

Directors' Report and
Audited Financial Statements for the Year Ended 31 December 2019
for
FocusEducation (Newcastle) Limited



**Contents of the Financial Statements
for the Year Ended 31 December 2019**

	Page
Company Information	1
Directors' Report	2
Report of the Independent Auditors	6
Profit and Loss Account and Other Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

FocusEducation (Newcastle) Limited

Company Information for the Year Ended 31 December 2019

Directors:	M Donn L McKenna C Solley J H Potgieter
Secretary:	A Mitchell
Registered office:	C/O Albany SPC Services Ltd 3rd Floor 3 - 5 Charlotte Street Manchester M1 4HB
Registered number:	04402652 (England and Wales)
Independent auditors:	PricewaterhouseCoopers LLP No 1 Spinningfields 1 Hardman Square Manchester M3 3EB
Bankers:	Bank of Scotland 11 Earl Grey Street Edinburgh EH3 9BN
Solicitors:	CMS Cameron McKenna LLP Mitre House 160 Aldergate Street London EC14 4DD

**Directors' Report
for the Year Ended 31 December 2019**

The directors present their report with the audited financial statements of the company for the year ended 31 December 2019.

Principal activities

The principal activities of the Company are to design, finance, construct and operate certain facilities and provide non-educational services at a number of schools in Newcastle for the period until 31 March 2029 under a concession agreement with The Council of the City of Newcastle Upon Tyne. The agreement to provide new schools and associated facilities management was signed on 18 April 2002.

Review of business

The project has now completed its thirteenth year of operations since the construction phase was completed. Full operational services are generally progressing well, with minimal performance deductions.

Results

The profit for the financial year is £381,000 (2018: £413,000).

Dividends

The directors recommend a dividend of £487,000 in the year (2018 £377,000).

Principal risks and uncertainties

As the project is in its operational phase, operational risks are monitored closely. This takes the form of representation on site through the Company's management services agent and periodic reporting by the independent technical assessor.

The availability fee and the majority of the costs are contractually linked to the Retail Prices Index (excluding mortgage interest) (RPIx). A relatively small proportion of total costs are not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history so far is good and current premium renewals have not been excessive and there are mechanisms in place within the terms of the concession agreement with The Council of the City of Newcastle Upon Tyne to share any extremes of costs or savings against budget.

A small proportion of cash flow is derived from bank interest on cash balances. The current low level of credit interest rates is therefore a risk to the business and its compliance with debt covenants.

The Company's revenues have largely been in line with expectations, with very few deductions applied for non-availability of the assets. Any such deductions are passed down to the subcontractors so there is no direct financial consequence to the Company. Sustained non-availability can lead to contract termination but the company is not anywhere close to such termination trigger points. Compliance with the detailed and complex operational requirements of the PFI projects remains a key risk given the potential termination consequences. Directors receive regular reports on actual performance compared to termination trigger thresholds.

Another risk is the continued funding from the public sector counterparties to the PFI project agreements, especially as these counterparties are under pressure to make savings in their operational PFI contracts. To date, most of the pressure to make such cost savings has fallen on the sub-contractors to the project companies rather than on the project companies themselves. Furthermore, it is understood that current policy from central government is not to encourage voluntary termination of PFI projects.

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator. These are reported quarterly to the Board and have been small in relation to total unitary payments.

Another key indicator is the ratio of operating cash flow to the senior debt service amount. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

Future developments

At the date of this report, the directors do not anticipate any future developments outside of the project agreement.

**Directors' Report
for the Year Ended 31 December 2019**

Events since the end of the year

Information relating to events since the end of the year is given in the notes to the financial statements.

Directors

The directors during the year under review were:

M Donn

L McKenna

L Murphy

- resigned 10.5.19

C Solley

J H Potgieter

- appointed 10.5.19

The directors holding office at 31 December 2019 did not hold any beneficial interest in the issued share capital of the company at 1 January 2019 (or date of appointment if later) or 31 December 2019.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Financial risk management

Financial instruments

The Company's principal financial instruments comprise of a term loan and unsecured loan stock. The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues arising from the concession.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities.

Interest rate risk

The term loan is exposed to interest rate risk.

The Company has entered into a fixed interest rate swap to avoid volatility on debt service costs on its floating rate debt.

The unsecured loan stock is not exposed to interest rate risk.

Liquidity risk

The latest financial forecasts show that unitary payment receivable under the Concession Agreement will be sufficient to repay all future debt payments as they fall due.

Credit risk

The Company receives the majority of its income from the Council and is not exposed to significant credit risk. Cash investments are with the institutions of a suitable credit quality.

**Directors' Report
for the Year Ended 31 December 2019**

Going concern

The directors have reviewed the net liabilities position at 31 December 2019 together with the Company's forecasts and projections, taking account of reasonably possible changes in trading performance and believe that it will not impact on the ability of the Company to continue trading for the foreseeable future and have therefore prepared the financial statements on a going concern basis.

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the Company in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the Project agreement as the sub-contracted Facilities Management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April.

Since the Covid-19 outbreak, the customer, Newcastle City Council, has continued making unitary payments in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.

Statement of directors' responsibilities

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

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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors' Report
for the Year Ended 31 December 2019**

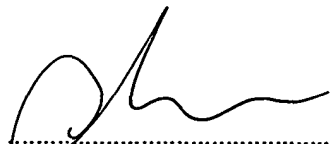
Strategic report

The Company has taken advantage of the exemption under section 414B of the Companies Act 2006 not to present a Strategic Report.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the independent auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board:



.....
Director

Date: 25 September 2020

Independent auditors' report to the members of FocusEducation (Newcastle) Limited

Report on the audit of the financial statements

Opinion

In our opinion, FocusEducation (Newcastle) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Audited Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the profit and loss account and other comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
25 September 2020

**Profit and Loss Account and Other Comprehensive Income
for the Year Ended 31 December 2019**

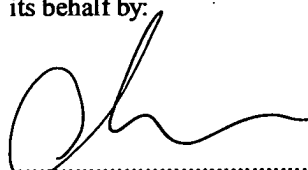
	Notes	2019 £'000	2018 £'000
Turnover	3	2,652	2,629
Cost of sales		<u>(2,252)</u>	<u>(2,228)</u>
Gross profit		400	401
Administrative expenses		<u>(234)</u>	<u>(242)</u>
Operating profit	5	166	159
Interest receivable and similar income	6	1,690	1,796
Interest payable and similar expenses	7	<u>(1,275)</u>	<u>(1,427)</u>
Profit before taxation		581	528
Tax on profit	8	<u>(200)</u>	<u>(115)</u>
Profit for the financial year		381	413
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		(303)	39
Net change in fair value of cash flow hedges recycled to profit and loss		785	931
Income tax relating to components of other comprehensive income		<u>(91)</u>	<u>(195)</u>
Other comprehensive income for the year, net of income tax		391	775
Total comprehensive income for the year		<u>772</u>	<u>1,188</u>

The notes on pages 12 to 23 form part of these financial statements

Balance Sheet
31 December 2019

	Notes	2019 £'000	2018 £'000
Current assets			
Debtors: amounts falling due within one year	10	2,910	2,730
Debtors: amounts falling due after more than one year	10	22,229	24,291
Cash at bank		4,975	5,357
		<u>30,114</u>	<u>32,378</u>
Creditors: amounts falling due within one year	11	<u>(14,123)</u>	<u>(13,381)</u>
Net current assets		<u>15,991</u>	<u>18,997</u>
Total assets less current liabilities		<u>15,991</u>	<u>18,997</u>
Creditors: amounts falling due after more than one year	12	(17,620)	(20,533)
Provisions for liabilities	15	(47)	(425)
Net liabilities		<u>(1,676)</u>	<u>(1,961)</u>
Capital and reserves			
Called up share capital	16	37	37
Other reserves		(1,804)	(2,195)
Retained earnings		91	197
Shareholder funds		<u>(1,676)</u>	<u>(1,961)</u>

The financial statements were approved by the Board of Directors on 25 September 2020 and were signed on its behalf by:



.....
C Solley - Director

**Statement of Changes in Equity
for the Year Ended 31 December 2019**

	Called up share capital £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2018	37	161	(2,970)	(2,772)
Changes in equity				
Total comprehensive income	-	413	-	413
Dividends	-	(377)	-	(377)
Effective portion of changes in fair value of cash flow hedges	-	-	39	39
Net change in fair value of cash flow hedges recycled to profit and loss	-	-	931	931
Income tax on other comprehensive income	-	-	(195)	(195)
Total transactions with owners, recognised directly in equity	-	(377)	775	398
Balance at 31 December 2018	37	197	(2,195)	(1,961)
Changes in equity				
Total comprehensive income	-	381	-	381
Dividends	-	(487)	-	(487)
Effective portion of changes in fair value of cash flow hedges	-	-	(303)	(303)
Net change in fair value of cash flow hedges recycled to profit and loss	-	-	785	785
Income tax on other comprehensive income	-	-	(91)	(91)
Total transactions with owners, recognised directly in equity	-	(487)	391	(96)
Balance at 31 December 2019	37	91	(1,804)	(1,676)

The notes on pages 12 to 23 form part of these financial statements .

**Notes to the Financial Statements
for the Year Ended 31 December 2019**

1. Statutory information

FocusEducation (Newcastle) Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

The presentation currency of the financial statements is the Pound Sterling (£).

2. Accounting policies

Basis of preparing the financial statements

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). All amounts in the financial statements have been rounded to the nearest £1,000.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Service concession arrangements - the Company entered into its Service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

The Company's ultimate parent undertaking, Consolidated Investment Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Consolidated Investment Holdings Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

Related party and financial instrument exemptions

The Company is wholly owned by FocusEducation (Newcastle) Holdings Limited which, in turn, is wholly owned by Consolidated Investment Holdings Limited and has therefore taken the exemption in section 33 of FRS 102 'Related Party Disclosures' that allows it not to disclose transactions with wholly owned members of a group.

As the consolidated financial statements of Consolidated Investment Holdings Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by Sections 11 and 12 of FRS 102 (Basic Financial Instruments and Other Financial Instrument Issues respectively) in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

Amended standards early adopted

The company has elected to early adopt the 'Amendments to FRS 102 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

In summary, the reliefs provided by the amendments that apply to the company are:

- When considering the 'highly probable' requirement, the company has assumed that the GBP LIBOR interest rate on which our hedged debts are based does not change as a result of LIBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the company has assumed that the GBP LIBOR interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based is not altered by LIBOR reform.
- The company will not discontinue hedge accounting during the period of LIBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80-125% range.
- The company has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

Going concern

The Company currently has £17,937,000 of total debt (2018: £20,304,000). Whilst it has net liabilities of £1,691,000 in 2019 (2018: £1,961,000), this is mainly as a result of accounting for the fair value of interest rate swap agreements, the majority of which do not crystallise as liabilities for a number of years and as such the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities.

The Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to March 2029. The company has considerable financial resources together with long-term contracts with the Council. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the Company in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the Project agreement as the sub-contracted Facilities Management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April.

Since the Covid-19 outbreak, the customer, Newcastle City Council, has continued making unitary payments in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Classification of financial instruments issued by the company

In accordance with Section 22 of FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Significant judgements and estimates

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

-Accounting for the service concession contract and finance debtors requires estimation of a finance debtor interest rate (see note 6).

- Fair values for derivative contracts (note 14) are based on mark-to-market valuations provided by the contract counterparty. Whilst these can be tested for reasonableness, the exact valuation methodology and forecast assumptions for future interest rates or inflation rates are specific to the counterparty.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The Company is obligated to keep a separate cash reserve in respect of future financing costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank" balance, amounts to £1,677,000 at the year end (2018: £1,698,000).

The Company is also obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank" balance, amounts to £2,701,000 at the year end (2018: £2,720,000)

Finance debtor and service income

The Company is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company because the risks and rewards of ownership are deemed to lie principally with the Council.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. Amounts receivable under the agreement with Lancashire County Council relating to the schools transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Finance interest is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

In the operational phase, the balance of unitary payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease) is accounted for as turnover. This figure is adjusted in each period to ensure that income recognised more accurately reflects the value of economic benefits provided to the public sector client in each period, and is necessary due to the inflationary nature of the unitary payments. As a consequence of this adjustment to turnover, which is generally positive in the first half of the concession and negative in the second half (and must net out over the whole concession), a unitary payment control account debtor is recorded on the balance sheet.

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

Other financial instruments not meeting the definition of basic financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other Comprehensive Income (OCI). Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable or receivable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

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 measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date. Provisions are made in respect of lifecycle maintenance costs to the extent that the Company is obligated to undertake maintenance in future periods.

Interest receivable and interest payable

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above. Other interest receivable and similar income is recognised in profit or loss as it accrues.

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees. Interest payable is recognised in profit or loss as it accrues, using the effective interest method.

3. Turnover

The turnover and profit before taxation are attributable to the principal activities of the company.

An analysis of turnover by class of business is given below:

	2019	2018
	£'000	£'000
Operational services	2,652	2,629
	2,652	2,629

The turnover arose entirely within the United Kingdom.

4. Employees and directors

	2019	2018
	£'000	£'000
Recharges in respect of non-executive directors' services	107	104

The Company had no employees during the year (2018: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges. The directors received no remuneration for their services during the year (2018: £nil). A payment is made for the services of the non-executive directors to their employer.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

5. Operating profit

The operating profit is stated after charging:

	2019	2018
	£'000	£'000
Amounts receivable by the auditors and their associates in respect of:		
Audit of these financial statements	<u>11</u>	<u>11</u>
	<u>11</u>	<u>11</u>

Included in the fee above is £2,000 (2018: £2,000) for the audit of the parent entity FocusEducation (Newcastle) Holdings Limited.

6. Interest receivable and similar income

	2019	2018
	£'000	£'000
Bank interest	57	47
Finance debtor interest receivable	<u>1,633</u>	<u>1,749</u>
	<u>1,690</u>	<u>1,796</u>

7. Interest payable and similar expenses

	2019	2018
	£'000	£'000
Senior loan interest	1,101	1,244
Loan stock interest	<u>174</u>	<u>183</u>
	<u>1,275</u>	<u>1,427</u>

8. Tax on profit

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	2019	2018
	£'000	£'000
Current tax:		
UK corporation tax	<u>200</u>	<u>115</u>
Tax on profit	<u>200</u>	<u>115</u>

UK corporation tax has been charged at 19% (2018 - 19%).

Tax on items charged to equity

	2019	2018
	£'000	£'000
Origination and reversal of timing differences	(58)	195
Effects of changes in tax rate	<u>149</u>	<u>-</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

8. Tax on profit - continued

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2019 £'000	2018 £'000
Profit before tax	<u>581</u>	<u>528</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	110	100
Effects of:		
Adjustments to tax charge in respect of previous periods	88	15
Effects of group relief	<u>2</u>	<u>-</u>
Total tax charge	<u><u>200</u></u>	<u><u>115</u></u>

Tax effects relating to effects of other comprehensive income

	Gross £'000	Tax £'000	2019 Net £'000
Effective portion of changes in fair value of cash flow hedges	(303)	58	(245)
Net change in fair value of cash flow hedges recycled to profit and loss	<u>785</u>	<u>(149)</u>	<u>636</u>
	<u><u>482</u></u>	<u><u>(91)</u></u>	<u><u>391</u></u>
	Gross £'000	Tax £'000	2018 Net £'000
Effective portion of changes in fair value of cash flow hedges	39	(195)	(156)
Net change in fair value of cash flow hedges recycled to profit and loss	<u>931</u>	<u>-</u>	<u>931</u>
	<u><u>970</u></u>	<u><u>(195)</u></u>	<u><u>775</u></u>

Factors that may affect future tax charges

A change to the future UK corporation tax rate was announced in the March 2020 Budget. The rate will no longer drop to 17% with effect from 1 April 2020 but will remain at the previous rate of 19%. This change had not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. The effect of this change, if it applied to the deferred tax balance at 31 December 2019, would be to increase the deferred tax asset by £40,000

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

9. Dividends

	2019	2018
	£'000	£'000
Ordinary £1 (2018: £1) shares of £1 each		
Dividends	487	377

Dividend per share of £13.16 was paid in the year (2018: £10.19).

10. Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	768	666
Finance debtor	1,966	1,842
Corporation Tax Debtor	5	-
Other debtors	168	219
Prepayments and accrued income	3	3
	2,910	2,730

Amounts falling due after more than one year:

Finance debtor	21,856	23,821
Deferred tax asset		
Other timing differences	373	470
	22,229	24,291

Aggregate amounts	25,139	27,021
-------------------	---------------	---------------

11. Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Senior loan (see note 13)	2,428	2,366
Trade creditors	359	272
Amounts owed to group undertakings	138	132
Amounts owed to related parties	110	-
Corporation tax	-	53
VAT	66	47
Accrued expenses	11,022	10,511
	14,123	13,381

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

	2019	2018
	£'000	£'000
Senior loan (see note 13)	14,161	16,506
Amounts owed to group undertakings	1,281	1,362
Other financial liabilities (see note 14)	2,178	2,665
	17,620	20,533

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

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

The Company has entered into a swap transaction resulting in interest being charged on the senior loan at a fixed rate of 5.74% (including margin).

The amounts owed to group undertakings are unsecured.

13. Loans

An analysis of the maturity of loans is given below:

	2019 £'000	2018 £'000
Amounts falling due within one year or on demand:		
Senior loan	<u>2,428</u>	<u>2,366</u>
Amounts falling due between one and two years:		
Senior loan	<u>2,414</u>	<u>2,346</u>
Amounts falling due between two and five years:		
Senior loan	<u>7,367</u>	<u>7,348</u>
Amounts falling due in more than five years:		
Repayable by instalments		
Senior loan	<u>4,380</u>	<u>6,812</u>

Included within amounts owed to group undertaking are amounts repayable after five years of £837,000 (:£ 969,000) respectively .This amount is payable in instalments

Terms and debt repayment schedule

The total cash repayable on the loan is as follows:

	Currency	Nominal interest rate	Year of maturity	Repayment schedule	2019 £000	2018 £000
Senior loan	GBP	LIBOR plus 1.05%	2027	Quarterly	16,575	18,870
Amounts owing to group	GBP	12.5%	2029	Semi-annual	1,362	1,434

The senior loan is secured by a fixed charge over the whole of the property, assets and undertaking of the Company, assignment of all rights to any proceeds of any insurance policies and all present and future book and other charges over all assets which have not been secured by way of a fixed charge or assignment.

The full amount of loan drawdown at 31 December 2019 is £16,575,000 (2018: £18,860,000). Unamortised costs of £13,000 (2018: £2,000), have been deducted from the total loan drawdowns.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

14. Other financial liabilities

	2019 £'000	2018 £'000
Amounts falling due after more than one year		
Interest rate swap contract	<u>2,178</u>	<u>2,665</u>

Derivative financial instruments measured at fair value

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

15. Provisions for liabilities

	2019 £'000	2018 £'000
Other provisions		
Lifecycle provision	<u>47</u>	<u>425</u>
	Deferred tax	Lifecycle Provision
	£'000	£'000
Balance at 1 January 2019	(470)	425
Charge to Profit and Loss Account and Other Comprehensive Income during year	97	797
Utilised during year	-	(1,175)
Balance at 31 December 2019	<u>(373)</u>	<u>47</u>

Lifecycle provisions represent the difference between the cumulative charge to profit and loss and the cumulative amount of cash expenditure paid to the lifecycle sub-contractor. Lifecycle expenditure is charged to profit and loss on a systematic basis, so as to give an annual charge, increasing with inflation each year, which in total equates to the total amount of the forecast lifecycle expenditure to be paid over the whole concession. The amounts and timing of these payments are defined in the sub-contract agreement.

Deferred tax

Deferred tax assets are attributable to the following:

	Assets		Liabilities		Net	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Derivatives	<u>(373)</u>	<u>(470)</u>	<u>-</u>	<u>-</u>	<u>(373)</u>	<u>(470)</u>
Net tax assets	<u>(373)</u>	<u>(470)</u>	<u>-</u>	<u>-</u>	<u>(373)</u>	<u>(470)</u>

The net reversal of the deferred tax asset expected to occur in the next reporting period is estimated to be £198,000 (2018: £183,000) based on the anticipated recycling of cash flow hedges to profit or loss and changes in fair values of the cash flow hedging instruments."

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

16. Called up share capital

Allotted, issued and fully paid:		Nominal value:	2019 £'000	2018 £'000
Number:	Class:			
37,000	Ordinary £1 (2018: £1)	£1	<u>37</u>	<u>37</u>

The company paid a dividend of £13.16 per share in the year (2018: £10.19).

17. Ultimate parent company and parent of larger group

The Company is a subsidiary undertaking of Focus Education (Newcastle) Holdings Limited a Company incorporated in England and Wales, which itself is a subsidiary undertaking of FocusEducation Limited, another company incorporated in England and Wales .

The largest and smallest group in which the results of the Company are consolidated is that headed by Consolidated Investment Holdings Limited incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

18. Post balance sheet events

Covid-19

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the Company in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the project agreement as the sub-contracted Facilities Management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April.

Since the Covid-19 outbreak, the council has continued making unitary payments in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.