

PPP Services (North Ayrshire) Limited
Annual Report and Financial Statements
31 December 2015

FRIDAY



S58C4SPD
SCT 03/06/2016 #259
COMPANIES HOUSE

PPP Services (North Ayrshire) Limited

Annual Report and Financial Statements

Year Ended 31 December 2015

Contents	Page
Officers and professional advisers	1
Directors' report	2
Directors' responsibilities statement	4
Independent auditors' report to the members	5
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Notes to the financial statements	10

PPP Services (North Ayrshire) Limited

Officers and Professional Advisers

The board of directors	BIIF Corporate Services Limited S Cook M J Rawlinson A Robinson D F Gilmour T J Hesketh
Company secretary	Infrastructure Managers Limited
Registered office	2nd Floor 11 Thistle Street Edinburgh EH2 1DF
Auditor	RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) Chartered Accountants & Statutory Auditors First Floor, Quay 2 139 Fountainbridge Edinburgh EH3 9QG
Bankers	Nord/LB One Wood Street London EC2V 7WT
Solicitors	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP

PPP Services (North Ayrshire) Limited

Directors' Report

Year Ended 31 December 2015

The directors present their report and the financial statements of the Company for the year ended 31 December 2015.

Principal Activities

The principal activity of the company is the provision of design, construction, finance and facilities management services for four schools to North Ayrshire Council under the Government's Public Private Partnership (PPP) programme. The duration of the contract is 32 years.

Results and Dividends

The profit for the year, after taxation, amounted to £279,519 (2014: £258,173).

The profit for the year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key performance indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the group loan agreement.

Going Concern

The directors acknowledge that the company has net liabilities, however this is a result of the Interest rate and RPI swaps, which are significantly out of the money, being brought onto the balance sheet as a result of adoption of FRS102. After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Directors'

The directors who served the Company during the year and up to the date of this report were as follows:

BIIF Corporate Services Limited
S Cook
M J Rawlinson
A Robinson
D F Gilmour
T J Hesketh

Dividends

Particulars of recommended dividends are detailed in note 10 to the financial statements.

PPP Services (North Ayrshire) Limited

Directors' Report *(continued)*

Year Ended 31 December 2015

Financial Instruments

Due to the nature of the Company's business, the only financial risks the directors consider relevant to this Company is credit, cash flow, interest rate and liquidity risk. The credit and cash flow risks are not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

This report was approved by the board of directors on6/5/16..... and signed on behalf of the board by:



Infrastructure Managers Limited

Company Secretary

PPP Services (North Ayrshire) Limited

Directors' Responsibilities Statement

Year Ended 31 December 2015

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 the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

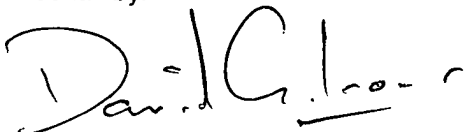
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

The Directors' Responsibilities were approved by the board on 6/5/16 and signed on its behalf by:



David F Gilmour

Director

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited

Year Ended 31 December 2015

We have audited the financial statements on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), include FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 more fully explained in the Directors' Responsibilities 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. 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 (APB'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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

PPP Services (North Ayrshire) Limited

Independent Auditors' Report to the Members of PPP Services (North Ayrshire) Limited *(continued)*

Year Ended 31 December 2015

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 in preparing the Strategic Report.

RSM UK Audit LLP

Claire Monaghan (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

26/5/16

PPP Services (North Ayrshire) Limited

Statement of Comprehensive Income

Year Ended 31 December 2015

	Note	2015 £	2014 £
Turnover	4	4,947,740	4,880,528
Cost of sales		<u>(3,236,311)</u>	<u>(3,154,750)</u>
Gross profit		1,711,429	1,725,778
Administrative expenses		<u>(600,652)</u>	<u>(572,706)</u>
Other operating income	5	<u>23,382</u>	<u>15,998</u>
Operating profit		1,134,159	1,169,070
Interest receivable	7	4,471,681	4,479,374
Interest payable	8	<u>(5,259,565)</u>	<u>(5,321,573)</u>
Profit on ordinary activities before taxation		346,275	326,871
Taxation on ordinary activities	9	<u>(66,756)</u>	<u>(68,698)</u>
Profit for the financial year		279,519	258,173
Fair value movements on cash flow hedging instruments, net of tax		<u>2,956,854</u>	<u>(7,528,062)</u>
Total comprehensive income for the year		3,236,373	<u>(7,269,889)</u>

All the activities of the Company are from continuing operations.

The notes on pages 10 to 23 form part of these financial statements.

PPP Services (North Ayrshire) Limited

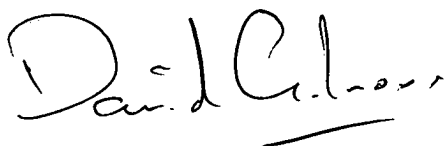
Statement of Financial Position

As at 31 December 2015

	Note	2015 £	2014 £
Current assets			
Debtors: due within one year	11	2,748,583	2,085,712
Debtors: due after more than one year	11	81,322,140	85,136,053
Cash at bank and in hand		7,760,843	7,599,742
		<u>91,831,566</u>	<u>94,821,507</u>
Creditors: amounts falling due within one year	12	<u>(3,329,088)</u>	<u>(3,737,723)</u>
Net current assets		<u>88,502,478</u>	<u>91,083,784</u>
Total assets less current liabilities		<u>88,502,478</u>	<u>91,083,784</u>
Creditors: amounts falling due after more than one year	13	(108,892,888)	(114,523,403)
Provisions			
Taxation including deferred tax	15	<u>(30,539)</u>	<u>(37,703)</u>
Net liabilities		<u>(20,420,949)</u>	<u>(23,477,322)</u>
Capital and reserves			
Called up share capital	17	370,000	370,000
Hedging reserve	18	(21,153,041)	(24,109,895)
Profit and loss account	18	<u>362,092</u>	<u>262,573</u>
Shareholders deficit		<u>(20,420,949)</u>	<u>(23,477,322)</u>

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

These financial statements were approved by the board of directors and authorised for issue on 6/5/16, and are signed on behalf of the board by:



David F Gilmour
Director

Company registration number: SC294870

The notes on pages 10 to 23 form part of these financial statements.

PPP Services (North Ayrshire) Limited

Statement of Changes in Equity

Year Ended 31 December 2015

	Called up share capital £	Hedging reserve £	Profit and loss account £	Total £
At 1 January 2014	370,000	(16,581,833)	134,400	(16,077,433)
Profit for the year			258,173	258,173
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	(7,528,062)	—	(7,528,062)
Total comprehensive income for the year	—	(7,528,062)	258,173	(7,269,889)
Dividends paid and payable 10	—	—	(130,000)	(130,000)
Total investments by and distributions to owners	—	—	(130,000)	(130,000)
At 31 December 2014	370,000	(24,109,895)	262,573	(23,477,322)
Profit for the year			279,519	279,519
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	2,956,854	—	2,956,854
Total comprehensive income for the year	—	2,956,854	279,519	3,236,373
Dividends paid and payable 10	—	—	(180,000)	(180,000)
Total investments by and distributions to owners	—	—	(180,000)	(180,000)
At 31 December 2015	<u>370,000</u>	<u>(21,153,041)</u>	<u>362,092</u>	<u>(20,420,949)</u>

Included in the fair value movement on cash flow hedging instruments is £2,996,661 that was recycled through Interest Payable in the statement of comprehensive income.

The notes on pages 10 to 23 form part of these financial statements.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements

Year Ended 31 December 2015

1. Statement of compliance

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

2. General information

PPP Services (North Ayrshire) Limited ('the company') is incorporated and domiciled in the UK. The address of its registered office is 2nd Floor, 11 Thistle Street, EH2 1DF.

The principal activity of the company is the provision of design, construction, finance and facilities management services for four schools to North Ayrshire Council under the Government's Public Private Partnership (PPP) programme. The duration of the contract is 32 years.

The company's functional and presentation currency is the pound sterling.

3. Accounting policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The directors acknowledge that the company has net liabilities, however this is a result of the Interest rate and RPI swaps, which are significantly out of the money, being brought onto the balance sheet. 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. After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Transition to FRS 102 and change to accounting policies

The entity transitioned from previous UK GAAP to FRS 102 as at 1 January 2014. Details of how FRS 102 has affected the reported financial position and financial performance is given in note 21.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

3. Accounting policies *(continued)*

(d) Disclosure exemptions

The company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

(e) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

i) Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates and movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those instruments on its balance sheet. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by the shareholders based on counterparty information that is independent of the Company, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's balance sheet at amortised cost could be materially reduced if the value of those assets were assessed to have been impaired. Impairment reviews are performed in the event that circumstances change which might indicate that an asset has been impaired. In principle, such impairment reviews consider the fair value and or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the balance sheet. Any reduction in value arising from such a review would be recorded in the income statement. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

3. Accounting policies *(continued)*

ii) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires of estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the contract.

(f) Revenue recognition

Turnover represents the services share of the management services income received by the Company for the provision of a PFI asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

(g) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the statement of comprehensive income.

(h) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

3. Accounting policies *(continued)*

Provisions *(continued)*

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

(i) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

The company has elected to apply the provisions of section 11, 'Basic Financial Instruments' and section 12 'Other Financial Instrument Issues' of FRS102, in full, to all its financial instruments.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the statement of comprehensive income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

3. Accounting policies *(continued)*

Financial instruments *(continued)*

Hedge Accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the statement of comprehensive income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the statement of comprehensive income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

(j) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

3. Accounting policies *(continued)*

(I) Finance debtor

The company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the company to continue the service concession arrangement accounting policies from previous UK GAAP.

The company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

4. Turnover

Turnover arises from:

	2015 £	2014 £
Rendering of services	<u>4,947,740</u>	<u>4,880,528</u>

The whole of the turnover is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

5. Other operating income

	2015 £	2014 £
Other operating income	<u>23,382</u>	<u>15,998</u>

6. Auditor's remuneration

	2015 £	2014 £
Fees payable for the audit of the financial statements	<u>7,751</u>	<u>6,554</u>
Fees payable to the company's auditor and its associates for other services: Taxation advisory services	<u>3,771</u>	<u>3,662</u>

7. Interest receivable

	2015 £	2014 £
Interest on cash and cash equivalents	26,436	22,205
Other interest received	1,638	—
Interest receivable on finance debtor	<u>4,443,607</u>	<u>4,457,169</u>
	<u>4,471,681</u>	<u>4,479,374</u>

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

8. Interest payable

	2015 £	2014 £
Interest on bank loans and overdrafts	4,081,192	4,209,093
Other interest payable and similar charges	1,178,373	1,112,480
	<u>5,259,565</u>	<u>5,321,573</u>

9. Taxation on ordinary activities

Major components of tax expense

	2015 £	2014 £
Current tax:		
UK current tax expense	73,920	53,946
Deferred tax:		
Origination and reversal of timing differences	(7,164)	14,752
Taxation on ordinary activities	<u>66,756</u>	<u>68,698</u>

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than (2014: lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%).

	2015 £	2014 £
Profit on ordinary activities before taxation	346,275	326,871
Profit on ordinary activities by rate of tax	70,109	70,245
Marginal relief	(6)	(455)
Change in tax rates	(3,347)	(1,092)
Tax on profit on ordinary activities	<u>66,756</u>	<u>68,698</u>

10. Dividends

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2015 £	2014 £
Dividends on equity shares	<u>180,000</u>	<u>130,000</u>

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

11. Debtors

Debtors falling due within one year are as follows:

	2015 £	2014 £
Trade debtors	99,582	28,568
Deferred tax asset	520,844	14,752
Prepayments and accrued income	202,246	197,746
Finance Debtor	1,925,911	1,824,653
Other debtors	–	19,993
	<u>2,748,583</u>	<u>2,085,712</u>

Debtors falling due after one year are as follows:

	2015 £	2014 £
Deferred tax asset	4,122,507	6,012,722
Finance Debtor	77,199,633	79,123,331
	<u>81,322,140</u>	<u>85,136,053</u>

The movement in the finance debtor is analysed as follows:

	2015 £	2014 £
At beginning of year	80,947,984	82,671,303
Repayments	(1,822,440)	(1,723,319)
At end of year	<u>79,125,544</u>	<u>80,947,984</u>

12. Creditors: amounts falling due within one year

	2015 £	2014 £
Trade creditors	296,200	697,782
Accruals and deferred income	1,088,994	1,273,981
Corporation tax	138,626	53,532
Social security and other taxes	457,146	446,941
Bank loan	1,336,830	1,254,195
Grants	11,292	11,292
	<u>3,329,088</u>	<u>3,737,723</u>

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

	2015 £	2014 £
Bank loans and overdrafts	74,902,453	76,177,525
Amounts owed to group undertakings	7,679,342	7,679,342
Accruals and deferred income	514,701	529,167
Derivative financial liability	25,796,392	30,137,369
	<u>108,892,888</u>	<u>114,523,403</u>

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

13. Creditors: amounts falling due after more than one year *(continued)*

The bank 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 September 2036. Under these swaps and the senior debt financing in place, the company pays interest at a fixed rate of 5.385%. The bank loan is secured by a floating charge over the assets of the company and is repayable in quarterly instalments from January 2008 and in full by 15 October 2036.

The subordinated debt carries an interest rate of 14% and the principal is repayable in quarterly instalments commencing 15 July 2036 and in full by 15 April 2037. The subordinated debt is unsecured. The bank 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 September 2036. Under these swaps and the senior debt financing in place, the company pays interest at a fixed rate of 5.35%. The bank loan is secured by a floating charge over the assets of the company and is repayable in quarterly instalments from January 2008 and in full by 15 October 2036.

The subordinated debt carries an interest rate of 14% and the principal is repayable in quarterly instalments commencing 15 July 2036 and in full by 15 April 2037. The subordinated debt is unsecured.

14. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2015 £	2014 £
Included in debtors (note 11)	4,643,351	6,027,474
Included in provisions (note 15)	(30,539)	(37,703)
	<u>4,612,812</u>	<u>5,989,771</u>

The net deferred tax liability expected to reverse in 2016 is £3,393. This relates to the reversal of short term timing differences.

	2015 £
Opening balance	5,989,771
Movement through the profit or loss	7,164
Movement through other comprehensive income	(1,384,123)
Closing balance	<u>4,612,812</u>

15. Provisions

	Deferred tax (note 14) £
At 1 January 2015	37,703
Deferred tax	(7,164)
At 31 December 2015	<u>30,539</u>

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

16. Financial instruments

The carrying amount for each category of financial instrument is as follows:

	2015 £	2014 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>79,125,544</u>	<u>80,947,984</u>
Financial liabilities		
Derivative financial liabilities measured at fair value	(25,796,392)	(30,137,369)
Financial liabilities measured at amortised cost	<u>(76,705,313)</u>	<u>(77,998,080)</u>

The fair values of the fixed rate borrowing, the interest rate swap and retail price index swap have been calculated by discounting the fixed cash flows at the prevailing interest rates at the year end.

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

Interest rate swaps

The Company has entered into interest rate swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into on 24 November 2009 and expire on 15 October 2036.

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the vast majority of variable cash inflows arising from the operation of the Company's service concession asset in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 15 March 2006 and expire on 30 September 2036.

Under the terms of the project agreements, the Company is permitted to charge its principal customer, North Ayrshire Council an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April using the current RPI for February against the base date RPI by an amount computed by reference to the average movement in RPI over the previous 12-month period measured from 1 April through to 31 March. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

16. Financial instruments *(continued)*

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges. The vast majority of the Company's cash outflows relate to borrowings (after interest rate swaps - see above) that carry a fixed coupon so that both the principal repayments, and coupon payments (after interest rate swaps - see above) are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Company can meet its obligations under the terms of its borrowing arrangements.

The Directors believe that the hedging relationship is highly effective and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 December 2015 amounted to net liabilities of £25,796,392 (2014: £30,137,369) comprising liabilities of £4,386,597 for RPI swaps (2014: £6,134,080) and liabilities of £21,409,795 for interest rate swaps (2014: £24,003,289). All of the movements during the year in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £21,153,041 (2014: £24,109,895).

17. Called up share capital

Issued, called up and fully paid

	2015		2014	
	No	£	No	£
Ordinary shares of £1 each	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>

18. Reserves

Hedging reserve - This reserve records fair value movements on cash flow hedging instruments.

Profit and loss account - This reserve records retained earnings and accumulated losses.

19. Related party transactions

The company is wholly owned by PPP Services (North Ayrshire) Holdings Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

The following disclosures are with entities in the group that are not wholly owned:

The company paid £44,562 (2014: £41,555) to BILF Bidco Limited and its subsidiaries for the provision of 2 directors and the provision of management services.

The company paid £18,005 (2014: £17,333) to Nord/LB Project Holding Limited for the provision of 2 directors.

The company paid £71,023 (2014: £69,318) to Hochtief PPP School Capital Limited for the provision of 2 directors and for the provision of management services.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

20. Controlling party

The immediate parent undertaking is PPP Services (North Ayrshire) Holdings Limited.

The company is a wholly owned subsidiary of PPP Services (North Ayrshire) Holdings Limited, a company incorporated in Scotland, registered number SC294861. The financial statements of PPP Services (North Ayrshire) Holdings Limited can be obtained from Companies House.

Ownership of PPP Services (North Ayrshire) Holdings Limited is split between Hochtief PPP Schools Capital Limited (50%), PFI Infrastructure Finance Limited (30%) and Nord/LB Project Holding Company Limited (20%). Accordingly, there is no overall parent company and no ultimate controlling party.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

21. Transition to FRS 102 and change to accounting policies

This is the first year that the company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102. The effect of this on the accounts is also disclosed below.

Profit for the financial year		31 December 2014
		£
UK GAAP - As previously reported		199,164
Effective Interest Rate adjustment on Bank loans	B	(61,239)
RPI Swap	C	135,000
Deferred tax impact of adjustments	D	
- Effective Interest Rate adjustment on Bank loans		12,248
- RPI Swap		(27,000)
Total Adjustment to profit for the financial year		59,009
FRS 102		258,173

Other Comprehensive Income		31 December 2014
		£
UK GAAP - As previously reported		—
Derivative financial instrument	A	(9,410,078)
Deferred tax impact of adjustments	D	188,202
- Derivative financial instruments		(7,528,062)
FRS 102		(16,749,938)

Total Equity		1 January 2014	31 December 2014
		£	£
UK GAAP - As previously reported		412,594	481,758
Derivative Financial Instruments	A	(20,727,291)	(30,137,369)
Effective Interest Rate adjustment to bank loans	B	(194,928)	(256,166)
RPI Swap	C	309,685	444,685
Deferred taxation	D	4,122,507	5,989,770
FRS 102		(16,077,433)	(23,477,322)

A Derivative Financial Instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the company did not recognise these instruments in the financial statements. Accordingly, at transition a liability of £20,727,291 was recognised and a loss of £9,410,078 was recognised in the profit and loss account for the year ended 31 December 2014. A liability of £30,137,369 was recognised at that date.

B Effective Interest Rate Adjustment to bank loans

Under FRS 102, debt instruments must be recorded at amortised cost using the effective interest method. On transition the Loans were increased by £194,928 with a further £61,239 charge recognised in the profit and loss account for the year ended 31 December 2014.

PPP Services (North Ayrshire) Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 December 2015

C Changes in accounting policy - RPI Swap

The company had previously recorded payments against the RPI Swap as a finance charge and recognised under interest payable. In these accounts and going forward this has been allocated against invoiced revenue, under Service Concession Arrangement accounting, the revenue recognised is based on the service costs of the company uplifted by the operating margin, the remaining portion of the invoiced revenue is allocated between Finance Debtor Interest and Finance Debtor Amortisation. A prior period adjustment has removed £309,685 from interest expense and allocated this to the unitary charge control account. Service revenue recognised is total costs multiplied by an agreed margin, so as such, going forward the cost/benefit of the RPI swap movement will be factored into the service revenue recognition. A further £135,000 adjustment was made in relation to the period to 31 December 2014.

D Deferred Taxation

The company has accounted for deferred taxation on transition as follows:

(a) Derivative financial instruments – Deferred tax of £4,145,458 has been recognised at 20% on the liability recognised on transition at 1 January 2014. In the year ended 31 December 2014 the company has recognised a credit of £1,882,016 in the profit and loss account in respect of the increase in the value of derivative liabilities recognised in the profit and loss account.

(b) Effective Interest Rate adjustment to bank loans - Deferred tax of £51,233 has been recognised at 20% of the adjustment. The deferred tax balance will be amortised on a straight line basis over a 10 year period.

(c) RPI Swap - Deferred tax of £88,937 has been recognised at 20% of the adjustment. The deferred tax balance will be amortised on a straight line basis over a 10 year period.