Paradigm (Sheffield BSF) Limited
Annual Report and Financial Statements
31 March 2019

Registered number: 06084831

Contents

Directors and advisors

Directors	Mark Holden
Secretary	Imagile Secretariat Services Limited Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Registered office	Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Auditor	KPMG LLP Plym House 3 Longbridge Road Plymouth Devon PL6 8LT
Banker	Sumitomo Mitsui Banking Corporation Europe Limited 99 Queen Victoria Street London EC4V 4EH

Strategic report

The Director presents the strategic report for Paradigm (Sheffield BSF) Limited (the "Company") for the year ended 31 March 2019.

Principal activities
The principal activity of the Company is the provision of design, construction, finance and facilities management services for three schools for Sheffield City Council under the Government's Public Finance Initiative (PFI) programme. The contract was entered into in 2007 and the duration of the contract will be 27 years. The Directors have assessed the future prospects of the Company and expect the PFI contract to continue until the end of the concession.

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 expects 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 Profit and Loss account, revenue has increased from £3,177,000 in 2018 to £3,527,000 in 2019. Revenue is calculated using a mark-up on cost set by the operational model.

The profit for the year after taxation was £39,000 (2018: loss of £83,000). Operations were in line with expectation for the period as forecast in the operational model.

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 Authority which are agreed to have a small profit mark up for the Company.

Key performance indicators
The Company has modelled the anticipated financial outcome of the Project across its full term. The Company monitors actual financial performance against this anticipated performance. As at 31 March 2019, the Company's performance reflects an acceptable variance to this model.

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 be met are defined in the credit agreement as Loan Life Cover Ratio and Annual Debt Service Cover Ratio. These are required to remain above 1.150 and 1.100 respectively.

Current and future ratios are presented to the senior lender for approval on a 6 monthly basis to ensure compliance with the Credit Agreement. 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 profit and loss account and the statement of other comprehensive income on page 8.

Strategic report *(continued)*

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 Company holds 100% of the risks and rewards from any potential variance with the Lifecycle profile modelled at financial close. 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 this additional cost which is not forecast. The Company monitors the condition of the asset to manage the lifecycle risk. To date, the current underspend against the profile is £1,412,000. The directors believe the risk of the Company being exposed to a deficit is low.

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. The Directors have policies for managing each of these risks and they are summarised below:

Interest rate risk
The bank loan and subordinated debt interest rates have been fixed through use of interest rate swaps to fix the funding rates, plus a margin. Details of these can be found in note 14.

Inflation risk
The Company's project revenue and most of its costs are linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

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. This is done through regular periodic cash flow forecasting of operating accounts through the operating model and requirements under the credit agreement to hold liquid resources in reserve accounts at the calculation dates.

Credit risk
The Company receives the bulk of its revenue from the Authority and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Brexit risk
The Company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Position of the Company at the year end
The Company is performing to the required standards of the contract.

By order of the board

M. Holden
Director

Dated: 29 July 2019

Director's report

The director presents the annual report and the audited financial statements for the year ended 31 March 2019.

Results for the period

The result for the period is set out at page 8. The director is satisfied with the overall performance and progress to date of the Company.

Dividends

The director does not propose to pay a dividend in respect of the year *(2018: £nil)*.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In addition to making enquiries, the Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to April 2034 and 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.

Directors

The directors of the Company who held office during the year and up to date of this report are as follows:

Geoffrey Quaife (resigned September 2018)
Mark Holden

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 UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Disclosure of information to auditor

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

Post balance sheet events

There are no post balance sheet events to report.

Political contributions

The Company made no political contributions during the year *(2018: £nil)*.

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

M. Holden
Director

Dated: 29 July 2019

Statement of director's responsibilities in respect of the Strategic Report, the Director's report and the financial statements

The director is responsible for preparing the Strategic Report, the Director's Report and the financial statements in accordance with applicable law and regulations.

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

Under company law the director must not approve the financial statements unless he is 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 director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The director is 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. He is 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, and 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 Paradigm (Sheffield BSF) Limited

Opinion

We have audited the financial statements of Paradigm (Sheffield BSF) Limited ("the company") for the year ended 31 March 2019 which comprise the Profit and loss account and statement of other comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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

Independent auditor's report to the members of Paradigm (Sheffield BSF) Limited *(continued)*

- 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Gordon

Andrew Gordon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Plym House
3 Longbridge Road
Plymouth
Devon
PL6 8LT

31 JULY 2019

Profit and loss account and statement of other comprehensive income
for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	2	**3,527**	3,177
Cost of sales		**(2,652)**	(2,336)
Gross profit		**875**	841
Interest receivable and similar income	6	**3,567**	3,668
Interest payable and similar expenses	7	**(4,373)**	(4,608)
Profit/(loss) before taxation	5	**69**	(99)
Tax on profit/(loss)	8	**(30)**	16
Profit/(loss) after taxation		**39**	(83)
Other comprehensive income for the year			
Effective portion of fair value changes in cash flow hedges	14	**589**	3,842
Tax recognised in relation to change in fair value cash flow hedges	8	**(101)**	(653)
Other comprehensive income for the year		**488**	3,189
Total comprehensive income for the year		**527**	3,106

The profit for the financial period has been derived from continuing activities.

The notes on pages 11 to 20 form part of these financial statements.

Balance sheet
at 31 March 2019

	Note	2019 £'000	2018 £'000
Current assets			
Debtors: amounts falling due after more than one year	9	**58,033**	60,575
Debtors: amounts falling due within one year	9	**2,530**	2,412
Cash at bank and in hand		**10,252**	9,344
		70,815	72,331
Creditors: amounts falling due within one year	10	**(14,390)**	(13,455)
Net current assets		**56,425**	58,876
Total assets less current liabilities		**56,425**	58,876
Creditors: amounts falling due after more than one year	11	**(74,267)**	(77,245)
Net liabilities		**(17,842)**	(18,369)
Capital and reserves			
Called up share capital	13	**13**	13
Profit and loss account	13	**(3,225)**	(3,264)
Cashflow hedge reserve	13	**(14,630)**	(15,118)
Total shareholder's deficit		**(17,842)**	(18,369)

The financial statements were approved by the board of directors and authorised for issue on 29 July 2019 and are signed on its behalf by:

M. Holden
Director

The notes on pages 11 to 20 form part of these financial statements.

Statement of changes in equity
for the year ended 31 March 2019

	Called up share capital £'000	Cashflow hedge reserve £'000	Profit and loss account £'000	Total shareholder's deficit £'000
Balance as at 1 April 2017	**13**	**(18,307)**	**(3,181)**	**(21,475)**
Total comprehensive income				
Loss for the year	-	-	(83)	(83)
Other comprehensive income	-	3,189	-	3,189
Total comprehensive income for the period	-	3,189	(83)	3,106
Balance as at 31 March 2018	**13**	**(15,118)**	**(3,264)**	**(18,369)**
Total comprehensive income				
Profit for the year	-	-	**39**	**39**
Other comprehensive income	-	**488**	-	**488**
Total comprehensive income for the period	-	488	39	527
Balance as at 31 March 2019	**13**	**(14,630)**	**(3,225)**	**(17,842)**

The notes on pages 11 to 20 form part of these financial statements.

Notes

(forming part of the financial statements)

1. Accounting policies

Paradigm (Sheffield BSF) Limited (the "Company") is a private company limited by shares and incorporated, registered and domiciled in England & Wales, in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014 and the Companies Act 2006. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's parent undertaking, Paradigm (Sheffield BSF) Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Paradigm (Sheffield BSF) Holdings Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes

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 significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 17.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

Going concern

The Directors acknowledge that the Company is in net liabilities, however this is primarily a result of the swap instruments, which are significantly out of the money. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the Company's ability to meet its liabilities as they fall due. The Company is guaranteed an annual unitary charge over the life of the project and can reasonable predict the costs to be incurred. As a result after reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in the operational existence for the foreseeable future.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

Classification of financial instruments issued by the Company

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

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes *(continued)*

Classification of financial instruments issued by the Company *(continued)*

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

Basic financial instruments

Trade and other debtors / creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

The Company is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £843,000 at the year end *(2018: £836,000)*.

Other financial instruments

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

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

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss immediately.

Turnover

Turnover is recognised in accordance with the finance debtor and services income policies below and excludes VAT.

Notes *(continued)*

Interest

Interest costs have been capitalised during the construction phase of the contract and will be amortised over the period of the concession.

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

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

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Impairment excluding stocks and deferred tax assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Accounting for the service contracts and finance receivables requires estimation of service margins, finance receivable interest rates and finance receivable amortisation profile which is based on forecasted results of the PFI contract.

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

Taxation

Taxation is based on the profit for the financial year and where relevant takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax, if recognised, is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

Finance debtor and services income

The Company is an operator of a Private Finance Initiative (PFI) contract, which was entered into prior to transition to FRS 102. Therefore the accounting has been continued using the accounting policies applied prior to the date of transition to FRS 102 as follows. The underlying asset was not deemed to be an asset of the Company under FRS 5, Application Note G, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs are transferred to the finance debtor. During the operational phase unitary charge receipts are included within turnover in accordance with the long term contract accounting policy below.

The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services. Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when the services are performed.

Notes *(continued)*

2. Turnover

The turnover and profit/(loss) before taxation are attributable to the one activity of the Group.	2019 £'000	2018 £'000
Services income	**3,527**	3,177

All turnover arose within the United Kingdom.

3. Employee information

The Company had no employees during the current or preceding financial year.

4. Directors' remuneration

The directors received no remuneration for their services *(2018: £nil)*. Amounts payable to related parties for directors services were £120,000 *(2018: £115,000)*.

5. Profit/(loss) before taxation

	2019 £'000	2018 £'000
The profit/(loss) before taxation is stated after charging:		
Auditor's remuneration:		
Audit of these financial statements	**15**	10

6. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable on finance debtor	**3,512**	3,643
Bank interest receivable	**55**	25
	3,567	3,668

7. Interest payable and similar expenses

	2019 £'000	2018 £'000
Senior debt	**3,390**	3,534
Subordinated loan stock	**983**	1,074
	4,373	4,608

Notes *(continued)*

8. Taxation

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

	2019	2018
	£'000	£'000
UK corporation tax		
Current tax	**13**	-
	13	-
Deferred tax (see note 9)		
Origination and reversal of timing differences	**118**	637
Total deferred tax	**118**	637
Total tax	**131**	637

	2019			2018		
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**(13)**	**(17)**	**(30)**	-	16	16
Recognised in Other comprehensive income	-	**(101)**	**(101)**	-	(653)	(653)
Total tax	**(13)**	**(118)**	**(131)**	-	(637)	(637)

Reconciliation of effective tax rate

	2019	2018
	£'000	£'000
Profit/(loss) after taxation	**39**	(83)
Total tax (expense)/credit	**(30)**	16
Profit/(loss) before taxation	**69**	(99)
Taxation using the UK corporation tax rate of 19% (2018: 19%)	**(13)**	19
Effect of change in tax rate	**(17)**	(3)
Total tax recognised in the profit and loss account	**(30)**	16

A reduction in the UK corporation tax rate from 19% to 17% (effective 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 the balance sheet date has been calculated based on these rates.

Notes *(continued)*

9. Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year		
Trade debtors	-	10
Prepayments and accrued income	106	117
Finance debtor	2,424	2,285
	2,530	2,412
Amounts falling due after more than one year		
Finance debtor	54,381	56,805
Deferred tax	3,652	3,770
	58,033	60,575
	60,563	62,987

The finance debtor includes original capitalised interest of £3,791,000 *(2018: £3,791,000)*. The finance debtor represents payments due from Sheffield City Council as covered under the Project Agreement. These payments are recoverable over the remaining life of the agreement through to 2034.

Deferred tax	2019 £'000	2018 £'000
Tax losses	656	673
Interest rate swaps	2,996	3,097
	3,652	3.770

The deferred tax asset recognised on tax losses has been on the basis to which these 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.

A deferred tax asset is also recognised on the revaluation of the interest rate swaps held by the company. These swaps have been designated as cash flow hedges (see note 14) and therefore the reversal of the deferred tax asset is shown through the cash flow hedge reserve.

10. Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Trade creditors	-	146
VAT	405	384
Tax creditor	10	-
Accruals and unitary charge control account	11,323	10,314
Senior loan debt	2,652	2,611
	14,390	13,455

Notes *(continued)*

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

	2019 £'000	2018 £'000
Senior loan debt	**48,198**	50,792
Interest rate swaps	**17,626**	18,215
Subordinated loan stock	**8,443**	8,238
	74,267	77,245

12. Interest-bearing loans and borrowings

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

	2019 £'000	2018 £'000
Senior loan debt	**50,389**	52,884
Subordinated loan stock	**8,443**	8,238
	58,832	61.122
Analysis of debt		
Within one year	**2,652**	2,611
Between one and two years	**2,778**	2,652
Between two and five years	**8,879**	8.580
In five years or more	**44,984**	47,798
	59,293	61,641
Less unamortised issue costs	**(461)**	(519)
	58,832	61,122

The senior loan bears interest based on LIBOR. As part of the interest rate management strategy the Company entered into an interest rate swap in respect of part of the debt maturing in June 2033 (refer to note 14).

The senior loan is secured by a fixed and floating charge over the assets of the Company.

The senior loan is repayable on a 6 monthly basis that commenced on 30 September 2009. The final repayment date is 30 June 2033.

The subordinated loan stock, is owned by Paradigm (Sheffield BSF) Holdings Limited, is unsecured and interest is payable at 9.22% plus indexation based on RPIX. The final repayment date is 31 July 2034.

Notes *(continued)*

13. Called up share capital

	2019	2018
	£	£
Issued, called up and fully paid		
Ordinary shares of £1 each	**12,500**	12,500

All shares are ranked pari passu with regards to both voting rights and dividends.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Profit and loss reserve

The profit and loss reserve contains the cumulative retained earnings carried forward less distributions to owners.

14. Financial Instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2019	2018
	£'000	£'000
Assets measured at amortised cost		
- Finance debtor	**56,805**	59,090
- Trade and other debtors	**-**	10
	56,805	59,100
Assets measured at cost less impairment		
- Cash and cash equivalents	**10,252**	9,344
Liabilities measured at amortised cost		
- Trade and other payables	**-**	(146)
- Bank loans and overdrafts	**(50,850)**	(53,403)
- Subordinated loan stock	**(8,443)**	(8,238)
	(59,293)	(61,787)
Liabilities measured at fair value through profit and loss		
Interest rate swaps contract	**(17,626)**	(18,215)

(b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Notes *(continued)*

14. Financial Instruments *(continued)*

(c) Hedge accounting

Derivative financial instruments designated as hedges of variable interest rate risk comprise of an interest rate swap.

To hedge the potential movement in the interest cash flows associated with the LIBOR rate used for the bank term loan described in note 12, the Company has entered into floating to fixed interest rate swaps with a nominal value equal to the initial borrowings with the same term as the loans and interest payment dates. These result in the Company paying 5.6252% per annum and receiving LIBOR.

The cashflows on the loan and interest rate swaps are paid semi-annually on 31 March and 30 September each year and expire on 30 June 2033.

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2019	2018
	£'000	£'000
Interest rate swaps contract	**17,626**	18,215

15. Ultimate parent company

The Company is a wholly owned subsidiary of Paradigm (Sheffield BSF) Holdings Limited, registered address Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ, a company incorporated in England and Wales, registered number 6084827, the immediate parent.

The largest and smallest group in which the results of the Company are consolidated is that headed by Paradigm (Sheffield BSF) Holdings Limited, incorporated in England and Wales. The consolidated financial statements of Paradigm (Sheffield BSF) Holdings Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

There is no ultimate controlling party.

16. Related party transactions

The share capital of the Company is held wholly by Paradigm (Sheffield BSF) Holdings Limited. The amount payable on loan notes owed to Paradigm (Sheffield BSF) Holdings Limited at the year end was £8,443,000 *(2018: £8,238,000)*. The interest payable on the loan notes in the current and preceding financial years is shown in note 12.

Sheffield LEP Ltd who hold 10% of the share capital of the Company's immediate parent, Paradigm (Sheffield BSF) Holdings Limited were paid £225,000 *(2018: £222,000)* for management services provided to the Company during the financial year. The amount outstanding to Sheffield LEP Limited at year end was £nil *(2018: £nil)*.

Infrared Infrastructure Yield Holdings Ltd who hold 36% of the share capital of the Company's immediate parent, Paradigm (Sheffield BSF) Holdings Limited, and Infrastructure Investments Holdings Ltd who hold 54% of the share capital of the Company's immediate parent both received directors' fees of £60,000 *(2018: £58,000)* during the year. The amount outstanding at year end was £nil *(2018: £nil)*.

Notes *(continued)*

17. Accounting estimates and judgements

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

Hedge accounting

The Directors consider the Company to have met the criteria for hedge accounting; the Company has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Company uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the balance sheet date was a liability of £17,626,000 (2018: £18,215,000 liability). The Directors do not consider the impact of own credit risk to be material.

Services concession arrangement

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure.

Given the length of the Company's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle expenditure over the life of the project increased by 5%, the service margin would decrease by 2%, resulting in a reduction in both revenue and profit before tax in 2019 of £51,000 (2018: £46,000).