

Can House

Registered in England No: 05598521

**REDCAR AND CLEVELAND LIGHTING SERVICES  
LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2017**



# **Redcar and Cleveland Lighting Services Limited**

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# **Redcar and Cleveland Lighting Services Limited**

## **Directors' report for the year ended 30 June 2017**

The directors present their report and the audited financial statements of the Company for the year ended 30 June 2017.

### **Principal activity and business review (including future developments)**

The principal activity of the Company is the design, installation, operation (including the procurement of energy), maintenance and financing of new, refurbished and existing public street lighting, associated equipment and apparatus for the Borough of Redcar & Cleveland.

The scheme proposes an improvement in the current street lighting service that will involve the replacement of approximately 15,527 existing lighting columns during a five year Core Investment Programme ("CIP"). A proportion of the stock is replaced as part of the annual investment reviews post CIP.

The directors have reviewed the activities of the business for the year and the position as at 30 June 2017 and consider them to be satisfactory.

The concession is due to expire in 2033; the Company intends to continue to comply with its obligations under the PFI agreement until this date.

### **Results and dividends**

The trading results for the year to 30 June 2017 and the Company's financial position as at 30 June 2017 are shown in the attached financial statements. The Company has made a profit after tax during the year of £95,335 (2016: £69,558) and the shareholder's funds at 30 June 2017 show a deficit of £4,511,067 (2016: £5,398,404).

A dividend of £94,000 (£3.76 per share) was paid (2016: £44,600 (£1.78 per share)). The profit for the financial year is set out in the profit and loss account and statement of other comprehensive income on page 7.

# **Redcar and Cleveland Lighting Services Limited**

## **Directors' report for the year ended 30 June 2017 (*continued*)**

### **Directors**

The directors of the Company who held office during the year and to the date of this report are listed below:

P A Cartwright  
J Hames  
T Symes  
V Everett

### **Going concern**

The shareholder's funds at 30 June 2017 show a deficit of £4,511,067 (2016: £5,398,404). This arises from the early phase in the Company's 25 year concession period and the recognition of the Company's swap liability at fair value. The Company has a secured bank facility that will enable it to continue trading for the life of the concession period. The Company is not in breach of its covenant terms and does not expect to become so in the foreseeable future. The directors have reviewed the forecast and believe that the financial position will strengthen in the future and therefore consider that it is appropriate to prepare these financial statements on a going concern basis.

### **Key performance indicators**

The Company's management produces comparisons of actual cash flows against forecast cash flows from the finance model and analyse any fluctuations.

The directors believe that there are no other key performance indicators that require disclosure for an understanding of the development, performance or position of the business.

### **Principal risks and uncertainties**

The Company's revenue is based on a fixed price, subject to adjustments for retail price index increases. In most cases costs are similarly indexed.

The Company is financed by a variable rate loan and therefore would be exposed to interest rate risk. In order to mitigate this risk, the Company has entered into an interest rate SWAP arrangement in order to fix interest rates.

The design, installation, and maintenance operations of street lighting are subcontracted out. Significant risks are passed down to the key subcontractors within limits set out as liability caps.

# **Redcar and Cleveland Lighting Services Limited**

## **Directors' report for the year ended 30 June 2017 (*continued*)**

### **Principal risks and uncertainties (*continued*)**

However, contractual default by these subcontractors or losses/deductions reaching the liability caps would transfer the risks back to the Company.

Under the PFI Project Agreement with London Borough of Redcar & Cleveland, any general change in law risk is transferred to the Company and, subject to certain criteria and caps, is passed down to the sub-contractor. A Change in Law Facility of £406,086 is available to the Company to meet any residual Change in Law risk (refer to note 15).

### **Strategic report**

The Company has taken advantage of the exemption, under section 414B of the Companies Act 2006, from preparing a strategic report for the financial year.

### **Disclosure of information to the auditor**

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

### **Auditor**

RSM UK Audit LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in absence of an Annual General Meeting.

Registered office:  
Third Floor Broad Quay House,  
Prince Street,  
Bristol,  
United Kingdom,  
BS1 4DJ

Registered number: 05598521  
Company Secretary: Imagile Secretariat Services Limited  
(Previously Mamg Company Secretarial Services Limited)

On behalf of the Board

  
P A Cartwright  
Director

Approved by the directors on 20 December 2017

# **Redcar and Cleveland Lighting Services Limited**

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those 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 United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDCAR AND CLEVELAND LIGHTING SERVICES LIMITED**

## **Opinion**

We have audited the financial statements of Redcar and Cleveland Lighting Services Limited (the 'Company') for the year ended 30 June 2017 which comprise the profit and loss account and statement of other comprehensive income, the balance sheet, and 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 FRS 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 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

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.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDCAR AND CLEVELAND LIGHTING SERVICES LIMITED (*continued*)**

## **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 directors' 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 take advantage of the small companies exemption from the requirement to prepare a strategic report or in preparing the directors' report.

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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.

## **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 on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's 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.

RSM UK Audit LLP

ANDREW ALLCHIN (Senior Statutory Auditor)  
For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
Fifth Floor, Central Square, 29 Wellington Street  
Leeds  
LS1 4DL

22 December 2017

## Redcar and Cleveland Lighting Services Limited

### Profit and loss account and statement of other comprehensive income for the year ended 30 June 2017

|                                                                     | Note | 2017<br>£        | 2016<br>£   |
|---------------------------------------------------------------------|------|------------------|-------------|
| <b>Turnover</b>                                                     | 2    | <b>1,417,751</b> | 1,398,572   |
| Cost of sales                                                       |      | (1,129,016)      | (1,102,162) |
| <b>Gross profit</b>                                                 |      | <b>288,735</b>   | 296,410     |
| Administrative expenses                                             |      | (118,889)        | (150,415)   |
| <b>Operating profit</b>                                             |      | <b>169,846</b>   | 145,995     |
| Interest receivable and similar income                              | 6    | 1,186,518        | 1,231,920   |
| Interest payable and similar charges                                | 7    | (1,237,563)      | (1,290,968) |
| <b>Profit on ordinary activities before taxation</b>                | 3    | <b>118,801</b>   | 86,947      |
| Tax on profit on ordinary activities                                | 8    | (23,466)         | (17,389)    |
| <b>Profit on ordinary activities after taxation</b>                 |      | <b>95,335</b>    | 69,558      |
| <b>Other comprehensive income</b>                                   |      |                  |             |
| Effective portion of fair value changes in cash flow hedges         | 16   | 1,147,740        | (1,453,434) |
| Tax recognised in relation to change in fair value cash flow hedges | 8    | (261,738)        | 157,441     |
| Other comprehensive profit/(loss) for the year                      |      | 886,002          | (1,295,993) |
| <b>Total comprehensive profit/(loss) for the year</b>               |      | <b>981,337</b>   | (1,226,435) |

All results are in respect of continuing activities.

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

# Redcar and Cleveland Lighting Services Limited

## Balance sheet

As at 30 June 2017

|                                                | Note | 2017<br>£          | 2016<br>£          |
|------------------------------------------------|------|--------------------|--------------------|
| <b>Current assets</b>                          |      |                    |                    |
| Debtors: amounts falling due within one year   | 11   | 1,113,015          | 1,067,951          |
| Debtors: amounts falling due after one year    | 11   | 18,843,300         | 19,830,207         |
| Cash at bank and in hand                       | 12   | 1,251,691          | 1,214,359          |
|                                                |      | <u>21,208,006</u>  | <u>22,112,517</u>  |
| Creditors: amounts falling due within one year | 13   | (3,161,462)        | (2,976,689)        |
| <b>Total assets less current liabilities</b>   |      | <u>18,046,544</u>  | <u>19,135,828</u>  |
| Creditors: amounts falling due after one year  | 14   | (22,557,611)       | (24,534,232)       |
| <b>Net liabilities</b>                         |      | <u>(4,511,067)</u> | <u>(5,398,404)</u> |
| <b>Capital and reserves</b>                    |      |                    |                    |
| Called up share capital                        | 17   | 25,000             | 25,000             |
| Profit and loss account                        | 18   | 41,001             | 39,666             |
| Cashflow hedge reserve                         | 18   | (4,577,068)        | (5,463,070)        |
| <b>Total shareholder's deficit</b>             |      | <u>(4,511,067)</u> | <u>(5,398,404)</u> |

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

These financial statements, for company registration number 05598521, were approved by the board of directors and authorised for issue on 20 December 2017 and signed on its behalf by:



P/A Cartwright  
Director

## Redcar and Cleveland Lighting Services Limited

### Statement of changes in equity for the year ended 30 June 2017

|                                                 | Called up<br>share capital<br>£ | Cashflow<br>hedge reserve<br>£ | Profit and<br>loss account<br>£ | Total<br>shareholder's<br>deficit<br>£ |
|-------------------------------------------------|---------------------------------|--------------------------------|---------------------------------|----------------------------------------|
| Balance as at 1 July 2015                       | 25,000                          | (4,167,077)                    | 14,708                          | (4,127,369)                            |
| Profit for the year                             | -                               | -                              | 69,558                          | 69,558                                 |
| Other comprehensive income                      |                                 |                                |                                 |                                        |
| Fair value loss on effective cash<br>flow hedge | -                               | (1,295,993)                    | -                               | (1,295,993)                            |
| Total comprehensive income for<br>the year      | -                               | (1,295,993)                    | 69,558                          | (1,226,435)                            |
| Dividends paid                                  | -                               | -                              | (44,600)                        | (44,600)                               |
| <b>Balance as at 30 June 2016</b>               | <b>25,000</b>                   | <b>(5,463,070)</b>             | <b>39,666</b>                   | <b>(5,398,404)</b>                     |
| Profit for the year                             | -                               | -                              | 95,335                          | 95,335                                 |
| Other comprehensive income                      |                                 |                                |                                 |                                        |
| Fair value loss on effective cash<br>flow hedge | -                               | 886,002                        | -                               | 886,002                                |
| Total comprehensive income for<br>the year      | -                               | 886,002                        | 95,335                          | 981,337                                |
| Dividends paid                                  | -                               | -                              | (94,000)                        | (94,000)                               |
| <b>Balance as at 30 June 2017</b>               | <b>25,000</b>                   | <b>(4,577,068)</b>             | <b>41,001</b>                   | <b>(4,511,067)</b>                     |

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

# **Redcar and Cleveland Lighting Services Limited**

## **Notes to the financial statements for the year ended 30 June 2017**

### **1. Accounting policies**

Redcar and Cleveland Lighting Services Limited (the “Company”) is a private company limited by shares and incorporated and domiciled in England and Wales with a registered office at Third Floor Broad Quay House, Prince Street, Bristol, United Kingdom, BS1 4DJ.

The Company’s principal activities and nature of its operations are described in the Directors’ Report.

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention, modified to include certain financial instruments at fair value. The presentation currency of these financial statements is sterling and amounts have been rounded to the nearest whole £, unless otherwise stated.

The Company’s parent undertaking, IIC Redcar and Cleveland Holding Company Limited includes the Company in its consolidated financial statements. The consolidated financial statements of IIC Redcar and Cleveland Holding Company Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from the Company Secretary, Third Floor Broad Quay House, Prince Street, Bristol, United Kingdom, BS1 4DJ. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

Section 7 ‘Statement of Cash Flows Statement’ – Presentation of a statement of cash flows and related notes and disclosures;

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

### **Going concern**

The shareholder’s funds at 30 June 2017 show a deficit of £4,511,067 (2016: £5,398,404). This arises from the early phase in the Company’s 25 year concession period and the recognition of the Company’s swap liability at fair value. The Company has a secured bank facility that will enable it to continue trading for the concession period (refer to note 15). The Company is not in breach of its covenant terms. The directors have reviewed the forecast and believe that the financial position will strengthen in the future and therefore consider that it is appropriate to prepare these financial statements on a going concern basis.

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 1. Accounting policies (*continued*)

#### **Classification of financial instruments issued by the Company**

In accordance with FRS 102 Section 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.

#### **Basic financial instruments**

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments' of FRS 102 to all of its 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 at bank is carried in the balance sheet at book value.

#### *Finance debtor and contractual receivables*

Finance debtor and contractual receivables are classified as loans and receivables as defined in FRS 102, which are initially recognised at the fair value of the consideration received or receivable and are then stated at amortised cost.

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 1. Accounting policies (*continued*)

#### 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 profit and loss immediately.

# **Redcar and Cleveland Lighting Services Limited**

## **Notes to the financial statements for the year ended 30 June 2017 (*continued*)**

### **1. Accounting policies (*continued*)**

#### **Impairment of financial assets**

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 and loss.

#### **Turnover**

All turnover and profit on ordinary activities before taxation originates in the UK. Turnover is recognised in accordance with the finance debtor accounting policy.

#### **Taxation**

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

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

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

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

#### **Interest**

Interest costs have been capitalised during the construction phase of the contract and will be amortised over the period of the concession.

# **Redcar and Cleveland Lighting Services Limited**

## **Notes to the financial statements for the year ended 30 June 2017 (*continued*)**

### **1. Accounting policies (*continued*)**

#### **Interest (*continued*)**

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy below.

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

#### **Finance debtor and revenue recognition**

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

The Company is an operator of a Private Finance Initiative (PFI) contract, which was entered into prior to transition to FRS 102. Therefore the accounting has been continued using the accounting policies applied prior to the date of transition to FRS 102 as follows. The underlying asset was not deemed to be an asset of the Company under FRS 5, Application Note G, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phases of the project, all attributable expenditure including finance costs is included in amounts recoverable on contracts and turnover. Upon completion of each construction phase, the costs are transferred to the finance debtor. During the operational phase invoiced amounts net of value added tax, are 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 5 Application Note G. The Company recognises income in respect of service provided as it fulfils its contractual obligation in respect of these services and in line with fair value of consideration receivable in respect of these services.

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. Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when the services are performed.

In accordance with the Financial model 50% of the lifecycle costs are deemed to be in respect of replacing the original assets and are therefore capitalised into the financial debtor.

#### **Dividends**

Dividends are recognised as liabilities once they are no longer at the discretion of the Company.

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 1. Accounting policies (*continued*)

#### Judgements and key sources of estimation uncertainty

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.

The Company uses derivative finance instruments to hedge certain economic exposures in relation to movements in interest rates as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those on its balance sheet. The valuation assumes estimated forward interest rates.

Accounting for the service contracts and finance receivables requires estimation of service margins, finance receivable interest rates and the finance receivable amortisation profile which is based on forecasted results of the PFI contract.

The directors have reviewed the interest rates applied to the subordinated loan stock and consider these to be at market rate.

#### Agency arrangements

The Company has acted as agent on behalf of Bouygues E&S Infrastructure UK Limited in connection with the small works undertaken at the request of the Authority. The value of these transactions, whereby Redcar and Cleveland Lighting Services Limited act as agent is set out in Note 2. These amounts have not been recognised and disclosed as turnover within the Company's profit and loss account. Redcar and Cleveland Lighting Services Limited has no commercial interest or exposure in respect of these transactions.

### 2. Analysis of turnover

|                 | 2017      | 2016      |
|-----------------|-----------|-----------|
|                 | £         | £         |
| Services income | 1,417,751 | 1,398,572 |

All turnover originates in the United Kingdom.

In addition to the amounts disclosed as turnover above, the Company acts as the invoicing conduit for a number of transactions where the Company bears no risk or reward and the transactions are "pass through costs" where the Company generates neither profit nor loss. These items have been excluded from the turnover stated above as the directors consider this reflects the substance of the transactions. The total value of these pass through costs in the year were £447,296 (2016: £179,860).

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

|                                                                         | 2017   | 2016   |
|-------------------------------------------------------------------------|--------|--------|
|                                                                         | £      | £      |
| Profit on ordinary activities before taxation is stated after charging: |        |        |
| Auditor's remuneration:                                                 |        |        |
| - for the statutory audit of the company                                | 11,445 | 11,000 |
| - taxation services                                                     | 3,995  | 5,500  |

Auditor's remuneration is payable to RSM UK Audit LLP and its affiliated entities.

### 4. Directors remuneration

The directors received no emoluments in respect of their services to the Company during the year (2016: £nil).

### 5. Particulars of employees

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

### 6. Interest receivable and similar income

|                         | 2017             | 2016             |
|-------------------------|------------------|------------------|
|                         | £                | £                |
| Finance debtor interest | 1,184,308        | 1,229,121        |
| Bank interest           | 2,210            | 2,799            |
|                         | <u>1,186,518</u> | <u>1,231,920</u> |

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 7. Interest payable and similar charges

|                                                 | 2017<br>£        | 2016<br>£        |
|-------------------------------------------------|------------------|------------------|
| Bank fees payable                               | 11,011           | 12,399           |
| Bank loan interest                              | 395,551          | 243,500          |
| Loan stock interest - payable to group entities | 217,750          | 223,300          |
| SWAP interest                                   | 613,251          | 811,769          |
|                                                 | <u>1,237,563</u> | <u>1,290,968</u> |

### 8. Taxation

#### (a) Analysis of charge in the year

|                                                | 2017<br>£        | 2016<br>£      |
|------------------------------------------------|------------------|----------------|
| Current tax                                    | (23,466)         | (17,389)       |
| Deferred tax                                   | (261,738)        | 157,441        |
|                                                | <u>(285,204)</u> | <u>140,052</u> |
| <i>Deferred tax (see note 10)</i>              |                  |                |
| Impact of tax rate adjustment                  | (66,622)         | (104,177)      |
| Origination and reversal of timing differences | (195,116)        | 261,618        |
| <b>Total deferred tax</b>                      | <u>(261,738)</u> | <u>157,441</u> |
| <b>Total tax</b>                               | <u>(285,204)</u> | <u>140,052</u> |

#### (b) Reconciliation of total tax charge

The constituent elements of the tax charge for the year are set out below.

|                                                                     | 2017<br>£       | 2016<br>£       |
|---------------------------------------------------------------------|-----------------|-----------------|
| Profit on ordinary activities after taxation                        | 95,335          | 69,558          |
| Total tax expense                                                   | <u>(23,466)</u> | <u>(17,389)</u> |
| Profit on ordinary activities before taxation                       | 118,801         | 86,947          |
| Taxation using the UK corporation tax rate of 19.75%<br>(2016: 20%) | (23,466)        | (17,389)        |
| Impact of tax rate adjustment                                       | -               | -               |
|                                                                     | <u>(23,466)</u> | <u>(17,389)</u> |

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 8. Taxation (*continued*)

|                                          | 2017            |                  |                  | 2016            |                |                |
|------------------------------------------|-----------------|------------------|------------------|-----------------|----------------|----------------|
|                                          | £               | £                | £                | £               | £              | £              |
|                                          | Current tax     | Deferred tax     | Total tax        | Current tax     | Deferred tax   | Total tax      |
| Recognised in Profit and loss account    | (23,466)        | -                | (23,466)         | (17,389)        | -              | (17,389)       |
| Recognised in Other comprehensive income | -               | (261,738)        | (261,738)        | -               | 157,441        | 157,441        |
| Total tax                                | <u>(23,466)</u> | <u>(261,738)</u> | <u>(285,204)</u> | <u>(17,389)</u> | <u>157,441</u> | <u>140,052</u> |

#### (c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The Company has no trade losses available to carry forward (2016: nil).

### 9. Dividends

|                                               | 2017          | 2016          |
|-----------------------------------------------|---------------|---------------|
|                                               | £             | £             |
| Dividends paid: £3.76 (2016: £1.78) per share | <u>94,000</u> | <u>44,600</u> |

### 10. Deferred tax

|                            | 2017           | 2016             |
|----------------------------|----------------|------------------|
|                            | £              | £                |
| Asset at the start of year | 1,199,210      | 1,041,769        |
| Credited in the year       | (261,738)      | 157,441          |
| Asset at the end of year   | <u>937,472</u> | <u>1,199,210</u> |

  

|                     | 2017           | 2016             |
|---------------------|----------------|------------------|
|                     | £              | £                |
| Interest rate swaps | <u>937,472</u> | <u>1,199,210</u> |
|                     | <u>937,472</u> | <u>1,199,210</u> |

A deferred tax asset is recognised on the revaluation of the interest rate swaps held by the Company. These swaps have been designated as cash flow hedges (see note 16) and therefore the reversal of the deferred tax asset is shown through the cash flow hedge reserve. A deferred tax reversal of £126,704 is expected to occur in the year ending 30 June 2018.

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 11. Debtors

|                                                     | 2017<br>£                | 2016<br>£                |
|-----------------------------------------------------|--------------------------|--------------------------|
| <i>Amounts falling due within one year</i>          |                          |                          |
| Finance debtor                                      | 768,723                  | 715,319                  |
| Trade debtors                                       | 340,802                  | 347,030                  |
| Prepayments and accrued income                      | 3,490                    | 5,602                    |
|                                                     | <u>1,113,015</u>         | <u>1,067,951</u>         |
| <i>Amounts falling due after more than one year</i> |                          |                          |
| Finance debtor                                      | 17,905,524               | 18,630,692               |
| Amounts recoverable on contract                     | 304                      | 305                      |
| Deferred tax                                        | 937,472                  | 1,199,210                |
|                                                     | <u>18,843,300</u>        | <u>19,830,207</u>        |
| <b>Total debtors</b>                                | <u><b>19,956,315</b></u> | <u><b>20,898,158</b></u> |

During the year lifecycle costs of £94,606 (2016: £46,770) were capitalised into the finance debtor.

### 12. Cash at bank

Cash at bank includes the twelve current accounts with Allied Irish Bank having a balance of £1,251,691 (2016: £1,214,359). The restricted cash balance is £270,282 (2016: £264,649) which included an amount of £100,349 (2016: £100,000) that has been placed on deposit for a fixed term. Withdrawals from these bank accounts are restricted to items set out in the Credit Agreement with Allied Irish Bank and the Company must satisfy certain requirements before being permitted to withdraw any amounts from these accounts.

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

|                                    | 2017<br>£        | 2016<br>£        |
|------------------------------------|------------------|------------------|
| Bank loan                          | 778,851          | 726,514          |
| Loan stock - due to group entities | 50,030           | 43,599           |
| Trade creditors                    | 120,409          | 31,248           |
| Other taxation and social security | 105,621          | 106,900          |
| Corporation tax liability          | 17,965           | 19,046           |
| Accruals and deferred income       | 2,088,586        | 2,049,382        |
|                                    | <u>3,161,462</u> | <u>2,976,689</u> |

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

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

|                                    | 2017              | 2016              |
|------------------------------------|-------------------|-------------------|
|                                    | £                 | £                 |
| Bank loan                          | 15,322,949        | 16,101,800        |
| Interest rate swaps                | 5,514,540         | 6,662,280         |
| Loan stock - due to group entities | 1,720,122         | 1,770,152         |
|                                    | <u>22,557,611</u> | <u>24,534,232</u> |

### 15. Interest-bearing loans and borrowings

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

|                         | 2017              | 2016              |
|-------------------------|-------------------|-------------------|
|                         | £                 | £                 |
| Bank loan               | 16,197,934        | 16,930,819        |
| Subordinated loan stock | 1,770,152         | 1,813,751         |
|                         | <u>17,968,086</u> | <u>18,744,570</u> |

|                                                        | 2017              | 2016              |
|--------------------------------------------------------|-------------------|-------------------|
|                                                        | £                 | £                 |
| <b>Debt can be analysed as falling due as follows:</b> |                   |                   |
| Within one year                                        | 834,693           | 776,484           |
| Between one and two years                              | 897,625           | 834,693           |
| Between two and five years                             | 3,080,820         | 2,891,054         |
| In five years or more                                  | 13,154,948        | 14,242,339        |
|                                                        | <u>17,968,086</u> | <u>18,744,570</u> |

The Company has undrawn committed borrowing facilities of £nil (2016: £nil) expiring 31 July 2030 on the term loan facility, £406,086 (2016: £406,086) expiring on 31 July 2030 on the change of law facility and £894,117 (2016: £894,117) on the debt service facility expiring on 31 January 2030.

The term loan, change of law facility and debt service facility loan have a variable interest rate of LIBOR plus a margin of 0.625%.

The term loan and change of law facility are secured, in favour of Allied Irish Bank and Sumitomo Mitsui Banking Corporation, over all assets of the Group, £21,208,006 (2016: £22,112,517). The term loan has a fixed repayment profile with payments falling due in March and September of each year.

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (*continued*)

### 15. Interest-bearing loans and borrowings (*continued*)

On 15 August 2007, the Company issued £1,942,726 of unsecured loan stock due in 2032 part paid at the amount of £1. The loan stock is subscribed for by IIC Redcar and Cleveland Subdebt Limited. The Company called up the undrawn amount in full on 31 August 2010.

The loan stock had an interest rate of 7.82% during the construction stage. After reaching the CIP Completion date on 31 December 2010 the interest rate increased to 12.15%.

### 16. Financial Instruments

#### (a) *Carrying amounts of financial instruments*

The carrying amounts of the financial assets and liabilities include:

|                                                            | 2017                | 2016                |
|------------------------------------------------------------|---------------------|---------------------|
|                                                            | £                   | £                   |
| Assets measured at amortised cost                          |                     |                     |
| - Finance debtor                                           | 18,674,247          | 19,346,011          |
| - Accrued income                                           | 3,490               | 5,602               |
| - Trade and other debtors                                  | 340,802             | 347,030             |
|                                                            | <u>19,018,539</u>   | <u>19,698,643</u>   |
| Liabilities measured at amortised cost                     |                     |                     |
| - Trade and other payables                                 | (120,409)           | (31,248)            |
| - Accruals                                                 | (474,602)           | (477,318)           |
| - Bank loans and overdrafts                                | (16,197,934)        | (16,930,819)        |
| - Amounts owed to group undertakings                       | (1,770,152)         | (1,813,751)         |
|                                                            | <u>(18,563,097)</u> | <u>(19,253,136)</u> |
| Liabilities measured at fair value through profit and loss |                     |                     |
| Interest rate swaps contract                               | <u>(5,514,540)</u>  | <u>(6,662,280)</u>  |

#### (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.

##### (c) *Hedge accounting*

Derivative financial instruments designated as hedges of variable interest rate risk comprise of an interest rate swap.

To hedge the potential movement in the interest cash flows associated with the LIBOR rate used for the bank term loan described in note 15, the Company has entered into floating to fixed interest rate swaps with a nominal value equal to the initial borrowings with the same term as the loans and interest payment dates. These result in the Company paying 5.4550% per annum and receiving LIBOR.

# Redcar and Cleveland Lighting Services Limited

## Notes to the financial statements for the year ended 30 June 2017 (continued)

### 16. Financial Instruments (continued)

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 FRS 102 Section 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    | Expected cash flows | Within 1 year    | Between 1 - 2 years | Between 2 - 5 years | 5 years and over   |
|                    | £                  | £                   | £                | £                   | £                   | £                  |
| Interest rate swap | (5,514,540)        | (5,715,712)         | (799,544)        | (724,165)           | (1,767,790)         | (2,424,212)        |
|                    | <u>(5,514,540)</u> | <u>(5,715,712)</u>  | <u>(799,544)</u> | <u>(724,165)</u>    | <u>(1,767,790)</u>  | <u>(2,424,212)</u> |

| 2016               |                    |                     |                  |                     |                     |                    |
|--------------------|--------------------|---------------------|------------------|---------------------|---------------------|--------------------|
|                    | Carrying Amount    | Expected cash flows | Within 1 year    | Between 1 - 2 years | Between 2 - 5 years | 5 years and over   |
|                    | £                  | £                   | £                | £                   | £                   | £                  |
| Interest rate swap | (6,662,280)        | (6,907,695)         | (838,121)        | (811,371)           | (2,107,913)         | (3,150,290)        |
|                    | <u>(6,662,280)</u> | <u>(6,907,695)</u>  | <u>(838,121)</u> | <u>(811,371)</u>    | <u>(2,107,913)</u>  | <u>(3,150,290)</u> |

#### (d) Fair values

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

|                              | 2017             | 2016             |
|------------------------------|------------------|------------------|
|                              | £                | £                |
| Interest rate swaps contract | <u>5,514,540</u> | <u>6,662,280</u> |

### 17. Share capital

| Allotted, called up and fully paid: | 2017          | 2016          |
|-------------------------------------|---------------|---------------|
|                                     | Number        | Number        |
|                                     | £             | £             |
| Ordinary shares of £1 each          | <u>25,000</u> | <u>25,000</u> |

The Company's share capital is divided between 21,250 "A" Ordinary shares, 3,750 "B" Ordinary shares. All classes of shares rank pari passu to each other with regard to voting and rights to dividends until the completion of the dissolution and winding up of the Company.

# **Redcar and Cleveland Lighting Services Limited**

## **Notes to the financial statements for the year ended 30 June 2017 (*continued*)**

### **18. Reserves**

#### *Cash flow hedge reserve*

The hedge 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.

#### *Profit and loss reserve*

The profit and loss reserve contains the cumulative retained earnings carried forward less distributions to owners.

### **19. Related party transactions**

At the balance sheet date, the Company was a wholly owned subsidiary of JLIF Investments Limited and has taken advantage of the exemption, under the terms of FRS 102, from disclosing related party transactions with entities that are part of the group headed by JLIF Investments Limited. The direct parent undertaking is IIC Redcar and Cleveland Holding Company Limited.

During the year the Company paid £89,008 (2016: £115,509) to MAMG Asset Management Limited for asset management services. MAMG Asset Management Limited is a related party by virtue of sharing a common directorship; P A Cartwright and T B Symes.

No remuneration was paid to key management personnel during the year by the Company (2016: £nil).

There were no other related party transactions entered into by the Company during the year.

### **20. Ultimate controlling party**

At the balance sheet date the Directors regard John Laing Infrastructure Fund Limited, a close ended investment company, registered address Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY, and registered on the London Stock Exchange, as the ultimate controlling entity. John Laing Infrastructure Fund Limited is owned by a number of investors, with no one investor having individual control.

The Company's immediate holding company is IIC Redcar and Cleveland Holding Company Limited which is largest and smallest group for which consolidated financial statements are prepared. The consolidated financial statements of this group are available to the public and may be obtained from the Company Secretary, Third Floor Broad Quay House, Prince Street, Bristol, United Kingdom, BS1 4DJ.