

SC237891

COMPANY

REGISTRATION

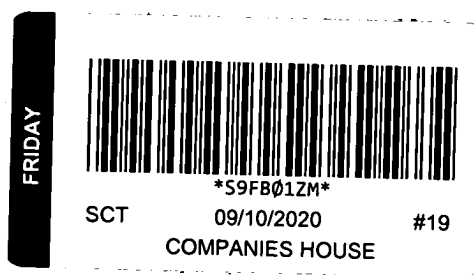
NUMBER:

Emblem Schools Limited
Annual Report and Financial Statements
31 March 2020

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Emblem Schools Limited
Annual Report and Financial Statements
Year Ended 31 March 2020

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Emblem Schools Limited

Officers and Professional Advisers

The Board of Directors

D Fletcher
D Gilmour
M Smith
E Wegener
M Donn
D Smith
J Cavill
J Heath

Company Secretary

Infrastructure Managers Limited

Registered Office

2nd Floor
11 Thistle Street
Edinburgh
EH2 1DF

Independent Auditors

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

Emblem Schools Limited

Directors' Report

Year Ended 31 March 2020

The directors present their report and the audited Annual Report and Financial Statements of Emblem Schools Limited ("the Company") for the year ended 31 March 2020.

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 15 of its term expiring in 2032. The Company is a wholly owned subsidiary of Emblem Schools (Holdings) Limited.

Performance Review

The profit for the financial year, after taxation, amounted to £380,740 (2019: £317,657).

The profit for the financial 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 swap, which is significantly out of the money, being brought onto the Statement of Financial Position. After reviewing the Company's forecasts and projections which run to the end of the project in 2032, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The directors have considered the future financial impact to the Company of the Coronavirus, taking into account the sources of income and additional expenditure, if any. It is their view that, due to the income being availability based and being due from Fife Council and therefore the risk of non-payment is considered remote, the income to the project will not be impacted. Alongside this the expected expenditure should not see material variation from its current levels and key suppliers (primarily the facilities manager) are expected to continue to be able to service the project. Although the likely full impact is unknown, it is not expected to materially impact on the operations or financial position of the Company.

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
M Smith
E Wegener
M Donn
D Smith

Emblem Schools Limited

Directors' Report *(continued)*

Year Ended 31 March 2020

J Cavill

J Heath

Dividends

Particulars of recommended dividends are detailed in note 10 to the Annual Report and 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.

Qualifying Third Party Indemnity Provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Auditor

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

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they 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 auditor is aware of that information.

This report was approved by the board of directors on 30 September 2020 and signed by order of the board by:



Infrastructure Managers Limited
Company Secretary

Emblem Schools Limited

Directors' Responsibilities Statement

Year Ended 31 March 2020

The directors are responsible for preparing the Directors' Report and the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and 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 Annual Report and 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 the Annual Report and 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 Annual Report and Financial Statements; and
- prepare the Annual Report and 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.

Emblem Schools Limited

Independent Auditor's Report to the Members of Emblem Schools Limited

Year Ended 31 March 2020

Opinion

We have audited the financial statements of Emblem Schools Limited (the 'Company') for the year ended 31 March 2020 which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emblem Schools Limited

Independent Auditor's Report to the Members of Emblem Schools Limited

(continued)

Year Ended 31 March 2020

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on Which We are Required to Report by Exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to 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 Auditor's Report to the Members of Emblem Schools Limited (continued)

Year Ended 31 March 2020

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditors' report.

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.

RSM UK Audit LLP

Claire Monaghan (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG
6 October 2020

Emblem Schools Limited
Statement of Comprehensive Income
Year Ended 31 March 2020

	Note	2020 £	2019 £
Turnover	4	3,694,453	3,428,665
Cost of sales		<u>(2,428,784)</u>	<u>(2,188,604)</u>
Gross profit		1,265,669	1,240,061
Administrative expenses		<u>(500,106)</u>	<u>(546,064)</u>
Operating profit	5	765,563	693,997
Other interest receivable and similar income	7	2,216,156	2,332,496
Interest payable and similar expenses	8	<u>(2,510,762)</u>	<u>(2,633,051)</u>
Profit before taxation		470,957	393,442
Tax on profit	9	<u>(90,217)</u>	<u>(75,785)</u>
Profit for the financial year		<u>380,740</u>	<u>317,657</u>
Fair value movements on cash flow hedging instruments, net of tax		<u>110,436</u>	<u>269,997</u>
Total comprehensive income for the year		<u>491,176</u>	<u>587,654</u>

All the activities of the Company are from continuing operations.

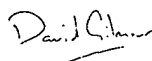
The notes on pages 11 to 22 form part of these Financial Statements.

Emblem Schools Limited
Statement of Financial Position
As at 31 March 2020

	Note	2020 £	2019 £
Current assets			
Debtors: amounts falling due within one year	11	2,292,634	3,021,900
Debtors: amounts falling due after more than one year	11	36,792,307	38,878,791
Cash at bank and in hand		3,007,531	1,843,857
		<u>42,092,472</u>	<u>43,744,548</u>
Creditors: amounts falling due within one year	12	<u>(3,242,608)</u>	<u>(3,032,181)</u>
Net current assets		<u>38,849,864</u>	<u>40,712,367</u>
Total assets less current liabilities		<u>38,849,864</u>	<u>40,712,367</u>
Creditors: amounts falling due after more than one year	13	(43,922,464)	(45,915,160)
Provisions for liabilities			
Taxation including deferred taxation	14	(12,006)	(12,890)
Other provisions	14	(39,633)	(8,732)
		<u>(51,639)</u>	<u>(21,622)</u>
Net liabilities		<u>(5,124,239)</u>	<u>(5,224,415)</u>
Capital and reserves			
Called up share capital	17	130,000	130,000
Hedging reserve	18	(5,295,832)	(5,406,268)
Retained earnings	18	41,593	51,853
Total shareholders' deficit		<u>(5,124,239)</u>	<u>(5,224,415)</u>

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

The Financial Statements were approved by the board of directors and authorised for issue on 30 September 2020, and are signed on behalf of the board by:



D Gilmour
Director

Company registration number: SC237891

The notes on pages 11 to 22 form part of these Financial Statements.

Emblem Schools Limited
Statement of Changes in Equity
Year Ended 31 March 2020

		Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 April 2018		130,000	(5,676,265)	247,196	(5,299,069)
Profit for the financial year				317,657	317,657
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		—	269,997	—	269,997
Total comprehensive income for the year		—	269,997	317,657	587,654
Dividends paid and payable	10	—	—	(513,000)	(513,000)
Total investments by and distributions to owners		—	—	(513,000)	(513,000)
At 31 March 2019		130,000	(5,406,268)	51,853	(5,224,415)
Profit for the financial year				380,740	380,740
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		—	110,436	—	110,436
Total comprehensive income for the year		—	110,436	380,740	491,176
Dividends paid and payable	10	—	—	(391,000)	(391,000)
Total investments by and distributions to owners		—	—	(391,000)	(391,000)
At 31 March 2020		<u>130,000</u>	<u>(5,295,832)</u>	<u>41,593</u>	<u>(5,124,239)</u>

Included in the fair value movement on cash flow hedging instruments is £1,177,981 (2019: £1,266,075) that was recycled through Interest Payable in the Statement of Comprehensive Income.

The notes on pages 11 to 22 form part of these Financial Statements.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements

Year Ended 31 March 2020

1. General Information

Emblem Schools Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in Scotland. 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 Company's functional and presentation currency is the pound sterling and the accounts are rounded to the nearest £.

2. 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. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosures are required to show a true and fair view.

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment 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 as 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 which run to the end of the project in 2032, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The directors have considered the future financial impact to the Company of the Coronavirus as disclosed in the Directors' Report, and although the likely full impact is unknown, it is not expected to materially impact on the operations or financial position of the Company.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

3. Accounting Policies *(continued)*

(c) 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.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

3. Accounting Policies *(continued)*

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments 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 judgments

The judgments (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 determined by calculating the present value of the estimated future cashflows based on observable yield curves. There is also a judgment 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) Deferred taxation

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Judgment is required 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 judgment 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:

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.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

3. Accounting Policies *(continued)*

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 the 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.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

3. Accounting Policies *(continued)*

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

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.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, 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 the Statement of Comprehensive Income 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 the Statement of Comprehensive Income 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 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.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

4. Turnover

Turnover arises from:

	2020	2019
	£	£
Rendering of services	<u>3,694,453</u>	<u>3,428,665</u>

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

5. Operating Profit

Operating profit or loss is stated after charging:

	2020	2019
	£	£
Fees payable for the audit of the annual report and financial statements	<u>9,700</u>	<u>9,250</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 (2019: nil). The directors, who are also key management personnel, did not receive any remuneration from the Company during the year for services rendered (2019: £nil).

7. Other Interest Receivable and Similar Income

	2020	2019
	£	£
Interest on cash and cash equivalents	11,851	13,519
Finance lease debtor interest	<u>2,204,305</u>	<u>2,318,977</u>
	<u>2,216,156</u>	<u>2,332,496</u>

8. Interest Payable and Similar Expenses

	2020	2019
	£	£
Interest on bank loans and overdrafts	1,714,728	1,826,983
Interest due to Group undertakings	772,386	770,526
Other interest payable and similar expenses	<u>23,648</u>	<u>35,542</u>
	<u>2,510,762</u>	<u>2,633,051</u>

9. Tax on Profit

Major components of tax expense

	2020	2019
	£	£
Current tax:		
UK current tax expense	91,101	77,933

Emblem Schools Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 March 2020

9. Tax on Profit (continued)

	2020 £	2019 £
Deferred tax:		
Origination and reversal of timing differences	(884)	(2,148)
Tax on profit	90,217	75,785

Reconciliation of tax expense

The tax assessed on the profit for the year is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020 £	2019 £
Profit before taxation	470,957	393,442
Profit by rate of tax	89,475	75,533
Adjustment to tax charge in respect of prior periods	(780)	—
Change in tax rates	1,522	252
Total tax charge	90,217	75,785

10. Dividends

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

	2020 £	2019 £
Dividends on equity shares of £3.01 (2019 : £3.95)	391,000	513,000

11. Debtors

Debtors amounts falling due within one year are as follows:

	2020 £	2019 £
Trade debtors	5,826	866,658
Amounts owed by Group undertakings	18,358	4,474
Prepayments and accrued income	42,272	41,226
Finance lease debtor	2,226,178	2,109,542
	2,292,634	3,021,900

Debtors amounts falling due after more than one year are as follows:

	2020 £	2019 £
Deferred tax asset	1,242,232	1,107,308
Finance lease debtor	35,550,075	37,771,483
	36,792,307	38,878,791

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

11. Debtors *(continued)*

The movement in the finance debtor is analysed as follows:

	2020 £	2019 £
At beginning of year	39,881,025	41,873,474
Repayments	(2,104,773)	(1,992,449)
At end of year	<u>37,776,252</u>	<u>39,881,025</u>

12. Creditors: amounts falling due within one year

	2020 £	2019 £
Bank loans	2,301,433	2,253,305
Trade creditors	297,992	342,658
Amounts owed to Group undertakings	179,687	—
Accruals and deferred income	90,425	93,798
Corporation tax	91,857	77,945
Taxation and social security	281,214	264,475
	<u>3,242,608</u>	<u>3,032,181</u>

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

	2020 £	2019 £
Bank loans	27,376,361	29,679,123
Amounts owed to Group undertakings	5,501,789	5,501,692
Derivative financial liability	6,538,064	6,513,576
Other creditors	4,506,250	4,220,769
	<u>43,922,464</u>	<u>45,915,160</u>

Included within creditors: amounts falling due after more than one year is an amount of £17,759,365 (2019: £20,271,093) in respect of liabilities payable or repayable by instalments which fall due for payment after more than five years from the reporting date.

Included within creditors: amounts falling due after more than one year is an amount of £5,512,668 (2019: £5,510,910) in respect of liabilities payable or repayable otherwise than by instalments which fall due for payment after more than five years from the reporting date.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 March 2020

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

Other creditors consist of the unitary charge control account.

Bank loans are secured by a bond and floating charge over the assets of the Company, an assignation 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 loans bear interest at 5.52% per annum and are repayable by quarterly instalments and final repayment is due in December 2030. The Company has an interest rate swap arrangement, receiving interest on a variable basis and paying interest at 4.62%. The full amount of loan drawdown at 31 March 2020 is £30,008,910 (2019: £32,287,094). Issue costs of £331,115 (2019: £354,666) 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 2020 is £5,603,830 (2019: £5,603,830). Issue costs of £102,041 (2019: £102,138) have been set off against total loan drawdowns.

14. Provisions for Liabilities

	Deferred tax (note 15) £	Lifecycle £	Total £
At 1 April 2019	12,890	8,732	21,622
Charge against provision	—	358,213	358,213
Deferred tax	(884)	—	(884)
Utilised during the year	—	(327,312)	(327,312)
At 31 March 2020	12,006	39,633	51,639

15. Deferred Tax

The deferred tax included in the Statement of Financial Position is as follows:

	2020 £	2019 £
Included in debtors (note 11)	1,242,232	1,107,308
Included in provisions for liabilities (note 14)	(12,006)	(12,890)
	1,230,226	1,094,418

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

	2020 £	2019 £
Short term timing differences	12,006	12,890
Derivative financial instruments	(1,242,232)	(1,107,308)
	(1,230,226)	(1,094,418)

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

15. Deferred Tax *(continued)*

The net deferred tax liability expected to reverse in 2020 is £2,400. This primarily relates to short term timing differences.

	2020 £
Opening balance	(1,094,418)
Movement through the profit or loss	(884)
Movement through other comprehensive income	<u>(134,924)</u>
Closing balance	<u>(1,230,226)</u>

16. Financial Instruments

The fair values 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.

17. Called Up Share Capital

Issued, called up and fully paid

	2020		2019	
	No.	£	No.	£
Ordinary shares of £1 each	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>

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

18. Reserves

The hedging reserve records fair value movements on cash flow and net investment hedging instruments.

Retained earnings records retained earnings and accumulated losses.

Emblem Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 March 2020

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 £102,041 (2019: loan of £5,603,830 with an arrangement fee of £102,138). This loan remains outstanding at 31 March 2020. Interest of £772,386 (2019: £772,526) was payable in the year on this loan, of which £115,187 (2019: (£4,474)) 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 £59,493 (2019: £59,460) in respect of professional services. At the end of the year £30,111 (2019: £29,382) was included in accruals to Infrastructure Investments General Partner Limited for professional services.

During the year Infrastructure Investments Holdings Limited, a subsidiary of HICL Infrastructure Company Limited an investor in Emblem Schools (Holdings) Limited, invoiced £18,358 (2019: £NIL) in respect of professional services. This balance remains outstanding at the year end.

During the year FES FM Limited, an associate company of Forth Management Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £2,455,963 (2019: £2,188,605) in respect of professional services. At the end of the year £211,773 (2019: £8,732) was owed to FES FM Limited for professional services.

During the year, Forth Management Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £30,111 (2019: £29,729) in respect of professional services. At the end of the year £15,096 (2019: Nil) was owed to Forth Management Limited for professional services.

During the year, BIIF Bidco Limited, a subsidiary of PFI Infrastructure Finance Limited, an investor in Emblem Schools (Holdings) Limited, invoiced £60,222 (2019: £59,460) in respect of professional services.

During the year, Aberdeen Infrastructure Finance GP, a related party of Aberdeen Infrastructure (No.3) Limited an investor in Emblem Schools (Holdings) Limited, invoiced £59,589 (2019: £59,460) in respect of professional services. At the end of the year £15,096 (2019: £29,382) 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.