COMPANY REGISTRATION NUMBER: SC294870

# PPP Services (North Ayrshire) Limited

# Annual Report and Financial Statements

## 31 December 2016

# PPP Services (North Ayrshire) Limited

## Annual Report and Financial Statements

## Year Ended 31 December 2016

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# PPP Services (North Ayrshire) Limited

## Officers and Professional Advisers

| | |
|---|---|
| **The board of directors** | S Cook<br>A Robinson<br>D F Gilmour<br>J I Cavill<br>D W Davies<br>J P George |
| **Company secretary** | Infrastructure Managers Limited |
| **Registered office** | 2nd Floor<br>11 Thistle Street<br>Edinburgh<br>EH2 1DF |
| **Auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants & Statutory Auditors<br>Level 4<br>Atria One<br>144 Morrison Street<br>Edinburgh<br>EH3 8EX |
| **Bankers** | Nord/LB<br>One Wood Street<br>London<br>EC2V 7WT |
| **Solicitors** | Maclay Murray & Spens LLP<br>Quartermile One<br>15 Lauriston Place<br>Edinburgh<br>EH3 9EP |

# PPP Services (North Ayrshire) Limited

## Directors' Report

## Year Ended 31 December 2016

The directors present their report and the financial statements of the Company for the year ended 31 December 2016.

### 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 concession commenced in 2007 and runs for 30 years until 2037.

### Results and Dividends

The profit for the year, after taxation, amounted to £152,514 (2015: £279,519).

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 Statement of Financial Position 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:

| | |
|---|---|
| S Cook | |
| A Robinson | |
| D F Gilmour | |
| J I Cavill | (Appointed 27 May 2016) |
| D W Davies | (Appointed 22 November 2016) |
| J P George | (Appointed 22 November 2016) |
| BIIF Corporate Services Limited | (Resigned 27 May 2016) |
| M J Rawlinson | (Resigned 22 November 2016) |
| T J Hesketh | (Resigned 22 November 2016) |

### Dividends

Particulars of recommended dividends are detailed in note 11 to the financial statements.

### 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.

***Cash flow and liquidity risk***

Many of the Cash Flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

### Small Company Provisions

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

### Disclosure of Information to Auditors

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 as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

During the year the Board approved the appointment of PriceWaterhouseCoopers as auditors.

This report was approved by the board of directors on 28 June 2017 and signed by order of the board by:

Infrastructure Managers Limited
Company Secretary

# PPP Services (North Ayrshire) Limited

## Directors' Responsibilities Statement

## Year Ended 31 December 2016

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

The Directors' Responsibilities were approved by the board on 28 June 2017 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 2016

### Our Opinion

In our opinion, PPP Services (North Ayrshire) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Directors' Report. We have nothing to report in this respect.

### Other Matters on Which We are Required to Report by Exception

#### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

*Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of* directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

### Responsibilities for the Financial Statements and the Audit

#### Our responsibilities and those of the directors

As explained more fully 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an Audit of Financial Statements Involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Paul Cheshire (Senior Statutory Auditor)

For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh

28 June 2017

# PPP Services (North Ayrshire) Limited

## Statement of Comprehensive Income

## Year Ended 31 December 2016

| | Note | 2016<br>£ | 2015<br>£ |
|---|---|---|---|
| **Turnover** | 4 | **5,328,873** | 4,947,740 |
| Cost of sales | | **(3,673,239)** | (3,236,311) |
| **Gross profit** | | **1,655,634** | 1,711,429 |
| Administrative expenses | | **(609,369)** | (600,652) |
| Other operating income | 5 | **24,402** | 23,382 |
| **Operating profit** | | **1,070,667** | 1,134,159 |
| Interest receivable | 8 | **4,284,975** | 4,471,681 |
| Interest payable | 9 | **(5,166,405)** | (5,259,565) |
| **Profit before taxation** | | **189,237** | 346,275 |
| Taxation on ordinary activities | 10 | **(36,723)** | (66,756) |
| **Profit for the financial year** | | **152,514** | 279,519 |
| Fair value movements on cash flow hedging instruments, net of tax | | **(6,855,439)** | 2,956,854 |
| **Total comprehensive (expense)/income for the year** | | **(6,702,925)** | 3,236,373 |

All the activities of the Company are from continuing operations.

**The notes on pages 11 to 22 form part of these financial statements.**

# PPP Services (North Ayrshire) Limited

## Statement of Financial Position

## As at 31 December 2016

| | Note | 2016 £ | 2015 £ |
|---|---|---|---|
| **Current assets** | | | |
| Debtors: due within one year | 12 | **3,423,285** | 2,227,739 |
| Debtors: due after more than one year | 12 | **80,903,706** | 81,842,984 |
| Cash at bank and in hand | | **6,674,967** | 7,760,843 |
| | | **91,001,958** | 91,831,566 |
| **Creditors: amounts falling due within one year** | 13 | **(3,235,148)** | (3,329,088) |
| **Net current assets** | | **87,766,810** | 88,502,478 |
| **Total assets less current liabilities** | | **87,766,810** | 88,502,478 |
| **Creditors: amounts falling due after more than one year** | 14 | **(115,340,046)** | (108,892,888) |
| **Provisions** | | | |
| Taxation including deferred tax | 16 | **(25,638)** | (30,539) |
| **Net liabilities** | | **(27,598,874)** | (20,420,949) |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **370,000** | 370,000 |
| Hedging reserve | 19 | **(28,008,480)** | (21,153,041) |
| Profit and loss account | 19 | **39,606** | 362,092 |
| **Shareholders' deficit** | | **(27,598,874)** | (20,420,949) |

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

David F Gilmour
Director

Company registration number: SC294870

**The notes on pages 11 to 22 form part of these financial statements.**

# PPP Services (North Ayrshire) Limited

## Statement of Changes in Equity

## Year Ended 31 December 2016

| | | Called up share capital | Hedging reserve | Profit and loss account | Total |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| **At 1 January 2015** | | 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 (expense)/income for the year** | | – | 2,956,854 | 279,519 | 3,236,373 |
| Dividends paid and payable | **11** | – | – | (180,000) | (180,000) |
| **Total investments by and distributions to owners** | | – | – | (180,000) | (180,000) |
| **At 31 December 2015** | | 370,000 | (21,153,041) | 362,092 | **(20,420,949)** |
| Profit for the year | | | | 152,514 | **152,514** |
| Other comprehensive income for the year: | | | | | |
| Fair value movements on cash flow hedging instruments, net of tax | | – | (6,855,439) | – | **(6,855,439)** |
| **Total comprehensive (expense)/income for the year** | | – | (6,855,439) | 152,514 | **(6,702,925)** |
| Dividends paid and payable | **11** | – | – | (475,000) | **(475,000)** |
| **Total investments by and distributions to owners** | | – | – | (475,000) | **(475,000)** |
| **At 31 December 2016** | | 370,000 | (28,008,480) | 39,606 | **(27,598,874)** |

Included in the fair value movement on cash flow hedging instruments is £2,979,195 that was recycled through Interest Payable in the statement of comprehensive income.

**The notes on pages 11 to 22 form part of these financial statements.**

### 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 concession commenced in 2007 and runs for 30 years until 2037.

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 Statement of Financial Position. 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) 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.

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.

**3. Accounting policies** ***(continued)***

**(d) 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 Statement of Financial Position. 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.

ii) Income taxation

Current taxation
The taxation charge or credit arising on profit before taxation and in respect of gains or losses recognised through other comprehensive income reflect the tax rates in effect or substantially enacted at the balance sheet date as appropriate. The determination of appropriate provisions for taxation requires the Directors to take into account anticipated decisions of HM Revenue and Customs which inevitably requires the Directors to use judgements as to the appropriate estimate of taxation provisions.

Deferred taxation
Deferred taxation 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.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

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:

**3. Accounting policies** ***(continued)***

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position 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 considers 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 Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. 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.

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.

**(e) Revenue recognition**

Turnover represents the services share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) 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 the finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

**(f) Income tax**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, 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.

**3. Accounting policies** ***(continued)***

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.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

**(g) 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.

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 Statement of Financial Position. 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.

**3. Accounting policies** *(continued)*

**Financial instruments** *(continued)*

**(h) 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.

**(i) 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.

**(j) 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.

**(k) Borrowings**

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

## 4. Turnover

*Turnover arises from:*

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Rendering of services | **5,306,239** | 4,947,740 |

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

## 5. Other operating income

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Other operating income | **24,402** | 23,382 |

## 6. Auditor's remuneration

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Fees payable for the audit of the financial statements | **9,500** | 7,751 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Taxation advisory services | **–** | 3,771 |

The Company bears the audit cost of PPP Services (North Ayrshire) Holdings Limited of £1,929 (2015: £1,929).

## 7. Particulars of employees and directors

The average number of persons employed by the company during the financial year, including the directors, amounted to nil (2015: nil). The directors did not receive any remuneration from the Company during the year (2015: £nil).

## 8. Interest receivable

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Interest on cash and cash equivalents | **17,576** | 26,436 |
| Other interest received | **–** | 1,638 |
| Interest receivable on finance debtor | **4,267,399** | 4,443,607 |
| | **4,284,975** | 4,471,681 |

## 9. Interest payable

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| *Interest on bank loans and overdrafts* | **4,017,056** | 4,081,192 |
| Interest due to Group undertakings | **1,075,109** | 1,075,109 |
| Other interest payable and similar charges | **74,240** | 103,264 |
| | **5,166,405** | 5,259,565 |

## 10. Taxation on ordinary activities

### Major components of tax expense

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| **Current tax:** | | |
| UK current tax expense | **41,618** | 73,920 |
| Adjustments in respect of prior periods | **6** | – |
| Total current tax | **41,624** | 73,920 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **(4,901)** | (7,164) |
| **Taxation on ordinary activities** | **36,723** | 66,756 |

### Reconciliation of tax expense

The tax assessed on the profit for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Profit before taxation | **189,237** | 346,275 |
| Profit by rate of tax | **37,848** | 70,109 |
| Adjustment to tax charge in respect of prior periods | **6** | – |
| Marginal relief | **–** | (6) |
| Change in tax rates | **(1,131)** | (3,347) |
| Tax on profit | **36,723** | 66,756 |

### Factors that may affect future tax expense

During the year, as a result of the change to the future UK main corporation tax rate from 18% to 17% that was substantively enacted on 6 September 2016 and that will be effective from 1 April 2020, the relevant deferred tax balances have been re-measured. This change has reduced the deferred tax asset at the Statement of Financial Position date by £335,943.

## 11. Dividends

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

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Interim dividend of £1.28 (2015: £0.49) per ordinary share | **475,000** | 180,000 |

## 12. Debtors

Debtors falling due within one year are as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Trade debtors | **1,218,701** | 99,582 |
| Prepayments and accrued income | **171,879** | 202,246 |
| Finance Debtor | **2,032,705** | 1,925,911 |
| | **3,423,285** | 2,227,739 |

Debtors falling due after one year are as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Deferred tax asset | **5,736,677** | 4,643,351 |
| Finance Debtor | **75,167,029** | 77,199,633 |
| | **80,903,706** | 81,842,984 |

The movement in the finance debtor is analysed as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| At beginning of year | **79,125,544** | 80,947,984 |
| Repayments | **(1,925,810)** | (1,822,440) |
| At end of year | **77,199,734** | 79,125,544 |

## 13. Creditors: amounts falling due within one year

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Trade creditors | **392,841** | 296,200 |
| Amounts owed to Group undertakings | **226,804** | 226,804 |
| Accruals and deferred income | **609,762** | 862,190 |
| Corporation tax | **106,316** | 138,626 |
| Social security and other taxes | **373,490** | 457,146 |
| Bank loan | **1,514,690** | 1,336,830 |
| Grants | **11,245** | 11,292 |
| | **3,235,148** | 3,329,088 |

### 14. Creditors: amounts falling due after more than one year

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Bank loans and overdrafts | **73,387,763** | 74,902,453 |
| Amounts owed to Group undertakings | **7,679,342** | 7,679,342 |
| Accruals and deferred income | **527,785** | 514,701 |
| Derivative financial liability | **33,745,156** | 25,796,392 |
| | **115,340,046** | 108,892,888 |

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.

### 15. Deferred tax

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

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Included in debtors (note 12) | **5,736,677** | 4,643,351 |
| Included in provisions (note 16) | **(25,638)** | (30,539) |
| | **5,711,039** | 4,612,812 |

The deferred tax account consists of the tax effect of timing differences in respect of:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Accelerated capital allowances | **(25,638)** | (30,539) |
| Derivative financial instruments | **5,736,677** | 4,643,351 |
| | **5,711,039** | 4,612,812 |

The net deferred tax liability expected to reverse in 2017 is £3,770. This relates to the reversal of short term timing differences.

| | 2016 |
|---|---|
| | £ |
| Opening balance | 4,612,812 |
| Movement through the profit or loss | 4,901 |
| Movement through other comprehensive income | 1,093,326 |
| **Closing balance** | **5,711,039** |

## 16. Provisions

| | Total |
|---|---|
| | £ |
| At 1 January 2016 | **30,539** |
| Deferred tax | **(4,901)** |
| At 31 December 2016 | **25,638** |

## 17. Financial instruments

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

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| **Financial assets** | | |
| Financial assets that are debt instruments measured at amortised cost | **77,199,734** | 79,125,544 |
| **Financial liabilities** | | |
| Derivative financial liabilities measured at fair value | **(33,745,156)** | (25,796,392) |
| Financial liabilities measured at amortised cost | **(82,581,795)** | (83,918,625) |

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.

**17. Financial instruments** *(continued)*

**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.

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 2016 amounted to net liabilities of £33,745,156 (2015: £25,796,392) comprising liabilities of £6,377,391 for RPI swaps (2015: £4,386,597) and liabilities of £27,367,765 for interest rate swaps (2015: £21,409,795). 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 £28,008,480 (2015: £21,153,041).

### 18. Called up share capital

**Issued, called up and fully paid**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **No** | **£** | No | £ |
| Ordinary shares of £1 each | **370,000** | **370,000** | 370,000 | 370,000 |

### 19. 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.

### 20. 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 £51,532 (2015: £44,562) to BIIF Bidco Limited and its subsidiaries for the provision of 2 directors and the provision of management services.

The company paid £21,270 (2015: £18,005) to Nord/LB Project Holding Limited for the provision of 2 directors.

The company paid £73,305 (2015: £71,023) to Hochtief PPP School Capital Limited for the provision of 2 directors and for the provision of management services.

### 21. 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 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.