Paradigm (Sheffield BSF) Limited

Annual Report and Financial Statements

31 March 2018

Registered number: 6084831

Contents

Directors and advisors

Directors	Geoffrey Quaife 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 3 Assembly Square Britannia Quay Cardiff CF10 4AX
Banker	Sumitomo Mitsui Banking Corporation Europe Limited 99 Queen Victoria Street London EC4V 4EH

Strategic report

The Directors present their strategic report for Paradigm (Sheffield BSF) Limited (the "Company") for the year ended 31 March 2018.

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 decreased from £3,892,000 in 2017 to £3,177,000 in 2018. This is a result of a decrease in costs for the current year due to the reduced lifecycle works that have been carried out. Revenue is calculated using a mark-up on cost set by the operational model.

The loss for the year after taxation was £83,000 (2017: profit of £29,000), the loss results from the decreased revenue set out above. 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 SPC 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 2018, 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 statement of profit and loss and 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. To date, the current surplus of the spend against the profile is £1,430,000. 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.

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: 30 July 2018

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2018.

Results for the period

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

Dividends

The directors do not propose to pay a dividend in respect of the year *(2017: £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
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 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 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 *(2017: £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: 30 July 2018

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' report and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 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 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 are 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 2018 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 2018 and of its loss 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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
- 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; 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.

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

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.

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

6 August 2018

Profit and loss account and statement of other comprehensive income
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Turnover	2	**3,177**	3,892
Cost of sales		**(2,336)**	(2,957)
Gross profit		**841**	935
Interest receivable and similar income	6	**3,668**	3,793
Interest payable and similar expenses	7	**(4,608)**	(4,646)
(Loss)/profit before taxation	5	**(99)**	82
Tax on (loss)/profit	8	**16**	(53)
(Loss)/profit after taxation		**(83)**	29
Other comprehensive income for the year			
Effective portion of fair value changes in cash flow hedges	14	**3,842**	692
Tax recognised in relation to change in fair value cash flow hedges	8	**(653)**	(345)
Other comprehensive income for the year		**3,189**	347
Total comprehensive income for the year		**3,106**	376

The loss 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 2018

	Note	2018	2017
		£'000	£'000
Current assets			
Debtors: amounts falling due after more than one year	9	**60,575**	63,490
Debtors: amounts falling due within one year	9	**2,412**	2,291
Cash at bank and in hand		**9,344**	8,239
		72,331	74,020
Creditors: amounts falling due within one year	10	**(13,456)**	(12,178)
Net current assets		**58,875**	61,842
Total assets less current liabilities		**58,875**	61,842
Creditors: amounts falling due after more than one year	11	**(77,245)**	(83,318)
Net liabilities		**(18,370)**	(21,476)
Capital and reserves			
Called up share capital	13	**12**	12
Profit and loss account		**(3,264)**	(3,181)
Cashflow hedge reserve		**(15,118)**	(18,307)
Total shareholder's deficit		**(18,370)**	(21,476)

The financial statements were approved by the board of directors and authorised for issue on 30 July 2018 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 2018

	Called up share capital £'000	Cashflow hedge reserve £'000	Profit and loss account £'000	Total shareholder's deficit £'000
Balance as at 1 April 2016	**12**	**(18,654)**	**(3,210)**	**(21,852)**
Total comprehensive income				
Profit for the year	-	-	29	29
Other comprehensive income	-	347	-	347
Total comprehensive income for the period	-	347	29	376
Balance as at 31 March 2017	**12**	**(18,307)**	**(3,181)**	**(21,476)**
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	**12**	**(15,118)**	**(3,264)**	**(18,370)**

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 have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to April 2034. 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.

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.

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.

Notes *(continued)*

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 £836,000 at the year end *(2017: £832,000)*.

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 (loss)/profit before taxation are attributable to the one activity of the Company.	**2018** **£'000**	2017 £'000
Services income	**3,177**	3,892

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 *(2017: £nil)*. Amounts payable to third parties for directors services were £115,000 *(2017: £112,000)*.

5. (Loss)/profit before taxation

	2018 **£'000**	2017 £'000
The (loss)/profit before taxation is stated after charging:		
Auditor's remuneration:		
Audit of these financial statements	**10**	10

6. Interest receivable and similar income

	2018 **£'000**	2017 £'000
Interest receivable on finance debtor	**3,643**	3,766
Bank interest receivable	**25**	27
	3,668	3,793

7. Interest payable and similar expenses

	2018 **£'000**	2017 £'000
Senior debt	**3,534**	3,699
Subordinated loan stock	**1,074**	947
	4,608	4,646

Notes *(continued)*

8. Taxation

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

	2018	2017
	£'000	£'000
UK corporation tax		
Current tax	-	-
	-	-
Deferred tax (see note 9)		
Effect of tax rate change on opening balance	-	348
Origination and reversal of timing differences	**637**	50
Total deferred tax	**637**	398
Total tax	**637**	398

	2018			2017		
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	-	**16**	**16**	-	(53)	(53)
Recognised in Other comprehensive income	-	**(653)**	**(653)**	-	(345)	(345)
Total tax	-	**(637)**	**(637)**	-	(398)	(398)

Reconciliation of effective tax rate

	2018	2017
	£'000	£'000
(Loss)/profit after taxation	**(83)**	29
Total tax credit/(expense)	**16**	(53)
(Loss)/profit before taxation	**(99)**	82
Taxation using the UK corporation tax rate of 19% (2017: 20%)	**19**	(16)
Effect of change in tax rate	**(3)**	(37)
Total tax recognised in the profit and loss account	**16**	(53)

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

	2018	2017
	£'000	£'000
Amounts falling due within one year		
Trade debtors	**10**	18
Prepayments and accrued income	**117**	119
Finance debtor	**2,285**	2,154
	2,412	2,291
Amounts falling due after more than one year		
Finance debtor	**56,805**	59,089
Deferred tax	**3,770**	4,401
	60,575	63,490
	62,987	65,781

The finance debtor includes original capitalised interest of £3,791,000 *(2017: £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	2018 £'000	2017 £'000
Tax losses	**673**	651
Interest rate swaps	**3,097**	3,750
	3,770	4,401

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

	2018	2017
	£'000	£'000
Trade creditors	**146**	143
VAT	**384**	396
Accruals and UC control account	**10,315**	9,143
Senior loan debt	**2,611**	2,496
	13,456	12,178

Notes *(continued)*

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

	2018	2017
	£'000	£'000
Senior loan debt	50,792	53,342
Interest rate swaps	18,215	22,057
Subordinated loan stock	8,238	7,919
	77,245	83,318

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.

	2018	2017
	£'000	£'000
Senior loan debt	52,884	55,259
Subordinated loan stock	8,238	7,919
	61,122	63,178

Analysis of debt		
Within one year	2,611	2,496
Between one and two years	2,652	2,610
Between two and five years	8,580	8,274
In five years or more	47,798	50,377
	61,641	63,757

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

	2018	2017
	£	£
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.

14. Financial Instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2018	2017
	£'000	£'000
Assets measured at amortised cost		
- Finance debtor	**59,090**	61,243
- Trade and other debtors	**10**	18
	59,100	61,261
Assets measured at cost less impairment		
- Cash and cash equivalents	**9,344**	8,239
Liabilities measured at amortised cost		
- Trade and other payables	**(146)**	(143)
- Bank loans and overdrafts	**(53,403)**	(55,838)
- Subordinated loan stock	**(8,238)**	(7,919)
	(61,787)	(63,900)
Liabilities measured at fair value through profit and loss		
Interest rate swaps contract	**(18,215)**	(22,057)

(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.

(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 following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS102.29(a) for the cash flow hedge accounting models and also the associated cash flow hedging instruments are expected to affect profit and loss.

Notes *(continued)*

14. Financial Instruments *(continued)*

2018

	Carrying Amount £'000	**Expected cash flows £'000**	**Within 1 year £'000**	**Between 1 - 2 years £'000**	**Between 2 -5 years £'000**	**5 years and over £'000**
Interest rate swap	**(18,215)**	**(29,696)**	**(3,318)**	**(3,164)**	**(8,433)**	**(14,781)**
	(18,215)	**(29,696)**	**(3,318)**	**(3,164)**	**(8,433)**	**(14,781)**

2017

	Carrying Amount £'000	Expected cash flows £'000	Within 1 year £'000	Between 1 - 2 years £'000	Between 2 -5 years £'000	5 years and over £'000
Interest rate swap	(22,057)	(33,172)	(3,476)	(3,318)	(8,964)	(17,414)
	(22,057)	(33,172)	(3,476)	(3,318)	(8,964)	(17,414)

(d) Fair values

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

	2018 £'000	2017 £'000
Interest rate swaps contract	**18,215**	22,057

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 £8,238,000 *(2017: £7,919,000)*. 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 £222,000 *(2017: £303,000)* for management services provided to the Company during the financial year. The amount outstanding to Sheffield LEP Limited at year end was £nil *(2017: £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 £58,000 *(2017: £56,000)* during the year. The amount outstanding at year end was £nil *(2017: £nil)*.

Notes *(continued)*

17. Accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates are recognised in the period if the revision affects both current and future periods. The directors do not consider there to be any material judgements which affect the balances in the accounts.

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

- Accounting for the service concession contract and finance debtors requires an estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.
- Lifecycle costs are a significant portion of future expenditure and they can be variable in nature. To reduce the risk of misstatement, future estimates of lifecycle expenditure and prepared by maintenance experts on an asset by as basis.