

Enterprise Civic Buildings Limited

Annual report and financial statements

Registered number 04421860

31 December 2016



CONTENTS

Company Information	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditor's report to the members of Enterprise Civic Buildings Limited	6
Statement of profit and loss and other comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11

COMPANY INFORMATION

The Board of Directors

D W Davies
J Whittington
J N E Cowdell
A H Page

Company Secretary

Imagile Secretariat Services Limited

Registered Office

Victoria House
1st Floor
101 Victoria Road
Chelmsford
Essex
CM1 1JR

Independent Auditor

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

DIRECTORS' REPORT

for the year ended 31 December 2016

The directors' present their directors' report and the audited financial statements of Enterprise Civic Buildings Ltd (the "Company") for the year ended 31 December 2016.

Principal activities

The principal activity of the Company in the year under review is the operation and management of the Exeter Crown and County Courts PFI project under the Government's Private Finance Initiative ("PFI"). The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

The Company has entered into a Project Agreement with The Lord Chancellor's Department, together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements. The Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain services within the Exeter Crown and County Courts PFI project for a primary term of 32 years from the date of signing of the Project Agreement.

Business review and strategy

The Company is in the operational phase of the contract and is performing to the required standards underwritten by the contracts entered into which govern the management of the Company. The Company has made solid progress during the year in terms of delivery and profitability.

The Company expects to continue in line with the contractual obligations for the remaining term of the Project Agreement. The Company has modelled its anticipated financial performance for the full term of the project and expect to perform in line with this for the remaining concession period. The operational model has forecast continued profits for the Company.

The Company has no employees.

Development and financial performance during the year

As reported in the Company's Statement of Profit and Loss account, revenue has increased from £693,000 in 2015 to £1,616,000 in 2016. This is as a result of the lifecycle under-spend being derecognised in 2015, which resulted in a large reduction in revenue.

The profit for the year after taxation was £497,000 (2015: £179,000). Operations were in line with expectation for the period as forecast in the operational model, however bond indexation was lower than originally forecast which resulted in a £247,000 positive variance in interest expense.

The majority of the Company's revenues and costs are fixed and agreed in the initial contracts entered into at the commencement of the project. The Company, from time to time, will agree certain variations with The Lord Chancellor's Department which are agreed to have a small profit mark up for the Company.

The Company has modelled the anticipated financial outcome of the Project across its full term. The directors monitor actual financial performance against this anticipated performance. As at 31 December 2016, the Company's performance reflects an acceptable variance to this model.

Prior period restatement

The prior period comparatives have been restated in these accounts. In the financial statements for the year ended 31 December 2015, items of other comprehensive income were incorrectly included in the Statement of Profit or Loss and Other Comprehensive Income. These have been removed from the comparative figures. See note 22 for further details.

DIRECTORS' REPORT *(continued)*

Financial instruments

The Company's exposure to interest rate risk is managed through the matching of revenue contracts which are subject to similar indexation terms, as set out in note 16 to the financial statements.

Principal risks and uncertainties

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. Unavailability deductions are passed on 100% to the Facilities management provider as and when they occur. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in note 16 to the accounts.

The Company shares the risks and rewards from any potential variance with the Lifecycle profile modelled at financial close with the facilities management provider. The Company is therefore exposed to the risk that the actual cost for Lifecycle in the future is above the modelled profile, and would therefore be liable to a part of this additional cost which is not forecast. To date, the current surplus of the spend against the profile is £723,000. The directors believe the risk of the company being exposed to a deficit is low.

Dividend

No interim dividend was paid in respect of the year ended 31 December 2016 (2015: £25,000). The directors do not recommend the payment of a final dividend (2015: £nil).

Directors and directors' interests

The directors who served during the year were as follows:

S A Carter (resigned 31 August 2016)
D W Davies
J Whittington
J N E Cowdell
A H Page (appointed 31 August 2016)

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Key Performance Indicators (KPIs)

The Company is required to comply with a number of financial covenants implemented by the senior lender at certain calculation dates throughout the year, of which failure to meet would result in a default of the senior loan agreement. The ratios required to meet are defined in the collateral deed as Loan Life Cover Ratio and Annual Debt Service Cover Ratio. These are required to remain above 1.2000 and 1.1000 respectively.

Current and future ratios are presented to the senior lender for approval on a 6 monthly basis to ensure compliance with the collateral deed. To date, and in all future periods as detailed in the latest operational model, the Company has met and is forecast to meet these requirements for the remainder of the concession.

The results for the year are set out in the statement of Profit and Loss and Other Comprehensive Income on page 7.

DIRECTORS' REPORT *(continued)*

Strategic Report exemption

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small company exemption. Accordingly no Strategic Report has to be prepared.

Political and charitable contributions

The Company made no charitable contribution during the year (2015: £140).

The Company made no political contributions during the year (2015: £nil).

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418(1) of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to section 487 of the companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



D W Davies
Director

26 June 2017

Statement of Directors' Responsibilities in Respect of the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 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 they have been prepared in accordance with IFRS's as adopted by the EU; 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENTERPRISE CIVIC BUILDINGS LIMITED

We have audited the financial statements of Enterprise Civic Buildings Limited for the year ended 31 December 2016 set out on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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



Richard Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff, CF10 4AX

28 June 2017

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 £'000	(Restated - see note 22) 2015 £'000
Revenue	4	1,616	693
Cost of sales		(936)	(372)
Gross profit		680	321
Administrative expenses		(173)	(133)
Operating profit		507	188
Financial income	8	1,293	1,324
Financial expenses	9	(1,256)	(1,293)
Profit before tax	5	544	219
Tax expense	10	(47)	(40)
Profit and Total Comprehensive Income for the year		497	179

The notes on pages 11 to 23 form part of these financial statements.

All amounts arise from continuing operations.


STATEMENT OF FINANCIAL POSITION

as at year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non current assets			
Deferred tax assets	14	1,171	1,347
Finance receivables	16	18,042	18,596
		<u>19,213</u>	<u>19,943</u>
Current assets			
Finance receivables	16	554	517
Trade and other receivables	12	2,941	2,925
Cash and cash equivalents		2,793	2,250
		<u>6,288</u>	<u>5,692</u>
Total assets		<u>25,501</u>	<u>25,635</u>
Liabilities			
Current liabilities			
Trade and other payables	13	826	392
Interest bearing loans and borrowings	15	789	1,221
		<u>1,615</u>	<u>1,613</u>
Non current liabilities			
Interest bearing loans and borrowings	15	21,710	22,239
Deferred tax liabilities	14	1,455	1,559
		<u>23,165</u>	<u>23,798</u>
Total liabilities		<u>24,780</u>	<u>25,411</u>
Net assets		<u>721</u>	<u>224</u>
Equity			
Issued share capital	18	3	3
Retained earnings		718	221
Total equity attributable to the owners of the parent		<u>721</u>	<u>224</u>

The notes on pages 11 to 23 form part of these financial statements.

The financial statements were approved by the Board of Directors on 26 June 2017 and were signed on its behalf by:


D W Davies
Director
Company registered number: 04421860

STATEMENT OF CHANGES IN EQUITY
as at year ended 31 December 2016

	Notes	Attributable to the owners of the parent		
		Share Capital £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2014		3	67	70
Profit for the year		-	179	179
Total comprehensive income for the year		-	179	179
Dividends	11	-	(25)	(25)
Balance at 31 December 2015		3	221	224
Profit for the year		-	497	497
Total comprehensive income for the year		-	497	497
Dividends	11	-	-	-
Balance at 31 December 2016		3	718	721

The notes on pages 11 to 23 form part of these financial statements.

Retained earnings

The retained earnings reserve represents profits and losses retained in the previous and the current period.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit before taxation	544	219
<i>Adjustments for:</i>		
Financial income	(1,293)	(1,324)
Financial expense	1,256	1,293
Operating profit before changes in working capital and provisions	507	188
Decrease in finance receivables	517	489
(Increase)/Decrease in trade and other receivables	(16)	1,212
Increase/(Decrease) in trade and other payables	49	(736)
Cash generated from operations	1,057	1,153
Tax paid	-	(10)
Net cash inflows from operating activities	1,057	1,143
Cash flows from investing activities		
Interest received	1,293	1,324
Net cash inflows from investing activities	1,293	1,324
Cash flows from financing activities		
Interest paid	(597)	(858)
Repayment of borrowings	(1,210)	(1,191)
Dividends	-	(25)
Net cash outflows from financing activities	(1,807)	(2,074)
Net increase in cash and cash equivalents	543	393
Cash and cash equivalents at the beginning of the year	2,250	1,857
Cash and cash equivalents at the end of the year	2,793	2,250

The notes on pages 11 to 23 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

Enterprise Civic Buildings Limited (the "Company") is a private Company incorporated, domiciled and registered in England in the UK.

Basis of preparation

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Going concern

The directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering account periods up to June 2035. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Standards, amendments and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective. Unless otherwise stated, the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

Effective date	New standards or amendments
01-Jan-17	IAS 7 Statement of Cash Flows - Amendments as a result of disclosure initiative
	IAS 12 Income Taxes - Amendments regarding derecognition of deferred tax assets for unrealised losses.
	IFRS 12 Disclosure of Interests in Other Entities - Amendments
01-Jan-18	IFRS 15 Revenue from Contracts with Customers - Clarification
	IFRS 9 Financial Instruments - Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.
	IAS 39 Financial Instruments - Amendments to permit an entity to elect to continue to apply the hedge accounting requirements when IFRS 9 is applied

New currently effective requirements –

Effective date	New standards or amendments
01-Jan-16	Clarification of acceptable methods of depreciation and amortisation - Amendments to IAS 6 and IAS 38
	Disclosure initiative - Amendments to IAS 1
	Annual improvements to IFRS 2012 - 2014 cycle

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

Finance receivable

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 receivable. During the operational phase, income is allocated between interest receivable and the finance receivable using a project specific interest rate. The remainder of the PFI unitary charge income is included within revenue in accordance with the services contracts accounting policy below. Finance receivables and amounts recoverable on contracts are classified as loans and receivables as defined in IAS 39, which are initially recognised at fair value and then are stated at amortised cost.

Finance receivables are expected to be realised over the life of the project. As at 31 December 2016 finance receivables include £18.0 million (2015: £18.6 million) due after more than twelve months.

Measurement convention

The financial statements are prepared on the historical cost basis.

Revenue

Revenue is recognised in accordance with the finance receivable and service contracts accounting policies above, and excludes VAT.

Interest income arises on funds invested in deposits. It is recognised in profit or loss as it accrues, using the effective interest method.

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

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Taxation

Corporation tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable income 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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future tax profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets / liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on where there is an intention to settle balances on a net basis.

Cash and cash equivalents

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

Cash and cash equivalents includes £2,363,000 (2015: £1,566,000) restricted from use within the business, held in reserve accounts under the terms of the service debt agreement.

Financing costs

Financing costs comprise interest payable, and gains and losses that are recognised in the statement of profit and loss and other comprehensive income.

Interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2 Accounting estimates and judgements

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent 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 the revision and future periods if the revision affects both current and future periods.

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

- Accounting for the service contracts and finance receivables requires estimation of service margins, finance receivable interest rates and finance receivable amortisation profile which are based on forecasted results of the PFI contract; and
- The Company has recognised a deferred tax asset in respect of tax losses. The directors review the forecasts of future taxable profits on a regular basis so as to satisfy themselves about the carrying value of the deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3 Segmental information

All assets, liabilities, revenue and profit before taxation originate in the United Kingdom and are relating to one operating segment, being the construction, operating and financing of a PFI contract.

4 Revenue

	2016 £'000	2015 £'000
Revenue	1,616	693

All turnover originates in the United Kingdom.

5 Profit before taxation

	2016 £'000	2015 £'000
Profit before taxation is stated after charging:		

Auditor's remuneration:

- Audit of these financial statements	10	10
- Audit of parent company's financial statements	1	1

Amounts receivable by the company's auditor and its associates in respect of:

- Taxation services	6	5
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6 Remuneration of directors

Fees of £68,000 were accrued to third parties in respect of directors services for 2016 (2015: £nil). See note 20 for details.

7 Employees

The Company had no employees during the year (2015: nil).

8 Financial income

	2016 £'000	2015 £'000
Finance receivable interest	1,287	1,321
Bank interest receivable	6	3
	1,293	1,324

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9 Financial expenses

	2016 £'000	2015 £'000
Interest on index linked bonds	897	934
Interest on subordinated debt	359	359
	<u>1,256</u>	<u>1,293</u>

10 Taxation

	2016 £'000	2015 £'000
<i>Current Tax expense</i>		
Current year	(25)	27
Total current tax	<u>(25)</u>	<u>27</u>
Deferred tax	<u>72</u>	<u>13</u>
Total income tax expense reported in the income statement	<u>47</u>	<u>40</u>

	2016 £'000	2015 £'000
<i>Reconciliation of income tax expense</i>		
Profit before taxation	<u>544</u>	<u>219</u>
UK Corporation tax thereon at 20% (2015: 20.25%)	109	44
Unrelieved tax losses	-	-
Recognition of tax losses previously unrecognised	(29)	(29)
Amortisation of non-qualifying asset	52	49
Re-measurement of deferred tax - change in enacted tax rate	(32)	(24)
Adjustment to tax charge in respect of prior years	<u>(53)</u>	<u>-</u>
Total tax in the income statement	<u>47</u>	<u>40</u>

Deferred tax provision has been recognised on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a PFI contract.

A reduction in the rate from 20% to 19% (effective 1 April 2017) was enacted on 26 October 2016. Further reductions to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2016. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on the rate of 17% (2015: 18%) substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11 Dividends

	2016 £'000	2015 £'000
Interim dividends of £nil paid on ordinary shares (2015: £8.33)	-	25
	-	25

12 Trade and other receivables

	2016 £'000	2015 £'000
Other receivables	2,632	2,641
Prepayments and accrued income	309	284
	2,941	2,925

No allowance for doubtful amounts have been created. The classes do not contain impaired assets. The Company considers that due to the nature of its business, that it is not exposed to significant credit risks.

13 Trade and other payables

	2016 £'000	2015 £'000
Trade payables	-	10
Accruals and deferred income	685	236
Other taxation	140	119
Corporation tax	1	27
	826	392

The carrying value of trade and other payables is measured at amortised cost which approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Tax losses £'000	Finance receivables £'000	Total £'000
31 December 2014	1,544	(1,743)	(199)
Recognised in income statement	(197)	184	(13)
31 December 2015	1,347	(1,559)	(212)
Recognised in income statement	(176)	104	(72)
31 December 2016	1,171	(1,455)	(284)

The deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

The deferred tax liability has been recognised due to the carrying value of the Finance receivable being greater than its tax base, and the deferred tax liability will unwind over the remainder of the concession.

15 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rates, see note 16.

	2016 £'000	2015 £'000
Non current liabilities		
3.1095% index linked secured guaranteed bonds (due 2033)	19,142	19,671
Subordinated debt	2,568	2,568
Total	21,710	22,239
Current liabilities		
3.1095% index linked secured guaranteed bonds (due 2033)	789	1,221

Terms and debt repayment schedule

The bonds are indexed-linked 3.1095% bonds redeemed by instalments each on 30 April and 31 October commencing on 30 April 2005 with the final repayment due on 31 October 2033. The bonds are guaranteed by Assured Guaranty (UK) Limited and are secured by a fixed and floating charge over the assets of the Company. The bonds are indexed using RPI figures published by the Office for National Statistics. The index ratio uses a base index figure of 174.5 and a numerator index figure that is published in the eighth month prior to each payment date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15 Interest bearing loans and borrowings *(continued)*

Repayment of the subordinated debt has been deferred until the end of the project, which is expected to be 2034. The interest rate on the subordinated debt is 14% per annum.

16 Financial instruments

The Company's principal financial instruments comprise of trade and other receivables, trade and other payables, cash and cash equivalents, indexed-linked guaranteed bonds and subordinated debt. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements.

All financial instruments are classified as loans and receivables or other financial liabilities.

Exposure to credit and interest rate risks arises in the normal course of the Company's business.

The Company does not have any exposure to foreign currency fluctuations.

Credit risk

Although the Lord Chancellor's Department (the "Authority") is the only client of the Company, the directors are satisfied that the Authority will be able to fulfil its collateral obligations under the PFI contract.

The carrying amount of financial assets represents the maximum credit exposure:

	2016 £'000	2015 £'000
Finance receivable	18,596	19,113
Other receivables	2,632	2,641
Cash and cash equivalents	2,793	2,250
	24,021	24,004

Included within Finance receivable is an amount receivable after five years of £15,409,000 (2015: £16,136,000).

Effective interest and repricing analysis

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date. It also shows the contractual maturities of financial liabilities, including interest payments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Financial instruments (continued)

2016	Effective interest rate	Total £'000	One year or less £'000	1-2 years £'000	2-5 years £'000	5+ years £'000
<i>Loans & Receivables</i>						
Finance receivable	6.8%	32,189	1,805	1,805	5,414	23,165
Cash and cash equivalents	0.15%	2,793	2,793	-	-	-
Other receivables	-	2,632	2,632	-	-	-
Index linked guaranteed bonds	3.1095%	(31,576)	(1,829)	(1,882)	(5,935)	(21,930)
Other payables	-	(826)	(826)	-	-	-
Subordinated debt	14.0%	(9,155)	(636)	(360)	(1,085)	(7,074)
		(3,943)	3,939	(437)	(1,606)	(5,839)
<i>Loans & Receivables</i>						
Finance receivable	6.8%	33,997	1,805	1,805	5,415	24,971
Cash and cash equivalents	0.20% - 0.35%	2,250	2,250	-	-	-
Other receivables	-	2,641	2,641	-	-	-
Index linked guaranteed bonds	3.1095%	(34,375)	(1,879)	(1,856)	(5,975)	(24,665)
Other payables	-	(392)	(392)	-	-	-
Subordinated debt	14.0%	(9,222)	(360)	(359)	(1,079)	(7,424)
		(5,102)	4,065	(410)	(1,639)	(7,118)

Sensitivity analysis

At 31 December 2016, it is estimated that a general increase of one percentage point in interest rates would increase the Company's profit before tax by approximately £171,000 (2015: £170,000).

The bond and sub debt repayments have not been included in the calculation as a 1% increased would not affect the fixed repayment profiles.

Interest Rate Risk

The Company has indexed linked bonds which are subject to fluctuations but the risk is also offset by turnover being subject to similar indexation terms.

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

16 Financial instruments (*continued*)

Estimation of fair values

The different levels have been defined by the Group as follows:

- Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted to determine the fair value.

Fair value of finance receivables and subordinated debt is calculated by discounting future cash flows at an appropriate discount rate. The discount rate used is calculated by adding an appropriate premium to the relevant gilt yield for the project. The gilt yield reflects the unexpired term of the project agreement and the estimated premium reflects market spread that would be required by investors of the PFI project companies with similar risk profiles. The discount rates that have been applied to the finance receivables are 5.5% (2015: 5.5%) and subordinated debt is 8% (2015: 8.5%).

At the 31 December 2016, an increase in the discount rate by one percentage point would reduce the fair value of the finance receivable by £1,454,000 (2015: £1,510,000), whereas a reduction in the discount rate of one percentage point would increase the fair value of the finance receivable by £1,623,000 (2015: £1,711,000). For the subordinated debt, an increase of one percentage point in the discount rate would result in a reduction in the fair value of £322,000 (2015: £302,000) and a decrease in the discount rate of one percentage point would result in an increase in fair value of £366,000 (2015: £344,000).

The fair values of indexed linked bonds have been calculated by M&G Investment Management Limited. The values were determined using comparable information on a public bond issue and represent Level 3 in the IFRS 13 fair value hierarchy which expands on the requirements of fair value measurement by IFRS 7.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's financial obligations, including the repayment of its borrowings which are provided on a long term basis, have been structured to be met from the income which, under normal operating conditions, will be earned from its long term concession contract with the Authority.

17 Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital management strategy remains unchanged from 2015.

The capital structure of the Company consists of borrowings as detailed in note 15 and equity.

To maintain or adjust the capital structure of the Company, the Company may adjust the dividend payment to shareholders or issue new shares if deemed necessary.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18 Share capital

	2016	2015
	£	£
<i>Allotted, called up and fully paid:</i>		
3,000 ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>

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.

19 Contingencies and commitments

Contingencies

The Company did not have any contingencies at 31 December 2016 (2015: £nil).

Capital commitments

The Company did not have any capital commitments at 31 December 2016 (2015: £nil).

20 Related party disclosures

The Company is controlled by Enterprise Civic Buildings (Holdings) Limited, the Company's immediate parent undertaking. Infrastructure Investments LP (acting by its general partner, Infrastructure Investments General Partner Limited) has a 100% interest in the parent Company's share capital and subordinated loan stock.

Infrastructure Investments LP is party to an Equity Subscription and Subordinated Debt agreements for the Company.

During the year, the Company has incurred costs charged by these related parties as follows:

	Transactions		Balance owed to at year end	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Directors' fees				
- Infrastructure Investments LP	68	-	68	-
Subordinated debt				
- Infrastructure Investments LP	-	-	(2,568)	(2,568)
Subordinated debt interest				
- Infrastructure Investments LP	359	359	304	61
Dividends				
- Enterprise Civic Buildings Holdings Ltd	-	25	-	-
	<u>427</u>	<u>384</u>	<u>(2,196)</u>	<u>(2,507)</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Enterprise Civic Buildings (Holdings) Limited incorporated in the United Kingdom. The registered address is Victoria House, 101 Victoria Road, Chelmsford, Essex CM1 1JR.

The largest group in which the results of the Company are consolidated is that headed by Enterprise Civic Buildings (Holdings) Limited. The consolidated accounts of these groups are available to the public and may be obtained from Victoria House, 101 Victoria Road, Chelmsford, Essex CM1 1JR.

The ultimate parent of the group is HICL Infrastructure Company Limited incorporated in Guernsey. The registered address is 12 Charles II Street, London, SW1Y 4QU

22 Prior period restatement

The prior period comparatives have been restated in these accounts. In the financial statements for the year ended 31 December 2015, items of other comprehensive income were incorrectly included in the Statement of Profit or Loss and Other Comprehensive Income. These have been removed from the comparative figures. No figures within the Statement of Profit and Loss; the Statement of Financial Position; or the Statement of Changes in Equity have been impacted by this restatement.