

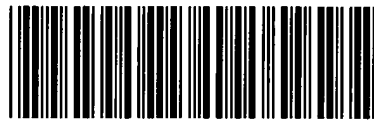
Company Registration No. 06096173

**Pyramid Schools (Plymouth) Holdings
Limited**

Annual Report and Financial Statements

For the year ended 30 September 2018

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Pyramid Schools (Plymouth) Holdings Limited

Annual report and financial statements for the year ended 30 September 2018

Contents	Page
Strategic report	1
Directors' report	3
Directors' responsibilities statement	4
Independent auditor's report	5
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Company statement of financial position	10
Consolidated statement of changes in equity	11
Company statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the financial statements	14

Pyramid Schools (Plymouth) Holdings Limited

Strategic report

The directors present their strategic report on the group for the year ended 30 September 2018.

The company is a holding company with a wholly owned subsidiary undertaking, Pyramid Schools (Plymouth) Limited (the 'Project Company'). Pyramid Schools (Plymouth) Limited undertakes a Private Finance Initiative (PFI) concession contract to design, build, finance and operate two schools in Plymouth for Plymouth City Council. The two schools have been in the operational phase throughout the current contract and preceding year.

In the year the group made a profit of £312,000 (2017: £397,000). This has decreased on the prior year due to certain costs, including the lifecycle costs being higher than the previous year.

The group's operations are managed under the supervision of one of its shareholders and funders and are largely determined by the detailed terms of the key performance indicators in the PFI contract with PCC and the Subcontract with Interserve Construction Limited ("ICL") who supply the construction and facilities maintenance services throughout the life of the concession. For this reason, the company's directors believe that no other key performance indicators apart from profit are necessary or appropriate for an understanding of the performance or position of the business.

The PFI contract and Subcontract with ICL follows a set formulae for the life of the contract and this enables the group to have certainty over its income and major expense until 2033. Furthermore the group has a Credit Agreement with its lender which fixes the level of borrowing and repayments due until the loan is fully repaid in 2032. The directors have prepared a detailed forecast up to 2033 incorporating inter alia the terms of the PFI contract, Subcontract and Credit Agreement.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal risks and uncertainties

The group's principal activity as detailed above is risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks as detailed in the following section.

One of the risks of the company is that services may not be able to continue due to the financial failure of one of the group's subcontractors. The financial stability of the facilities management company is being monitored. The directors have reviewed the benchmarking information on the facilities management contract fee and are comfortable that this is a market rate which would enable replacement of the contractor for a similar fee.

Financial risk Management

The group has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the group's performance.

The board has policies for managing each of these risks and they are summarised below:

Interest rate risk

The group hedged its interest rate risk at the inception of the project by swapping its variable rate debt into fixed rate by the use of an interest rate swap.

Inflation risk

The group's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

Liquidity risk

The group adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its obligations. Due to the nature of the project, cash flows are reasonably predictable and so this is not a major risk area for the group.

Credit risk

The group receives the majority of its revenue from a local authority and therefore is not exposed to significant credit risk.

Cash investments and interest rate swap arrangement are with institutions of a suitable credit quality.

Pyramid Schools (Plymouth) Holdings Limited

Strategic report (continued)

Ownership

The company is owned by the ultimate parent companies Coral Project Investments LP and Dalmore Capital Fund LP acting by their manager Dalmore Capital Limited and operating in the United Kingdom. In the opinion of the directors they jointly control the company.

Subsequent events

On the 22nd of December 2018 the management service provider moved from Interserve Investments Limited to Albany SPC Services Limited.

On the 15th March 2019 Interserve PLC, the parent company of Interserve Facilities Management Limited and Interserve Construction Limited, went into administration and these companies were sold to Interserve Group Limited a newly incorporated private company controlled by its lenders. Interserve Facilities Management Limited and Interserve Construction Limited to which Project Co has a contractual relationship to deliver services, are continuing business as usual within the newly formed Group of Interserve Group Limited. Interserve PLC was classed as a major project party under the Project Company's loan agreement as it provides a parent company guarantee to the facilities management and building subcontractors. Under the credit agreement with the lenders if any major project party enters administration this triggers an event of default, once Interserve PLC entered administration as a major project party an event of default had occurred. The board are working with their legal advisors, Interserve Group Limited and the lenders to find a remediation for this default.

Services have not been affected by these changes in Interserve structure.

Going concern

The directors have prepared a detailed model forecast to project completion incorporating the relevant terms of the PFI contract, subcontracts and Credit Agreement and reasonably prudent economic assumptions. This forecast and associated business model, which is updated regularly, predicts that the company will be profitable and will have sufficient cash resources to operate within the terms of the PFI contract, Subcontract and Credit agreement. Therefore, the directors, having considered the financial position of the group and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the company or cease trading as we consider we have realistic alternatives to doing so.

In reaching this conclusion, the directors have specifically considered the matters above in respect of the event of default under the terms of the Project Company's senior financing agreement. The directors are working on finding a resolution of the default under the loan agreement and do not believe this will affect the viability of the company. The directors acknowledge that the non-waiver of the default indicates the existence of a material uncertainty, which may cast significant doubt of the Group's and Company's ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The net current assets of the business are positive, however, the company is in a deficit position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind over the term of the hedge to zero.

The directors confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future actions.

Approved by the Board of Directors and signed on behalf of the Board

Approved by the Board of Directors and signed on behalf of the Board



P Johnstone
Director

3 April 2019

53

Pyramid Schools (Plymouth) Holdings Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2018.

Strategic report

The information that fulfils the Companies Act requirements of the business review, subsequent event, financial risk exposure and management is included in the strategic report. This includes a review of the development of the business of the company during the year, of its position at the end of the year and the likely future developments in its business.

Information related to the going concern assumptions and subsequent events is included in the strategic report.

Details of the principal risk and uncertainties are included in the strategic report.

Employees

The group has no direct employees (2017: Nil).

Dividends

A dividend of £156,000 (2017: £150,000) has been paid in the year and the directors have not proposed a dividend prior to the date of the approval of these financial statements.

Directors

The directors, who served throughout the year and at the date of this report are set out below:

I Lamerton

P Johnstone

A Clapp (resigned 4 July 2018)

None of the directors had any interests in the issued share capital of the group at 30 September 2018. The directors have indemnity insurance provided.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board of Directors and signed on behalf of the Board.



P Johnstone
Director

3 April 2019

Pyramid Schools (Plymouth) Holdings Limited

Directors' responsibilities statement

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to 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.

Pyramid Schools (Plymouth) Holdings Limited

Independent auditor's report to the members of Pyramid Schools Plymouth (Holdings) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Pyramid Schools (Plymouth) Holdings Limited (the 'company'):

- give a true and fair view of the state of the group and the company's affairs as at 30 September 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the company statement of financial position;
- the consolidated statement of changes in equity;
- the company statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 18.

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).

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 Financial Reporting Council (FRC) 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.

Material uncertainty related to going concern

We draw attention to the Accounting Policies in the financial statements concerning the group's and the company's ability to continue as a going concern. The Project Company is in default under its senior financing arrangement at the date of signing the financial statements and the lenders have not waived the breach. As stated in the Accounting Policies in the financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Pyramid Schools (Plymouth) Holdings Limited

Independent auditor's report to the members of Pyramid Schools Plymouth (Holdings) Limited (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual 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.

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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Pyramid Schools (Plymouth) Holdings Limited

Independent auditor's report to the members of Pyramid Schools Plymouth (Holdings) Limited (Continued)

Matters on which we are required to report by exception

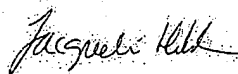
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

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.



Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
3 April 2019

Pyramid Schools (Plymouth) Holdings Limited

Consolidated statement of comprehensive income For the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Turnover	2	3,136	2,885
Cost of sales		(2,473)	(2,290)
Gross profit		663	595
Administrative expenses		(300)	(134)
Operating profit	3	363	461
Interest receivable and similar income	4	1,938	2,020
Interest payable and similar expenses	4	(1,916)	(1,988)
Profit before taxation		385	493
Tax on profit	5	(73)	(96)
Retained profit for the year and attributable to shareholders		312	397
Other comprehensive income			
Fair value movement of derivatives		1,383	2,710
Deferred tax relating to other comprehensive income	6	(235)	(461)
Total other Comprehensive income for the year		1,148	2,249
Total comprehensive income for the year		1,460	2,646

All activities are derived from continuing operations.

The change in fair value of the interest rate swap liability was wholly recognised in other comprehensive income in the current and prior years. There was no amount recognised in profit or loss for this year (2017: £Nil). The amount reclassified from equity to profit or loss for this year was £nil (2017: £nil).

Pyramid Schools (Plymouth) Holdings Limited

Consolidated statement of financial position As at 30 September 2018

	Notes	2018 £'000	2017 £'000
Current assets			
Debtors – due within one year	9	2,302	2,193
Debtors – due after one year	9	28,220	29,874
Cash at bank and in hand		2,403	1,558
		<u>32,925</u>	<u>33,625</u>
Creditors: amounts falling due within one year	10	<u>(4,153)</u>	<u>(3,219)</u>
Net current assets		<u>28,772</u>	<u>30,406</u>
Creditors: amounts falling due after more than one year	11	<u>(33,171)</u>	<u>(36,109)</u>
Net liabilities		<u>(4,399)</u>	<u>(5,703)</u>
Capital and reserves			
Called up share capital	12	1	1
Profit and loss account	14	1,208	1,052
Hedge reserve	18	<u>(5,608)</u>	<u>(6,756)</u>
Shareholders' deficit		<u>(4,399)</u>	<u>(5,703)</u>

The financial statements of Pyramid Schools (Plymouth) Holdings Limited, registered number 06096173 were approved by the Board of Directors and authorised for issue on 3 April 2019

Signed on behalf of the Board of Directors



P. Johnstone
Director

Pyramid Schools (Plymouth) Holdings Limited

Company statement of financial position As at 30 September 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	8	3,082	3,117
Current assets			
Debtors – due within one year	9	201	-
Creditors: amounts falling due within one year	10	(274)	(69)
Net current liabilities		(73)	(69)
Total assets less current liabilities		3,009	3,048
Creditors: amounts falling due after more than one year	11	(3,008)	(3,047)
Net assets		1	1
Capital and reserves			
Called up share capital	12	1	1
Shareholders' funds		1	1

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own profit and loss account. The result of the company in the year was £156,000 (2017: £150,000)

The financial statements of Pyramid Schools (Plymouth) Holdings Limited, registered number 06096173 were approved by the Board of Directors and authorised for issue on 3 April 2019

Signed on behalf of the Board of Directors



P. Johnstone
Director

Pyramid Schools (Plymouth) Holdings Limited

Consolidated statement of changes in equity For the year ended 30 September 2018

	Called up Share capital £'000	Hedge Reserve £'000	Profit and loss account £'000	Total £'000
AT 1 OCTOBER 2016	1	(9,005)	805	(8,199)
Profit for the year	-	-	397	397
Fair Value movement on derivatives	-	2,710	-	2,710
Deferred tax on FV movement of derivatives	-	(461)	-	(461)
Total comprehensive income	-	2,249	397	2,646
Dividends	-	-	(150)	(150)
AT 30 SEPTEMBER 2017	<u>1</u>	<u>(6,756)</u>	<u>1,052</u>	<u>(5,703)</u>
Profit for the year	-	-	312	312
Fair Value movement on derivatives	-	1,383	-	1,383
Deferred tax on FV movement of derivatives	-	(235)	-	(235)
Total comprehensive income	-	1,148	312	1,460
Dividends	-	-	(156)	(156)
AT 30 SEPTEMBER 2018	<u>1</u>	<u>(5,608)</u>	<u>1,208</u>	<u>(4,399)</u>

Pyramid Schools (Plymouth) Holdings Limited

Company statement of changes in equity For the year ended 30 September 2018

	Called up Share capital £'000	Hedge Reserve £'000	Profit and loss account £'000	Total £'000
AT 1 OCTOBER 2016	1	-	-	1
Profit for the year	-	-	150	150
Total comprehensive income	-	-	150	150
Dividends	-	-	(150)	(150)
AT 30 SEPTEMBER 2017	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
AT 1 OCTOBER 2017	1	-	-	1
Profit for the year	-	-	156	156
Total comprehensive income	-	-	156	156
Dividends	-	-	(156)	(156)
AT 30 SEPTEMBER 2018	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>

Pyramid Schools (Plymouth) Holdings Limited

Consolidated statement of cash flows For the year ended 30 September 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities	15	2,124	1,806
Tax paid		(81)	(79)
Interest received		1,939	2,020
Net cash generated from operating activities		<u>3,982</u>	<u>3,747</u>
Cash flows used in financing activities			
Secured senior loans		(1,251)	(1,278)
Interest paid		(1,696)	(1,977)
Dividends	7	(156)	(150)
Unsecured subordinated debt		(34)	(64)
Net cash used in financing activities		<u>(3,137)</u>	<u>(3,469)</u>
Net increase in cash and cash equivalents		845	278
Cash and cash equivalents at the beginning of the year		1,558	1,280
Cash and cash equivalents at the end of the year		<u>2,403</u>	<u>1,558</u>

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements For the year ended 30 September 2018

1. Accounting policies

Pyramid Schools (Plymouth) Holdings Limited (the company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The company's registered address is C/O Albany Spc Services Limited, 3rd Floor, 3-5 Charlotte Street, Manchester, M1 4HB.

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted by the directors are described below, and have been applied consistently throughout the current and prior year except as noted below.

The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The company adopted Financial Reporting Standard 102 issued by the Financial Reporting Standards in the year ended 30 September 2016.

The particular policies adopted by the directors are described below.

Going concern

The directors have prepared a detailed model forecast to project completion incorporating the relevant terms of the PFI contract, subcontracts and Credit Agreement and reasonably prudent economic assumptions. This forecast and associated business model, which is updated regularly, predicts that the company will be profitable and will have sufficient cash resources to operate within the terms of the PFI contract, Subcontract and Credit agreement. Therefore, the directors, having considered the financial position of the group and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the company or cease trading as we consider we have realistic alternatives to doing so.

In reaching this conclusion, the directors have specifically considered the matters in respect of the event of default under the terms of the Project Company's senior financing agreement. The directors are working on finding a resolution of the default under the loan agreement and do not believe this will affect the viability of the company. The directors acknowledge that the non-waiver of the default indicates the existence of a material uncertainty, which may cast significant doubt of the Group's and the Company's ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The net current assets of the business are positive, however, the company is in a deficit position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind over the term of the hedge to zero.

The directors confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future actions.

Accounting convention

These financial statements have been prepared in accordance with the historical cost convention, modified to include certain items at fair value (see Derivative Financial Instruments below) and in accordance with FRS 102.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, mainly in relation to the presentation of a cash flow statement, related party transactions and financial instruments.

Accounting for PFI contracts

In the transition year the group took advantage of exemptions made available under section 35.10 (i) of FRS 102, resulting in no substantial change to the treatment of the financial asset receivable due to the adoption of the standard.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements For the year ended 30 September 2018

Under the terms of the contract substantially all the risks and rewards of ownership of the property remain with Plymouth City Council.

During the period of construction, costs incurred as a direct consequence of financing, designing and constructing the schools, including finance costs, are capitalised and shown as work in progress. On completion, credit is taken for the deemed sale, which is recorded within turnover. The construction expenditure and associated costs are reallocated to cost of sales. Amounts receivable are classified as a financial asset receivable.

Revenues received from the customer are apportioned between:

- capital repayments;
- finance income; and
- operating revenue.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

1. Accounting policies (continued)

Cash Investments

Cash investments are stated at cost excluding any accrued interest and with no provision for impairment in value.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are held at the cost of the shares and the face value of the loan less any provision for impairment in value.

Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Group's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

1. Accounting policies (continued)

Financial instruments (continued)

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligation specified in the contract is discharged, cancelled, or expires.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided in full on timing differences which result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items or income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

1. Accounting policies (continued)

Group financial statements

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking. As a consolidated statement of comprehensive income is published, a separate statement of comprehensive income for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

Critical accounting policies and key judgements

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.

Critical judgements in applying the group's accounting policies

- Accounting for the service concession contract and financial assets require an estimation of service margins, financial assets interest rates and associated amortisation profile which is based on forecast results of the PFI contract detailed below.
- Applicability of hedge accounting detailed below.

Key sources of estimation uncertainty

- Derivative financial instruments are held at fair value detailed below.

Service concession

The group has been established to provide services under certain private finance agreements with Plymouth City Council. Under the terms of these Agreements, the Council (as grantor) controls the services to be provided by the Group over the contract term. Based on the contractual arrangements the Group has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

The group has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10(i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 October 2014). The nature of the asset has therefore not changed.

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

Revenue is recognised from the supply of services, which represents the timing of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

1. Accounting policies (continued)

Derivative financial instruments

The group holds derivative financial instruments which have the effect of fixing the interest rate payable on bank borrowings. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest over the period of the contract. See Hedge Accounting below for how the derivative is accounted for.

Hedge accounting

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 fair value of the derivative financial instrument is recognised directly in the statement of comprehensive income as other comprehensive income or expense. Any ineffective portion of the hedge is recognised immediately in profit or loss.

Where hedge accounting recognises a liability then an associated deferred tax asset is also recognised.

Cash flow hedges

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods in which the hedged item affects profit or loss, or when the hedging relationship ends.

Hedge accounting is discontinued when the entity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at the time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided, and is recognised each year as the applicable portions of the amounts receivable relating to finance and operating costs calculated on a consistent basis (see accounting policy note 1).

Turnover which is attributable to one geographical market, the United Kingdom, can be analysed as follows:

	2018 £'000	2017 £'000
Turnover comprises:		
Turnover from operations	3,136	2,885
Total sales	<u>3,136</u>	<u>2,885</u>

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

3. Operating profit

	2018 £'000	2017 £'000
This is stated after charging:		
Auditor's remuneration		
- Audit services for the audit of the company and subsidiary borne by the subsidiary	14	14
Tax compliance services	6	3
Tax advisory services	-	1

The group and company had no employees during the year (2017: nil). Service fees of nil (2017: £7,000) were paid to the group's ultimate shareholders for the directors' services to the company during the year.

4. Net finance income

	2018 £'000	2017 £'000
Interest receivable and similar income		
Bank interest	6	-
Interest receivable on financial asset	1,932	2,020
	<u>1,938</u>	<u>2,020</u>
Interest payable and similar expenses		
Swaps credit interest paid	(1,162)	(1,258)
Senior debt	(332)	(308)
Subordinated loan stock	(411)	(411)
Other finance costs	(11)	(11)
	<u>(1,916)</u>	<u>(1,988)</u>
Net interest receivable	<u>22</u>	<u>32</u>

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

5. Tax on profit

	2018 £'000	2017 £'000
Current taxation charge comprises:		
Current tax – charge for the year	73	96
	<u>73</u>	<u>96</u>
Factors affecting the current tax charge in the year:		
Profit before tax	385	493
Tax charge on profit before tax at rate of 19% (2017: 19.5%)	73	96
Current tax charge for the year	<u>73</u>	<u>96</u>

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2016 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the statement of financial position date.

6. Deferred Taxation

	2018 £'000	2017 £'000
Deferred taxation provided for at 17% (2017: 17%) in the financial statements is set out below:		
Deferred tax charge comprises:		
Deferred tax charge to other comprehensive income relating to movement in fair value	(235)	(461)
	<u>(235)</u>	<u>(461)</u>
Deferred tax asset:		
Balance at start of year	1,384	1,845
Deferred tax charge to other comprehensive income relating to movement in fair value	(235)	(461)
Balance at end of year	<u>1,149</u>	<u>1,384</u>

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

7. Dividends

	2018 £'000	2017 £'000
Equity – Ordinary share		
Paid 2018: £156 (2017: £150) per £1 share	156	150

No dividends are payable as at 30 September 2018 and the directors have not proposed a dividend prior to the date of the approval of these financial statements.

8. Investments

	Company 2018 £'000	2017 £'000
1,000 £1 Ordinary Shares at cost	1	1
Subordinated loan stock	3,081	3,116
	<u>3,082</u>	<u>3,117</u>

The company's subsidiary undertaking, Pyramid Schools (Plymouth) Limited, is wholly owned and incorporated in the United Kingdom. Its registered address is C/O Albany Spc Services Limited, 3rd Floor, 3-5 Charlotte Street, Manchester, M1 4HB. Its activity is to provide design, build, finance and operate the services under a Private Finance Initiative concession contract. Interest is charged on the subordinated loan stock balance at a rate of 13%. The loan is unsecured and repayable in instalments over a period of 25 years, which commenced in 2009.

9. Debtors

	2018 Group £'000	Company £'000	2017 Group £'000	Company £'000
Due within one year:				
Trade debtors	635	-	648	-
Financial asset	1,370	-	1,307	-
Deferred tax asset (details in note 6)	114	-	65	-
Prepayments and other debtors	183	-	173	-
	<u>2,302</u>	<u>-</u>	<u>2,193</u>	<u>-</u>
Due after one year				
Deferred tax asset (details in note 6)	1,035	-	1,319	-
Financial asset	27,185	-	28,555	-
	<u>28,220</u>	<u>-</u>	<u>29,874</u>	<u>-</u>
Total debtors	<u>30,522</u>	<u>-</u>	<u>32,067</u>	<u>-</u>

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

10. Creditors: amounts falling due within one year

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade creditors	406	-	346	-
Accruals and deferred income	1,317	-	952	-
Corporation tax liability	38	-	46	-
Interest rate swap liability (details in note 17)	672	-	380	-
Other taxes and social security costs	212	-	186	-
Senior secured loan (net of unamortised issue costs)	1,234	-	1,240	-
Subordinated loan stock	274	274	69	69
	<u>4,153</u>	<u>274</u>	<u>3,219</u>	<u>69</u>

The subordinated loan bears interest at a fixed rate of 13% and is repayable over the life of the contract.

11. Creditors: amounts falling due after more than one year

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Senior secured loan	24,078	-	25,303	-
Subordinated loan stock	3,008	3,008	3,047	3,047
Interest rate swap liability (details in note 17)	6,085	-	7,759	-
	<u>33,171</u>	<u>3,008</u>	<u>36,109</u>	<u>3,047</u>

Maturity analysis of senior secured loan due after more than one year:

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Repayable between one and two years	1,301	-	1,236	-
Repayable between two and five years	4,481	-	4,319	-
Repayable after five years	18,508	-	19,970	-
	<u>24,290</u>	<u>-</u>	<u>25,525</u>	<u>-</u>
Less: unamortised issue costs	(212)	-	(222)	-
	<u>24,078</u>	<u>-</u>	<u>25,303</u>	<u>-</u>

The secured senior loan represents amounts borrowed under a facility agreement with Barclays Bank PLC. The loan bears interest at a margin of 0.60% over LIBOR and is repayable in instalments between 2009 and 2032. The loan is secured by fixed and floating charges over the property, assets and rights of the company, and has certain covenants attached.

In order to hedge against interest variations on the senior secured loan, the company has entered into an interest rate swap agreement with a bank whereby at monthly intervals sums are exchanged reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

11. Creditors: amounts falling due after more than one year (continued)

Maturity analysis of subordinated loan stock due after more than one year.

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Repayable between one and two years	62	62	78	78
Repayable between two and five years	206	206	197	197
Repayable after five years	2,740	2,740	2,772	2,772
	<u>3,008</u>	<u>3,008</u>	<u>3,047</u>	<u>3,047</u>

Interest is charged on the subordinated loan stock balance at the rate of 13%. The loans are unsecured and repayable in instalments over a period of 25 years, which commenced in 2009.

12. Called up share capital

	2018 £'000	2017 £'000
Company and Group Authorised, called up, allotted and fully paid 1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>

13. Financial Instruments

The group and company has the following financial instruments:

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Financial assets that are debt instruments measured at amortised cost:				
- Trade debtors	635	-	648	-
- Finance asset receivable	28,555	-	29,862	-
	<u>29,190</u>	<u>-</u>	<u>30,510</u>	<u>-</u>
Financial liabilities in effective hedging relationships:				
Derivative financial instruments – interest rate swap	6,757	-	8,140	-
Financial liabilities that are debt instruments measured at amortised cost:				
- Senior debt loan	25,303	-	26,777	-
- Subordinated loan	3,081	-	3,116	-
- Trade creditors	406	-	346	-
	<u>28,790</u>	<u>-</u>	<u>30,239</u>	<u>-</u>

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued)

For the year ended 30 September 2018

14. Reconciliation of operating profit to net cash inflow from operating activities

	2018 £'000	2017 £'000
Operating profit	363	461
Decrease in debtors	1,309	1,304
Increase in creditors	452	41
Net cash inflow from operating activities	<u>2,124</u>	<u>1,806</u>

15. Controlling parties

The company is incorporated and domiciled in the United Kingdom. The immediate controlling party and parent is Environments For Learning Limited and this company produced consolidated financial statements at 30 September 2018 which is the largest group in which these results are consolidated. These are the smallest group financial statements that are prepared of which the company is a member. In the opinion of the directors there is no ultimate controlling party. The ultimate shareholders are Coral Project Investment LP and Dalmore Capital Fund LP, acting by its manager Dalmore Capital Limited.

Copies of the financial statements of Environments For Learning Limited are available from Companies House, Crown Way, Mandy, Cardiff, CF14 3UZ and the registered address is C/O Albany Spc Services Limited, 3rd Floor, 3-5 Charlotte Street, Manchester, M1 4HB.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

16. Related party transactions

Parties	Amounts paid/ (received) during the year ended 30 September 2018 £'000	Amounts payable/ (receivable) at 30 September 2018 £'000	Amounts paid/ (received) during the year ended 30 September 2017 £'000	Amounts payable/ (receivable) at 30 September 2017 £'000
Interserve plc and its subsidiary undertakings For construction and other services until 20 June 2017	-	-	1,577	-
Environments for Learning Limited				
Subordinated debt	34	3,082	64	3,116
Subordinated debt interest	210	201	412	-
PFI 2005 Limited (formerly Interserve PFI 2005 Limited) For services until 1 July 2017	-	-	3	8
Dalmore Capital Fund LP For services	5	-	3	11

Amounts payable at 30 September 2018 and 30 September 2017 are included within trade creditors, accruals and deferred income and subordinated debt.

17. Hedge Reserve

	2018 £'000	2017 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value		
Interest rate swap on loans:		
Fair value of interest rate swap liability at year end	(6,757)	(8,140)
Deferred tax on above	1,149	1,384
	<u>(5,608)</u>	<u>(6,756)</u>

In February 2007 the group entered into a 25 year fixed interest rate swap arrangement to hedge its exposure to the effect of interest rate fluctuations.

The interest rate swap contract is designated as a hedge of variable interest rate risk of the group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the swap.

The swap was effected on a notional amount of £41,045,000 at a fixed rate of 5.06% payable in semi-annual amounts between 31 March 2009 and 30 September 2032.

The fair value of the interest rate swap liability in the current and prior years have been determined by relevant market data.

Pyramid Schools (Plymouth) Holdings Limited

Notes to the financial statements (continued) For the year ended 30 September 2018

18: Subsequent Events

On the 22nd of December 2018 the management service provider moved from Interserve Investments Limited to Albany SPC Services Limited.

On the 15th March 2019 Interserve PLC, the parent company of Interserve Facilities Management Limited and Interserve Construction Limited, went into administration and these companies were sold to Interserve Group Limited a newly incorporated company controlled by its lenders. Interserve PLC was classed as a major project party under the Project Company's loan agreement as it provides a parent company guarantee to the facilities management and building subcontractors. Under the credit agreement with the lenders if any major project party enters administration this triggers an event of default, once Interserve PLC entered administration as a major project party an event of default had occurred. The board are working with their legal advisors, Interserve Group Limited and the lenders to find a remediation for this default.

Services have not been affected by these changes in Interserve structure.