

COMPANY REGISTRATION NUMBER: SC237891

Emblem Schools Limited
Annual Report and Financial Statements
31 March 2016

WEDNESDAY



S5GGRLUY

SCT

28/09/2016

#182

COMPANIES HOUSE



Emblem Schools Limited
Annual Report and Financial Statements
Year Ended 31 March 2016

Contents	Pages
Officers and professional advisers	1
Directors' report	2 to 3
Directors' responsibilities statement	4
Independent auditors' report to the members	5 to 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Notes to the financial statements	10 to 22

Emblem Schools Limited

Officers and Professional Advisers

The Board of Directors

Y

D Fletcher
D Gilmour
G Quaife
M Smith
G Wegener
M Donn
D Smith
J Cavill

Company Secretary

Infrastructure Managers Limited

Registered Office

2nd Floor
11 Thistle Street
Edinburgh
EH2 1DF

Auditor

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP)
Chartered Accountants & Statutory Auditors
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Emblem Schools Limited

Directors' Report

Year Ended 31 March 2016

The directors present their report and the financial statements of the Company for the year ended 31 March 2016.

Principal Activities

The principal activity of the company during the year was the design, build and maintenance of 10 new schools within Fife under a PFI contract with Fife Council. The company is a wholly owned subsidiary of Emblem Schools (Holdings) Limited.

Performance Review

The entity transition from previous UK GAAP to FRS 102 as at 1 April 2014. The accounts for the year ended 31 March 2016 have been prepared in accordance with FRS 102 and the comparative figures for the year ended 31 March 2015 have been restated where necessary to comply with FRS 102.

The profit for the year, after taxation, amounted to £228,950 (2015: £497,867).

The profit for the year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key performance indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the group loan agreement.

Going Concern

The directors acknowledge that the Company is in net liabilities, however this is a result of the interest rate swaps, which are significantly out of the money, being brought onto the balance sheet. After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. The directors consider the performance of the company during the year, the financial position at the end of the year and its prospects for the future to be satisfactory. Emblem Schools Limited's future plans are to operate and maintain the schools until the end of the concession period.

Emblem Schools Limited considers that its main risks and uncertainties lie within the banking sector, ensuring that it is able to pay its funding costs. It needs to receive timely payment of its unitary charge. Emblem Schools Limited has accrued all potential liabilities.

Emblem Schools Limited monitors actual performance against plan being the financial close model on a quarterly basis and this is reported to the board. The financial model is updated on a semi-annual basis for actual performance to ensure banking covenants are not breached.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

D Fletcher
D Gilmour
G Quaife
M Smith
G Wegener
M Donn
D Smith

Emblem Schools Limited

Directors' Report *(continued)*

Year Ended 31 March 2016

J Cavill	(Appointed 10 February 2016)
BIIF Corporate Services Limited	(Resigned 10 February 2016)
J Park	(Resigned 6 January 2016)

Dividends

The directors do not recommend the payment of a dividend.

Financial risk

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company is credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the income is ultimately derived from established public sector counterparties.

Interest rate risk

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

Cash Flow and Liquidity risk

Many of the cash flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

Small company provisions

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

This report was approved by the board of directors on23/9/16..... and signed on behalf of the board by:



Infrastructure Managers Limited
Company Secretary

Emblem Schools Limited

Directors' Responsibilities Statement

Year Ended 31 March 2016

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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 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 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.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

The Directors' Responsibilities were approved by the board on 23/9/16 and signed on its behalf by:



D Gilmour

Director

Emblem Schools Limited

Independent Auditors' Report to the Members of Emblem Schools Limited

Year Ended 31 March 2016

We have audited the financial statements on pages 7 to 22. 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 auditor

As more fully explained 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. 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 Auditing Practices Board's (APB'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 Financial Reporting Council's website at <http://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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emblem Schools Limited

Independent Auditors' Report to the Members of Emblem Schools Limited *(continued)*

Year Ended 31 March 2016

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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from the requirement to prepare a strategic report or in preparing the directors' report.

RSM UK Audit LLP

Claire Monaghan (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

28/9/16

Emblem Schools Limited

Statement of Comprehensive Income

Year Ended 31 March 2016

	Note	2016 £	2015 £
Turnover	4	3,155,314	3,806,377
Cost of sales		<u>(2,003,243)</u>	<u>(2,323,751)</u>
Gross profit		1,152,071	1,482,626
Administrative expenses		<u>(507,201)</u>	<u>(424,749)</u>
Operating profit		644,870	1,057,877
Other interest receivable and similar income	7	2,641,558	2,651,869
Interest payable and similar charges	8	<u>(2,996,633)</u>	<u>(3,087,388)</u>
Profit on ordinary activities before taxation		289,795	622,358
Tax on profit on ordinary activities	9	<u>(60,845)</u>	<u>(124,491)</u>
Profit for the financial year		<u>228,950</u>	<u>497,867</u>
Fair value movements on cash flow hedging instruments, net of tax		<u>(43,931)</u>	<u>(2,381,668)</u>
Total comprehensive income for the year		<u>185,019</u>	<u>(1,883,801)</u>

All the activities of the Company are from continuing operations.

The notes on pages 10 to 22 form part of these financial statements.

Emblem Schools Limited

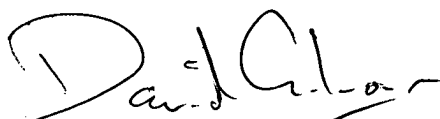
Statement of Financial Position

As at 31 March 2016

	Note	2016 £	2015 £
Current assets			
Debtors: due within one year	10	3,146,456	2,981,680
Debtors: due after more than one year	10	45,459,571	47,470,549
Cash at bank and in hand		1,566,834	1,668,156
		<u>50,172,861</u>	<u>52,120,385</u>
Creditors: amounts falling due within one year	11	<u>(2,880,950)</u>	<u>(3,102,649)</u>
Net current assets		<u>47,291,911</u>	<u>49,017,736</u>
Total assets less current liabilities		<u>47,291,911</u>	<u>49,017,736</u>
Creditors: amounts falling due after more than one year	12	(54,702,161)	(56,661,041)
Provisions			
Taxation including deferred tax	14	25,979	84,030
Other provisions	14	(307,119)	(317,134)
		<u>(281,140)</u>	<u>(233,104)</u>
Net liabilities		<u>(7,691,390)</u>	<u>(7,876,409)</u>
Capital and reserves			
Called up share capital	16	130,000	130,000
Hedging reserve	17	(7,744,352)	(7,700,421)
Retained earnings	17	(77,038)	(305,988)
Shareholders deficit		<u>(7,691,390)</u>	<u>(7,876,409)</u>

This report has been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

These financial statements were approved by the board of directors and authorised for issue on 23/4/16, and are signed on behalf of the board by:



D Gilmour
Director

Company registration number: SC237891

The notes on pages 10 to 22 form part of these financial statements.

Emblem Schools Limited
Statement of Changes in Equity
Year Ended 31 March 2016

	Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 April 2014	130,000	(5,318,753)	(803,855)	(5,992,608)
Profit for the year			497,867	497,867
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	(2,381,668)	—	(2,381,668)
Total comprehensive income for the year	—	(2,381,668)	497,867	(1,883,801)
At 31 March 2015	130,000	(7,700,421)	(305,988)	(7,876,409)
Profit for the year			228,950	228,950
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	(43,931)	—	(43,931)
Total comprehensive income for the year	—	(43,931)	228,950	185,019
At 31 March 2016	<u>130,000</u>	<u>(7,744,352)</u>	<u>(77,038)</u>	<u>(7,691,390)</u>

Included in the fair value movement on cash flow hedging instruments is £1,614,204 (2015: £1,704,004) that was recycled through Interest Payable in the statement of comprehensive income.

The notes on pages 10 to 22 form part of these financial statements.

Emblem Schools Limited

Notes to the Financial Statements

Year Ended 31 March 2016

1. Statement of compliance

The individual financial statements of Emblem Schools Limited have been prepared in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

2. General information

Emblem Schools Limited ('the Company') is incorporated and domiciled in the UK. The address of its registered office is 2nd Floor, 11 Thistle Street, Edinburgh, EH2 1DF.

The principal activity of the company during the year was the design, build and maintenance of 10 new schools within Fife under a PFI contract with Fife Council.

The Company's functional and presentation currency is the pound sterling.

3. Accounting policies

Basis of preparation

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

Going concern

The directors acknowledge that the Company is in net liabilities, however this is largely a result of the interest rate swaps, which are significantly out of the money, being brought onto the balance sheet. After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Transition to FRS 102

The entity transitioned from previous UK GAAP to FRS 102 as at 1 April 2014. Details of how FRS 102 has affected the reported financial position and financial performance is given in note 20.

Some of the FRS102 recognition, measurement and presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the directors have amended certain accounting policies to comply with FRS102.

Comparative figures have been restated to reflect the adjustments made, except to the extent that the directors have taken advantage of exemptions to retrospective application of FRS102, permitted by Chapter 35 of FRS102, "Transition to this FRS". Adjustments are recognised directly in retained earnings at the transition date.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

Disclosure exemptions

The Company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

i) Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial 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 instruments on its balance sheet. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by the shareholders based on counterparty information that is independent of the Company, but use observable market data in respect of interest rates as an input to valuing those derivative financial instruments. There is also a judgement on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

ii) Market rate of interest

The directors have reviewed the interest rate applied to the subordinated debt and consider this to be at a market rate.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's balance sheet, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the balance sheet. Any reduction in value arising from such a review would be recorded in the statement of comprehensive income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract. These were forecast initially within the operating model as financial close and are closely monitored throughout the duration of the project.

Revenue recognition

Turnover represents the services' share of the management services income received by the Company for the provision of a PFI asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument. The company has elected to apply the provisions of Section 11, 'Basic Financial Instruments' and Section 12, 'Other Financial Instruments Issues' of FRS 102, in full, to all its financial instruments.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

Financial instruments *(continued)*

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. 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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the statement of comprehensive income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the statement of comprehensive income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

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.

4. Turnover

Turnover arises from:

	2016 £	2015 £
Rendering of services	<u>3,155,314</u>	<u>3,806,377</u>

The whole of the turnover is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

5. Auditors' remuneration

	2016 £	2015 £
Fees payable for the audit of the financial statements	<u>7,800</u>	<u>9,300</u>
Fees payable to the company's auditor and its associates for other services: Other non-audit services	<u>2,850</u>	<u>2,850</u>

6. Particulars of employees and directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2015: nil). The directors, who are also key management personnel, did not receive any remuneration from the Company during the year (2015: £nil).

7. Other interest receivable and similar income

	2016 £	2015 £
Interest on cash and cash equivalents	13,972	2,927
Finance lease debtor interest	<u>2,627,586</u>	<u>2,648,942</u>
	<u>2,641,558</u>	<u>2,651,869</u>

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

8. Interest payable and similar charges

	2016	2015
	£	£
Interest on bank loans and overdrafts	2,211,116	2,315,998
Interest due to Group undertakings	772,298	772,639
Other interest payable and similar charges	13,219	(1,249)
	<u>2,996,633</u>	<u>3,087,388</u>

9. Tax on profit on ordinary activities

Major components of tax expense

	2016	2015
	£	£
Current tax:		
UK current tax expense	2,794	585
Deferred tax:		
Origination and reversal of timing differences	58,051	123,906
Tax on profit on ordinary activities	<u>60,845</u>	<u>124,491</u>

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20%).

	2016	2015
	£	£
Profit on ordinary activities before taxation	289,795	622,358
Profit on ordinary activities by rate of tax	57,959	124,472
Effect of expenses not deductible for tax purposes	–	20
Rounding on tax charge	(1)	(1)
Change in tax rates	2,887	–
Tax on profit on ordinary activities	<u>60,845</u>	<u>124,491</u>

Factors that may affect future tax expense

On 26 October 2015, a reduction in the UK corporation tax rate from 20% to 18% was substantively enacted. The reduction is to take effect in two stages from 1 April 2017 (19%) and then from 1 April 2020 (18%). As a result, relevant deferred tax balances have been re-measured at the rate at which the majority of the deferred tax balance is expected to unwind.

This change has reduced the deferred tax asset at the balance sheet date by £191,773.

In his Budget speech on 16 March 2016 the Chancellor of the Exchequer proposed that the above UK corporation tax rate of 18% effective from 1 April 2020 be further reduced to 17%. This change had not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. If enacted, the change would reduce the deferred tax asset at the balance sheet by £95,887.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

10. Debtors

Debtors falling due within one year are as follows:

	2016	2015
	£	£
Trade debtors	1,345,837	804,960
Prepayments and accrued income	14,767	486,527
Finance lease debtor	1,785,852	1,690,193
	<u>3,146,456</u>	<u>2,981,680</u>

Debtors falling due after one year are as follows:

	2016	2015
	£	£
Deferred tax asset	1,699,980	1,925,105
Finance lease debtor	43,759,591	45,545,444
	<u>45,459,571</u>	<u>47,470,549</u>

The movement in the finance debtor is analysed as follows:

	2016	2015
	£	£
At beginning of year	47,235,637	48,458,547
Amortisation	(1,690,193)	(1,222,910)
At end of year	<u>45,545,444</u>	<u>47,235,637</u>

11. Creditors: amounts falling due within one year

	2016	2015
	£	£
Bank loans and overdrafts	2,087,697	2,008,063
Trade creditors	301,143	332,603
Accruals and deferred income	117,992	491,849
Corporation tax	2,843	49
Social security and other taxes	359,594	259,075
Other creditors	11,681	11,010
	<u>2,880,950</u>	<u>3,102,649</u>

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

	2016	2015
	£	£
Bank loans and overdrafts	36,379,352	38,479,507
Amounts owed to Group undertakings	5,499,557	5,497,925
Derivative financial liability	9,444,331	9,625,526
Other creditors	3,378,921	3,058,083
	<u>54,702,161</u>	<u>56,661,041</u>

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

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

Other creditors consist of the unitary charge control account. In the prior year the unitary charge control account was offset against the finance debtor (note 10). The Directors believe it is appropriate to show this balance separately so it has been reallocated in both the current and prior year.

The bank loan is repayable by quarterly instalments. These commenced in September 2007 and end in December 2030. The loan bears an interest rate of 5.54% per annum.

Bank loans are secured by a floating charge over the assets of the company, an assignment of the Project Accounts; step-in rights related to sub-contracts and a fixed charge in respect of the hedging agreement of the company. In addition the bank holds a Parent Security Agreement incorporating a floating charge over the assets of the ultimate parent company, Emblem Schools (Holdings) Limited. Under the agreement, the parent company pledges as security its interest in the shares and shareholders loans. The full amount of loan drawdown at 31 March 2016 is £38,936,643 (2015: £40,968,750). Issue costs of £469,594 (2015: £481,180) have been set off against total loan drawdowns.

The loan from the parent company is unsecured and is repayable by bi-annual instalments over 2 years commencing September 2030 and ending September 2032. The loan bears an interest rate of 13.75% per annum. The full amount of loan drawdown at 31 March 2016 is £5,603,830 (2015: £5,603,830). Issue costs of £104,273 (2015: £105,906) have been set off against total loan drawdowns.

13. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2016 £	2015 £
Included in debtors (note 10)	1,699,980	1,925,105
Included in provisions (note 14)	25,979	84,030
	<u>1,725,959</u>	<u>2,009,135</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2016 £	2015 £
Unused tax losses	46,452	109,305
Short term timing differences	(20,473)	(25,275)
Derivative financial instruments	1,699,980	1,925,105
	<u>1,725,959</u>	<u>2,009,135</u>

The net deferred tax liability expected to reverse in 2016 is £54,141. This primarily relates to expected utilisation of tax losses and short term timing differences.

	2015 £
Opening balance	2,009,135
Movement through the profit or loss	(58,051)
Movement through other comprehensive income	(225,125)
Closing balance	<u>1,725,959</u>

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

14. Provisions

	Deferred tax (note 13) £	Lifecycle £	Total £
At 1 April 2015	(84,030)	317,134	233,104
Charge against provision	–	(10,015)	(10,015)
Deferred tax	<u>58,051</u>	<u>–</u>	<u>58,051</u>
At 31 March 2016	<u>(25,979)</u>	<u>307,119</u>	<u>281,140</u>

A provision has been recognised in respect of future payments due on lifecycle underspend in line with the Facilities Management Agreement.

15. Financial instruments

The fair value of the interest rate swap have been calculated by discounting the fixed cash flows at forecasted forward interest rates over the term of the financial instrument. The bank borrowing and finance debtor are both held at amortised cost. The fair values of the fixed rate borrowing and the interest rate swap have been calculated by discounting the fixed cash flows at the prevailing interest rates at the year end.

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

Interest rate swaps

The Company has entered into interest rate swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into on 22 December 2005 and expire on 31 December 2030.

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 March 2016 amounted to net liabilities of £9,444,331 (2015: £9,625,526) comprising liabilities of £9,444,331 for interest rate swaps (2015: £9,625,526). All of the movements during the year in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £181,195 (2015: £2,977,085 debit).

16. Called up share capital

Issued, called up and fully paid

	2016		2015	
	No	£	No	£
Ordinary shares of £1 each	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

17. Reserves

Hedging reserve - This reserve records fair value movements on cash flow hedging instruments.

Retained earnings - This reserve records retained earnings and accumulated losses.

18. Related party transactions

Emblem Schools (Holdings) Limited, the ultimate parent company, provided a subordinated debt loan of £5,603,830 with an arrangement fee of £104,273 (2015: loan of £5,603,830 with an arrangement fee of £105,906). This loan remains outstanding at 31 March 2016. Interest of £772,298 (2015: £772,639) was payable in the year on this loan of which £nil (2015: £386,319) was included in accruals.

During the year Infrastructure Investments General Partner Limited, a subsidiary of HICL Infrastructure Company Limited an investor in Emblem Schools (Holdings) Limited, invoiced £53,587 (2015: £nil) in respect of professional services. At the end of the year £54,172 (2015: £53,587) was included in accruals to Infrastructure Investments General Partner Limited for professional services.

During the year FES FM Limited, an associate company of Forth Management Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £2,307,288 (2015: £1,988,234) in respect of professional services. At the end of the year £222,454 (2015: £207,376) was owed to FES FM Limited for professional services.

During the year, Forth Management Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £27,121 (2015: £37,830) in respect of professional services.

During the year, BIIF Bidco Limited, a subsidiary of PFI Infrastructure Finance Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £54,242 (2015: £53,587) in respect of professional services. At the end of the year £nil (2015: £16,076) was owed to BIIF Bidco Limited.

During the year, Aberdeen Infrastructure Finance GP (previously known as BOS Infrastructure Finance GP), a related party of Aberdeen Infrastructure (No.3) Limited the shareholder in Emblem Schools (Holdings) Limited, invoiced £54,172 (2015: £53,586) in respect of professional services. At the end of the year £nil (2015: £26,793) was owed to Aberdeen Infrastructure Finance GP.

19. Controlling party

The company's ultimate parent company is Emblem Schools (Holdings) Limited, which is a limited company registered and incorporated in Great Britain. Copies of the Accounts of Emblem Schools (Holdings) Limited can be obtained from the Company Secretary at 2nd Floor, 11 Thistle Street, Edinburgh, United Kingdom, EH2 1DF. Emblem Schools (Holdings) Limited is a jointly owned company with no ultimate controlling party.

Emblem Schools Limited

Notes to the Financial Statements (continued)

Year Ended 31 March 2016

20. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Profit for the financial year		31 March 2015
		£
UK GAAP - As previously reported		473,467
Effective Interest Rate adjustment on loans	B	30,501
Deferred tax impact of adjustments	C	
- Effective Interest Rate adjustment on loans		(6,101)
Total Adjustment to profit for the financial year		24,400
FRS 102		<u>497,867</u>

Other Comprehensive Income		31 March 2015
		£
UK GAAP - As previously reported		-
Derivative financial instrument	A	(2,977,084)
Deferred tax impact of adjustments	C	
- Derivative financial instruments		595,416
FRS 102		<u>(2,381,668)</u>

Total Equity		1 April 2014	31 March 2015
		£	£
UK GAAP - As previously reported		(750,554)	(277,087)
Derivative Financial Instruments	A	(6,648,441)	(9,625,526)
Effective Interest Rate adjustment to loans	B	95,874	126,375
Deferred taxation	C	1,310,513	1,899,829
FRS 102		<u>(5,992,608)</u>	<u>(7,876,409)</u>

A. Derivative Financial Instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. This requires the instrument to be brought onto the balance sheet, the Company has adopted hedge accounting limiting the impact of fair value movements in the profit or loss. Previously under UK GAAP the company did not recognise these instruments in the financial statements. Accordingly at transition a liability of £6,648,441 was recognised and a loss of £2,977,084 was recognised in the statement of comprehensive income for the year ended 31 March 2015. A liability of £9,625,526 was recognised at that date.

B. Effective Interest Rate Adjustment to loans

Under FRS 102, debt instruments must be recorded at amortised cost using the effective interest method, previously finance costs were allocated over the term of the instrument on a straight line basis. On transition the Loans were increased by £95,874 with a further £30,501 charge recognised in the profit and loss account for the year ended 31 March 2015.

Emblem Schools Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

C. Deferred Taxation

The Company has accounted for deferred taxation on transition as follows:

(a) Derivative financial instruments – Deferred tax of £1,329,688 has been recognised at 20% on the liability recognised on transition at 1 April 2014. In the year ended 31 March 2015 the company has recognised a debit of £595,417 in the statement of comprehensive income in respect of the increase in the value of derivative financial instruments.

(b) Effective Interest Rate adjustment to loans - Deferred tax of £25,275 has been recognised at 20% of the adjustment. The deferred tax balance will be amortised on a straight line basis over a 10 year period as required by the Change of Accounting Practice regulations set out by HMRC.