

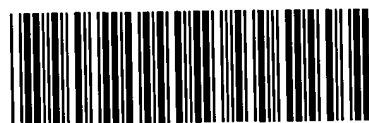
Salford Schools Solutions Limited

Annual report and financial statements

Registered number 05847755

31 December 2017

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Contents

| | |
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| Company Information | 1 |
| Directors' report | 2 |
| Statement of Directors' responsibilities in respect of the Directors' report and the financial statements | 4 |
| Independent auditor's report to the members of Salford Schools Solutions Limited | 5 |
| Profit and Loss Account and Statement of Total Comprehensive Income | 7 |
| Balance Sheet | 8 |
| Statement of Changes in Equity | 9 |
| Notes to the financial statements | 10 |

Company Information

The Board of Directors

D G Lewis
J Whittington
M D Canham
N Poupard

Company secretary

Imagile Company Secretariat Limited

Registered office

Third Floor Broad Quay House
Prince Street
Bristol
BS1 4DJ

Bankers

HSBC
City of London Branch
60 Queen Victoria Street
London
EC4N 4TR

Independent auditor

RSM UK Audit LLP
Central Square, 5th Floor
29 Wellington Street
Leeds
LS1 4DL

Directors' report for the year ended 31 December 2017

The Directors present their annual report and the audited financial statements of Salford Schools Solutions Limited for the year ended 31 December 2017.

Principal activities

The Company's principal activity is the operation and management of two secondary schools under a Government Private Finance Initiative ("PFI") project with Salford City Council (the "Authority").

The construction of Buile Hill Visual Arts College and Harrop Fold School was completed in August 2008 and both schools were handed over on 1 September 2008. The contract has now completed 9 years of the 25 year service delivery period which lasts until 31 August 2033.

Key Performance Indicators (KPIs)

The Company has modelled the anticipated financial outcome of the Project across its full term. The directors monitor actual financial performance against this anticipated performance. As at 31 December 2017, the Company's performance reflects an acceptable variance to this model.

The results for the year are set out in the profit and loss statement on page 7.

Principal risks and uncertainties

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. Unavailability deductions are passed on 100% to the Facilities management provider as and when they occur. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by shareholder guarantees.

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out below.

Financial risk management

The Company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the Company's performance. The Directors have policies for managing each of these risks and they are summarised below:

Interest rate risk

The bank loan interest rates have been fixed through use of interest rate swaps to fix the funding rates, plus a margin. Details of these can be found in note 13.

Inflation risk

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

Liquidity risk

The Company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due. This is done through regular periodic cash flow forecasting of operating accounts through the operating model and requirements under the credit agreement to hold liquid resources in reserve accounts at the calculation dates.

Credit risk

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

Directors' report *(continued)*
for the year ended 31 December 2017

Results and dividends

The profit for the year after taxation amounted to £392,060 (2016: £261,059). The Company paid an interim dividend of £479,097 (2016: £132,783) during the year. The directors do not recommend a final dividend to be paid (2016: £nil).

Directors

The Directors who served the Company during the year and to the date of signing these financial statements are as follows:

M D Canham
N Poupard
D G Lewis
J Whittington

Strategic Report exemption

The Directors' Report has been prepared in accordance with the special provisions relating to small companies under Section 415 of the Companies Act 2006. Accordingly, no Strategic Report has been prepared.

Employees

The company has no employees (2016: Nil).

Going concern

In light of the net liabilities of £6,063,266 (2016: £6,806,258), primarily caused by the fair value liability of the interest rate swap contract, the Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to August 2033. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis. Furthermore, excluding the impact of the interest rate swap, the Company shows a net asset position.

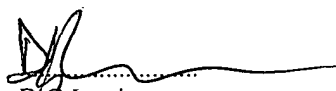
Disclosure of information to the auditor

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 auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and RSM UK Audit LLP will therefore continue in office.

By order of the Board
and signed on their behalf


D G Lewis
Director

20 June 2018

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Salford Schools Solutions Limited

We have audited the financial statements of Salford Schools Solutions Limited for the year ended 31 December 2017 which comprise the profit and loss account and statement of total comprehensive income, balance sheet, 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 December 2017 and of the company's 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 group and parent 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 group's or the parent 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.

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.

Independent auditor's report to the members of Salford Schools Solutions Limited (continued)

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 where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 take advantage of the small companies exemption from the requirement to prepare a strategic report.

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 auditor's 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

Andrew Allchin FCA (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, statutory auditor

Chartered Accountants

Central Square, 5th Floor

29 Wellington Street

Leeds

LS1 4DL

25 June 2018

Profit and Loss Account and Statement of Total Comprehensive Income
for year ended 31 December 2017

| | Notes | 2017 £ | 2016 £ |
|---------------------------------------------------------------------|-------|--------------------|-------------|
| Turnover | 2 | 2,869,705 | 2,783,194 |
| Cost of sales | | (2,255,488) | (2,317,725) |
| Gross profit | | 614,217 | 465,469 |
| Administrative expenses | | (235,912) | (228,926) |
| Operating profit | | 378,305 | 236,543 |
| Interest receivable | 5 | 1,874,965 | 1,940,058 |
| Interest payable and expenses | 6 | (1,767,747) | (1,850,277) |
| Profit before taxation | | 485,523 | 326,324 |
| Taxation | 8 | (93,463) | (65,265) |
| Profit for the financial year | | 392,060 | 261,059 |
| Other comprehensive income / (loss) | | | |
| Effective portion of fair value changes in cash flow hedges | | 1,000,035 | (1,389,481) |
| Tax recognised in relation to change in fair value cash flow hedges | 8 | (170,006) | 164,914 |
| Other comprehensive income / (loss) for the year | | 830,029 | (1,224,567) |
| Total comprehensive income / (loss) for the year | | 1,222,089 | (963,508) |

The notes on pages 10 to 23 form an integral part of these financial statements

Balance Sheet
at 31 December 2017

| | | 2017 | 2016 |
|---------------------------------------------------------|-------|--------------------|--------------------|
| | Notes | £ | £ |
| Current assets | | | |
| Debtors: amounts falling due after more than one year | 9 | 30,189,742 | 31,540,365 |
| Debtors: amounts falling due within one year | 9 | 1,308,537 | 1,298,067 |
| Cash at bank and in hand | | 3,339,375 | 3,004,280 |
| Total current assets | | 34,837,654 | 35,842,712 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 10 | (5,736,925) | (5,473,946) |
| Net current assets | | 29,100,729 | 30,368,766 |
| Creditors: amounts falling due after more than one year | 11 | (33,791,326) | (36,019,423) |
| Provisions for liabilities | 12 | (1,372,669) | (1,155,601) |
| Net liabilities | | (6,063,266) | (6,806,258) |
| Capital and reserves | | | |
| Called up share capital | 15 | 40,000 | 40,000 |
| Profit and loss account | 15 | 137,727 | 224,764 |
| Cash flow hedge reserve | 15 | (6,240,993) | (7,071,022) |
| Total shareholders' deficit | | (6,063,266) | (6,806,258) |

The notes on pages 10 to 23 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 20 June 2018 and were signed on its behalf by:



D G Lewis
Director

Company registered number: 05847755

Statement of Changes in Equity for year ended 31 December 2017

| | Called up share capital £ | Cash flow hedge reserve £ | Profit and loss account £ | Total Equity £ |
|---------------------------------------------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------|
| Balance at 1 January 2016 | 40,000 | (5,846,455) | 96,488 | (5,709,967) |
| Total comprehensive income for the period | | | | |
| Profit | - | - | 261,059 | 261,059 |
| Gain/(loss) arising on cash flow hedges | | (1,389,481) | | (1,389,481) |
| Tax recognised in relation to change in fair value cash flow hedges | - | 164,914 | - | 164,914 |
| Total comprehensive loss for the period | - | (1,224,567) | 261,059 | (963,508) |
| Dividends | - | - | (132,783) | (132,783) |
| Total contributions by and distributions to owners | - | - | (132,783) | (132,783) |
| Balance at 31 December 2016 | 40,000 | (7,071,022) | 224,764 | (6,806,258) |

| | Called up share capital £ | Cash flow hedge reserve £ | Profit and loss account £ | Total Equity £ |
|---------------------------------------------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------|
| Balance at 1 January 2017 | 40,000 | (7,071,022) | 224,764 | (6,806,258) |
| Total comprehensive income for the period | | | | |
| Profit | - | - | 392,060 | 392,060 |
| Gain/(loss) arising on cash flow hedges | | 1,000,035 | | 1,000,035 |
| Tax recognised in relation to change in fair value cash flow hedges | - | (170,006) | - | (170,006) |
| Total comprehensive income for the period | - | 830,029 | 392,060 | 1,222,089 |
| Dividends | - | - | (479,097) | (479,097) |
| Total contributions by and distributions to owners | - | - | (479,097) | (479,097) |
| Balance at 31 December 2017 | 40,000 | (6,240,993) | 137,727 | (6,063,266) |

The notes on pages 10 to 23 form an integral part of these financial statements.

Notes to the financial statements (forming part of the financial statements)

1 Accounting policies

Salford Schools Solutions Limited (the “Company”) is a private Company limited by shares and incorporated and domiciled in England. The address of the Company’s registered office and principal place of business is Third Floor Broad Quay House, Prince Street, Bristol BS1 4DJ. The Group consists of the company and its parent, Salford Schools Solutions Holdco Limited. The Company’s principal activities, including a description of the nature of the Company’s operations, are fully described in the Directors’ Report.

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention, except for the valuation of certain derivative financial instruments held at fair value. The presentational currency of these financial statements is sterling and all amounts are rounded to the nearest whole £ (unless otherwise stated).

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 parent undertaking, Salford Schools Solutions Holdco Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Salford Schools Solutions Holdco Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from the parents registered address, Third Floor Broad Quay House, Prince Street, Bristol BS1 4DJ. 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.

As the consolidated financial statements of Salford Schools Solutions Holdco 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 FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

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

- Accounting for the service concession contract and finance debtors requires an estimation of service margins, and associated amortisation profile which is based on forecasted results of the PFI contract.
- The Company makes judgements on the recoverability of the Finance Debtor, based on the receipt of the unitary fee in accordance with the contractual payment mechanisms contained in the project agreement.
- The Company uses derivative finance 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 on its balance sheet. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by the shareholders based on counterparty information that is independent of the Company, but use observable market data in respect of interest rates as an input to valuing those derivative financial instruments.

1.1 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.

1.2 Going concern

In light of the net liabilities of £6,063,266 (2016: £6,806,258), primarily caused by the fair value liability of the interest rate swap contract, the Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to August 2033. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis. Furthermore, excluding the impact of the interest rate swap, the Company shows a net asset position.

1.3 Classification of financial instruments issued by the Company

In accordance with 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.

1.4 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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Basic financial instruments (continued)

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.

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 major maintenance costs in accordance with the Accounts Agreement. The nature of this restriction is to reserve 100% of future maintenance costs to be incurred in the next twelve months, and 50% of future maintenance costs to be incurred in the following twelve month period in a Maintenance Reserve Account (MRA). This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £2,066,570 at the year-end (2016: £1,560,941).

1.5 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).

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. 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 Other Comprehensive Income 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 through profit and loss immediately.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.6 Impairment of financial 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.

1.7 Turnover

The Company is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company, under FRS 102, because the risks and rewards of ownership as set out in the agreement are deemed to lie principally with the Authority.

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. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 102 section 23. The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

Variation income relates to an agreed service variation outside of the original contract. Turnover represents costs invoiced including an agreed margin, excluding VAT.

1.8 Expenses

Interest receivable and Interest payable

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.9 Provisions

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit and loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Underspend on the Lifecycle profile is recognised as a provision as the Company is exposed to the risk that the Facilities Management provider will request payment of the full surplus. The expense in profit and loss is recognised in line with the agreed Lifecycle profile.

The directors assess provisions on an ongoing basis. Provisions are made to cover liabilities that are expected to arise during the normal course of business, the outcome depends on future events which by nature are uncertain.

1.10 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit and loss 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 tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which 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 not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

1.11 Dividends

Dividends are recognised as liabilities once they are no longer at the discretion of the company.

Notes to the financial statements *(continued)*

2 Turnover

| | 2017 £ | 2016 £ |
|------------------|------------------|------------------|
| Service income | 2,862,967 | 2,750,335 |
| Variation income | 6,738 | 32,859 |
| | <hr/> | <hr/> |
| Turnover | 2,869,705 | 2,783,194 |
| | <hr/> | <hr/> |

All assets, liabilities, revenue and profit before taxation originate in the United Kingdom and are relating to one operating segment, being the construction, operating and financing of a PFI contract.

3 Auditor's remuneration

| | 2017 £ | 2016 £ |
|-------------------------------------------------------------------------------|-----------|-----------|
| Audit of these financial statements | 8,500 | 5,250 |
| Amounts receivable by the company's auditor and its associates in respect of: | | |
| - Taxation compliance services | 4,921 | 3,941 |
| | <hr/> | <hr/> |

4 Directors' remuneration

Fees totalling £35,744 were paid to third parties for the director services during the year (2016: £30,514).

There were no employees under the period of review (2016: Nil).

5 Other interest receivable and similar income

| | 2017 £ | 2016 £ |
|------------------------------------|------------------|------------------|
| Finance debtor interest receivable | 1,869,078 | 1,934,068 |
| Bank interest receivable | 5,887 | 5,990 |
| | <hr/> | <hr/> |
| | 1,874,965 | 1,940,058 |
| | <hr/> | <hr/> |

Notes to the financial statements (continued)

6 Interest payable and expenses

| | 2017 £ | 2016 £ |
|---------------------------------------|------------------|------------------|
| Interest payable on bank loans | 1,450,487 | 1,518,683 |
| Interest payable on subordinated debt | 289,531 | 302,866 |
| Amortisation of debt issue costs | 27,729 | 28,728 |
| | <u>1,767,747</u> | <u>1,850,277</u> |

7 Dividends

| | 2017 £ | 2016 £ |
|--------------------------------------------------------------|----------------|----------------|
| Interim dividend of 1198p per ordinary share (2016: 332p) | <u>479,097</u> | <u>132,783</u> |

8 Taxation

Total tax expense recognised in profit and loss and other comprehensive income and equity

| | 2017 £ | 2016 £ |
|-------------------------------------------|----------------|------------------|
| Current tax | 93,463 | 65,265 |
| Total current tax | <u>93,463</u> | <u>65,265</u> |
| Deferred tax | 170,006 | (164,914) |
| Total deferred tax (credit)/charge | <u>170,006</u> | <u>(164,914)</u> |
| Total Tax (credit)/charge | <u>263,469</u> | <u>(99,649)</u> |

| | 2017 | | | 2016 | | |
|-------------------------------|------------------|-------------------|----------------|------------------|-------------------|-----------------|
| | Current tax £ | Deferred tax £ | Total tax £ | Current tax £ | Deferred tax £ | Total tax £ |
| Recognised in Profit and loss | 93,463 | - | 93,463 | 65,265 | - | 65,265 |
| Recognised directly in equity | - | 170,006 | 170,006 | - | (164,914) | (164,914) |
| Total tax | <u>93,463</u> | <u>170,006</u> | <u>263,469</u> | <u>65,265</u> | <u>(164,914)</u> | <u>(99,649)</u> |

Notes to the financial statements (continued)

8 Taxation (continued)

Reconciliation of effective tax rate

| | 2017 £ | 2016 £ |
|------------------------------------------------------------------|---------------|---------------|
| Profit after tax | 392,060 | 261,059 |
| Total tax expense | 93,463 | 65,265 |
| | <hr/> | <hr/> |
| Profit excluding taxation | 485,523 | 326,324 |
| | <hr/> | <hr/> |
| Taxation using the UK corporation tax rate of 19.25% (2016: 20%) | 93,463 | 65,265 |
| | <hr/> | <hr/> |
| | 93,463 | 65,265 |
| | <hr/> | <hr/> |

A reduction in the rate from 20% to 19% (effective 1 April 2017) was enacted on 26 October 2015. Further reductions to 17% (effective from 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

9 Debtors

| | 2017 £ | 2016 £ |
|--------------------------------|------------|------------|
| Finance debtor | 30,092,083 | 31,203,676 |
| Trade debtors | - | 23,111 |
| Prepayments and accrued income | 127,920 | 163,363 |
| Deferred Tax Asset (note 14) | 1,278,276 | 1,448,282 |
| | <hr/> | <hr/> |
| | 31,498,279 | 32,838,432 |
| | <hr/> | <hr/> |
| Due within one year | 1,308,537 | 1,298,067 |
| Due after more than one year | 30,189,742 | 31,540,365 |
| | <hr/> | <hr/> |
| | 31,498,279 | 32,838,432 |
| | <hr/> | <hr/> |

Debtors include finance debtor of £28,911,466 (2016: £30,092,083) due after more than one year.

Notes to the financial statements (continued)

10 Creditors: amounts falling due within one year

| | 2017 £ | 2016 £ |
|------------------------------------|-----------------------|-----------------------|
| Bank loan (Note 13) | 1,143,425 | 1,305,193 |
| Subordinated debt (Note 13) | 101,678 | 111,221 |
| Trade creditors | 339,113 | 62,492 |
| Corporation tax | 93,477 | 65,275 |
| Other taxation and social security | 189,951 | 184,894 |
| Accruals and deferred income | 3,869,281 | 3,744,871 |
| | <hr/> 5,736,925 <hr/> | <hr/> 5,473,946 <hr/> |

11 Creditors: amounts falling after more than one year

| | 2017 £ | 2016 £ |
|---------------------------------------|------------------------|------------------------|
| Bank loan (Note 13) | 24,196,711 | 25,342,282 |
| Subordinated debt (Note 13) | 2,075,346 | 2,157,837 |
| Other financial instruments (Note 16) | 7,519,269 | 8,519,304 |
| | <hr/> 33,791,326 <hr/> | <hr/> 36,019,423 <hr/> |

12 Provisions

| | 2017 £ | 2016 £ |
|-------------------------------|-----------------------|-----------------------|
| Opening provision | 1,155,601 | 823,810 |
| Charged to profit and loss | 519,705 | 581,421 |
| Released/utilised in the year | (302,637) | (249,630) |
| Closing provision | <hr/> 1,372,669 <hr/> | <hr/> 1,155,601 <hr/> |

A provision has been recognised for the maintenance costs not yet incurred in accordance with the profile agreed at financial close. There is a constructive obligation on the Company for these maintenance costs, however there is uncertainty over the timing of when these payments will be made.

Notes to the financial statements (continued)

13 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

| | 2017 £ | 2016 £ |
|--------------------------------------------------------|------------|------------|
| Creditors falling due more than one year | | |
| Bank loan | 24,371,337 | 25,536,631 |
| Subordinated debt | 2,118,480 | 2,208,018 |
| | <hr/> | <hr/> |
| Creditors falling due within less than one year | | |
| Bank loan | 1,165,294 | 1,328,013 |
| Subordinated debt | 106,577 | 116,127 |
| | <hr/> | <hr/> |

Included within Bank loan is an amount repayable after five years of £19,258,207 (2016: £20,648,030) and included within subordinated debt are amounts repayable after five years of £1,797,856 (2016: £1,873,843) respectively.

Terms and debt repayment schedule

| | Currency | Nominal interest rate | Year of Maturity | Repayment schedule | 2017 £ | 2016 £ |
|-------------------|----------|-----------------------|------------------|--------------------|------------|------------|
| Bank loan | GBP | 5.49% | 2032 | Quarterly | 25,536,631 | 26,864,644 |
| Secured | GBP | 12.80% | 2033 | Semi-annual | 2,225,057 | 2,324,145 |
| Subordinated debt | | | | | | |

There is one term loan facility drawn down at 31 December 2017. The bank term loan is repayable by instalments every quarter which commenced on 1 October 2008 with the final repayment due on 31 December 2032. The loan is secured by a debenture fixed and floating charge over the assets of the company. The swap fixed interest rate per annum is 4.74%. Details of all swap transactions can be found within note 16.

Notes to the financial statements *(continued)*

14 Deferred tax asset

Deferred tax asset is attributable to the following:

| | 2017 | 2016 |
|----------------------------------------------------------|-----------|-----------|
| | £ | £ |
| Deferred Tax on revaluation of fair value of derivatives | 1,278,276 | 1,448,282 |

Deferred tax asset is recognised on the revaluation of the swap derivatives on the interest rate swap held by the Company. This is accounted for under cash flow hedges (see note 16).

Reversal of the deferred tax asset is shown through the cash flow hedge reserve.

15 Capital and reserves

Share capital

| | 2017 | 2016 |
|---------------------------------------|--------|--------|
| | No. | No. |
| Ordinary Shares | | |
| In issue at 1 January and 31 December | | |
| Allotted and fully paid | 40,000 | 40,000 |
| | £ | £ |
| Value of shares at £1 per share | 40,000 | 40,000 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions net of deferred tax.

Profit and loss reserve

The profit and loss reserve contains the retained earnings carried forward net of distributions to owner.

Notes to the financial statements *(continued)*

16 Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

| | 2017 £ | 2016 £ |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| Debt instruments, that are financial assets measured at amortised cost | | |
| - Finance debtor | <u>30,092,083</u> | <u>31,203,676</u> |
| | 30,092,083 | 31,203,676 |
| Debt instruments, that are financial liabilities measured at amortised cost | | |
| - Trade and other payables | (339,113) | (62,492) |
| - Bank loan | (25,340,136) | (26,647,474) |
| - Subordinated debt | <u>(2,177,024)</u> | <u>(2,269,059)</u> |
| | (27,856,273) | (28,979,025) |
| Financial liabilities designated as fair value through profit or loss | | |
| - Interest rate swap contract | <u>(7,519,269)</u> | <u>(8,519,304)</u> |

(b) Financial instruments measured at fair value

Derivative financial instruments

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.

Notes to the financial statements (continued)

16 Financial instruments (continued)

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS102.29(a) for the cash flow hedge accounting models and the associated cash flow hedging instruments are expected to affect profit and loss:

| | 2017 Carrying Amount £ | Within 1 year £ | Between 1-2 years £ | Between 2-5 years £ | 5 years and over £ |
|--------------------|---------------------------------|-----------------------|---------------------------|---------------------------|--------------------------|
| Interest rate swap | (7,519,269) | (1,045,912) | (941,326) | (2,357,072) | (3,654,725) |
| | <u>(7,519,269)</u> | <u>(1,045,912)</u> | <u>(941,326)</u> | <u>(2,357,072)</u> | <u>(3,654,725)</u> |
| | 2016 Carrying Amount £ | Within 1 year £ | Between 1-2 years £ | Between 2-5 years £ | 5 years and over £ |
| Interest rate swap | (8,519,304) | (1,450,712) | (1,379,100) | (3,757,957) | (7,302,900) |
| | <u>(8,519,304)</u> | <u>(1,450,712)</u> | <u>(1,379,100)</u> | <u>(3,757,957)</u> | <u>(7,302,900)</u> |

The Company has entered into an interest rate swap agreement under the bank loan which expires in December 2032. A fixed rate of 4.74% applies to all amounts drawn under the facilities plus the margins shown above. The interest rate swap converts the borrowings from the rates linked to LIBOR to the fixed rate above.

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

| | 2017 £ | 2016 £ |
|------------------------------------------------------------|------------------|------------------|
| Liabilities measured at fair value through profit and loss | | |
| - Interest rate swaps | <u>7,519,269</u> | <u>8,519,304</u> |

Notes to the financial statements (continued)

17 Related parties

The details of the related party transactions are detailed as follows:

| | Transactions | | Payables to | |
|------------------------------------------------------------------------------------------------------------------------|--------------|----------|-------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| | £ | £ | £ | £ |
| Schools Capital Limited (shareholder of parent company) | | | | |
| - Interest on loan | 144,766 | 151,433 | (35,894) | (37,492) |
| - Subordinated loan | (49,544) | (49,915) | (1,112,529) | (1,162,073) |
| Infrastructure Investments LP | | | | |
| - Provisions of goods and services as directors | 17,872 | 13,077 | (8,936) | (6,539) |
| NIBC European Infrastructure Fund I C.V. (parent company of NEIF Project Investments Limited, a shareholder) | | | | |
| - Provisions of goods and services as directors | 17,872 | 17,437 | (8,936) | (6,539) |
| - Interest on loan | 144,766 | 151,433 | (35,894) | (37,492) |
| - Subordinated loan | (49,544) | (49,915) | (1,112,529) | (1,162,073) |

18 Ultimate parent Company and parent Company of larger group

The Company is a wholly owned subsidiary of Salford Schools Solutions Holdco Limited, a Company that is incorporated in the United Kingdom and registered in England and Wales.

Salford Schools Solutions Holdco Limited is the smallest and largest group in which the results are consolidated. Copies of the consolidated accounts are available from Third Floor Broad Quay House, Prince Street, Bristol BS1 4DJ.

The Directors consider there to be no ultimate controlling entity.