

**Emblem Schools Limited**  
**Annual Report and Financial Statements**  
**31 March 2017**



**Emblem Schools Limited**  
**Annual Report and Financial Statements**  
**Year Ended 31 March 2017**

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# **Emblem Schools Limited**

## **Officers and Professional Advisers**

### **The Board of Directors**

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

### **Company Secretary**

Infrastructure Managers Limited

### **Registered Office**

2nd Floor  
11 Thistle Street  
Edinburgh  
EH2 1DF

### **Auditors**

RSM UK Audit LLP  
Chartered Accountants  
First Floor, Quay 2  
139 Fountainbridge  
Edinburgh  
EH3 9QG

# **Emblem Schools Limited**

## **Directors' Report**

### **Year Ended 31 March 2017**

The directors present their report and the financial statements of the Company for the year ended 31 March 2017.

#### **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 (Private Finance Initiative) contract with Fife Council. The contract is in year 12 of its term expiring in 2032. The Company is a wholly owned subsidiary of Emblem Schools (Holdings) Limited.

#### **Performance Review**

The profit for the year, after taxation, amounted to £301,850 (2016: £228,950).

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 Statement of Financial Position. 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  
E Wegener  
M Donn  
D Smith  
J Cavill

# **Emblem Schools Limited**

## **Directors' Report** *(continued)*

**Year Ended 31 March 2017**

### **Dividends**

Particulars of recommended dividends are detailed in note 10 to the financial statements.

### **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.

### **Disclosure of Information to Auditors**

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 as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

This report was approved by the board of directors on 31 July 2017..... and signed by order of the board by:



Infrastructure Managers Limited  
Company Secretary

# Emblem Schools Limited

## Directors' Responsibilities Statement

### Year Ended 31 March 2017

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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, comprising FRS 102 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors' Responsibilities were approved by the board on 27 July 2017 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 2017**

#### **Opinion on Financial Statements**

We have audited the financial statements on pages 7 to 20. 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'.

In our opinion the financial statements:

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

#### **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 [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

#### **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 and, based on the work undertaken in the course of our audit, the Directors' Report has been prepared in accordance with applicable legal requirements.

#### **Matters on Which We are Required to Report by Exception**

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

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.

# **Emblem Schools Limited**

## **Independent Auditors' Report to the Members of Emblem Schools Limited**

*(continued)*

**Year Ended 31 March 2017**

### **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.

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

RSM UK Audit LLP

**Claire Monaghan (Senior Statutory Auditor)**

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants

139 Fountainbridge

Edinburgh

EH3 9QG

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# Emblem Schools Limited

## Statement of Comprehensive Income

Year Ended 31 March 2017

	Note	2017 £	2016 £
<b>Turnover</b>	<b>4</b>	<b>3,546,001</b>	<b>3,155,314</b>
Cost of sales		<u>(2,324,776)</u>	<u>(2,003,243)</u>
<b>Gross profit</b>		<b>1,221,225</b>	<b>1,152,071</b>
Administrative expenses		<u>(489,245)</u>	<u>(507,201)</u>
<b>Operating profit</b>		<b>731,980</b>	<b>644,870</b>
Other interest receivable and similar income	7	<b>2,533,601</b>	2,641,558
Interest payable and similar expenses	8	<u>(2,895,729)</u>	<u>(2,996,633)</u>
<b>Profit before taxation</b>		<b>369,852</b>	<b>289,795</b>
Tax on profit	9	<u>(68,002)</u>	<u>(60,845)</u>
<b>Profit for the financial year</b>		<b><u>301,850</u></b>	<b><u>228,950</u></b>
Fair value movements on cash flow hedging instruments, net of tax		<u>308,934</u>	<u>(43,931)</u>
<b>Total comprehensive income for the year</b>		<b><u>610,784</u></b>	<b><u>185,019</u></b>

All the activities of the Company are from continuing operations.

The notes on pages 10 to 20 form part of these financial statements.

# Emblem Schools Limited

## Statement of Financial Position

As at 31 March 2017

	Note	2017 £	2016 £
<b>Current assets</b>			
Debtors: due within one year	11	1,916,004	3,146,456
Debtors: due after more than one year	11	43,396,373	45,459,571
Cash at bank and in hand		<u>2,986,477</u>	<u>1,566,834</u>
		48,298,854	50,172,861
<b>Creditors: amounts falling due within one year</b>	12	<u>(3,004,000)</u>	<u>(2,880,950)</u>
<b>Net current assets</b>		45,294,854	47,291,911
<b>Total assets less current liabilities</b>		45,294,854	47,291,911
<b>Creditors: amounts falling due after more than one year</b>	13	(52,007,349)	(54,702,161)
<b>Provisions</b>			
Taxation including deferred tax	15	(17,187)	25,979
Other provisions	15	<u>(452,924)</u>	<u>(307,119)</u>
		(470,111)	(281,140)
<b>Net liabilities</b>		<u>(7,182,606)</u>	<u>(7,691,390)</u>
<b>Capital and reserves</b>			
Called up share capital	17	130,000	130,000
Hedging reserve	18	(7,435,418)	(7,744,352)
Retained earnings	18	<u>122,812</u>	<u>(77,038)</u>
<b>Shareholders deficit</b>		<u>(7,182,606)</u>	<u>(7,691,390)</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 ~~27 July 2017~~ and are signed on behalf of the board by:



D Gilmore  
Director

Company registration number: SC237891

The notes on pages 10 to 20 form part of these financial statements.

# Emblem Schools Limited

## Statement of Changes in Equity

Year Ended 31 March 2017

	Called up share capital £	Hedging reserve £	Retained earnings £	Total £
<b>At 1 April 2015</b>	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)
<b>Total comprehensive income for the year</b>	—	(43,931)	228,950	185,019
<b>At 31 March 2016</b>	130,000	(7,744,352)	(77,038)	(7,691,390)
Profit for the year			301,850	301,850
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	308,934	—	308,934
<b>Total comprehensive income for the year</b>	—	308,934	301,850	610,784
Dividends paid and payable	10	—	(102,000)	(102,000)
<b>Total investments by and distributions to owners</b>	—	—	(102,000)	(102,000)
<b>At 31 March 2017</b>	<u>130,000</u>	<u>(7,435,418)</u>	<u>122,812</u>	<u>(7,182,606)</u>

Included in the fair value movement on cash flow hedging instruments is £1,565,801 (2016: £1,614,204) that was recycled through Interest Payable in the statement of comprehensive income.

The notes on pages 10 to 20 form part of these financial statements.

# **Emblem Schools Limited**

## **Notes to the Financial Statements**

### **Year Ended 31 March 2017**

#### **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 a private company limited by shares and 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 (Private Finance Initiative) contract with Fife Council. The contract is in year 12 of its term expiring in 2032. The Company is a wholly owned subsidiary of Emblem Schools (Holdings) Limited.

The Company's functional and presentation currency is the pound sterling and the accounts are rounded to the nearest £.

#### **3. Accounting Policies**

##### **(a) 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.

##### **(b) Going concern**

The directors acknowledge that the Company is in net liabilities, however this is largely a result of the interest rate swap, which is significantly out of the money, being brought onto the Statement of Financial Position. It is not the intention to close out these instruments before their maturity date in December 2030, therefore there is no impact on the Company's ability to meet its liabilities as they fall due. 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.

##### **(c) Disclosure exemptions**

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. 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.

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 3. Accounting Policies *(continued)*

##### (d) 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 Statement of Financial Position. 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 RPI and 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.

##### iii) Income taxation

##### Current taxation

The taxation charge or credit arising on profit before taxation and in respect of gains or losses recognised through other comprehensive income reflect the tax rates in effect or substantially enacted at the Statement of Financial Position date as appropriate. The determination of appropriate provisions for taxation requires the Directors to take into account anticipated decisions of HM Revenue and Customs which inevitably requires the Directors to use judgements as to the appropriate estimate of taxation provisions.

##### Deferred taxation

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Judgements are required to be made as to the calculation and identification of timing differences and in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgement requires the Directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

##### 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:

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 3. Accounting Policies *(continued)*

##### i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, 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 Statement of Financial Position. 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.

#### (e) 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 the finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

#### (f) 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.

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 3. Accounting Policies *(continued)*

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.

#### **(g) 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 an expense in the Statement of Comprehensive Income. 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.

#### **(h) 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.

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.

# **Emblem Schools Limited**

## **Notes to the Financial Statements** *(continued)*

### **Year Ended 31 March 2017**

#### **3. Accounting Policies** *(continued)*

##### **Financial instruments** *(continued)*

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 Statement of Financial Position. 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.

##### **(i) 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").

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.

##### **(j) 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.

##### **(k) Borrowings**

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 4. Turnover

Turnover arises from:

	2017	2016
	£	£
Rendering of services	<u>3,546,001</u>	<u>3,155,314</u>

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

#### 5. Auditors' Remuneration

	2017	2016
	£	£
Fees payable for the audit of the financial statements	<u>8,700</u>	<u>9,880</u>
Fees payable to the company's auditor and its associates for other services: Other non-audit services	<u>4,350</u>	<u>4,750</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 (2016: nil). The directors, who are also key management personnel, did not receive any remuneration from the Company during the year for services rendered (2016: £nil).

#### 7. Other Interest Receivable and Similar Income

	2017	2016
	£	£
Interest on cash and cash equivalents	3,291	13,972
Finance lease debtor interest	<u>2,530,310</u>	<u>2,627,586</u>
	<u>2,533,601</u>	<u>2,641,558</u>

#### 8. Interest Payable and Similar Expenses

	2017	2016
	£	£
Interest on bank loans and overdrafts	2,090,603	2,211,116
Interest due to Group undertakings	770,527	772,298
Other interest payable and similar charges	<u>34,599</u>	<u>13,219</u>
	<u>2,895,729</u>	<u>2,996,633</u>

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 9. Tax on Profit

##### Major components of tax expense

	2017 £	2016 £
<b>Current tax:</b>		
UK current tax expense	24,885	2,794
Adjustments in respect of prior periods	(49)	–
Total current tax	<u>24,836</u>	<u>2,794</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	43,166	58,051
<b>Tax on profit</b>	<u>68,002</u>	<u>60,845</u>

##### Reconciliation of tax expense

The tax assessed on the profit for the year is lower than (2016: higher than) the standard rate of corporation tax in the UK of 20% (2016: 20%).

	2017 £	2016 £
Profit before taxation	369,852	289,795
Profit by rate of tax	73,970	57,959
Adjustment to tax charge in respect of prior periods	(49)	–
Rounding on tax charge	–	(1)
Change in tax rates	(5,919)	2,887
Tax on profit	<u>68,002</u>	<u>60,845</u>

##### Factors that may affect future tax expense

During the year, as a result of the change to the future UK main corporation tax rate from 18% to 17% that was substantively enacted on 6 September 2016 and that will be effective from 1 April 2020, the relevant deferred tax balances have been re-measured. This change has reduced the deferred tax asset at the Statement of Financial Position date by £88,572.

#### 10. Dividends

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2017 £	2016 £
Dividends on equity shares of £0.78 (2016 : £nil)	<u>102,000</u>	<u>–</u>

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 11. Debtors

Debtors falling due within one year are as follows:

	2017	2016
	£	£
Trade debtors	6,366	1,345,837
Prepayments and accrued income	23,502	14,767
Finance lease debtor	1,886,136	1,785,852
	<u>1,916,004</u>	<u>3,146,456</u>

Debtors falling due after one year are as follows:

	2017	2016
	£	£
Deferred tax asset	1,522,917	1,699,980
Finance lease debtor	41,873,456	43,759,591
	<u>43,396,373</u>	<u>45,459,571</u>

#### Finance Debtor

The movement in the finance debtor is analysed as follows:

	2017	2016
	£	£
At beginning of year	45,545,444	47,235,637
Amortisation	(1,785,852)	(1,690,193)
At end of year	<u>43,759,592</u>	<u>45,545,444</u>

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

	2017	2016
	£	£
Bank loans	2,198,693	2,087,697
Trade creditors	303,342	301,143
Accruals and deferred income	191,153	117,992
Corporation tax	24,885	2,843
Social security and other taxes	275,515	359,594
Other creditors	10,412	11,681
	<u>3,004,000</u>	<u>2,880,950</u>

#### 13. Creditors: amounts falling due after more than one year

	2017	2016
	£	£
Bank loans	34,180,498	36,379,352
Amounts owed to Group undertakings	5,499,402	5,499,557
Derivative financial liability	8,958,335	9,444,331
Other creditors	3,369,114	3,378,921
	<u>52,007,349</u>	<u>54,702,161</u>

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

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

Other creditors consist of the unitary charge control account.

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 bond and 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 2017 is £36,814,031 (2016: £38,936,643). Issue costs of £434,840 (2016: £469,594) 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 2017 is £5,603,830 (2016: £5,603,830). Issue costs of £104,428 (2016: £104,273) have been set off against total loan drawdowns.

#### 14. Deferred Tax

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

	2017 £	2016 £
Included in debtors (note 11)	1,522,917	1,699,980
Included in provisions (note 15)	(17,187)	25,979
	<u>1,505,730</u>	<u>1,725,959</u>

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

	2017 £	2016 £
Unused tax losses	–	46,452
Short term timing differences	(17,187)	(20,473)
Derivative financial instruments	1,522,917	1,699,980
	<u>1,505,730</u>	<u>1,725,959</u>

The net deferred tax liability expected to reverse in 2018 is £2,401. This primarily relates to short term timing differences.

	2017 £
Opening balance	1,725,959
Movement through the profit or loss	(43,166)
Movement through other comprehensive income	(177,063)
<b>Closing balance</b>	<u><b>1,505,730</b></u>

# Emblem Schools Limited

## Notes to the Financial Statements *(continued)*

### Year Ended 31 March 2017

#### 15. Provisions

	Deferred tax (note 14) £	Lifecycle £	Total £
At 1 April 2016	(25,979)	307,119	<b>281,140</b>
Charge against provision	–	386,319	<b>386,319</b>
Deferred tax	43,166	–	<b>43,166</b>
Utilised during the year	–	(240,514)	<b>(240,514)</b>
At 31 March 2017	<u>17,187</u>	<u>452,924</u>	<u><b>470,111</b></u>

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

#### 16. 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 2017 amounted to net liabilities of £8,958,335 (2016: £9,444,331) comprising liabilities of £8,958,335 for interest rate swaps (2016: £9,444,331). 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 £485,996 (2016: £181,195).

#### 17. Called Up Share Capital

##### Issued, called up and fully paid

	2017		2016	
	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 2017

#### 17. Called Up Share Capital *(continued)*

The company has one class of ordinary shares. All shares rank *pari passu*.

#### 18. Reserves

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

Retained earnings - This reserve records retained earnings and accumulated losses, net of distributions to owners.

#### 19. 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 £104,428 (2016: loan of £5,603,830 with an arrangement fee of £104,273). This loan remains outstanding at 31 March 2017. Interest of £770,527 (2016: £772,298) was payable in the year on this loan of which £nil (2016: £nil) 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 £54,242 (2016: £53,587) in respect of professional services. At the end of the year £54,936 (2016: £54,172) 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 £2,218,741 (2016: £2,307,288) in respect of professional services. At the end of the year £217,713 (2016: £222,454) was owed to FES FM Limited for professional services.

During the year, Forth Management Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £27,570 (2016: £27,121) 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 £54,939 (2016: £54,242) in respect of professional services.

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 £nil (2016: £54,172) in respect of professional services. At the end of the year £53,842 (2016: £nil) was included in accruals to Aberdeen Infrastructure Finance GP for professional services.

#### 20. 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.