Sussex Custodial Services (Holdings) Limited

Annual report and financial statements

Registered number 04164414

31 December 2017

Contents

Company Information

The Board of Directors	A Mills S A Brooks
Company secretary	Pario Limited
Registered office	Unit 18, Riversway Business Village Navigation Way Preston Lancashire PR2 2YP
Independent auditor	KPMG LLP Chartered Accountants and Statutory Auditor 3 Assembly Square, Britannia Quay, Cardiff CF10 4AX, United Kingdom

Directors' report
for the year ended 31 December 2017

The Directors have pleasure in presenting their annual report and the audited financial statements of Sussex Custodial Services (Holdings) Limited for the year ended 31 December 2017.

Principal activities

The Company acts as a holding Company for its subsidiary, Sussex Custodial Services Limited. The principal activity of the Group in the year under review was to maintain and partially operate custody centres for the Sussex Police and Crime Commissioner (SPCC) under the Government's private finance initiative ("PFI").

The Group has entered into a Project Agreement with the SPCC, together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements. The Project Agreement requires it to finance, design, develop and construct maintain and deliver certain services within the Sussex Custodial PFI project for a primary term of 30 years from the date of signing of the Project Agreement, in October 2002.

Key performance indicators

The Group is required to comply with a number of financial covenants implemented by the senior Lender at certain calculation dates throughout the year, of which failure to meet would result in a default of the senior loan agreement. The ratios required to meet are defined in the credit agreement as Loan Life Cover Ratio and Annual Debt Service Cover Ratio. These are required to remain above 1.100.

Current and future ratios are presented to the senior lender for approval on a 6 monthly basis to ensure compliance with the Credit Agreement. To date, and in all future periods as detailed in the latest operational model, the Group has met and is forecast to meet these requirements for the remainder of the concession.

The results for the year are set out in the statement of profit and loss and other comprehensive income on page 8.

Principal risks and uncertainties

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. Unavailability deductions are passed on 100% to the Facilities management provider as and when they occur. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

The financial risk management objectives and policies of the Group, together with an analysis of the exposure to such risks, as required under the Companies Act are set out below.

Financial risk management

The Company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the Company's performance. The Directors have policies for managing each of these risks and they are summarised below:

Interest rate risk
The bank loan and subordinated debt interest rates have been fixed through use of interest rate swaps to fix the funding rates, plus a margin. Details of these can be found in note 11.

Inflation risk
The Company's project revenue and most of its costs are linked to inflation at the inception of the project, however, in addition, suitable hedging has been put in place to cover the revenue that is not linked to related indexed costs. Details of these can be found in note 14.

Directors' report *(continued)*
for the year ended 31 December 2017

Financial risk management (continued)

Liquidity risk
The Company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due. This is done through regular periodic cash flow forecasting of operating accounts through the operating model and requirements under the credit agreement to hold liquid resources in reserve accounts at the calculation dates.

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

Dividends

The profit for the year, after taxation, amounted to £516,183 (2016: £644,969). The directors approved dividends of £365,581 (2016: £377,524) and paid dividends of £545,000 (2016: £345,000).

Directors and directors' interests

The Directors of the Group who held office during the year and to the date of signing these financial statements are listed below:

S A Brooks
A Mills

Strategic Report exemption

The Directors' Report has been prepared in accordance with the special provisions relating to small companies under Section 415 of the Companies Act 2006. Accordingly, no Strategic Report has been prepared.

Political and charitable contributions

The Group made no political or charitable contributions during the current year (2016: nil).

Employees

The Company has no employees (2016: Nil)

Going concern

The Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to December 2031. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Directors' report *(continued)*
for the year ended 31 December 2017

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 Group's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given pursuant to Section 418(2) of the Companies Act 2006 and should be interpreted in accordance therewith.

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.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

By Order of the Board

A Mills
Director

13/07/ 2018

Unit 18 Riversway Business Village
Navigation Way
Preston
Lancashire
PR2 2YP

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Sussex Custodial Services (Holdings) Limited

Opinion

We have audited the financial statements of Sussex Custodial Services (Holdings) Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated Profit and Loss Account and Statement of Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report

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

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

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

Independent auditor's report to the members of Sussex Custodial Services (Holdings) Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

16 July 2018

Consolidated Profit and Loss Account and Statement of Other Comprehensive Income

for year ended 31 December 2017

	Notes	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Turnover	2	**8,961,402**	9,280,262
Cost of sales		**(8,069,298)**	(8,434,039)
Gross profit		**892,104**	846,223
Administrative expenses		**(279,093)**	(220,301)
Operating profit		**613,011**	625,922
Interest receivable and similar income	5	**1,242,550**	1,298,275
Interest payable and similar expenses	6	**(1,149,403)**	(1,229,069)
Profit before taxation		**706,158**	695,128
Tax on profit	7	**(189,975)**	(50,159)
Profit for the financial year		**516,183**	644,969
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Effective portion of fair value changes in cash flow hedges	15	**576,225**	(226,242)
Tax recognised in relation to change in fair value cash flow hedges	7	**(97,958)**	7,722
Other comprehensive income/(loss) for the year		**478,267**	(218,520)
Total comprehensive income for the year		**994,450**	426,449

The notes on pages 14 to 28 form an integral part to these financial statements.

Consolidated Balance Sheet
at 31 December 2017

	Notes	31 December 2017 £	31 December 2016 £
Current assets			
Debtors including £15,222,497 (2016: £15,924,186) due after more than one year	*9*	**19,513,547**	20,287,210
Cash at bank and in hand		**2,204,797**	2,357,476
Total current assets		**21,718,344**	22,644,686
Current liabilities			
Creditors: amounts falling due within one year	*10*	**(2,774,871)**	(3,288,826)
Net current assets		**18,943,473**	19,355,860
Creditors: amounts falling due after more than one year	*11*	**(16,092,571)**	(17,189,663)
Provisions for liabilities	*13*	**(819,985)**	(764,149)
Net assets		**2,030,917**	1,402,048
Capital and reserves			
Called up share capital	*14*	**156,065**	156,065
Profit and loss account		**4,135,713**	3,985,111
Cash flow hedge reserve	*14*	**(2,260,861)**	(2,739,128)
Total shareholders' funds		**2,030,917**	1,402,048

The notes on pages 14 to 28 form an integral part to these financial statements.

These financial statements were approved by the board of directors on 13/7/ 2018 and were signed on its behalf by:

A Mills
Director

Company registered number: 04164414

Company Balance Sheet
As at 31 December 2017

	Notes	2017	2016
		£	£
Fixed Assets			
Investments	*8*	**156,065**	156,065
		156,065	156,065
Current assets			
Debtors: amounts due after more than one year	*9*	**2,373,740**	2,373,740
Total current assets		**2,373,740**	2,373,740
Current liabilities			
Creditors: amounts falling due after more than one year	*11*	**(2,373,740)**	(2,373,740)
Net current assets		**-**	-
Net assets		**156,065**	156,065
Capital and reserves			
Called up share capital	*14*	**156,065**	156,065
Profit and loss account		**-**	-
Total shareholders' funds		**156,065**	156,065

The company made profit during the year of £365,581 (2016: £377,524) of which all retained profit was distributed, and the position represents the investment in the subsidiary.

The notes on pages 14 to 28 form an integral part to these financial statements.

These financial statements were approved by the board of directors on 13/7/ 2018 and were signed on its behalf by:

A Mills
Director

Company registered number: 04164414

Consolidated Statement of Changes in Equity

	Called up share capital	Cash flow hedge reserve	Profit and loss account	Total Equity
	£	£	£	£
Balance at 1 January 2016	156,065	(2,520,608)	3,717,666	1,353,123
Total comprehensive income for the period				
Profit	-	-	644,969	644,969
Other comprehensive loss	-	(218,520)	-	(218,520)
Total comprehensive (loss)/income for the period	-	(218,520)	644,969	426,449
Dividends	-	-	(377,524)	(377,524)
Total contributions by and distributions to owners	-	-	(377,524)	(377,524)
Balance at 31 December 2016	156,065	(2,739,128)	3,985,111	1,402,048

	Called up share capital	**Cash flow hedge reserve**	**Profit and loss account**	**Total Equity**
	£	**£**	**£**	**£**
Balance at 1 January 2017	**156,065**	**(2,739,128)**	**3,985,111**	**1,402,048**
Total comprehensive income for the period				
Profit	-	-	**516,183**	**516,183**
Other comprehensive income	-	**478,267**	-	**478,267**
Total comprehensive income for the period	-	**478,267**	**516,183**	**994,450**
Dividends	-	-	**(365,581)**	**(365,581)**
Total contributions by and distributions to owners	-	-	**(365,581)**	**(365,581)**
Balance at 31 December 2017	**156,065**	**(2,260,861)**	**4,135,713**	**2,030,917**

The notes on pages 14 to 28 form an integral part to these financial statements.

Company Statement of Changes in Equity

	Called up share capital	Profit and loss account	Total Equity
	£	£	£
Balance at 1 January 2016	156,065	-	156,065
Total comprehensive income for the period			
Profit	-	377,524	377,524
Total comprehensive income for the period	-	377,524	377,524
Dividends Paid	-	(377,524)	(377,524)
Balance at 31 December 2016	156,065	-	156,065

	Called up share capital	**Profit and loss account**	**Total Equity**
	£	**£**	**£**
Balance at 1 January 2017	**156,065**	-	**156,065**
Total comprehensive income for the period			
Profit	-	**365,581**	**365,581**
Total comprehensive income for the period	-	**365,581**	**365,581**
Dividends Paid	-	**(365,581)**	**(365,581)**
Balance at 31 December 2017	**156,065**	-	**156,065**

The notes on pages 14 to 28 form an integral part to these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2017

	Year ended 31 December 2017 £	Year ended 31 December 2016 £
Cash flows from operating activities		
Profit before taxation	**706,158**	695,128
Adjustment for:		
Financial income	**(1,242,550)**	(1,298,275)
Financial expense	**1,149,403**	1,229,069
Operating profit before changes in working capital and provisions	**613,011**	625,922
Decrease in finance receivables	**650,814**	604,268
Decrease/(Increase) in debtors	**122,849**	(367,347)
(Decrease)/Increase in creditors	**(73,468)**	143,892
Cash generated from operations	**1,313,206**	1,006,735
Tax paid	**(315,258)**	(2,565)
Net cash inflow from operating activities	**997,948**	1,004,170
Cash flows from investing activities		
Interest received	**1,242,550**	1,298,275
Net cash inflow from investing activities	**1,242,550**	1,298,275
Cash flows from financing activities		
Interest paid	**(1,140,138)**	(1,214,191)
Repayment of borrowings	**(887,458)**	(1,136,785)
Dividends Paid	**(365,581)**	(377,524)
Net cash outflow from financing activities	**(2,393,177)**	(2,728,500)
Net increase in cash and cash equivalents	**(152,679)**	(426,055)
Cash and cash equivalents at 1 January	**2,357,476**	2,783,531
Cash and cash equivalents at 31 December	**2,204,797**	2,357,476

The notes on pages 14 to 28 form an integral part to these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Sussex Custodial Services (Holdings) Limited (the "Company") is a Company limited by shares and incorporated, domiciled and registered in England and Wales in the UK.

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

The presentation currency of these financial statements is sterling. The presentation currency of these financial statements is sterling.

The parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied.

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Sussex Custodial Services (Holdings) Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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 below.

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements in applying the Group's accounting policies are described below:

- 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 PFI contract.
- Lifecycle costs are a significant proportion of future expenditure and they can be volatile in nature. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis.

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

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

1.2 Going concern

The Directors have reviewed the Group's projected profits and cash flows by reference to a financial model covering accounting periods up to April 2039. Having examined the current status of the Group's principal contracts and likely developments in the foreseeable future, the Directors consider that the Group will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

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

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.4 Classification of financial instruments issued by the Company

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

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

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

1.5 Basic financial instruments

Trade, and other debtors / creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Basic financial instruments (continued)

Finance debtors

The finance debtor has been recognised based upon the Finance debtor and service income policy below. This is classified as a basic financial instrument as the debtor relates to the construction phase and only risk held is credit risk. Any performance conditions are linked to the operating phase revenue and therefore not relevant.

Restricted cash

The Group is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £1,263,307 at the year end (2016: £1,104,299).

1.6 Other financial instruments

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

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

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

Derivative financial instruments and hedging

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

Cash flow hedges

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

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

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

1.7 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Impairment excluding deferred tax assets (continued)

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

1.8 Finance debtor and service income policy

The Group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Group under old UK GAAP, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority. The Group elected to grandfather this treatment following the transition and adoption of FRS 102.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 102 section 23. The Group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

1.9 Expenses

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable on borrowings and related finance costs.

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

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

1.10 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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. 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.

Notes *(continued)*

2 Turnover

	2017	2016
	£	£
Service income	**8,961,402**	9,280,262

All turnover originates in the United Kingdom

3 Auditor's remuneration

Operating profit is stated after charging:

	2017	2016
	£	£
Audit of these financial statements	**1,000**	1,000
Amounts receivable by the company's auditor and its associates in respect of:		
- Taxation compliance services	**5,700**	5,700
- Audit of financial statements of subsidaries of the company	**10,710**	10,400

Auditor's remuneration for the audit of these financial statements was £1,000 (2016: £1,000) and was borne by the company's subsidiary.

4 Staff costs and Directors' remuneration

The Group had no employees during the year (2016: nil).

The Directors received £61,966 (2016: £58,852) of remuneration for their services during the year. The Directors remuneration was paid to the shareholders.

5 Other interest receivable and similar income

	2017	2016
	£	£
Finance debtor interest receivable	**1,242,111**	1,288,658
Bank interest receivable	**439**	9,617
	1,242,550	1,298,275

Notes *(continued)*

6 Interest payable and similar expenses

	2017	2016
	£	£
Interest payable on bank loans	**792,166**	873,536
Interest payable on loan stock	**356,062**	354,598
Bank fees payable	**1,175**	935
	1,149,403	1,229,069

7 Taxation

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

	2017		2016	
	£	£	£	£
Current tax		**232,097**		142,460
Total current tax		**232,097**		142,460
Deferred tax (see note 13)				
Revaluation of fair value of derivatives	**97,958**		(38,461)	
Origination and reversal of timing differences	**(42,122)**		(11,031)	
Change in tax rate	-		(50,531)	
Total deferred tax	**55,836**		(100,023)	
Total tax		**287,933**		42,437

	2017			2016		
	£			£		
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**232,097**	**(42,122)**	**189,975**	142,460	(92,301)	50,159
Recognised directly in other comprehensive income	-	**97,958**	**97,958**	-	(7,722)	(7,722)
Total tax	**232,097**	**55,836**	**287,933**	142,460	(100,023)	42,437

Notes *(continued)*

7 Taxation *(continued)*

Reconciliation of effective tax rate

	2017	2016
	£	£
Profit on ordinary activities after tax	**516,183**	644,969
Total tax expense	**189,975**	50,159
Profit excluding taxation	**706,158**	695,128
Taxation using the UK corporation tax rate of 19.25% (2016: 20%)	**135,935**	139,025
Disallowable items	**48,464**	(12,509)
Change in tax rate	**5,576**	(76,357)
	189,975	50,159

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 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 December 2017 has been calculated based on the rate of 17% (2016: 17%) substantively enacted at the balance sheet date.

8 Fixed Asset Investments

Company	**2017**	2016
	£	£
Cost		
At 31 December 2017 and 1 January 2017	**156,065**	156,065

The undertakings in which the Company's interest at the year end is more than 20% are as follows:

Company	**Shares held**	
	Class	**%**
Participating interests		
Sussex Custodial Services Limited	Ordinary	100

The registered office of Sussex Custodial Services is Unit 18, Riversway Business Village, Navigation Way, Preston, Lancashire, PR2 2YP

Notes *(continued)*

9 Debtors

	Group 2017 £	2016 £	Company 2017 £	2016 £
Finance debtor	**15,934,081**	16,584,895	-	-
Unitary charge control account	**2,603,796**	2,773,534	-	-
Trade debtors	**40,110**	-	-	-
Prepayments and accrued income	**935,560**	928,781	-	-
Amounts due from group undertakings	-	-	**2,373,740**	2,373,740
	19,513,547	20,287,210	**2,373,740**	2,373,740
Due within one year	**4,291,050**	4,363,024	-	-
Due after more than one year	**15,222,497**	15,924,186	**2,373,740**	2,373,740
	19,513,547	20,287,210	**2,373,740**	2,373,740

Amounts due from group undertakings stated above are legally due on demand and thus recoverable within 1 year. It is not expected that a demand for these amounts will be made within the next year.

10 Creditors: amounts falling due within one year

	Group 2017 £	2016 £	Company 2017 £	2016 £
Bank loan	**521,425**	878,751	-	-
Trade creditors	**839,073**	786,899	-	-
Corporation tax	**59,299**	142,460	-	-
Other taxation	**137,289**	131,892	-	-
Accruals and deferred income	**1,215,858**	1,346,661	-	-
Sundry Creditors	**1,927**	2,163	-	-
	2,774,871	3,288,826	-	-

The carrying value of creditors is measured at amortised cost which approximates to fair value.

Notes *(continued)*

11 Creditors: amounts falling after more than one year

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Bank loan	**10,994,902**	11,515,769	-	-
Loan stock	**2,373,740**	2,373,740	**2,373,740**	2,373,740
Other financial liabilities (note 15)	**2,723,929**	3,300,154	-	-
	16,092,571	17,189,663	**2,373,740**	2,373,740

12 Interest-bearing loans and borrowings

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

	2017	2016
	£	£
Creditors falling due more than one year		
Bank loan	**10,994,902**	11,515,769
Loan stock	**2,373,740**	2,373,740
Creditors falling due within less than one year		
Bank loan	**521,425**	878,751
Loan stock	-	-

Included within Bank loan is an amount repayable after five years of £6,237,520 (2016: £7,617,520) and included within subordinated debt are amounts repayable after five years of £2,373,740 (2016: £2,373,740) respectively.

Notes *(continued)*

12 Interest-bearing loans and borrowings *(continued)*

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of Maturity	Repayment schedule	2017	2016
					£	£
Bank loan	GBP	LIBOR + 0.9%	2026	Semi-annual	**11,516,327**	12,394,519
Loan stock	GBP	12% p.a	2026	Semi-annual	**2,373,740**	2,373,740

Bank loans

Bank loans are secured by a fixed charge over land and buildings, the costs of which are included as a finance debtor in the Balance Sheet. The loans are fully repayable by 31 December 2026. Bank loans bear interest based on the floating LIBOR rate, plus a margin of 0.9%. Loan interest is payable biannually in June and December.

Loan stock

The loan stock is held by Infrastructure Investments Limited Partnership, the Company's holding Company. The loan is fully repayable by 30 June 2029. Loan stock interest is payable biannually in June and December.

13 Provisions for liabilities

Provisions for liabilities is attributable to the following:

Movement in deferred tax	Capital allowances	Losses	Derivative financial instruments	Total
	£	£	£	£
31 December 2015	(1,462,882)	45,406	553,304	(864,172)
Recognised in profit or loss	137,707	(45,406)	-	92,301
Recognised in other comprehensive income	-	-	7,722	7,722
31 December 2016	(1,325,175)	-	561,026	(764,149)
Recognised in profit or loss	**42,122**	-	-	**42,122**
Recognised in other comprehensive income	-	-	**(97,958)**	**(97,958)**
31 December 2017	**(1,283,053)**	-	**463,068**	**(819,985)**

Deferred tax asset is recognised on the revaluation of the swap derivatives on the interest rate swaps held by the Company. These are accounted for under cash flow hedges (see note 16).

Reversal of the deferred tax asset is shown through the cash flow hedge reserve.

Notes *(continued)*

14 Capital and reserves

Share capital

	Ordinary Shares 2017 No.	31 December 2017 £
On issue at 1 January and 31 December		
Issued for cash	**156,065**	**156,065**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

Cash flow hedge reserve

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

Notes *(continued)*

15 Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2017	2016
	£	£
Assets measured at amortised cost		
- Finance debtor	**15,934,081**	16,584,895
- Trade and other debtors	**2,643,906**	2,773,534
	18,577,987	19,358,429
Assets measured at cost less impairment		
- Cash and cash equivalents	**2,204,797**	2,357,476
	2,204,797	2,357,476
Liabilities measured at amortised cost		
- Trade and other payables	**(1,037,588)**	(1,063,414)
- Bank loan	**(11,516,327)**	(12,394,520)
- Loan stock	**(2,373,740)**	(2,373,740)
	(14,927,655)	(15,831,674)
Liabilities measured at fair value through profit and loss		
- Interest swaps	**(2,723,929)**	(3,300,154)

(b) Financial instruments measured at fair value

Derivative financial instruments

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

Notes *(continued)*

15 Financial instruments *(continued)*

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS102 12.29(a) for the cash flow hedge accounting models and also the associated cash flow hedging instruments are expected to affect profit and loss:

			2017		
	Carrying Amount	**Within 1 year**	**Between 1-2 years**	**Between 2-5 years**	**5 years and over**
	£	**£**	**£**	**£**	**£**
Interest rate swap	**(2,723,929)**	**(732,058)**	**(696,894)**	**(1,660,314)**	**(1,016,805)**
	(2,723,929)	**(732,058)**	**(696,894)**	**(1,660,314)**	**(1,016,805)**

			2016		
	Carrying Amount	Within 1 year	Between 1-2 years	Between 2-5 years	5 years and over
	£	£	£	£	£
Interest rate swap	(3,300,154)	(783,390)	(732,058)	(1,895,467)	(1,478,546)
	(3,300,154)	(783,390)	(732,058)	(1,895,467)	(1,478,546)

The Group has entered into two interest rate swap agreement under the bank loan which expires in December 2026.

A fixed rate of 5.575% and 5.290% respectively applies to the two interest rate swaps. The interest rate swaps converts the borrowings from the rates linked to LIBOR to the fixed rate above.

Notes *(continued)*

15 Financial instruments *(continued)*

(d) Fair values

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

	Fair Value 2017 £	Fair Value 2016 £
Interest rate swap contract	**2,723,929**	3,300,154

16 Related parties

The details of the related party transactions are detailed as follows:

	Transactions		**Balances owed to at period end**	
	2017 £	2016 £	**2017 £**	2016 £
Directors' fees				
- Infrastructure Investments Limited Partnership	**61,966**	58,852	**20,167**	20,167
Loan stock				
- Infrastructure Investments Limited Partnership	**356,062**	354,598	**2,551,770**	2,551,770
Dividends				
- Infrastructure Investments Limited Partnership	**365,581**	377,524	-	-
Consortium relief				
- Infrastructure Investment Holdings Limited	-	-	**1,927**	**2,163**
	783,609	790,974	**2,573,864**	2,574,100

Notes *(continued)*

17 Ultimate parent Company and controlling party

The majority shareholder is Infrastructure Investments General Partner Limited, acting in its capacity as general partner for Infrastructure Investments Limited Partnership. The registered address is 12 Charles II Street, London, SW1Y 4QU.

The ultimate parent company is HICL Infrastructure Company Limited incorporated in Guernsey. The registered address of this company is East Wing, Trafalgar Court, Les Banques, St Peter's Port, Guernsey, GY1 1WD.

These are the only group accounts which include the results of the Company.