriate standard. All financial penalties and costs in respect of this dispute are to be borne by the subcontractor.

The group made a profit on ordinary activities before taxation of £5,308,000 compared to £3,144,000 in 2014 as a result of lower interest payable on the index-linked debt. Total net assets/(liabilities) increased from liabilities of £709,000 at 31 December 2014 to net assets of £3,736,000 at 31 December 2015. Future results are expected to be in line with contractual expectations.

### **Principal risks and uncertainties**

As the project is currently in its operational phase, operational risks are monitored closely. This takes the form of full-time representation on site through the group's management services agent and periodic reporting by the independent Technical Assessor plus regular dialogue with the executive team of HM Treasury.

The group's revenues have largely been in line with expectations, with very few deductions applied for non-availability of the assets. Any such deductions are passed down to the subcontractors so there is no direct financial consequence to the company. Sustained non-availability can lead to contract termination but the company is not anywhere close to such termination trigger points. Compliance with the detailed and complex operational requirements of the PFI projects remains a key risk given the potential termination consequences. Directors receive regular reports on actual performance compared to termination trigger thresholds.

Another risk is the continued funding from the public sector counterparties to the PFI project agreements, especially as these counterparties are under pressure to make savings in their operational PFI contracts. To date, most of the pressure to make such cost savings has fallen on the sub-contractors to the project companies rather than on the project companies themselves. Furthermore, it is understood that current policy from central government is not to encourage voluntary termination of PFI projects.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Inflation rate risk*

There is no RPI swap to reduce volatility of operating cash flows in relation to the index linked debt service. However, the availability fee and the majority of the costs are contractually linked to the Retail Price index. A relatively small proportion of total costs is not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history so far is good and current premium renewal are competitive and within budgeted amounts.

#### *Interest rate risk*

The group's principal financial instruments comprise secured bonds and a mezzanine loan. The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues arising from the concession.

The group does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities.

A small proportion of cash flow is derived from bank interest on cash balances. The current low levels of interest rates have reduced this interest but this has not impacted on debt covenant compliance.

### **Risk Management**

The board has overall accountability for ensuring that risk is effectively managed across the group and they regularly review the effectiveness of the group risk process and consider risk in all strategic decision-making.

### **Key performance indicators**

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator. These are reported quarterly to the Board and have been extremely small in relation to total unitary payments.

Another key indicator is the ratio of operating cash flow to the senior debt service amount. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

By order of the board



**A L Mitchell LLB ACIS**  
*Company Secretary*  
18 APRIL 2016

Adamson House  
Towers Business Park  
Wilmslow Road  
Didsbury  
Manchester  
M20 2YY

## **Directors' report**

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2015.

### **Business review**

The results of the group for the year are set out in the profit and loss account on page 10 and in the Strategic Report on page 2.

### **Results and dividend**

The group made a dividend payment of £nil in the year (2014: £3,576,000).

The profit for the financial year is £4,445,000 (2014: £2,706,000).

### **Directors**

The directors who held offices during the year and up to the date of signing the financial statements are set out below:

MA Donn (resigned 26 January 2015)  
KW Gillespie  
KM Hill (appointed 26 January 2015)  
GS Jackson  
BP Millsom  
CT Solley  
AL Tennant

### **Financial risk management**

The group's principal financial instruments comprise short term bank deposits, an index linked bond, and a Mezzanine loan.

The main objective of these financial instruments is to ensure that the profile of the debt service costs is tailored to match expected revenues arising from the Concession Agreement.

The group does not undertake financial instrument transactions which are speculative or unrelated to the group's trading activities. The main risks arising from the group's financial instruments are inflation rate risk, liquidity risk, credit risk and interest rate risk.

#### *Inflation rate risk*

In order to fund the development of the main Treasury building, the group has issued index-linked debt to achieve a correlation between inflationary increases in revenue and finance charges.

The index linked bond is exposed to inflation rate risk.

#### *Liquidity risk*

The group builds up sufficient cash balances to ensure it is able to meet its loan and other liabilities.

#### *Credit risk*

The financial instruments are subject to credit and market risk. The carrying value of financial assets represents the maximum credit exposure.

The Board maintains regular liaison with Ambac Assurance UK Limited as insurance guarantor of the Bond issue.

## Directors' report *(continued)*

### Corporate Governance

The Group is committed to high standards of corporate governance, as are appropriate for the longer term obligations to finance, renovate and operate facilities management services for the main HM Treasury building under the Private Finance Initiative programme:

The Board of Directors of the subsidiary company also acts as the Board of Directors of the holding company. Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with HM Treasury. The Board has taken note of the UK Corporate Governance Code, which applies to equity quoted plc's with certain reporting requirements; this group, not being an equity quoted plc, is not bound by the code's requirements but has voluntarily adopted certain of those principles as detailed below.

This report is a narrative on the principles of corporate governance as applied in this company. It does not provide a detailed statement to identify those provisions of the new code from which the group's governance differs.

#### **A. The Board**

1. The Board meets quarterly and reviews operating performance against the financial model and detailed management budgets. This model incorporates all aspects of the strategic business plan and associated risks; all proposals for contract variations are vetted before approval against the model.

The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project.

2. The position of Chairman is rotated on an annual basis and the nominated chair leads the Board.
3. The Board comprises 6 non-executive directors nominated by each participating shareholder.
4. The Board receives quarterly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the facilities management project.
5. Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision.
6. For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation.

#### **B. Remuneration**

No directors received remuneration directly from the group companies. The remuneration for services of the non-executive directors is set out in note 4.

#### **C. Dialogue with Institutions**

The Board maintains regular liaison with Ambac Assurance UK Limited as insurance guarantor of the Bond issue.

#### **D. Financial Reporting**

1. The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the group and ensures that they are consistently applied.
2. The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships.
3. The Board has decided to undertake the role of an Audit Committee with all directors. The Audit Committee meets annually to review the Report to the Board tabled by the Auditors.
4. The Board continues to satisfy itself that, given the contractual and long-term funding provisions, the group will continue to trade as a going concern.

## Directors' report (continued)

### Corporate Governance (continued)

#### *E. Internal controls*

1. The Board annually reviews the need for a formal internal audit function.
2. The Board maintains a sound system of internal control to safeguard shareholders' investments and the group's assets.

### Disclosure of information to auditors

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


### Future developments

An indication of likely future developments in the business has been included in the Strategic Report on page 2.

### Independent Auditors

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

By order of the board

  
**A L Mitchell LLB ACIS**  
Company Secretary  
18 APRIL 2016

Adamson House  
Towers Business Park  
Wilmslow Road  
Didsbury  
Manchester  
M20 2YY

## Statement of directors' responsibilities

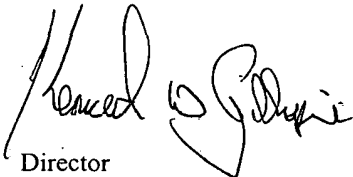
The directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group 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.

By order of the Board



Director  
18 April 2016

KENNETH WILLIAM ALLSOP

## **Independent auditors' report to the members of Exchequer Partnership Holdings Limited**

### **Report on the financial statements**

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#### **Our opinion**

In our opinion, Exchequer Partnership Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's profit and cash flows for the year then ended;
- 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.

#### **What we have audited**

The financial statements, included within the Annual Report and consolidated financial statements (the "Annual Report"), comprise:

- the consolidated and company balance sheets as at 31 December 2015;
- the consolidated profit and loss account and statement of other comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

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In our opinion, 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.

#### **Other matters on which we are required to report by exception**

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##### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

##### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Independent auditors' report to the members of Exchequer Partnership Holdings Limited (continued)**

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### **Responsibilities for the financial statements and the audit**

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#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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#### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Hazel Macnamara (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
18 April 2016

**Consolidated Profit and loss account and statement of other comprehensive income**  
for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	2	14,833	14,276
Cost of sales		(8,337)	(8,004)
<b>Gross profit</b>		<b>6,496</b>	<b>6,272</b>
Administrative expenses		(2,511)	(2,420)
<b>Operating profit</b>		<b>3,985</b>	<b>3,852</b>
Interest receivable and similar income	5	7,681	7,831
Interest payable and similar charges	6	(6,358)	(8,539)
<b>Profit on ordinary activities before taxation</b>		<b>5,308</b>	<b>3,144</b>
Tax on profit on ordinary activities	7	(863)	(438)
<b>Profit for the financial year</b>		<b>4,445</b>	<b>2,706</b>
<b>Total comprehensive income for the year</b>		<b>4,445</b>	<b>2,706</b>

The group has no recognised gains or losses other than the profit for the financial year reported above and therefore no separate statement of other comprehensive income has been presented.

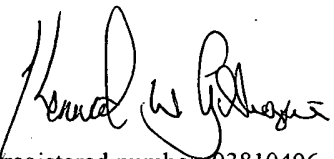
The results for the year arise wholly from continuing operations.

The notes on pages 16 to 28 form an integral part of these Financial Statements.

**Consolidated Balance Sheet**  
as at 31 December 2015

	Note	2015 £000	2014 £000
<b>Current assets</b>			
Debtors (including £118,383,000 (2014: £121,592,000) due after more than one year)	9	121,546	124,612
Cash at bank and in hand		17,467	12,075
		<u>139,013</u>	<u>136,687</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>(6,567)</u>	<u>(6,911)</u>
<b>Total assets less current liabilities</b>		<u>132,446</u>	<u>129,776</u>
<b>Creditors: amounts falling due after more than one year</b>	11	<u>(121,588)</u>	<u>(125,204)</u>
<b>Provisions for liabilities</b>	13	<u>(7,122)</u>	<u>(5,281)</u>
<b>Net assets/(liabilities)</b>		<u>3,736</u>	<u>(709)</u>
<b>Capital and reserves</b>			
Called up share capital	14	500	500
Profit and loss account		3,236	(1,209)
<b>Total shareholder funds/(deficit)</b>		<u>3,736</u>	<u>(709)</u>

These financial statements on pages 10 to 28 were approved by the board of directors on 18 April 2016 and were signed on its behalf by:

Director   
Company registered number: 03810496  
KENNETH WILLIAM AILLORRIE  
18 APRIL 2016

**Company Balance Sheet**  
as at 31 December 2015

	<u>Note</u>	<b>2015</b> <b>£000</b>	<b>2014</b> <b>£000</b>
<b>Fixed assets</b>			
Investments	8	500	500
		<hr/>	<hr/>
<b>Net assets</b>		<b>500</b>	<b>500</b>
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	14	500	500
Profit and loss account		-	-
		<hr/>	<hr/>
<b>Total shareholders' funds</b>		<b>500</b>	<b>500</b>
		<hr/>	<hr/>

The financial statements on pages 10 to 28 were approved by the board of directors on 18 April 2016 and signed on its behalf by:

Director

Company registered number: 03810496

KENNETH WILLIAM GILLBERT  
18 APRIL 2016

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

	Called up share capital £000	Profit and loss account £000	Total shareholder funds/(deficit) £000
Balance at 1 January 2014	500	(339)	161
<b>Total comprehensive income for the year</b>			
Profit for the financial year	-	2,706	2,706
<b>Transactions with owners, recorded directly in equity</b>			
Dividends	-	(3,576)	(3,576)
<b>Balance at 31 December 2014</b>	<b>500</b>	<b>(1,209)</b>	<b>(709)</b>

	Called up share capital £000	Profit and loss account £000	Total shareholder funds/(deficit) £000
Balance at 1 January 2015	500	(1,209)	(709)
<b>Total comprehensive income for the year</b>			
Profit for the financial year	-	4,445	4,445
<b>Transactions with owners, recorded directly in equity</b>			
Dividends	-	-	-
<b>Balance at 31 December 2015</b>	<b>500</b>	<b>3,236</b>	<b>3,736</b>

**Company Statement of Changes in Equity**  
for the year ended 31 December 2015

	Called up share capital £000	Profit and loss account £000	Total shareholder funds/(deficit) £000
Balance at 1 January 2014	500	-	500
<b>Total comprehensive income for the year</b>			
Profit for the year	-	3,576	3,576
<b>Transactions with owners, recorded directly in equity</b>			
Dividends	-	(3,576)	(3,576)
<b>Balance at 31 December 2014</b>	<b>500</b>	<b>-</b>	<b>500</b>

	Called up share capital £000	Profit and loss account £000	Total shareholder funds/(deficit) £000
Balance at 1 January 2015	500	-	500
<b>Total comprehensive income for the year</b>			
Profit for the year	-	-	-
<b>Transactions with owners, recorded directly in equity</b>			
Dividends	-	-	-
<b>Balance at 31 December 2015</b>	<b>500</b>	<b>-</b>	<b>500</b>

## Consolidated Cash Flow Statement

for the year ended 31 December 2015

	2015 £000	2014 £000
<b>Cash flow from operating activities</b>		
Profit for the year		
Adjustments for:	4,445	2,706
Interest receivable and similar income	(7,681)	(7,831)
Interest payable and similar charges	6,358	8,539
Taxation	863	438
	<u>3,985</u>	<u>3,852</u>
	2,570	2,415
Decrease in finance debtor		
Decrease in debtors	19	27
(Decrease) / increase in creditors	(68)	22
Increase in provisions	1,453	1,346
	<u>7,959</u>	<u>7,662</u>
Tax paid	-	-
<b>Net cash inflow from operating activities</b>	<u>7,959</u>	<u>7,662</u>
		7
<b>Cash flow from investing activities</b>		
Interest received	7,680	7,831
Interest paid	(5,053)	(5,189)
	<u>2,627</u>	<u>2,642</u>
<b>Net cash from investing activities</b>		
<b>Cash flows from financing activities</b>	(5,194)	(5,481)
Repayment of borrowings	<u>(5,194)</u>	<u>(5,481)</u>
<b>Net cash from financing activities</b>		
Dividends	-	(3,576)
	<u>5,392</u>	<u>1,247</u>
Net increase in cash in the year	12,075	10,828
Cash and cash equivalents at 1 January	<u>17,467</u>	<u>12,075</u>
<b>Cash and cash equivalents at 31 December</b>		

## Notes to the financial statements

(forming part of the financial statements)

### 1 Accounting policies

Exchequer Partnership Holdings Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

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 effectively immediately, have been applied. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Group has made 2 measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Group is provided in note 17.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Service concession arrangements – the Group entered into its Service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- No separate parent company Cash Flow Statement with related notes is included; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

As permitted by Section 408 Companies Act 2006, the Company has not presented its own profit and loss account.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.3.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

The Group currently has £126,382,000 (2014: £130,274,000) of total debt. The Group forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities.

The Directors have reviewed the Group's projected profits and cash flows by reference to a financial model covering accounting periods up to December 2037. The Group has considerable financial resources together with long-term contracts with HM Treasury. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### 1.3 Accounting estimates and judgements

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements in applying the Group's accounting policies are described below:

- Accounting for the service concession contract and finance debtor requires estimation of a finance debtor interest rate.

#### 1.4 Classification of financial instruments issued by the Group

In accordance with FRS 102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the group's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

#### 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 instrument 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.

##### *Cash at bank and in hand*

Cash at bank and in hand comprises cash balances and call deposits.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.5 Basic financial instruments (continued)

##### *Restricted cash*

The Group is obligated to keep a separate cash reserve in respect of future financing costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £5,254,000 at the year end (2014: £4,898,000).

The Group is also obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £7,129,000 at the year end (2014: £5,347,000).

#### 1.6 Impairment excluding deferred tax assets

##### *Financial assets (including trade and 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. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### 1.7 Finance debtor and service income

The Group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the group under FRS102 section 34C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with HM Treasury

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. Amounts receivable under the agreement with the HM Treasury relating to the main Treasury building facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

In the operational phase, the balance of unitary payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease) is accounted for as turnover.

#### 1.8 Expenses

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

Interest payable is recognised in profit or loss as it accrues, using the effective interest method. Other interest receivable and similar income is recognised in profit or loss as it accrues.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### 1.9 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.

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 an asset if and when all conditions for retaining the tax allowances have been met. 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.

#### 1.10 Provisions

A provision is recognised in the balance sheet when the Group 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. Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods.

### 2 Segmental analysis

	2015		2014	
	Turnover	Profit on ordinary activities before taxation	Turnover	Profit on ordinary activities before taxation
	£000	£000	£000	£000
<i>By activity</i>				
Operational services	14,833	5,308	14,276	3,144
	<u>14,833</u>	<u>5,308</u>	<u>14,276</u>	<u>3,144</u>

The turnover and profit on ordinary activities before taxation arise entirely within the United Kingdom and in respect of operational services.

## Notes to the financial statements (continued)

### 3 Auditors' remuneration:

	2015 £000	2014 £000
Amounts receivable by the auditors and their associates in respect of:		
Audit of these financial statements	12	12
Tax compliance services	8	12
	<u>20</u>	<u>24</u>

### 4 Staff costs and Directors' remuneration

	2015 £000	2014 £000
Recharges in respect of non-executive directors' services to third parties	248	244

The Group had no employees during the year (2014: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges. The Directors received no remuneration for their services during the year (2014: £nil) other than KW Gillespie who received £5,000 (2014: £14,000) for additional commercial services to the Group. A payment is made for the services of the non-executive directors to their employer.

### 5 Interest receivable and similar income

	2015 £000	2014 £000
Bank interest	61	56
Finance debtor interest receivable	7,620	7,775
	<u>7,681</u>	<u>7,831</u>

### 6 Interest payable and similar charges

	2015 £000	2014 £000
Interest payable on financial liabilities at amortised cost	6,091	8,267
Other charges	267	272
	<u>6,358</u>	<u>8,539</u>

## Notes to the financial statements (continued)

### 7 Tax on profit on ordinary activities

#### Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2015 £000	2014 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Adjustments in respect of prior periods	-	-
	-	-
<i>Deferred tax (see note 13)</i>		
Tax losses	1,155	381
Origination and reversal of timing differences	9	51
Effect of changes in tax rate	(301)	6
Total tax	<b>863</b>	<b>438</b>

	Current tax £000	2015 Deferred tax £000	Total tax £000	Current tax £000	2014 Deferred tax £000	Total tax £000
Recognised in Profit and loss account	-	863	863	-	438	438
Recognised in other comprehensive income	-	-	-	-	-	-
Total tax	-	863	863	-	438	438

#### Reconciliation of effective tax rate

	2015 £000	2014 £000
Profit for the financial year	4,445	2,706
Tax on profit on ordinary activities	863	438
Profit on ordinary activities before taxation	<b>5,308</b>	<b>3,144</b>
Tax at standard rate of 20.25% (2014: 21.5%)	1,075	676
<i>Effects on actual tax charge for the year:</i>		
Non-deductible expenses	365	364
Tax-exempt revenues	(183)	(547)
Reduction in tax rate on deferred tax balances	(394)	(55)
Total tax charge (see above)	<b>863</b>	<b>438</b>

## Notes to the financial statements (continued)

### 7 Tax on profit on ordinary activities (continued)

#### Factors that may affect future 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 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. As the change to 17% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2015 has been calculated based on the rates substantively enacted at the balance sheet date.

### 8 Fixed asset investments

		Company 2015 £000	Company 2014 £000
Investment in subsidiary undertaking		500	500
<hr/>			
Subsidiary undertaking	Country of incorporation	Principal Activity	Class and percentage of shares held
Exchequer Partnership Plc	England	Renovation and then operation of facilities management for the main Treasury building	100% ordinary

### 9 Debtors

	2015 £000	2014 £000
Finance debtor	121,117	123,687
Trade debtors	55	68
Deferred tax assets (see note 13)	-	475
Prepayments and accrued income	374	382
	<hr/>	<hr/>
	121,546	124,612
	<hr/>	<hr/>

Debtors include a finance debtor of £118,383,000 (2014: £121,117,000) and deferred tax assets of £nil (2014: £475,000) due after more than one year. £105,579,000 of the finance debtor is due after more than 5 years (2014: £109,084,000).

## Notes to the financial statements (continued)

### 10 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Index-linked guaranteed secured bonds	4,542	4,838
Mezzanine loan	252	232
Trade creditors	60	90
Taxation and social security	502	597
Other creditors	1,054	1,049
Accruals and deferred income	157	105
	<u>6,567</u>	<u>6,911</u>

### 11 Creditors: amounts falling due after more than one year

	2015 £000	2014 £000
Index-linked guaranteed secured bonds	117,668	121,033
Mezzanine loan	3,920	4,171
	<u>121,588</u>	<u>125,204</u>

### 12 Interest-bearing loans and borrowings

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

	2015 £000	2014 £000
<b>Creditors falling due after more than one year</b>		
Index-linked guaranteed secured bonds	117,668	121,033
Mezzanine loan	3,920	4,171
	<u>121,588</u>	<u>125,204</u>
	<u>2015 £000</u>	<u>2014 £000</u>
<b>Creditors falling due within one year</b>		
Index-linked guaranteed secured bonds	4,542	4,838
Mezzanine loan	252	232
	<u>4,794</u>	<u>5,070</u>

Included within index-linked guaranteed secured bonds is an amount repayable after five years of £100,382,000 (2014: £102,937,000), and included within the mezzanine loan are amounts repayable after five years of £2,654,000 (2014: £3,013,000) respectively. The effects of indexation in the year increased the amount due to the bond holders by £1,149,000 (2014: £3,199,000).

## Notes to the financial statements (continued)

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

#### Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Repayment schedule	2015 £000	2014 £000
Index-linked guaranteed secured bonds	GBP	3.58%	2035	Semi-annual	122,210	125,871
Mezzanine loan	GBP	LIBOR +4%	2026	Semi-annual	4,172	4,403

The index-linked guaranteed secured bonds are secured by a fixed charge over the whole of the property, assets and undertaking of the Group, assignment of all rights to any proceeds of any insurance policies and all present and future book and other charges over all assets which have not been secured by way of a fixed charge or assignment.

### 13 Provisions for liabilities

	Life Cycle Provision £000	Deferred Tax £000	Total £000
At beginning of year	5,281	-	5,281
Transferred from debtors (see note 9)	-	(475)	(475)
Utilised during year	(6)	-	(6)
Charge to the profit and loss for the year	1,459	863	2,322
<b>At the end of the year</b>	<b>6,734</b>	<b>388</b>	<b>7,122</b>

Lifecycle provisions represent the difference between the cumulative charge to profit and loss and the cumulative amount of cash expenditure paid to the lifecycle sub-contractor. Lifecycle expenditure is charged to profit and loss on a systematic basis, so as to give an annual charge, increasing with inflation each year, which in total equates to the total amount of the forecast lifecycle expenditure to be paid over the whole concession. The amounts and timing of these payments are defined in the sub-contract agreement.

Under the terms of the contract with HM Treasury date 5 May 2000 Exchequer Partnership Plc is committed to payments totalling £24.3 million for lifecycle expenditure over the remaining contract term.

## Notes to the financial statements (continued)

### 13 Provisions for liabilities (continued)

#### Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets 2015 £000	2014 £000	Liabilities 2015 £000	2014 £000	Net 2015 £000	2014 £000
Accelerated capital allowances	-	-	(5,242)	(5,794)	(5,242)	(5,794)
Unused tax losses	4,854	6,269	-	-	4,854	6,269
Tax assets / (liabilities)	4,854	6,269	(5,242)	(5,794)	(388)	475
Net of tax (liabilities)/assets	(4,854)	(5,794)	4,854	5,794	-	-
Net tax assets / (liabilities)	-	475	(388)	-	(388)	475

In the year ended 31 December 2016 a net increase in the deferred tax liabilities of £939,000 is expected to occur due to the utilisation of tax losses.

### 14 Called up share capital

	Group and Company 2015 £000	Group and Company 2014 £000
<i>Allotted, called up and fully paid</i>		
Equity: 500,000 (2014: 500,000) Ordinary shares of £1 each	500	500

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

## Notes to the financial statements (continued)

### 15 Related parties

The details of the related party transactions are detailed as follows:

Related party	Relationship	Class of transaction	2015 Income/ (expenditure) £000	2014 Income/ (expenditure) £000	2015 Debtor/ (creditor) £000	2014 Debtor/ (creditor) £000
Civis (formerly) Lend Lease PFI/PPP Infrastructure Fund LP	50% shareholder in Consolidated Investment Holdings Limited	Directors' services	(62)	(61)	-	-
Aberdeen Infrastructure Finance GP Ltd	Sister company of 50% shareholder in Consolidated Investment Holdings Limited	Directors' services	(62)	(61)	-	-
Aberdeen Sidecar LP Inc.	50% shareholder in Exchequer Partnership Holdings Limited	Directors' services	(124)	(122)	-	-

### 16 Ultimate controlling party

In the opinion of the directors, the ultimate controlling party comprises Consolidated Investment Holdings Limited and Aberdeen Sidecar LP Inc. acting together.

## Notes to the financial statements (continued)

### 17 Explanation of transition to FRS 102

As stated in note 1, these are the Group's first financial statements prepared in accordance with FRS 102, with a transition date of 1 January 2014, this being the start of the earliest period of comparative information presented in these first FRS 102 financial statements.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Group's financial position and financial performance is set out in the following table and the notes that accompany the table.

No changes have been required to the profit and loss account and balance sheet of the Company through the transition to FRS 102.

#### Reconciliation of equity

Group		1 January 2014		31 December 2014		
	Note	UK GAAP	Effect of transition to FRS102	FRS102	UK GAAP	FRS102
		£000	£000	£000	£000	£000
<b>Current assets</b>						
Debtors (due within one year)		2,890	-	2,890	3,020	3,020
Debtors (due after more than one year)	a	126,269	(1,669)	124,600	123,545	121,592
Cash at bank and in hand		10,828	-	10,828	12,075	12,075
<b>Creditors: amounts due within one year</b>		(7,171)	-	(7,171)	(6,911)	(6,911)
Net current assets		132,816	(1,669)	131,147	131,729	129,776
<b>Creditors: amounts falling due after one year</b>		(127,051)	-	(127,051)	(125,204)	(125,204)
<b>Provisions for liabilities and charges</b>		(3,935)	-	(3,935)	(5,281)	(5,281)
Net assets		1,830	(1,669)	161	1,244	(709)
<b>Capital and reserves</b>						
Called up share capital		500	-	500	500	500
Profit and loss account	a	1,330	(1,669)	(339)	744	(1,209)
<b>Shareholders equity</b>		1,830	(1,669)	161	1,244	(709)

a Discounting of deferred tax

The company discounted its deferred tax assets and liabilities under old UK GAAP. In accordance with the requirements of FRS 102.29, current and deferred tax assets/liabilities are not permitted to be discounted.

## Notes to the financial statements (continued)

### 17 Explanation of transition to FRS 102 (continued)

#### Reconciliation of profit for the year ended 31 December 2014

Group	Note	UK GAAP £000	2014 Effect of transition to FRS102 £000	FRS102 £000
Turnover		14,276	-	14,276
Operating costs		(10,424)	-	(10,424)
<b>Operating profit</b>		<b>3,852</b>	<b>-</b>	<b>3,852</b>
Other interest receivable and similar income		7,831	-	7,831
Interest payable and similar charges		(8,539)	-	(8,539)
<b>Profit on ordinary activities before taxation</b>		<b>3,144</b>	<b>-</b>	<b>3,144</b>
Taxation	a	(154)	(284)	(438)
<b>Profit for the year</b>		<b>2,990</b>	<b>(284)</b>	<b>2,706</b>