# Hub East Central (Levenmouth) Limited

Directors' report and financial statements
Registered number SC483046
31 March 2017

# Contents

# Company information

| | |
|---|---|
| Directors | N McCormick<br>AC Cook<br>D Fletcher<br>J Hope<br>T Steele<br>I Mullen |
| Secretary | Amber Blue East Central Limited |
| Company number | SC483046 |
| Registered office | Robertson House<br>Castle Business Park<br>Stirling<br>FK9 4TZ |
| Auditor | KPMG LLP<br>Saltire Court<br>20 Castle Terrace<br>Edinburgh<br>EH1 2EG |
| Bankers | Barclays Bank plc<br>1 Churchill Place<br>London<br>E14 5HP |
| Loan Finance | Aviva Public Private Finance Limited<br>PO Box 21<br>Surrey Street<br>Norwich<br>NR1 3NJ |
| Solicitors | CMS Cameron McKenna LLP<br>20 Castle Terrace<br>Saltire Court<br>Edinburgh<br>EH1 2EN |

# Strategic Report

**Business Review**

In February 2012 Hub East Central Scotland was set up as a procurement vehicle to support, develop and deliver well designed, affordable, sustainable and functional community facilities that enable effective service delivery throughout the East Central Territory. The aim of Hub East Central Scotland is to create a true partnership vehicle between private sector companies and public sector Participants which will deliver value for money, exploring synergies between the Participants and where appropriate, adapting, developing, innovating and changing to deliver their key objectives in an innovative and flexible manner.

Hub East Central (Levenmouth) Limited (the Company) has been established specifically to design, build, finance and maintain Levenmouth Academy in Fife. It reached financial close on 22 December 2014 and at the year ended 31 March 2017 phase two of the build was nearing completion.

**Financial position and liquidity**

The financial position of the Company is presented in the Statement of Financial Position. The total shareholders' funds at 31st March 2017 are £2,099,252 (2016 £1,170,316). The Company had net current liabilities of £410,161 (2016 net current liabilities of £1,515,953) mainly due to the timing of the loan drawdown. Cash balances at 31st March 2017 were £2,358,558 (2016 £1,056,476).

**Principal risks and Uncertainties**

*Interest Rate Risk*

The Company has limited exposure to interest rate risk as interest on senior debt was fixed on financial close.

*Ability to meet loan covenants*

The Company entered into a loan agreement at financial close which states key financial performance covenants must be met in order to pay sub debt repayments. This risk is mitigated by regular operational reporting at Board level.

*Liquidity Risk*

The Company is exposed to meeting its liabilities as they fall due throughout the life of the project. The Company uses a financial model generated at financial close which calculates the quantum of financing required to cover construction period costs and also the unitary charge figure payable by Fife Council which covers financing and operational costs during operations.

*Credit Risk*

The Company has entered a long term contract with its only customer Fife Council, a public sector Board, therefore credit risk is deemed to be low.

*Inflation Risk*

The Company's revenue and costs are partly linked to inflation resulting in the project being sensitive to inflation. The Company's exposure to inflationary fluctuations are monitored by the Board.

*Health and safety risk*

This is deemed to be low risk due to review procedures undertaken by Hub East Central Scotland Limited.

**Key Performance Indicators**

The Board reviews Key Performance Indicators, monitoring actual performance against that of the financial close model with any significant variances investigated. This is undertaken to ensure that the Company is meeting expectations and that loan covenants are being met, and includes monitoring of any potential breaches which may lead to distributions being locked up. At 31st March 2017 actual results were in line with modelled expectations.

On behalf of the Board

**N McCormick**

**Director**
26 **September 2017**

# Directors' report

The directors present their annual report and audited financial statements for the year to 31 March 2017.

**Principal activities**

The principal activity of the Company is to deliver a Secondary School through a Design, Build, Finance and Maintain (DBFM) agreement with Fife Council. The agreement was entered into under the Government's Hub Initiative Scheme.

**Business review**

The Company was incorporated on 28 July 2014 as Dunwilco (1829) Limited and changed its name to Hub East Central (Levenmouth) on 15 August 2014.

Hub East Central (Levenmouth) Limited is a special purpose Company established by Hub East Central Scotland Limited which is owned by Amber Blue East Central Limited, HCF Investments Limited, Scottish Futures Trust Investments Limited and Fife Council. At the end of the year the school was still in phase two of the construction phase whilst an element of the facility is operational.

The profit for the year after taxation is £929,036 (2016 £900,437) as set out on page 7.

**Proposed dividend**

The directors do not recommend the payment of a dividend (2016 - £Nil).

**Directors**

The directors who held office during the year were as follows:

N McCormick
AC Cook
D Fletcher
J Hope
T Steele
I Mullen

**Political contributions**

The Company made no political donations or incurred any political expenditure during the year.

**Disclosure of information to auditor**

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

**Auditor**

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

By order of the board

**J Band**
*On behalf of Amber Blue East Central Limited*

26/09/2017

Robertson House
Castle Business Park
Stirling
FK9 4TZ

## Statement of directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

# Independent auditor's report to the members of Hub East Central (Levenmouth) Limited

We have audited the financial statements of Hub East Central (Levenmouth) Limited for the year to 31 March 2017 set out on pages 7 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended.
- have been properly prepared in accordance with UK 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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

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

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

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Hugh Harvie (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
KPMG LLP
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

27.9. 2017

## Statement of Comprehensive Income

*for the year to 31 March 2017*

| | Note | **Year to 31 March 2017 Total £** | Year to 31 March 2016 Total £ |
|---|---|---|---|
| **Turnover** | | **3,199,857** | 23,659,955 |
| Cost of sales | | **(2,743,358)** | (22,872,171) |
| **Gross profit** | | **456,499** | 787,784 |
| Administrative expenses | | **(84,372)** | (4,049) |
| **Operating profit/(loss)** | | **372,127** | 783,735 |
| Other interest receivable and similar income | *5* | **2,312,281** | 1,212,841 |
| Interest payable and similar charges | *6* | **(1,919,692)** | (1,189,927) |
| **Profit on ordinary activities before taxation** | | **764,716** | 806,649 |
| Tax recoverable on profit on ordinary activities | *7* | **164,320** | 93,788 |
| **Profit for the financial year after taxation** | | **929,036** | 900,437 |
| **Total comprehensive income for the year** | | **929,036** | 900,437 |

There are no recognised gains and losses other than the above profit for the current and preceding financial years.

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

The notes on pages 11 to 19 form part of the financial statements.

## Statement of Financial Position

***As at 31 March 2017***

| | Note | 2017 £ | 2016 £ |
|---|---|---|---|
| **Current assets** | | | |
| Debtors due within one year | *8* | **40** | 513,956 |
| Debtors due after more than one year | *8* | **42,121,020** | 39,193,933 |
| Cash at bank and in hand | | **2,358,558** | 1,056,476 |
| | | **44,479,618** | 40,764,365 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | *9* | **(2,768,759)** | (3,086,385) |
| **Total assets less current liabilities** | | **41,710,859** | 37,677,980 |
| **Creditors**: amounts falling due after more than one year | *10* | **(39,611,607)** | (36,507,764) |
| **Net assets** | | **2,099,252** | 1,170,216 |
| **Capital and reserves** | | | |
| Called up share capital | *13* | **100** | 100 |
| Profit and loss account | | **2,099,152** | 1,170,116 |
| **Shareholders' funds** | | **2,099,252** | 1,170,216 |

These financial statements of Hub East Central (Levenmouth) Limited were approved by the Board of directors and authorised for issue on 26th September 2017. They were signed on its behalf by:

**N McCormick**
*Director*

Company registered number: SC483046

The notes on pages 11 to 19 form part of these financial statements.

# *Statement of Changes in Equity*

| | Called up Share Capital £ | Profit and Loss Account £ | Total Equity £ |
|---|---|---|---|
| At 31 March 2015 | 100 | 269,679 | 269,779 |
| Profit for the financial period | - | 900,437 | 900,437 |
| Balance at 31 March 2016 | 100 | 1,170,116 | 1,170,216 |
| Profit for the financial period | - | 929,036 | 929,036 |
| **Balance at 31 March 2016** | **100** | **2,099,152** | **2,099,252** |

# Statement of Cash Flows

***for the year ended 31 March 2017***

| | *Note* | **Year to March *2017* £** | Year to March *2016* £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit for the year | | **372,127** | 783,735 |
| Decrease/(increase) in trade and other debtors | *8* | **513,916** | 1,809,540 |
| (Decrease)/Increase in trade and other creditors | *9* | **(1,077,656)** | 475,952 |
| **Net cash from operating activities** | | **(191,613)** | 3,069,226 |
| **Cash flows from investing activities** | | | |
| Interest received | *5* | **2,312,281** | 1,212,841 |
| **Net cash from investing activities** | | **2,312,281** | 1,212,841 |
| **Cash flows from financing activities** | | | |
| Increase in financial asset | *8* | **(2,762,767)** | (25,321,326) |
| Proceeds from new loans | | **4,198,276** | 21,262,025 |
| Capital Repayments | | **(334,403)** | - |
| Interest paid | *6* | **(1,919,692)** | (1,189,927) |
| **Net cash from financing activities** | | **(818,586)** | (5,249,225) |
| Net increase/(decrease) in cash and cash equivalents | | **1,302,082** | (967,158) |
| Cash and cash equivalents at 31 March 2016 | | **1,056,476** | 2,023,634 |
| **Cash and cash equivalents at 31 March 2017** | | **2,358,558** | 1,056,476 |

# Notes
*(forming part of the financial statements)*

## 1 Accounting policies

Hub East Central (Levenmouth) Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 17.

### *1.1 Measurement convention*

The financial statements are prepared on the historical cost basis.

### *1.2 Going concern*

The directors have prepared financial forecasts which reflect that:

- The Company's level of income is relatively stable as most revenue is due under a long term contract from Fife Council, subject to satisfactory performance.
- Most operating costs are fixed through agreed contracts with suppliers and most financing costs are fixed through long term agreement with financiers.

As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have prepared a cashflow forecast for the next twelve months to assess going concern and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### *1.3 Basic financial instruments*

*Trade and other debtors / creditors*

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

*Interest-bearing borrowings classified as basic financial instruments*

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

*Cash and cash equivalents*

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

## Notes *(continued)*

### 1 Accounting policies *(continued)*

### *1.4 Service concession – financial asset*

The Company is a special purpose entity that has been established to provide services under a Design, Build, Finance and Maintain agreement with Fife Council. Under the terms of these Agreements, Fife Council (as grantor) controls the services to be provided by the Company over the contract term. Based on the contractual arrangements the Company has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

Under the terms of the arrangement, the Company has the right to receive a baseline contractual payment stream for the provision of the services from or at the direction of the grantor (Fife Council), and as such the asset created is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction services, plus any directly attributable transaction costs, provided in line with FRS 102.

The financial assets are classified as basic financial instruments in line with FRS 102, Schedule 11 and are subsequently measured at amortised cost using the effective interest method.

At least at each reporting date, the Company tests financial assets not measured at fair value for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the profit and loss immediately. There have been no impairment losses identified as a result.

The Company derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have been transferred.

### *1.5 Revenue*

Revenue is recognised to the extent that it is probable that the future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

***Rendering of services***

Revenue from a contract to provide services is recognised in the year in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the Company will receive the consideration due under contract;
- The stage of completion of the contract at the end of the reporting period can be measured reliably; and
- The cost incurred and the costs to complete the contract can be measured reliably.

### 1.6 *Expenses*

Interest receivable and Interest payable

Interest payable and similar charges include interest payable on subordinated loan notes and finance leases recognised in the profit or loss using the effective interest method and the unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are expensed as incurred.

Other interest receivable and similar income includes interest receivable on funds invested.

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

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.7 Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

## 2 Expenses and auditor's remuneration

*Included in profit/loss are the following:*

*Auditor's remuneration:*

| | 2017 | 2016 |
|---|---|---|
| | **£** | £ |
| Auditor's remuneration: | | |
| Audit of these financial statements | **5,432** | 5,432 |
| Taxation compliance services | **2,988** | 2,988 |

## 3 Staff numbers and costs

There are no employees of the Company.

## 4 Directors' remuneration and Key Management Personnel Compensation.

The directors received no emoluments from the Company during the year.
Total compensation of key management personnel (including the directors) in the year amounted to £Nil.

## 5 Other interest receivable and similar income

| | 2017 | 2016 |
|---|---|---|
| | **£** | £ |
| Other interest receivable | **2,307,558** | 1,204,253 |
| Bank interest receivable | **4,723** | 8,588 |
| Total interest receivable and similar income | **2,312,281** | 1,212,841 |

## Notes *(continued)*

### 6 Interest payable and similar charges

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Subordinated loan interest | **402,000** | 402,828 |
| Other interest | **1,517,692** | 787,099 |
| Total interest payable and similar charges | **1,919,692** | 1,189,927 |

Interest payable and similar charges include interest payable on subordinated loan notes and the term loan facility. The subordinated loan interest amount above was payable to group undertakings.

### 7 Taxation

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

| | 31 March 2017 | March 2016 |
|---|---|---|
| | £ | £ |
| *Current tax* | | |
| Current tax on income for the period | - | |
| *Deferred tax (see note 12)* | | |
| Origination and reversal of timing differences | **(164,320)** | (93,788) |
| Total tax credit | **(164,320)** | (93,788) |

**Reconciliation of effective tax rate**

| | 31 March 2017 | March 2016 |
|---|---|---|
| | **£** | £ |
| Profit for the year | **929,036** | 900,437 |
| Total tax credit | **(164,320)** | (93,788) |
| Profit excluding taxation | **764,716** | 806,649 |
| Tax using the UK corporation tax rate of 20% | **152,943** | 161,330 |
| Deferred tax on allowable development expenses | **(164,320)** | (93,788) |
| Current year (profit)/losses | **(152,943)** | (161,330) |
| Total tax credit included in profit or loss | **(164,320)** | (93,788) |

# Notes *(continued)*

## 7 Taxation *(continued)*

***Factors affecting the tax charge for the current year***
A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 March 2017 has been calculated based on these rates.

## 8 Debtors

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Financial asset debtor | **41,483,399** | 38,720,632 |
| Trade debtors | **40** | 34,356 |
| Deferred tax assets (see note 12) | **637,621** | 473,301 |
| VAT receivable | - | 479,600 |
| | **42,121,060** | 39,707,889 |
| Due within one year | **40** | 513,956 |
| Due after more than one year | **42,121,020** | 39,193,933 |
| | **42,121,060** | 39,707,889 |

## 9 Creditors: amounts falling due within one year

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Trade creditors | **144,905** | 1,336,718 |
| Accruals and deferred income | **1,145,121** | 1,080,860 |
| Bank Loans and overdrafts | **1,428,837** | 668,807 |
| VAT Payable | **49,896** | - |
| | **2,768,759** | 3,086,385 |

## 10 Creditors: amounts falling after more than one year

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Bank loans and overdrafts (see note 11) | **35,591,607** | 32,487,764 |
| Subordinated loan notes | **4,020,000** | 4,020,000 |
| | **39,611,607** | 36,507,764 |

# Notes *(continued)*

## 11 Interest-bearing loans and borrowings

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

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| **Creditors falling due within one year** | | |
| Secured bank loans | **1,428,837** | 668,807 |
| **Creditors falling due more than one year** | | |
| Secured bank loans | **35,591,607** | 32,487,764 |
| Subordinated loan notes | **4,020,000** | 4,020,000 |
| | **41,040,444** | 37,176,571 |

The Company has a term loan with Aviva Public Private Finance Limited secured by a charge over its present and future assets and undertakings. The loan is also secured by a guarantee supported by a charge over the assets and undertakings of the Company's parent Company, Hub East Central (Levenmouth) Midco Limited. The loan bears interest at 3.99% per annum fixed for the duration of the term. The loan is stated net of finance costs of £1,020,030, and is repayable in quarterly instalments which will commence 31 March 2017. Capital repayments of £1,428,837 will be paid in the next financial year and the final repayment date is 8 July 2040.

A subordinated loan was issued to the Company by Scottish Futures Trust Investments Limited (40%), Robertson Capital Projects Hub Investments Limited (25%), Amber Investments Holdings Limited (25%) and FES Marketing Limited (10%). The annual interest paid on the loan is 10% of the of the loan balance outstanding. The loan is repayable on a quarterly basis in line with the loan note instrument which will commence 31 March 2017. The final repayment date is 30 September 2040.

## 12 Deferred tax assets and liabilities

The deferred tax asset is attributable to the following:

| | **Deferred Tax Asset 2017** | Deferred Tax Asset 2016 |
|---|---|---|
| | **£** | £ |
| At start of period | **473,301** | 379,513 |
| Deferred tax on allowable development expenses – profit and loss | **164,320** | 93,788 |
| Deferred tax asset | **637,621** | 473,301 |

## 13 Capital and reserves

### Share capital

| | **2017** | 2016 |
|---|---|---|
| | **£** | £ |
| ***Allotted, called up and fully paid*** | | |
| 100 ordinary shares of £1 each | **100** | 100 |
| Shares classified in shareholders' funds | **100** | 100 |

There were no further shares allotted during the year.

## Notes *(continued)*

### 14 Commitments

*Capital commitments*

The Company's contractual commitments in respect of construction costs in line with the construction contract at the year-end were £210,495.

### 15 Ultimate parent company

The Company is a subsidiary undertaking of Hub East Central (Levenmouth) Midco Limited. The ultimate controlling party is Amber Blue East Central Limited whose accounts are available at Companies House, Edinburgh. The ultimate parent company's registered office is Robertson House, Castle Business Park, Stirling, FK9 4TZ.

No other group financial statements include the results of the Company.

# Notes *(continued)*

### 16 Related parties

*Identity of related parties with which the Company has transacted*

| Related Party | Relationship | Class of transaction | 2017 Expenditure | 2017 Creditor | 2016 Expenditure | 2016 Creditor |
|---|---|---|---|---|---|---|
| | | | | | £ | £ |
| Amber Blue East Central Limited | Amber Blue East Central Limited is a 60% shareholder in Hub East Central (Levenmouth) Midco Limited which owns 100% of Hub East Central (Levenmouth) Limited | Management Services agreement | **29,462** | - | 27,684 | 685 |
| Robertson Capital Projects hub Investments Limited | Robertson Capital Projects Hub Investments Limited is a 41.67% shareholder in Amber Blue East Central Limited which owns 60% Hub East Central (Levenmouth) Midco Limited which owns 100% of Hub East Central (Levenmouth) Limited | Loan interest on 25% of subordinated debt capital | **100,500** | - | 100,707 | - |
| FES FM Limited | FES FM Limited is a subsidiary of Forth PPP Limited which is a 16.67% shareholder in Amber Blue East Central Limited which owns 60% Hub East Central (Levenmouth) Midco Limited which owns 100% of Hub East Central (Levenmouth) Limited | FM Costs | **177,422** | - | - | - |
| FES Marketing Limited | FES Marketing Limited is a wholly owned subsidiary of Forth PPP Limited which is a 16.67% shareholder in Amber Blue East Central Limited which owns 60% Hub East Central (Levenmouth) Midco Limited which owns 100% of Hub East Central (Levenmouth) Limited | Loan interest on 10% of subordinated debt capital | **40,200** | - | 40,283 | - |
| Amber Investments Holdings Limited | Amber Investments Holdings Limited is a 41.67% shareholder in Amber Blue East Central Limited which owns 60% Hub East Central (Levenmouth) Midco Limited which owns 100% of Hub East Central (Levenmouth) Limited | Loan interest on 25% of subordinated debt capital | **100,500** | - | 100,707 | - |
| Scottish Futures Trust Investments Limited | Scottish Futures Trust Investment Limited is a 10% shareholder in Hub East Central (Levenmouth) Midco Limited which owns 100% of Hub East Central (Levenmouth) Limited | Loan interest on 40% of subordinated debt capital | **160,800** | - | 161,131 | - |

# Notes *(continued)*

## 17 Accounting estimates and judgements

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 Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

**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 is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit.

Judgements are required to be made as to the calculation and identification of temporary differences and in the case of the recognition of deferred taxation assets, the directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgement requires the directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset. Key sources of estimation uncertainty 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 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 where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. 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 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 estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract.