Integrated Accommodation Services plc

Annual report and financial statements

for the year ended 31 December 2017

Integrated Accommodation Services plc

Annual report and financial statements for the year ended 31 December 2017

Contents

Integrated Accommodation Services plc

Strategic report
for the year ended 31 December 2017

The directors present their Strategic report on the company for the year ended 31 December 2017.

Principal activities and business review

The company is engaged under a 30 year project agreement with the Secretary of State for Foreign and Commonwealth Affairs, signed on 13 June 2000. Its registered number is 03824397. The agreement, under the Government Private Finance Initiative ('PFI'), provides for the design, construction, financing, service and maintenance of new facilities, together with the service, maintenance and remediation of certain existing facilities for the Government Communications Headquarters in Cheltenham, England. The company achieved its first phase practical completion of building works and the certification of those works in June 2003, ahead of the original programme. The company continues to provide services to these facilities and it has completed the phased clearance of the older sites which were released back to the Secretary of State and sold. The operational performance of the company during the year has been good and performance deductions have been low.

Turnover and cost of sales have reduced in the period under review, returning to normal levels, following completion during 2016 of a variation to the contract, providing for the design, construction, service and maintenance of additional accommodation.

The company has also entered into sub-contracts to allocate, under its direction, the provision of those services noted above. Details of the principal sub-contracts are shown within Commitments and Related party disclosures in notes 17 and 18 respectively to the financial statements.

The profit for the year under review as set out in the statement of comprehensive income on page 9 relates to activities undertaken in respect of the project.

The directors consider the performance of the company during the year, the financial position at the end of the year and its prospects for the future to be satisfactory. The directors have reviewed the project against expectations and are satisfied that it is in line with its business plan.

Principal risks and uncertainties

The company is risk averse in its principal activities as detailed above, as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations. The financial risks (including subcontractor failure) and the measures taken to mitigate them are as detailed in the following sections.

Subcontractor failure

In the event of subcontractor failure, the company would directly manage the subcontractor's obligations, to ensure continuity of service, until such time as a long term alternative solution is put in place.

Interest rate risk

The company manages its exposure to cash flow interest rate risk by using fixed interest rate financial liabilities. The contract debtor attracts interest at a fixed property specific rate. As the fixed rate liabilities are not recorded at fair value in the financial statements, fair value interest rate risk is not considered applicable.

Price risk

The company's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to movements in inflation rates over the life of the contract.

Strategic report
for the year ended 31 December 2017 (continued)

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due. Surplus cash is invested with its bankers on short term deposits. The company is required to hold certain cash deposits in accordance with the Collateral Deed. This follows a standard requirement of this type of financing arrangement.

Credit risk

The company receives all of its revenue and contract debtor remuneration from a government body and therefore is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality and are regularly reviewed by the directors.

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities including performance and availability. The board monitor these on a regular basis. Given the straightforward nature of the business, the company's directors are of the opinion that further analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. The business success is linked to the delivery of the project which has already been highlighted and discussed.

On behalf of the Board,

D Hardingham
Director

G Birley-Smith
Director

Date 7 June 2018

Integrated Accommodation Services plc

Directors' report
for the year ended 31 December 2017

The directors present their report and the audited financial statements of the company for the year ended 31 December 2017.

Dividends and transfers to reserves

Dividends of £48.82 per ordinary share (2016: £32.06 per ordinary share) amounting to £2,685,225 (2016: £1,763,111) have been paid during the year (note 15). No final dividends are proposed for the year ended 31 December 2017 (2016: £nil). The amount transferred to reserves is set out in the statement of comprehensive income on page 9.

Directors

The directors of the company during the year ended 31 December 2017, and to the date of signing of the financial statements were:

G Birley-Smith
B C J Dean
C Elliott
D Hardingham

Going concern and post balance sheet events

The directors are of the opinion that the company has adequate resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. As detailed in note 17 the Capital Replacement Contract contractor went into liquidation on 15 January 2018 but the directors are of the opinion that this has no adverse effect on the continuing operation of the company.

Future developments

The directors continue to develop the business in line with the contract and there are no issues expected.

Corporate Governance

The board are appointed by the shareholders and meet quarterly to review the financial and operational performance of the company. The company is a special purpose company specifically established to engage in a PFI project as noted in its principal activities in the Strategic report. The company's business is confined to that project and its activities are clearly defined and restricted by the complex contracts which it has entered into. The board has an experienced operational management and financial team who monitor the company's and its subcontractors' compliance with those contracts. The project director leads that team and regularly reports to the board of directors the company's performance against the budgets it sets and the key performance criteria stipulated under the detailed terms of the PFI contract.

Share capital structure

The company has a single class of ordinary shares, all of which rank equally. The company appoints directors nominated by the shareholders of the holding company. The voting rights of those directors rank in proportion to the shareholdings in its holding company. Current holdings are shown in note 19 of these financial statements.

Financial risk management

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance and these are summarised in the Strategic report. The company also reviews the performance of the subcontractors on a monthly basis and takes action if the performance levels fall below the required standard.

Integrated Accommodation Services plc

Directors' report
for the year ended 31 December 2017 (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board,

D Hardingham
Director

G Birley-Smith
Director
Date 7 JUNE 2018

Independent auditors' report to the members of Integrated Accommodation Services plc

Report on the audit of the financial statements

Opinion

In our opinion, Integrated Accommodation Services plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: Statement of comprehensive income for the year ended 31 December 2017; Statement of financial position as at 31 December 2017; Statement of changes in equity for the year ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

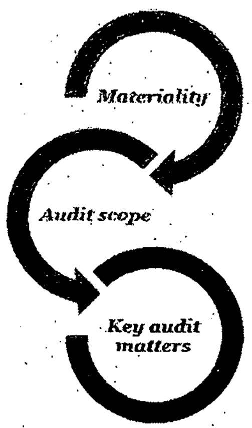
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality: £476,000 (2016: £442,000), based on 5% of profit before tax.
- Integrated Accommodation Services plc is a singular entity and no scoping is required.
- Accuracy of the contract debtor.

Independent auditors' report to the members of Integrated Accommodation Services plc (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, Companies Act 2006, the Listing Rules, UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Accuracy of the contract debtor The model used to amortise the contract debtor within the accounts is complex and the magnitude of the debtor is highly material and therefore the accuracy and valuation of the debtor is a key area of audit focus.	We have tested all revenue attributable to the contract debtor, in the current year, back to cash received and tested a sample of the costs included to independently assess the accuracy of the model calculations. We confirmed that revenue allocated to the contract debtor, based on current actual cash flows, will amortise the balance to zero by the end of the contract. We have also relied upon third party reporting over the accuracy of the model in 2012 and ensured it has been rolled forward correctly each year since 2012 and the model is working as expected with no further amendments required.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditors' report to the members of Integrated Accommodation Services plc (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£476,000 (2016: £442,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £23,808 (2016: £22,105) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditors' report to the members of Integrated Accommodation Services plc (continued)

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 27 November 1999 to audit the financial statements for the year ended 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement is 18 years, covering the years ended 31 December 2000 to 31 December 2017.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
18 June 2018

Integrated Accommodation Services plc

Statement of comprehensive income for the year ended 31 December 2017

	Note	2017	2016
		£'000	£'000
Turnover		**51,488**	80,435
Cost of sales		**(44,218)**	(73,480)
Gross profit		**7,270**	6,955
Administrative expenses		**(898)**	(870)
Operating profit	5	**6,372**	6,085
Interest receivable and similar income	6	**26,159**	27,032
Interest payable and similar charges	6	**(23,008)**	(24,275)
Profit on ordinary activities before taxation		**9,523**	8,842
Tax on profit on ordinary activities	7	**(2,069)**	(894)
Profit for the financial year		**7,454**	7,948
Other comprehensive income		**-**	-
Total comprehensive income for the financial year		**7,454**	7,948

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom for both the current and prior year.

The notes on pages 12 to 29 form an integral part of the financial statements.

Statement of financial position as at 31 December 2017

	Note	2017 £'000	2016 £'000
Current assets			
Debtors: amounts falling due within one year	8	**22,279**	21,914
Debtors: amounts falling due after more than one year	8	**331,905**	345,131
Cash at bank and in hand		**38,427**	37,933
		392,611	404,978
Creditors: amounts falling due within one year	10	**(32,320)**	(31,913)
Net current assets		**360,291**	373,065
Total assets less current liabilities		**360,291**	373,065
Creditors: amounts falling due after more than one year	11	**(279,957)**	(298,706)
Provisions for liabilities	12	**(18,794)**	(17,588)
Net assets		**61,540**	56,771
Capital and reserves			
Called up share capital	14	**55**	55
Retained earnings		**61,485**	56,716
Total equity		**61,540**	56,771

The financial statements on pages 9 to 29 were approved by the Board on 7 June 2018 and were signed on its behalf by:

D Hardingham
Director

G Birley-Smith
Director

Company registered number: 03824397

Integrated Accommodation Services plc

Statement of changes in equity
for the year ended 31 December 2017

	Note	Called-up share capital	Retained earnings	Total Equity
		£'000	£'000	£'000
Balance as at 1 January 2016		55	50,531	50,586
Profit for the year		-	7,948	7,948
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	7,948	7,948
Dividends	15	-	(1,763)	(1,763)
Balance as at 31 December 2016		55	56,716	56,771
Balance as at 1 January 2017		55	56,716	56,771
Profit for the year		-	7,454	7,454
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	7,454	7,454
Dividends	15	-	(2,685)	(2,685)
Balance as at 31 December 2017		**55**	**61,485**	**61,540**

The notes on pages 12 to 29 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2017

1 General information

The principal activity of Integrated Accommodation Services plc ("the company") continues to be the design, construction, financing, service and maintenance of new facilities, together with the service, maintenance and remediation of certain existing facilities for the Government Communications Headquarters in Cheltenham, England.

The company is incorporated and domiciled in the UK. The address of its registered office Challenge House, International Drive, Tewkesbury Business Park, Tewkesbury, Gloucestershire GL20 8UQ, England.

2 Statement of compliance

The individual financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Accounting policies

A summary of the company's principal accounting policies, which have been consistently applied, is set out below.

Basis of preparation of financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) and under the historical cost convention. Narrative disclosures of values in the notes to the financial statements are shown as round £'000.

Going concern

The directors have assessed future cash flows and are satisfied that the company can meet its financial obligations (including covenant compliance) as they fall due for the foreseeable future. Consequently, the company's financial statements have been prepared on a going concern basis.

Financial Reporting Standard 102 reduced disclosure exemptions

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders. The company has taken advantage of the following exemptions:

- from preparing a statement of cash flows. Integrated Accommodation Services plc is a wholly owned subsidiary company of a group headed by Accommodation Services (Holdings) Limited and is included in the consolidated financial statements of that company, which can be obtained from the address given in note 19. Consequently, Integrated Accommodation Services plc has taken advantage of the exemption under the terms of FRS 102 paragraph 1.12(b), from the requirements of Section 7 *Statement of Cash Flows* and Section 3 *Financial Statement Presentation* paragraph 3.17(d).
- from disclosing the company key management personnel compensation per FRS 102 paragraph 33.7.

Currency

The financial statements are presented in pound sterling and rounded to thousands.

3 Accounting policies (continued)

Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes. All turnover originates in the United Kingdom. The company is engaged in only one class of business and operates solely within the UK.

The company recognises income when it has fully fulfilled its contractual obligations under the terms of the project agreement. In accordance with FRS 102 s23.3, the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and cost of sales.

Turnover for the year consisted of £30.8m basic income (2016: £29.5m) and variation income of £20.7m (2016: £50.9m).

Transactions amounting to £7.8m (2016: £9.7m) of revenue and the same value of cost of sales to which the company does not have access to all of the significant benefits or exposure to the significant risks are excluded from the statement of comprehensive income in accordance with FRS 102 s23.4, as in the opinion of the Directors, the company is acting as an agent for these transactions. The company does not receive any commissions on these transactions from the customer.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the statement of financial position sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Leased assets

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the lease term.

Dividend policy

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are paid. These amounts are recognised in the statement of changes in equity.

Financial liabilities

The company accounts for and discloses its financial liabilities in accordance with Financial Reporting Standard 102 s 11. Management has determined its financial liabilities as being borrowings, trade creditors and accruals. All of the items are classified as financial liabilities measured at amortised cost in accordance with FRS 102 s 11. They are recognised initially at fair value net of transaction costs and subsequently carried at amortised cost using the effective interest method.

Discounts, premia and related costs of debt issue are charged to the statement of comprehensive income over the life of the instrument to which they relate, based upon the effective interest rate calculated in measuring amortised cost.

3 Accounting policies (continued)

Financial assets

Basic financial assets are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Management has determined its financial assets as being cash, trade debtors, accrued income and contract debtors.

Impairments for financial assets are recognised if there is evidence as a result of one or more events that occurred after the initial recognition of the asset which impacts upon estimated future cash flows or the financial assets.

Trade debtors

Amounts recoverable are recognised at fair value and subsequently carried at amortised cost using the effective interest method. As described in the business review, all revenue is received from a government body and there are currently no provisions for impairment.

Contract debtor

The company meets the conditions to treat its contract debtor as a Service Concession Arrangement under FRS 102 s34.12 (Accounting by Operator as a Financial Asset), however, as the company entered into this concession prior to transition to FRS 102, under FRS 102 s35.10 (i), it is permitted to, and continues to account for the contract debtor using the same accounting policies being applied at the date of the transition.

Amounts recoverable under long term Private Finance Initiative contracts are transferred to a contract debtor. The amounts receivable (which may include the costs of construction of related assets) are treated as a long-term contract debtor from the certification of the project facilities, with a proportion of the contractual net operating revenue arising from the project being allocated to remunerate the contract debtor. Imputed interest receivable is allocated to the contract debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term, the contract debtor is expected to be fully repaid. Impairment has been considered by the board taking into account that all income is received from a government body.

The fair value disclosure of the contract debtor uses a discounted cashflow method as described in note 9.

Cash and bank deposits

Bank deposits relate to short term deposits held for not more than three months in term accounts with the company's bankers.

Trade creditors

Trade creditors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Current taxation

Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous years. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

Related parties

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company financial statements.

As a wholly owned subsidiary of Accommodation Services (Holdings) Limited the company has taken advantage of the exemption under FRS 102 s33 – Related party disclosures of the requirement to disclose transactions with it.

Notes to the financial statements for the year ended 31 December 2017 (continued)

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical judgements in applying the company's accounting policies

Concession arrangements - The Concession arrangements undertaken by the company are considered to fall within the scope of FRS 102 s34.12. This judgement has been based on a consideration of the nature and terms of the agreement and the existence of an option for the grantor to purchase the property.

b) Key accounting estimates and assumptions

i. Finance receivables – The amounts receivable (which may include the costs of construction of related assets) are treated as a long-term contract debtor from the certification of the project facilities, with a proportion of the contractual net operating revenue arising from the project being allocated to remunerate the contract debtor. Imputed interest receivable is allocated to the contract debtor using a property specific rate to generate a constant rate of return over the life of the contract.

5 Operating profit

The company had no employees during the year (2016: none). None of the directors received any emoluments paid directly from the company in either the current or previous year. The following management recharges were made by the shareholders in respect of the services of directors to the company; G4S Joint Ventures Limited £102,588 (2016: £100,000), and Innisfree Limited £102,588 (2016: £100,000). The recharges paid by the company in 2017 and 2016 do not reflect the amounts personally received by the directors in either year.

The audit fee in respect of the company for the year was £26,300 (2016: £20,800). In addition, the company bore £3,000 (2016: £3,000) in respect of the audit fee of its parent company and non-audit services of £nil (2016: £nil) during the year.

The company has entered into an operating lease and has an annual commitment under leases for land and buildings of £1 (2016: £1) expiring after five years. The charge for both the years ended 31 December 2017 and 31 December 2016 was £1. The total commitment at 31 December 2017 was £13 (2016: £14).

Notes to the financial statements
for the year ended 31 December 2017 (continued)

6 Net interest

	2017	2016
	£'000	£'000
Bank interest receivable	**140**	193
Imputed interest on contract debtor	**26,019**	26,839
Interest receivable and similar income	**26,159**	27,032
Interest payable and similar charges on bonds	**(19,851)**	(21,109)
Interest payable and similar charges on loan stock	**(3,157)**	(3,166)
Interest payable and similar charges	**(23,008)**	(24,275)
Net interest receivable	**3,151**	2,757

Interest is imputed on the contract debtor using a property specific rate of 7.57% (2016: 7.57%).

Notes to the financial statements for the year ended 31 December 2017 (continued)

7 Tax on profit on ordinary activities

	2017	2016
Analysis of charge in year	**£'000**	£'000
Current tax		
UK corporation tax on profits of the year	**863**	-
Total current tax charge	**863**	-
Deferred tax		
Origination and reversal of timing differences	**1,366**	2,143
Impact of change in tax rate	**(160)**	(1,249)
Total deferred tax charge (note 12)	**1,206**	894
Tax on profit on ordinary activities	**2,069**	894

The deferred tax charge for 2017 and 2016 relates entirely to timing differences.

7 Tax on profit on ordinary activities (continued)

Reconciliation of tax charge

The tax assessed for the year is lower (2016: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

	2017	2016
	£'000	£'000
Profit on ordinary activities before tax	**9,523**	8,842
Profit on ordinary activities multiplied by the standard rate in the UK of 19.25% (2016: 20.00%)	**1,833**	1,768
Amortisation of non-qualifying expenditure	**396**	375
Impact of change in tax rate	**(160)**	(1,249)
Tax on profits	**2,069**	894

Factors that may affect future tax charges

Deferred tax crystallising after 1 April 2020 will be recognised at the applicable rate of 17%. All deferred tax is expected to crystallise after 1 April 2020.

The company has incurred significant expenditure in the construction of the facility on which it has claimed tax relief through capital allowances and claims for interest and loan related expenditure during the construction period. It has used these claims to offset its current liabilities and retains tax losses to offset liabilities in future years. As amounts are recovered to remunerate these costs they will be brought into current taxation in the year in which they are received. As a result of these claims there exist significant timing differences, which are expected to reverse over the life of the project agreement.

The company will continue to utilise tax losses to cover the maximum permitted proportion of its expected taxable profits in future financial periods. As a result of the Finance (No 2) Act 2017, the amount of annual profit earned after 1 April 2017 that can be relieved by brought forward losses is limited to 50%, subject to a £5 million allowance per group. No reversal of deferred tax liabilities is expected in the next financial period.

Notes to the financial statements for the year ended 31 December 2017 (continued)

8 Debtors

	2017	2016
	£'000	£'000
Amounts falling due within one year		
Trade debtors	926	1,414
Prepayments and accrued income	7,974	8,315
Contract debtor	13,379	12,185
	22,279	21,914
Amounts falling due after more than one year		
Contract debtor	331,905	345,131

The fair values of debtors are as follows:

	2017	2016
	£'000	£'000
Trade debtors	926	1,414
Prepayments and accrued income	7,974	8,315
Contract debtor	496,276	513,906
	505,176	523,635

Notes to the financial statements for the year ended 31 December 2017 (continued)

9 Financial assets

As described in the accounting policies, trade debtors are not considered to be impaired. Trade debtors include invoices amounting to £926,000 (2016: £1,219,000), where the company does not have access to all of the significant risks and benefits of the transactions. Accordingly, those transactions are excluded from the statement of comprehensive income as explained in the accounting policies. The company bears no financial risk as a corresponding amount is included within trade creditors. As of 31 December 2017, trade debtors of £59,000 (2016: £56,000) were past their due date. These balances relate to customers where there is no history of default. The ageing of trade debtors is as follows: up to 3 months overdue £26,000 (2016: £22,000), 3-6 months overdue £26,000 (2016: £7,000) and over 6 months overdue £7,000 (2016: £27,000).

The fair value of the contract debtor is based on cash flows over the life of the contract discounted using a rate of 3.80% based on the weighted average rate of return on the borrowings when measured at fair value (2016: 3.66%). The fair values of trade debtors, prepayments and accrued income equal their book values.

Trade debtors, prepayments and accrued income, contract debtor and cash which are classified as 'loans and receivables' that are neither past due nor impaired are shown by their credit risk below.

	2017	2016
	£'000	£'000
Counterparties with external credit rating		
Cash and term deposit accounts at bank	**38,427**	37,933
The company's bankers are rated "A" with Standard and Poor's and A2 with Moodys Investor Services		
Counterparties with no external credit rating		
Trade debtors	**867**	1,358
Prepayments and accrued income	**7,769**	8,093
Contract debtor	**345,284**	357,316
Total neither past due nor impaired	**392,347**	404,700

None of those financial assets that are neither past due nor impaired have had their terms renegotiated. The carrying amount of the company's financial assets is denominated in sterling for both financial years.

Included in cash and term deposit accounts at bank are cash reserves, the use of which is restricted under agreements with the trustees of the Guaranteed Secured Bonds and Mezzanine Secured Notes, and amounts restricted for future maintenance costs by the lenders. The value of this restricted cash at 31 December 2017 was £30,448,000 (2016: £29,575,000).

10 Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
6.48% Guaranteed Secured Bonds due 2029	**18,484**	17,446
Less: issue costs	**(528)**	(565)
10.14% Mezzanine Secured Notes due 2028	**821**	742
Less: issue costs	**(15)**	(16)
Trade creditors	**5,554**	6,027
VAT	**1,254**	1,423
Corporation tax	**863**	-
Accruals and deferred income	**5,887**	6,856
	32,320	31,913

Information relating to the nature of the Guaranteed Secured Bonds and Mezzanine Secured Notes is contained in note 11.

Notes to the financial statements for the year ended 31 December 2017 (continued)

11 Creditors: amounts falling due after more than one year

	2017	2016
	£'000	£'000
More than one year but less than two years		
6.48% Guaranteed Secured Bonds due 2029	**19,068**	18,484
Less: issue costs	**(490)**	(528)
10.14% Mezzanine Secured Notes due 2028	**908**	821
Less: issue costs	**(14)**	(15)
	19,472	18,762
More than two years but less than five years		
6.48% Guaranteed Secured Bonds due 2029	**69,935**	65,913
Less: issue costs	**(1,200)**	(1,340)
10.14% Mezzanine Secured Notes due 2028	**3,339**	3,019
Less: issue costs	**(36)**	(40)
	72,038	67,552
More than five years		
6.48% Guaranteed Secured Bonds due 2029	**157,693**	180,783
Less: issue costs	**(1,087)**	(1,422)
10.14% Mezzanine Secured Notes due 2028	**9,464**	10,691
Less: issue costs	**(30)**	(52)
14.00% Subordinated Loan Notes due 2028	**22,548**	22,548
Less: issue costs	**(141)**	(156)
	188,447	212,392
	279,957	298,706

Notes to the financial statements for the year ended 31 December 2017 (continued)

11 Creditors: amounts falling due after more than one year (continued)

Guaranteed Secured Bonds due 2029 of £406,850,000 were issued in 2000. Interest is payable on these bonds at six-monthly intervals. Scheduled redemption by way of principal repayments commenced on 30 September 2006. These bonds are listed on the London Stock Exchange. As at 31 December 2017, £265,180,000 (2016: £282,626,000) remains outstanding.

Mezzanine Secured Notes due 2028 relate to £22,610,000 issued in 2000. Interest is payable on these bonds at six-monthly intervals. Scheduled redemption by way of principal repayments commenced on 30 September 2006. These notes are unlisted. As at 31 December 2017, £14,532,000 (2016: £15,273,000) remains outstanding.

Subordinated Loan Notes due 2028 relate to £22,548,000 issued in 2005 to the shareholder. 14% interest is payable on these Subordinated Loan Notes at six monthly intervals commencing 1 January 2005. The company anticipates commencing redemption by way of principal repayment in June.2028. These notes are unlisted and unsecured.

The Guaranteed Secured Bonds rank in seniority to the Mezzanine Secured Notes, which in turn rank in seniority to the Subordinated Loan Notes. The Guaranteed Secured Bonds and Mezzanine Secured Notes are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

The company's parent undertaking, Accommodation Services (Holdings) Limited, has subscribed for £22,548,000 of Subordinated Loan Notes due 2028 in the company. Accommodation Services (Holdings) Limited has in turn issued corresponding loan notes, which are held by its shareholders in proportion to their shareholdings.

Issue costs of £3,541,000 (2016: £4,134,000) have been offset against bond and other loan liabilities and are being amortised over the term of the related borrowings in accordance with the provisions of Financial Reporting Standard 102 s 11.

12 Provisions for liabilities

	2017	2016
	£'000	£'000
Provision for deferred tax		
Accelerated capital allowances	**27,580**	28,941
Other timing differences	**3,073**	3,037
Losses	**(21,584)**	(24,454)
Accelerated finance costs	**9,725**	10,064
Total provision for deferred tax	**18,794**	17,588
Provision at 1 January	**17,588**	16,694
Deferred tax charge in statement of comprehensive income for the year (note 7)	**1,206**	894
Provision at 31 December	**18,794**	17,588

Unprovided deferred tax at 31 December 2017 totalled £nil (2016: £nil).

Notes to the financial statements for the year ended 31 December 2017 (continued)

13 Financial instruments

Funding and liquidity

The company funds its operations through finance raised by the issue of fixed rate bonds. At 31 December 2017, 63.1 percent (2016: 67.1 percent) of the outstanding bonds were due for repayment in more than 5 years.

The company invests cash surplus to immediate needs with its bankers in term deposits with maturities arranged to meet its cash flow needs. Interest rates receivable are directly related to the corresponding monthly LIBOR.

The company is required to hold certain cash reserves in accordance with the Collateral Deed. This follows a standard requirement of this type of financing arrangement.

Short-term flexibility is obtained by maintaining current account balances with Integrated Accommodation Services's bankers.

	2017	2016
Financial assets at amortised cost	**£'000**	£'000
The company held the following categories of sterling financial assets		
Sterling monetary assets		
Cash at bank	**845**	361
Bank deposits	**37,582**	37,572
	38,427	37,933
Trade debtors	**926**	1,414
Accrued income	**7,769**	8,093
Contract debtor	**345,284**	357,316
Total financial assets	**392,406**	404,756

Bank deposits relate to short term deposits held for not more than three months in separate term accounts with the company's bankers. Interest is payable periodically at a rate linked to LIBOR. The bank deposits are secured under a fixed charge to the security trustee for the secured bonds. Deposits mature at regular intervals to comply with the requirement to hold reserves and to pay operating and finance costs.

Reserves in the form of separate cash and term bank accounts held in accordance with the Collateral Deed amount to £38,427,000 (2016: £37,926,000).

Other than cash at bank, bank and cash deposits, trade debtors, accrued income and the contract debtor balance the company has no other financial assets.

Notes to the financial statements
for the year ended 31 December 2017 (continued)

13 Financial instruments (continued)

Financial liabilities

Maturity analysis of financial instruments held to finance Integrated Accommodation Services operations:

Bond liabilities	2017 Amount £'000	Weighted average interest rate	Weighted average period for which rate is fixed
Maturity of financial liabilities (before issue costs)			
In less than one year	19,305	7.25%	1
In more than one year but not less than two years	19,976	7.29%	1
In more than two years but not more than five years	73,274	7.43%	3
In more than five years	189,705	8.12%	8
Total	**302,260**	**7.62%**	**13**

Bond liabilities	2016 Amount £'000	Weighted average interest rate	Weighted average period for which rate is fixed
Maturity of financial liabilities (before issue costs)			
In less than one year	18,188	6.81%	1
In more than one year but not less than two years	19,305	6.79%	1
In more than two years but not more than five years	68,932	6.74%	3
In more than five years	214,022	7.98%	9
Total	**320,447**	**7.56%**	**9**

13 Financial instruments (continued)

	2017	2016
Financial liabilities at amortised cost	**£'000**	£'000
The company held the following categories of sterling financial liabilities		
Trade creditors	**5,554**	6,027
VAT	**1,254**	1,423
Accruals	**5,711**	6,668
6.48% Guaranteed Secured Bonds due 2029	**265,180**	282,626
10.14% Mezzanine Secured Notes due 2028	**14,532**	15,273
14.00% Subordinated Loan Notes due 2028	**22,548**	22,548
Total financial liabilities	**314,779**	334,565

	2017		2016	
	Book value	**Fair value**	Book value	Fair value
Fair values of financial assets and liabilities	**£'000**	**£'000**	£'000	£'000
Primary financial instruments held or issued to finance the company's operations				
Financial assets (including cash at bank)	**392,406**	**543,602**	404,756	561,346
Financial liabilities (including trade creditors and accruals)	**(315,642)**	**(389,597)**	(334,565)	(414,795)

13 Financial instruments (continued)

Full descriptions of the bonds are given in note 11. The basis of the fair values for financial assets is disclosed in note 9. The fair values for trade creditors and accruals are equal to their book values. Credit margins on long term bonds (both guaranteed and secured notes) vary in accordance with market demand and other factors. The fair value of the guaranteed secured bonds has been determined by reference to listed prices available from the markets on which the instruments involved are traded. Although the secured notes are not currently traded on any markets, the fair value for 31 December 2017 and 31 December 2016 has been determined by a valuation performed by M&G Investments.

The subordinated loan stock held by the company's parent undertaking has been valued at par. A range of fair values has been computed using discount rates between 12% and 16% which place the value between £26,728,000 and £21,604,000. As there is no market in which they may currently be traded, fair value at par represents the net present value of future anticipated payments, discounted at the coupon rate of 14%, on the assumption that they are held to maturity. The directors are of the opinion that this is a representative market discount rate given the restrictions imposed on the terms of the notes.

14 Called up share capital

	2017	2016
	£'000	£'000
Allotted and fully paid		
55,000 (2016: 55,000) ordinary shares of £1 each	**55**	55

All terms in this statement of capital, unless otherwise defined, are as defined in the Company's articles of association ("Articles")

Subject to the Act and these Articles, the Board may pay dividends if justified by the available profits in respect of the relevant period among the Ordinary Shares

The holders of the Ordinary Shares shall have the right to vote at all general meetings of the Company and to receive and vote on proposed written resolutions of the Company.

15 Dividends

	2017	2016
	£'000	£'000
Dividend of £48.82 per share (2016: £32.06) paid from distributable reserves	**2,685**	1,763

Notes to the financial statements for the year ended 31 December 2017 (continued)

16 Obligations under leases

The company has entered into an operating lease and has an annual commitment under leases for land and buildings of £1 (2016: £1) expiring after five years. The total commitment at 31 December 2017 was £13 (2016: £14).

17 Commitments and contingent liabilities

Under the terms of a contract with Carillion Construction Limited, a company related to Carillion Private Finance (Secure) Limited, dated 22 June 2000, the company is committed to payments totalling £47,007,000 (indexed from 2000 prices) in respect of the capital replacement of life expired equipment over the contract term. Commitments remaining at the statement of financial position date indexed at 31 December 2017 were £57,296,000 (2016: £58,214,000). Payments made in the year ended 31 December 2017 were £3,206,000 (2016: £2,993,000).

On 15 January 2018, Carillion Construction Limited went into liquidation. As an interim measure, the directors and management of the company have utilised a professional capital replacement manager who has employed the on-site Carillion staff to continue to manage the lifecycle requirements of the project directly for the company.

As a result of the liquidation of the CRC contractor and guarantor, and until an alternative long term solution is agreed with the Controlling Creditor, no distributions to Mezzanine Debt holders (other than from the balance held in the Mezzanine Debt Reserve), or sub debt holders or shareholders are permitted. The Mezzanine Debt Service payments due at 31 March 2018 were made from the Mezzanine Debt Service Reserve balance. The next payments due will be 30 September 2018, and it is planned to have an alternative long term arrangement in place by this time, enabling Mezzanine Debt Service payments to be made as normal. Senior Bond payments are not affected by the liquidation of Carillion.

Under the terms of an operating agreement with G4S Facilities Management Limited (formerly G4S Integrated Services (UK) Limited) dated 22 June 2000, the company is committed to the payment of fixed and variable fees based on services provided in the contract term which includes services provided during the period of construction. Payments made in the year to 31 December 2017 were £20,322,000 (2016: £19,534,000). G4S Facilities Management Limited (formerly G4S Integrated Services (UK) Limited) also provided services to the company under short term contractual variations to the operating contract for miscellaneous works and fittings at a cost of £17,913,000 (2016: £25,605,000).

Under the terms of a management services agreement dated 22 June 2000, administrative and technical services were provided by G4S Facilities Management Limited (formerly G4S Integrated Services (UK) Limited) at a cost of £363,000 (2016: £364,000).

Through a variation order under the Project Agreement in 2009, the company made a planning application in respect of additional premises at the Benhall site. As a condition of obtaining that planning consent, the company entered into a conditional commitment to pay Gloucestershire County Council £145,000 as a transport contribution and Cheltenham Borough Council £122,000 as a public art contribution. Both become payable only when the construction work commences. The former agreement is secured by way of a second charge on the land.

There are currently no contracts in place or approvals to commence the construction work.

Under the terms of the Project Agreement, the company bears the cost for any lifecycle risks over the term of the contract; it has materially passed this risk to its supply chain. The company does retain the responsibility for the life cycle risk of the Cotswold stone cladding and the steelworks in the atrium, however it considers that the probability that these will become life expired and need to be replaced within the contract term is remote. On this basis no revenue is deferred at 31 December 2017 or at 31 December 2016.

Notes to the financial statements for the year ended 31 December 2017 (continued)

18 Related party disclosures

G4S Joint Ventures Limited provided administrative and technical services at a cost of £102,588 (2016: £100,000).

Innisfree Limited, a company related to Innisfree PFI Secondary Fund and Innisfree PFI Secondary Fund 2 (through their nominee Innisfree Nominees Limited), provided administrative and technical services at a cost of £102,588 (2016: £100,000).

At the year end there was £nil (2016: £nil) payable to G4S Joint Ventures Limited and £nil (2016: £nil) payable to Innisfree Limited.

As a wholly owned subsidiary of Accommodation Services (Holdings) Limited the company has taken advantage of the exemption under FRS 102 s33 – Related party disclosures of the requirement to disclose transactions with it.

19 Parent undertakings

The company is a wholly owned subsidiary of Accommodation Services (Holdings) Limited, a company which prepares consolidated financial statements which are available from its registered office: Challenge House, International Drive, Tewkesbury Business Park, Tewkesbury, Gloucestershire, GL20 8UQ, England. Fifty percent of the share capital of Accommodation Services (Holdings) Limited is held by G4S Joint Ventures Limited, twenty percent is held by Innisfree PFI Secondary Fund and thirty percent is held by Innisfree PFI Secondary Fund 2 (through their nominee Innisfree Nominees Limited). All shareholders are companies incorporated in England and Wales.

Accommodation Services (Holdings) Limited does not consider that it has one ultimate controlling party.