

Sustainable Communities for Leeds (Finance) Plc

Report and Financial Statements

Year Ended

31 March 2017

Company Number 08594721

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Sustainable Communities for Leeds (Finance) Plc

**Report and financial statements
for the year ended 31 March 2017**

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Directors

D A Valks, appointed 25 January 2017
C Rossiter
D Joyce
S L Jones
J Crouch
K Simpson, appointed 26 April 2017

Secretary and registered office

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

Company number

08594721

Bankers

Bank of New York Mellon, London Branch, One Canada Square, London, E14 5AL

Auditors

BDO LLP, 3 Hardman Street, Manchester, M3 3AT

Sustainable Communities for Leeds (Finance) Plc

Strategic report for the year ended 31 March 2017

The directors present their strategic report together with the audited financial statements for the year ended 31 March 2017.

Business review and future developments

The principal activity of the company is the undertaking of an issue of bonds and on-lending the proceeds of the bond issue to Sustainable Communities for Leeds Limited. The issue of bonds was effected on 11 July 2013 and the proceeds of the issue were loaned to Sustainable Communities for Leeds Limited on the same date.

Sustainable Communities for Leeds (Finance) Plc, acts as a fundraising company for Sustainable Communities for Leeds group of companies. The principal activity of Sustainable Communities for Leeds Limited is the refurbishment of housing stock in the Beeston, Little London and Holbeck areas of Leeds, alongside demolition of properties and construction of new-build properties. The construction period is expected to be completed in July 2017, short of the planned date of September 2017. During this time the company will also provide facilities management services, which increase as each phase of construction is certified. The operational phase of the project is planned to continue until September 2033.

Principal risks and uncertainties

The company has taken on the activity as detailed above and the group in which it sits is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts. In extreme circumstances, the group could be exposed to subcontractor failure to perform their obligations. The financial risks and the measures taken to mitigate them are as detailed in the following section.

Going concern

The financial statements have been prepared on a going concern basis. The directors have prepared projected cash flow information for at least twelve months from the date of their approval of these financial statements. On the basis of this cash flow information, the directors consider that the company will continue to operate within the long term facility currently agreed. In addition, during the operational phase of the project, sufficient cash flow has been, and is, projected to continue to be generated to allow the group to meet its liabilities as they fall due for payment. The project is continuing in line with the expected business model. The company continues in line with the forecast to generate profits in future years through the maintenance phase of the project once the build phase is completed. Accordingly, despite the context of an uncertain economic climate the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and therefore adopt the going concern basis in preparing the annual report and financial statements.

Financial risk management

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

Interest rate risk

The Bond and subordinated debt interest have been fixed. Details of these borrowings can be found in notes 7 and 9 to the financial statements.

Liquidity risk

The company acts as a fundraising company for the Sustainable Communities for Leeds group of companies. The funds raised from the issue of Bonds, subordinate debt and equity are passed through to Sustainable Communities for Leeds Limited. When payments are made to bond holders and finance providers these are passed from Sustainable Communities for Leeds Limited through the company. No cash is held within the company.

Sustainable Communities for Leeds (Finance) Plc

Strategic report for the year ended 31 March 2017 (continued)

Credit risk

The Fixed Rate Guarantee Bonds are listed on the Irish Stock Exchange. The Bonds are guaranteed by an institution of a suitable credit quality. Each year an annual review is carried out by Moody's and Standard & Poor's to assess the performance of the company. Moody's published a review on 23 March 2017 stating the underlying rate was changed from Baa3 to A3 due to construction of the dwellings being completed on 27 January 2017. Standard & Poor's published a review on 28 June 2017 raising the underlying rate from BBB- to A-.

Market risk

Whilst the Bond is listed on the Irish Stock Exchange, the repayments on the Bond are fixed and as such the Board does not consider that they are at risk from movements in the market valuation.

Key performance indicators

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities performed by Sustainable Communities for Leeds Limited. The performance of the group against the contract is progressing satisfactorily, including the schedule for completing the main capital works. As the group enters the operational phase of the contract the KPIs will be kept under review.

The company's performance during the period and financial position at 31 March 2017 is shown on pages 7 and 8.

Approval

This strategic report was approved on behalf of the Board on 26/7/17

D A Valks

Director



Sustainable Communities for Leeds (Finance) Plc

Report of the directors for the year ended 31 March 2017

The directors present their report together with the audited financial statements for the year ended 31 March 2017.

The company's principal activity and a review of the business is included in the strategic report.

Directors

The directors of the company during the year ended 31 March 2017, and up to the date of signing the financial statements were:

D Taylor, resigned 23 December 2016
D A Valks, appointed 25 January 2017
C Rossiter
D Joyce
S L Jones
J Crouch
K Brown, resigned 26 April 2017
K Simpson, appointed 26 April 2017

Dividends

A dividend was not proposed in the year.

Employment policy

The company has no employees.

Payment policy

The company has no formal code or standard that deals specifically with the payment of suppliers. However the company's policy on the payment of all creditors is to ensure that the terms of payment as specified by and agreed with the supplier are not exceeded, provided all trading terms and conditions have been complied with.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company 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 group and the company and of the profit or loss of the group 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;
- 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Sustainable Communities for Leeds (Finance) Plc

Report of the directors for the year ended 31 March 2017 (*continued*)

Auditor and disclosure of information to auditors

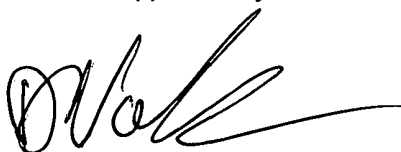
In the case of each of the persons who are directors at the time when the report is approved under Section 418 of the Companies Act 2006, and the following applies:

- (a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors report has been approved by the Board and signed on its behalf by

D A Valks

Director



Date 26 July 2017

Sustainable Communities for Leeds (Finance) Plc

Independent auditor's report

We have audited the financial statements of Sustainable Communities for Leeds (Finance) Plc for the year ended 31 March 2017 which comprise the statement of comprehensive income and income statement, the statement of financial position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its result 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Sustainable Communities for Leeds (Finance) Plc

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

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

BDO LLP

*Timothy Entwistle (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Manchester
United Kingdom*

Date 27/07/2017

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

Sustainable Communities for Leeds (Finance) Plc

Statement of Comprehensive Income and Income Statement for the year ended 31 March 2017

	Note	2017 £	2016 £
Interest receivable and similar income	4	7,853,037	7,593,714
Interest payable and similar charges	5	(7,825,761)	(7,591,478)
Intercompany return on shares		-	(2,236)
Net interest income		<u>27,276</u>	<u>-</u>
Profit on ordinary activities before taxation		<u>27,276</u>	<u>-</u>
Taxation on profit from ordinary activities	6	-	-
Profit and total comprehensive income for the year		<u>27,276</u>	<u>-</u>

The company has been engaged solely in continuous activities in a single class of business within the United Kingdom.

There is no difference between the result for the financial period as shown in the statement of comprehensive income and income statement and its historical cost equivalent.

The company has no other recognised gains and losses, other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 10 to 16 form part of these financial statements.

Sustainable Communities for Leeds (Finance) Plc

Statement of Financial Position at 31 March 2017

Company number 08594721	Note	2017 £	2016 £
Current assets			
Debtors: (including £113,061,765 (2016: £117,084,481) due after one year)	7	119,460,511	117,084,481
		<u>119,460,511</u>	<u>117,084,481</u>
Creditors: amounts falling due within one year	8	(6,392,205)	-
Net current assets		113,068,306	117,084,481
Creditors: amounts falling due after more than one year	8	(112,991,030)	(117,034,481)
Net assets		<u>77,276</u>	<u>50,000</u>
Capital and reserves			
Called up share capital	11	50,000	50,000
Profit and loss account		<u>27,276</u>	<u>-</u>
Shareholder funds		<u>77,276</u>	<u>50,000</u>

The financial statements were approved by the Board of Directors and authorised for issue on 26 July 2017.

D A Valks
Director



The notes on pages 10 to 16 form part of these financial statements.

Sustainable Communities for Leeds (Finance) Plc

Statement of Changes in Equity for the year ended 31 March 2017

	Share capital	Profit and loss	Total equity
	£	£	£
1 April 2016	50,000	-	50,000
Profit for the year	-	27,276	27,276
31 March 2017	50,000	27,276	77,276

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements for the year ended 31 March 2017

Accounting policies

1

Sustainable Communities for Leeds (Finance) Plc is a company incorporated in England and Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Cash flow statement

As permitted by FRS 102 Section 1, the company has not prepared a cash flow statement as the company is a wholly owned subsidiary of Sustainable Communities for Leeds (Holdings) Limited, which itself is incorporated and registered in England and Wales and produces group financial statements in accordance with the Companies Act 2006, which include a consolidated group cash flow statement.

Going concern

The financial statements have been prepared on a going concern basis. The directors have prepared projected cash flow information for at least twelve months from the date of their approval of these financial statements. On the basis of this cash flow information, the directors consider that the group will continue to operate within the long term facility currently agreed. In addition, during the operational phase of the project, sufficient cash flow has been, and is, projected to continue to be generated to allow the group to meet its liabilities as they fall due for payment. Accordingly, despite the context of an uncertain economic climate the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and therefore adopt the going concern basis in preparing the annual report and financial statements.

Finance costs

In accordance with FRS 102 Section 25 "Borrowing costs", all issue costs, which are directly attributable to the issuing of the debt, are offset against the related borrowings within creditors.

Financial instruments - Bond valuation

The Bond is valued at amortised cost in line with Section 11 of FRS 102.

2 Judgement in applying accounting plans and key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future. Management are also required to exercise judgment in the process of applying the company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements for the year ended 31 March 2017 (continued)

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

- The effective interest rate on the Bond instrument was calculated and is not deemed to be materially different to the interest rate applied in the financial statements and as such no adjustment has been made to the interest charge in the financial statements. This will continue to be monitored.

3 Operating profit

The company had no employees during the period other than the directors. No remuneration was paid directly by the company to the directors in respect of their services to the company, nor recharged by other companies.

The amounts paid by the other group companies but not recharged relating to the services of C Rossiter, D Taylor, A Valks, S L Jones, J Crouch, K Brown and D Joyce totalled £45,000 (2016 - £45,000) and reflect the secondment costs recharged to by each shareholder. None of the directors received any defined benefit or defined contribution pension scheme contributions from the company.

The auditor's remuneration, paid by other group companies but not recharged, in respect of the audit of the company's financial statements was £1,600 (2016 - £1,600) and £750 (2016 - £750) in respect of tax compliance services during the period.

4 Interest receivable and similar income

	2017 £	2016 £
Interest receivable on bond from group company	5,171,508	5,162,933
Interest receivable on Issuer Loan Notes from group company	2,172,427	1,932,855
Amortisation of fees	203,603	192,427
Finance guarantor ongoing fee	305,499	305,499
	<u>7,853,037</u>	<u>7,593,714</u>

5 Interest payable and similar charges

	2017 £	2016 £
Interest payable on bond	5,171,508	5,162,933
Interest payable on Issuer Loan Notes	2,145,151	1,930,619
Intercompany return on shares	-	2,236
Amortisation of issue costs	203,603	192,427
Finance Guarantor ongoing fee	305,499	305,499
	<u>7,825,761</u>	<u>7,593,714</u>

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements
for the year ended 31 March 2017 (continued)

6 Taxation on profit from ordinary activities

a) Analysis of tax charge for the year

	2017 £	2016 £
<i>Current tax:</i>		
UK corporation tax on the profits for the year	-	-
Adjustments in respect of previous years	-	-
	-	-
<i>Deferred tax:</i>		
Origination and reversal of timing differences	-	-
Tax on profit on ordinary activities	-	-

b) Factors affecting current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 20%. The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	27,276	-
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 20%. (2016 - 20%)	5,455	-
Effect of:		
Adjustment in respect of previous years	-	-
Group relief claimed	(5,455)	-
Tax for the year (note 6(a))	-	-

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements
for the year ended 31 March 2017 *(continued)*

7 Debtors: amounts falling due within one year

	2017	2016
Amounts owed by fellow group companies:		
Bond	4,627,859	-
Subordinated loan	1,770,887	-
	<u>6,398,746</u>	<u>-</u>

Debtors: amounts falling due after more than one year

	2017 £	2016 £
Amounts owed by fellow group companies:		
Bond	95,158,065	99,582,321
Advance loan	17,903,700	12,680,000
Subordinated loan interest	-	4,772,160
Other funds	-	50,000
	<u>113,061,765</u>	<u>117,084,481</u>

Interest accrues on the Advance loan made from Sustainable Communities (Finance) Plc to Sustainable Communities for Leeds Limited at a fixed rate of 11.75% per annum. Interest accrues until March 2017 and then the loan is repayable by instalments over the remaining life of the project from September 2017, and is unsecured. The loan earns interest from March 17 which is paid in full at September 17 and each March and September until the loan has been fully repaid. The terms of the Advance are noted in the Equity Proceeds On-Loan Agreement.

The Bond is repayable from September 2017. Interest on the Bond is paid on a semi-annual basis on 31 March and 30 September.

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements
for the year ended 31 March 2017 *(continued)*

8 Creditors: amounts due within one year

	2017 £	2016 £
Bond (note 9)	4,627,859	-
Subordinated loan (note 9)	1,764,346	-
	6,392,205	-

Creditors: amounts falling due after more than one year

	2017 £	2016 £
Bond (note 9)	95,158,065	99,582,321
Subordinated loan (note 9)	17,832,965	17,437,286
Dividend	-	14,874
	112,991,030	117,034,481

Terms of the bond and subordinated loan can be found in notes 7 and 9.

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements
for the year ended 31 March 2017 (continued)

9 Loans and borrowings

	2017 £	2016 £
Bond	101,833,000	101,833,000
Subordinated loan	19,597,311	17,452,160
	<u>121,430,311</u>	<u>119,285,160</u>
Less: amortised issue costs	(2,047,076)	(2,250,679)
	<u>119,383,235</u>	<u>117,034,481</u>
Maturity of debt:		
Within one year	6,392,205	-
Between one and two years	5,797,444	6,398,746
Between two and five years	20,373,548	19,084,681
In more than five years	88,867,114	93,801,733
	<u>121,430,311</u>	<u>119,285,160</u>
Less: amortised debt issue costs	(2,047,076)	(2,250,679)
	<u>119,383,235</u>	<u>117,034,481</u>

Fixed Rate Guarantee Bonds to the value of £101,833,000 were issued on 11 July 2013 with an interest rate of 5.069%. The Bonds are due for repayment by September 2032. The Company is to repay the Bonds in 39 instalments.

There is an intercompany loan made from Sustainable Communities for Leeds (Holdings) Limited to Sustainable Communities for Leeds (Finance) Plc of £12,680,000 (2016 - £12,680,000) excluding issue costs. This is repayable over the remaining life of the project. Interest is payable at a rate of 11.75%, and the loan is unsecured.

10 Financial Instruments

	2017 £	2016 £
Financial Assets		
Financial assets that are measured at amortised cost	119,460,511	117,084,481
Financial Liabilities		
Financial liabilities that are measured at amortised cost	(119,410,511)	(117,034,481)
Interest receivable on financial assets measured at amortised cost	7,853,037	7,593,714
Interest payable on financial liabilities measured at amortised cost	7,825,761	7,593,714

Financial assets measured at amortised cost comprise amounts owed by group companies.

Financial liabilities measured at amortised cost comprise intergroup loans and the Bond.

Information regarding the group's exposure to and management of credit risk, liquidity risk, market risk, and interest rate risk is included in the Strategic Report.

Sustainable Communities for Leeds (Finance) Plc

Notes forming part of the financial statements
for the year ended 31 March 2017 *(continued)*

11 Share capital

	Allotted, called up and fully paid			
	2017 Number	2016 Number	2017 £	2016 £
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

12 Commitments

On 11 July 2013 the company entered into a Bond Subscription agreement which allowed the issue of £101,833,000 worth of Bonds. Further to this the company entered into an Equity Proceeds On-Loan Agreement which results in a commitment to forward proceeds from the subscription of the Bonds, and Issuer Loan Notes to Sustainable Communities for Leeds Limited to finance the company.

13 Related party disclosure

The company has taken advantage of the exemption in FRS 102 Section 33 from disclosure of intra group transactions.

14 Ultimate parent company and controlling party

The Company is a wholly owned subsidiary of Sustainable Communities for Leeds (Holdings) Limited who prepare consolidated financial statements that are the smallest and largest group accounts in which this company is included. The consolidated financial statements of Sustainable Communities for Leeds (Holdings) Limited can be obtained from Unit 18, Riversway Business Village, Navigation Road, Preston, Lancashire, PR2 2YP.