

COMPANY NO: 05043832

GLOUCESTERSHIRE FM SERVICES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018



GLOUCESTERSHIRE FM SERVICES LIMITED
FOR THE YEAR ENDED 31 MARCH 2018

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GLOUCESTERSHIRE FM SERVICES LIMITED

FOR THE YEAR ENDED 31 MARCH 2018

COMPANY INFORMATION

Registered number	05043832
Registered office	Third Floor Broad Quay House Prince Street Bristol United Kingdom BS1 4DJ
Directors	Karen Hill Michael Donn
Company Secretary	Imagile Secretariat Services Limited Third Floor Broad Quay House Prince Street Bristol United Kingdom BS1 4DJ
Auditor	BDO LLP 55 Baker Street London W1U 7EU

GLOUCESTERSHIRE FM SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2018

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

Principal activity and business review

The company's principal activity is that of private finance initiative concessionaire for the Gloucestershire Police Headquarters building under the terms of a concession agreement dated 21 April 2004 between the Company and Gloucestershire Constabulary.

The Company's concession agreement requires it to finance, design, develop and construct and then maintain the Gloucestershire Police Headquarters building for a primary concession period of thirty years from its completion.

Work commenced on the development of the building on 21 April 2004 and the building became operational in December 2005.

During the year under review the Company made a profit on ordinary activities before taxation of £75,000 (2017: £36,000). There was a tax charge of £16,000 (2017: £9,000) giving a profit after taxation for the year of £59,000 (2017: £27,000).

Proposed dividend

The directors do not recommend the payment of a dividend (2017: £nil).

Key performance indicators (KPIs)

Performance deductions under the service contract

Financial penalties are levied by the Gloucestershire Constabulary in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service provider but the quantum is an indication of unsatisfactory performance. In the year ended 31 March 2018 there were no deductions (2017: no deductions).

Financial performance

The Company has modelled the anticipated financial outcome of the concession across its full term. The Company monitors actual performance against this anticipated performance. As at 31 March 2018 the company's performance against this measure was deemed by directors to be satisfactory.

Going concern

The company's net liabilities at 31 March 2018 are £3,812,000 (2017: £4,652,000). The directors have reviewed the company's projected cash flows which have been prepared on the basis of a detailed analysis of the company's finances, contract and likely future demand trends. After consideration of these projections 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.

Financial risk management policies and objectives

The company's principal financial instruments comprise short term bank deposits, bank debt at LIBOR plus a bank margin with a swap contract in place to hedge against adverse movements in interest rates.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities. The company's funding has been arranged using the principles of project finance with the terms of the financial instruments, and the resulting profile of the debt service costs, tailored to match the expected revenues arising from the concession agreement. In order to fund construction of the police facilities the Company negotiated loan facilities. The interest rate on the facility is hedged using an interest rate swap.

Board approval is required for the use of any new financial instrument and the company's ability to do so is restricted by covenants in its existing funding agreements.

Other disclosures in respect of financial instruments are given in the notes to the financial statements.

GLOUCESTERSHIRE FM SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

Principal risks and uncertainties

Gloucestershire Constabulary is the sole client of the Company but the directors consider that no risk arises from this since the Home Secretary has underwritten the Constabulary's obligations.

Performance risk under the Project Agreement and related contracts is passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten by parent Company guarantees.

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

Interest rate risk

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

Liquidity risk

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

Directors

The directors of the Company during the year and up to the date of signing this report were as shown below.

Karen Hill
Michael Donn

Strategic Report exemption

The Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to the small Company exemption. Accordingly, no Strategic Report has to be prepared.

Auditor

BDO LLP were auditors in the year and will be proposed for reappointment to continue in office.

Small Company provisions

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

GLOUCESTERSHIRE FM SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

Directors' responsibility statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and 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 accounting estimates that are reasonable and prudent; 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 are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approval

The report of the directors was approved by the Board on behalf by:

24 August

2018 and signed on its



Michael Donn
Director

GLOUCESTERSHIRE FM SERVICES LIMITED

Independent auditors' report to the members of Gloucestershire FM Services Limited

Opinion

We have audited the financial statements of Gloucestershire FM Services Limited ("the Company") for the year ended 31 March 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

GLOUCESTERSHIRE FM SERVICES LIMITED

Independent auditors' report to the members of Gloucestershire FM Services Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

GLOUCESTERSHIRE FM SERVICES LIMITED

Independent auditors' report to the members of Gloucestershire FM Services Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

BDO LLP

Paul Bailey (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
United Kingdom
W1U 7EU

28 Aug 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GLOUCESTERSHIRE FM SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £'000	2017 £'000
Turnover	2	2,046	1,963
Cost of sales		(1,127)	(1,102)
Gross profit		919	861
Administrative expenses		(521)	(499)
Operating profit	3	398	362
Interest payable and similar charges	6	(1,181)	(1,210)
Interest receivable	7	858	884
Profit on ordinary activities before taxation		75	36
Tax charge on profit on ordinary activities	8	(16)	(9)
Profit for the financial year		59	27
Comprehensive income			
Items that will or may be reclassified to profit or loss:			
Effective portion of fair value changes in cash flow hedges		941	86
Tax recognised in relation to change in fair value cash flow hedges		(160)	(71)
Comprehensive income for the year		781	15
Total comprehensive income for the year		840	41

All of the activities of the Company are classed as continuing.

The notes on pages 11 to 21 form part of these financial statements.

GLOUCESTERSHIRE FM SERVICES LIMITED

BALANCE SHEET

AS AT 31 MARCH 2018

	Notes	2018 £'000	Restated 2017 £'000
Current assets			
Debtors (including £13,521k (2017: £14,297k) due after more than one year)	9	14,396	15,132
Cash at bank and in hand		3,957	3,540
Total assets		18,353	18,672
Creditors: Amounts falling due within one year	10	(2,240)	(2,062)
Net current assets		16,113	16,610
Total assets less current liabilities		16,113	16,610
Creditors: Amounts falling due after more than one year	11	(19,925)	(21,262)
Net liabilities		(3,812)	(4,652)
Capital and reserves			
Share capital	13	10	10
Profit and loss account		24	(35)
Cash flow hedge reserve		(3,846)	(4,627)
Equity shareholders' deficit		(3,812)	(4,652)

The financial statements were approved by the Board on ^{24th} August 2018 and signed on its behalf by:

These financial statements have been prepared in accordance with the Small Companies regime.



Michael Donn

Director

Company No. 05043832

The notes on pages 11 to 21 form part of these financial statements.

GLOUCESTERSHIRE FM SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 April 2016	10	(4,642)	(62)	(4,694)
Total comprehensive income for the year				
Profit for the year	-	-	27	27
Other comprehensive income	-	15	-	15
Total comprehensive income for the year	-	15	27	41
Dividends	-	-	-	-
Total distribution to owners	-	-	-	-
Balance at 31 March 2017	10	(4,627)	(35)	(4,652)

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 April 2017	10	(4,627)	(35)	(4,652)
Total comprehensive income for the year				
Profit for the year	-	-	59	59
Other comprehensive income	-	781	-	781
Total comprehensive income for the year	-	781	59	840
Dividends	-	-	-	-
Total distribution to owners	-	-	-	-
Balance at 31 March 2018	10	(3,846)	24	(3,812)

The notes on pages 11 to 21 form part of these financial statements.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102") and the Companies Act 2006.

The presentation currency of these financial statements is sterling.

The preparation of the financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also required the management to exercise judgement in applying the company's accounting policies.

1. ACCOUNTING POLICIES

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

Basis of preparation

Gloucestershire FM Services Limited (the "Company") is a Company limited by shares and incorporated and domiciled in the UK.

The Company entered into its service concession arrangement before the date of transition to FRS 102 and therefore its service concession arrangements continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.

The Company has applied the exemptions available under FRS 102 section 1A in respect of the following disclosures:

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

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

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 Company'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 Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

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

1.3 Classification of financial instruments issued by the company

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

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Classification of financial instruments issued by the company (continued)

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

1.4 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.

Restricted cash

The Company is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £3,139,000 at the year end (2017: £1,423,000).

1.5 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).

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Other financial instruments (continued)

Cash flow hedges

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

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

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

1.6 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 Company would receive for the asset if it were to be sold at the reporting date.

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.

1.7 Turnover

The Company is an operator of a PFI contract. As explained under basis of preparation the transition exemption has been taken for accounting for service concession arrangements. 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 for design and construction of the assets have been treated as a Contract debtor within these financial statements.

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 Contract debtor. During the operational phase, income is allocated between interest receivable and the Contract debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover. The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.8 Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

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

1.9 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 reporting 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 reporting date. Deferred tax balances are not discounted.

1.10 Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS102 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 accounting policies are described below:

- Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of PFI contract. The estimation of service margins is calculated every six months in March and September.
- Derivative financial instruments are based on the fair value of interest rate swaps and are tested for reasonableness by estimating future cash flows based on terms and maturity of each contract and using market rates at measurement date.
- Derivative financial instruments designated as hedges of variable interest rate risk and inflation rate risk comprise of an interest rate swap.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

2. TURNOVER

The company's entire turnover arises from its principal activity in the United Kingdom.

3. OPERATING PROFIT

Operating profit is stated after charging:

	2018	2017
	£'000	£'000
Fees payable to the company's auditor for the audit of the annual financial statements	6	9
Fees payable to the company's auditor and its associates for other services - taxation	3	5
	=====	=====

4. STAFF COSTS

There were no direct staff costs for the year (2017: £nil) except for the directors' fees (note 5). There were no employees during the year (2017: none).

5. DIRECTORS' FEES

Directors' fees were £26,000 for the year to 31 March 2018 (2017: £26,000), being fees paid to related parties for directors' services (note 14(b)).

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2018	2017
	£'000	£'000
Bank loan interest	894	925
Inter-company loan interest	276	276
Commitment fees	3	3
Amortisation of loan arrangement fees	8	6
	=====	=====
	1,181	1,210
	=====	=====

7. INTEREST RECEIVABLE

	2018	2017
	£'000	£'000
Interest receivable on contract debtor	848	872
Bank interest	10	12
	=====	=====
	858	884
	=====	=====

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2018 £'000	2017 £'000
Current taxation		
Corporation tax on profit for the year	8	(5)
Deferred taxation		
Recognised in profit and loss account	8	14
Recognised directly in equity	(160)	(71)
Tax charge on profit for year	<u>(144)</u>	<u>(62)</u>

	Current tax	Deferred tax	2018 £'000 Total tax	Current tax	Deferred tax	2017 £'000 Total tax
Recognised in profit and loss account	8	8	16	(5)	14	9
Recognised directly in equity	-	(160)	(160)	-	(71)	(71)
Total tax	<u>8</u>	<u>(152)</u>	<u>(144)</u>	<u>(5)</u>	<u>(57)</u>	<u>(62)</u>

Reconciliation of the effective tax rate

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	75	36
Tax on profit at standard UK tax rate of 19% (2017: 20%)	14	7
Change in fair value of senior debt loan	2	2
Change in fair value of derivatives	(160)	(71)
Tax charge for the year	<u>(144)</u>	<u>(62)</u>

On 16 March 2016, the Chancellor announced planned reductions in the Corporation tax rate to 17% from 1 April 2020. The deferred tax asset at 31 March 2018 has been calculated based on the rate of 17% (2017: 17%).

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

DEFERRED TAXATION ASSET

	2018 £'000	2017 £'000
Deferred tax asset attributable to tax losses	24	32
Deferred tax liability in respect of effective interest rate adjustment	(15)	(16)
Deferred tax asset on revaluation of fair value of derivatives	788	948
Net tax asset	<u>797</u>	<u>964</u>

Deferred tax asset is recognised on the revaluation of the interest rate SWAP held by the company. These are accounted for under cash flow hedges.

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

9. DEBTORS

Construction was completed on 31 March 2006. On service commencement (5 December 2005), the buildings were transferred to the Gloucestershire Constabulary and the balance due to the Company is being treated as a contract debtor. The contract debtor has an applicable interest rate of 5.50% and will be amortised over the life of the project.

	2018 £'000	Restated 2017 £'000
Amounts falling due within one year:		
Contract debtor	518	493
Prepayments and accrued income	357	341
	<u>875</u>	<u>834</u>
Amounts falling due after more than one year:		
Contract debtor	12,724	13,333
Deferred tax asset (note 8)	797	964
	<u>13,521</u>	<u>14,297</u>
	<u>14,396</u>	<u>15,132</u>

The contract debtor is stated net of capital contributions. There were no additional capital contributions received during the year (2017: £nil). Total capital contributions to 31 March 2018 were £16,137,000 (2017: £16,137,000).

The comparative debtors and creditors have been restated by £1,772,000 in 2017 to classify the Unitary charge creditor against the Contract debtor as these balances relate to the same cashflow transaction.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

10. CREDITORS DUE WITHIN ONE YEAR

	2018	Restated 2017
	£'000	£'000
Trade creditors	115	190
Loans (note 12)	418	434
Accruals and deferred income	1,596	1,336
Corporation tax	8	-
VAT creditor	103	102
	2,240	2,062

11. CREDITORS DUE AFTER MORE THAN ONE YEAR

	2018	2017
	£'000	£'000
Loans (note 12)	15,291	15,687
Interest rate swap	4,634	5,575
	19,925	21,262

12. LOANS

	2018	2017
	£'000	£'000
Senior debt loan	13,544	13,956
Inter-company loan	2,165	2,165
	15,709	16,121

The senior debt loan is repayable over 28 years in semi-annual instalments commencing on 30 September 2005. The Company has entered into a fixed interest rate swap to mitigate exposure to interest rate risk.

At 31 March 2018, the notional amount of the interest rate SWAP is £13,720,000 (2017: £14,153,000).

A fixed rate of 5.375% (2017: 5.375%) and a floating rate of 0.82925% (2017: 0.53325%) apply to the interest rate SWAP. The fair value of the interest rate SWAP at 31 March 2018 is £4,634,000 (2017: £5,575,000).

The senior debt loan is stated net of the arrangement fee of £97,000 (2017: £104,000) which will be amortised over the period of the loan.

The senior debt loan is secured by a first fixed charge over all of the company's investments, undertaking, property, assets and rights under certain contracts both present and future, together with a first fixed charge over all of the company's ordinary shares and subordinated debt, together with a floating charge over the whole of the company's undertaking and assets.

A loan of £2,165,000 was made by Gloucestershire FM Services (Holdings) Limited to Gloucestershire FM Services Limited on 30 September 2005. Gloucestershire FM Services Limited is a wholly owned subsidiary of Gloucestershire FM Services (Holdings) Limited. As at 31 March 2018 there was no interest accrued on this loan (2017: £nil). The loan is unsecured and matures on 28 September 2035.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

12. LOANS (CONTINUED)

Interest is payable in semi-annual instalments commencing 31 March 2007 at an interest rate of 12.73%.

The maturity dates of the loan proceeds are as follows:

	2018 £'000	2017 £'000
Less than one year	418	434
More than one year and less than two years	496	418
Between two and five years	2,040	1,842
More than five years	12,755	13,427
	<u>15,709</u>	<u>16,121</u>

13. SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised, allotted, issued and fully paid		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

14. RELATED PARTY TRANSACTIONS

- (a) The company's parent undertaking, Gloucestershire FM Services (Holdings) Limited, is wholly owned subsidiary of Aberdeen Infrastructure (No. 3) Limited. The ultimate parent undertaking of Aberdeen Infrastructure (No. 3) Limited is Aberdeen Infrastructure Partners LP Inc.

Aberdeen Infrastructure (No. 3) Limited have interests in contracts placed by the Company for the financing of the project.

- (b) Directors' fees of £26,000 (2017: £26,000) excluding value added tax were payable to Aberdeen Infrastructure Finance GP Limited for the year. As at 31 March 2018, there was £Nil (2017: £13,000) outstanding due to Aberdeen Infrastructure Finance GP Limited included in accruals and deferred income.

The company has taken advantage of the exemption provided in FRS 102 not to disclose transactions with companies within the group of which it is a member, where these transactions occur between entities which are 100% owned members of that group.

15. PARENT UNDERTAKINGS AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of Gloucestershire FM Services (Holdings) Limited, which is wholly owned by Aberdeen Infrastructure (No. 3) Limited. The ultimate parent undertaking of Aberdeen Infrastructure (No. 3) Limited is Aberdeen Infrastructure Partners LP Inc.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

16. FINANCIAL INSTRUMENTS

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2018 £'000	2017 £'000
Assets measured at amortised cost		
- Contract debtor	13,242	13,826
- Trade and other debtors	316	302
	<u>13,558</u>	<u>14,128</u>
Assets measured at cost less impairment		
- Cash and cash equivalents	3,957	3,540
	<u>3,957</u>	<u>3,540</u>
Liabilities measured at amortised cost		
- Trade and other creditors	(1,710)	(1,526)
- Bank loan	(13,641)	(14,061)
- Subordinated debt	(2,165)	(2,165)
	<u>(17,516)</u>	<u>(17,753)</u>
Liabilities measured at fair value through profit and loss		
- Interest swap	(4,634)	(5,575)
	<u>(4,634)</u>	<u>(5,575)</u>

(b) Carrying amount of financial instruments

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.

GLOUCESTERSHIRE FM SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

16. FINANCIAL INSTRUMENTS (CONTINUED)

c) Hedge accounting

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the company has entered into floating to fixed interest rate swaps with a nominal value equal to the initial borrowings, the same term as the loans and interest re-pricing dates identical to those of the variable rate loans. These result in the company paying 6.275% and receiving LIBOR (through cash flows settled on a net basis) and effectively fix the total interest costs on loans and interest rate swaps at 6.275%

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £4,634,000 (2017: £5,575,000) at the reporting date. The cash flow arising from the interest rate swap will continue until maturity, coincidental with the repayment of the term loan. The change in fair value in the period was a movement of £941,000 (2017: £86,000) with the entire charge being recognised in other comprehensive income as the swap is 100% effective.

d) Fair value

The amount for all financial asset and financial liabilities carried at fair value are as follows:

	2018	2017
	£'000	£'000
Amounts falling due after more than one year		
Financial liabilities designated as fair value through profit or loss		
- Interest rate swap contract	4,634	5,575