Salford Schools Solutions Limited

Annual report and financial statements

Registered number 05847755

31 December 2021

Contents

Company Information

The Board of Directors	H Holman P Gill J George S Brooks
Company secretary	E Clarke
Registered office	3rd Floor Suite 6C Sevendale House 5-7 Dale Street Manchester United Kingdom M1 1JB
Bankers	HSBC City of London Branch 60 Queen Victoria Street London EC4N 4TR
Independent auditor	RSM UK Audit LLP Third Floor Priory Place New London Road Chelmsford Essex CM2 0PP

Directors' report
for the year ended 31 December 2021

The directors present their annual report and the audited financial statements of Salford Schools Solutions Limited for the year ended 31 December 2021.

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 The Lowry Academy (formerly known as Harrop Fold School) was completed in August 2008 and both schools were handed over on 1 September 2008. The contract has now completed 13 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 2021, 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 9.

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 Company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. In the annual review of the Company's going concern, the Directors have considered the long term impact of the COVID-19 pandemic. The Company has entered into long-term contracts with both the client and suppliers, and after careful review of these contracts the Directors are confident that the Company can operate as normal for the next twelve months. The Directors have committed to carrying out regular reviews of the Company's cash flows to monitor the ongoing situation.

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.

On 1st January 2022, LIBOR cessation occurred which impacted the senior loan and the swap agreements and the Company is exposed to risk as a result. The Company is transitioning to SONIA to mitigate this result.

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 16. During 2022, the Company will transition from LIBOR to SONIA for the senior loan and swaps, which will continue to fix the interest rates.

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.

Directors' report *(continued)*
for the year ended 31 December 2021

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 Salford City Council (the Authority) and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Results and dividends

The profit for the year after taxation amounted to £417,120 (2020: £442,116). The Company paid an interim dividend of £508,265 (2020: £321,341) during the year. The directors do not recommend a final dividend to be paid (2020: £nil).

Directors

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

H Holman (resigned 4 February 2021 and reappointed 21 April 2021)
P Would (resigned 21 April 2021)
A Thakrar (resigned 21 April 2021)
J George
S Brooks (appointed 4 February 2021)
P Gill (appointed 21 April 2021)

Strategic Report exemption

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

Employees

The company has no employees (2020: Nil).

Going concern

In light of the net liabilities of £3,258,818 (2020: £5,293,596), 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, and at least a minimum of 12 months from the anticipated date of sign off, 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.

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment including the consideration of the impact of COVID-19 is contained within note 1.2.

The Company was able to meet the financial covenants as at 31 December 2021 and is forecast to meet them for the foreseeable future.

Directors' report *(continued)*
for the year ended 31 December 2021

Taking into account reasonable possible risks in operations to the Company, the fact the obligations of the Company's sole customer are underwritten by the Secretary of State for Education, the Directors have a reasonable expectation that the Company will be able to settle its liabilities as they fall due to the foreseeable future. It is therefore appropriate to prepare these financial statements on the going concern basis.

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

DocuSigned by:
C7D3A792608F454...
P Gill
Director
27 June 2022

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;
- 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

Opinion
We have audited the financial statements of Salford Schools Solutions Limited (the 'company') for the year ended 31 December 2021 which comprise the income statement, the statement of financial position and notes to the financial statements, including 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the annual report.. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 mattes prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

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

- 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 or in preparing the directors' report.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 5, 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:
obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the company operates in and how the company is complying with the legal and regulatory framework;
inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures, inspecting correspondence with local tax authorities and testing a sample of direct and indirect submissions and settlements to ensure such submissions were made in line with statutory deadlines and reporting requirements.

We have not identified any significant indirect laws and regulations critical to the company's operations.

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

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and a review of the rationale underpinning any non-routine or similar items noted through the course of our testing. We concluded this testing without any significant issues arising.

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.

N C CATTINI

Nicholas Cattini (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor
Priory Place
New London Road
Chelmsford
Essex
CM2 0PP

28/06 June 2022

Profit and Loss Account and Statement of Total Comprehensive Income

for year ended 31 December 2021

	Notes	2021	2020
		£	£
Turnover	*2*	**3,582,464**	3,934,315
Cost of sales		**(2,991,817)**	(3,197,498)
Gross profit		**590,647**	736,817
Administrative expenses		**(250,105)**	(374,516)
Operating profit		**340,542**	362,301
Interest receivable	*5*	**1,566,513**	1,654,203
Interest payable and expenses	*6*	**(1,392,092)**	(1,470,682)
Profit before taxation		**514,963**	545,822
Taxation	*8*	**(97,843)**	(103,706)
Profit for the financial year		**417,120**	442,116
Other comprehensive income			
Gain / (loss) arising on cash flow hedges		**2,279,065**	(425,962)
Tax recognised in relation to change in fair value cash flow hedges	*8*	**(153,142)**	211,288
Other comprehensive income for the year		**2,125,923**	(214,674)
Total comprehensive income for the year		**2,543,043**	227,442

The notes on pages 12 to 24 form an integral part of these financial statements

Balance Sheet
at 31 December 2021

	Notes	2021 £	2020 £
Current assets			
Debtors: amounts falling due after more than one year	*9*	**26,077,421**	26,230,563
Debtors: amounts falling due within one year	*9*	**46,826**	1,458,082
Cash at bank and in hand		**3,459,888**	3,559,070
Total current assets		**29,584,135**	31,247,715
Current liabilities			
Creditors: amounts falling due within one year	*10*	**(6,563,247)**	(6,869,221)
Total assets less current liabilities		**23,020,888**	24,378,494
Creditors: amounts falling due after more than one year	*11*	**(25,157,727)**	(28,861,603)
Provisions for liabilities	*12*	**(1,121,979)**	(810,487)
Net liabilities		**(3,258,818)**	(5,293,596)
Capital and reserves			
Called up share capital	*15*	**40,000**	40,000
Profit and loss account	*15*	**199,686**	290,831
Cash flow hedge reserve	*15*	**(3,498,504)**	(5,624,427)
Total shareholders' deficit		**(3,258,818)**	(5,293,596)

The notes on pages 12 to 24 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 27 June 2022 and were signed on its behalf by:

DocuSigned by:
C7D3A792508F454...
P Gill
Director

Company registered number: **05847755**

Statement of Changes in Equity
for year ended 31 December 2021

	Called up share capital	Cash flow hedge reserve	Profit and loss account	Total Equity
	£	£	£	£
Balance at 1 January 2020	40,000	(5,409,753)	170,056	(5,199,697)
Total comprehensive income for the period				
Profit	-	-	442,116	442,116
Loss arising on cash flow hedges		(425,962)		(425,962)
Tax recognised in relation to change in fair value cash flow hedges	-	211,288	-	211,288
Total comprehensive income for the period	-	(214,674)	442,116	227,442
Dividends	-	-	(321,341)	(321,341)
Total contributions by and distributions to owners	-	-	(321,341)	(321,341)
Balance at 31 December 2020	40,000	(5,624,427)	290,831	(5,293,596)

	Called up share capital	**Cash flow hedge reserve**	**Profit and loss account**	**Total Equity**
	£	**£**	**£**	**£**
Balance at 1 January 2021	**40,000**	**(5,624,427)**	**290,831**	**(5,293,596)**
Total comprehensive income for the period				
Profit	**-**	**-**	**417,120**	**417,120**
Gain arising on cash flow hedges		**2,279,065**		**2,279,065**
Tax recognised in relation to change in fair value cash flow hedges	**-**	**(153,142)**	**-**	**(153,142)**
Total comprehensive income for the period	**-**	**2,125,923**	**417,120**	**2,543,043**
Dividends	**-**	**-**	**(508,265)**	**(508,265)**
Total contributions by and distributions to owners	**-**	**-**	**(508,265)**	**(508,265)**
Balance at 31 December 2021	**40,000**	**(3,498,504)**	**199,686**	**(3,258,818)**

The notes on pages 12 to 24 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 3rd Floor, Suite 6C, Sevendale House, 5-7 Dale Street, Manchester, United Kingdom, M1 1JB. 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, 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, 3rd Floor, Suite 6C, Sevendale House, 5-7 Dale Street, Manchester, United Kingdom, M1 1JB. 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:

- 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.

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. The fair values are based on counterparty information that

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

- 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 £3,258,818 (2020: £5,293,596), 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.

The Directors have prepared cash flow forecasts covering a period of 12 months from the date of approval of these financial statements, through to 30 June 2023 which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Education.

In making this assessment the Directors have considered the potential impact of the spread of COVID-19.

The Company's operating cash inflows are largely dependent on unitary charge receipts receivable from the Authority and the Directors expect these amounts to be received even in severe but plausible downside scenarios.
The Company continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.
The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

Notes to the financial statements (continued)

1 Accounting policies *(continued)*

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.

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 £2,181,677 at the year-end (2020: £2,206,935).

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).

1.5 Other financial instruments (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. 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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

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.

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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

2 Turnover

	2021	2020
	£	£
Service income	**3,578,468**	3,797,351
Variation income	**3,996**	136,964
Turnover	**3,582,464**	3,934,315

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

	2021	2020
	£	£
Audit of these financial statements	**1,000**	1,000
Amounts receivable by the company's auditor and its associates in respect of:		
- Audit of financial statements of subsidiaries of the company	**11,965**	11,350
- Taxation compliance services	**4,400**	4,300

The Company bares the cost of the auditors' remuneration in respect of the audit of the financial statements of Salford Schools Solutions Holdco Limited.

Notes to the financial statements *(continued)*

4 Directors' remuneration

Fees totalling £159,252 were paid to third parties for the director services during the year (2020: £156,428).

There were no employees under the period of review (2020: Nil).

5 Other interest receivable and similar income

	2021	2020
	£	£
Finance debtor interest receivable	1,566,179	1,648,878
Bank interest receivable	334	5,325
	1,566,513	1,654,203

6 Interest payable and expenses

	2021	2020
	£	£
Interest payable and other charges on bank loans and interest SWAP arrangements	1,186,374	1,263,152
Interest payable on subordinated debt	182,514	183,047
Amortisation of debt issue costs	23,204	24,483
	1,392,092	1,470,682

7 Dividends

	2021	2020
	£	£
Interim dividend of 1271p per ordinary share (2020: 803p)	508,265	321,341

Notes to the financial statements *(continued)*

8 Taxation

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

	2021 £	£	2020 £	£
Current tax		97,843		103,706
Total current tax		97,843		103,706
Deferred tax	153,142		(211,288)	
Total deferred tax charge / (credit)	153,142		(211,288)	
Total tax charge / (credit)		**250,985**		(107,582)

	2021 Current tax £	2021 Deferred tax £	2021 Total tax £	2020 Current tax £	2020 Deferred tax £	2020 Total tax £
Recognised in Profit and loss	97,843	-	97,843	103,706	-	103,706
Recognised directly in other comprehensive income	-	153,142	153,142	-	(211,288)	(211,288)
Total tax	97,843	153,142	250,985	103,706	(211,288)	(107,582)

8 Taxation *(continued)*

Reconciliation of effective tax rate

	2021 £	2020 £
Profit after tax	417,120	442,116
Total tax expense	97,843	103,706
Profit excluding taxation	514,963	545,822
Taxation using the UK corporation tax rate of 19% (2020 : 19%)	97,843	103,706
	97,843	103,706

It was published on 3 March 2021 that companies with profits over £50,000 can incur up to 25% corporation tax rate from 1 April 2023 onwards. Deferred tax is measured at the future tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax has been recognised at 25%.

Notes to the financial statements *(continued)*

9 Debtors

	2021	2020
	£	£
Finance debtor	**24,911,253**	26,325,744
Prepayments and accrued income	**46,826**	43,591
Deferred Tax Asset (note 15)	**1,166,168**	1,319,310
	26,124,247	27,688,645
Due within one year	**1,549,152**	1,458,082
Due after more than one year	**24,575,095**	26,230,563
	26,124,247	27,688,645

Debtors include finance debtor of £23,408,927 (2020: £24,911,253) due after more than one year.

10 Creditors: amounts falling due within one year

	2021	2020
	£	£
Bank loan (Note 13)	**1,372,321**	1,350,680
Subordinated debt (Note 13)	**52,490**	-
Trade creditors	**221,580**	845,395
Corporation tax	**97,884**	103,747
Other taxation and social security	**121,495**	107,388
Accruals and deferred income	**4,697,477**	4,462,011
	6,563,247	6,869,221

11 Creditors: amounts falling after more than one year

	2021	2020
	£	£
Bank loan	**19,163,526**	20,537,001
Subordinated debt	**1,329,529**	1,380,865
Other financial liabilities (note 17)	**4,664,672**	6,943,737
	25,157,727	28,861,603

Notes to the financial statements *(continued)*

12 Provisions

	2021	2020
	£	£
Opening provision	**810,487**	800,095
Charged to profit and loss	**851,425**	982,408
Released/utilised in the year	**(539,933)**	(972,016)
Closing provision	**1,121,979**	810,487

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.

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.

	2021	2020
	£	£
Amounts falling due within one year		
Bank loan	**1,372,321**	1,350,680
Subordinated debt	**52,490**	-
Amounts falling due 1-2 uears		
Bank loan	**1,467,771**	1,373,602
Subordinated debt	**50,389**	51,209
Amounts falling due 2-5 uears		
Bank loan	**4,306,018**	4,320,978
Subordinated debt	**139,704**	145,311
Amounts falling due after more than 5 years		
Bank loan	**13,389,737**	14,842,422
Subordinated debt	**1,139,436**	1,184,345
	21,917,866	23,268,547

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of Maturity**	**Repayment schedule**	**2021**	2020
Bank loan	GBP	5.49%	2032	Quarterly	**20,535,848**	21,887,681
Unsecured Subordinated debt	GBP	12.80%	2033	Quarterly	**1,382,019**	1,380,865

Notes to the financial statements *(continued)*

13 Interest-bearing loans and borrowings (continued)

There is one term loan facility drawn down at 31 December 2021. 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.

The subordinated debt is repayable by instalments every quarter which commenced on 19 August 2009 with the final repayment due on 30 September 2033. The loan is unsecured.

14 Deferred tax asset

Deferred tax asset is attributable to the following:

	2021	2020
	£	£
Deferred Tax on revaluation of fair value of derivatives	**1,166,168**	1,319,310

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

	2021	2020
Ordinary Shares	**No.**	No.
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:

	2021	2020
	£	£
Financial assets measured at amortised cost	**24,911,253**	26,325,744
	24,911,253	26,325,744

	2021	2020
	£	£
Financial liabilities measured at amortised cost	**(23,429,651)**	(25,028,958)
Financial liabilities measured at fair value through profit and loss	**(4,664,672)**	(6,943,737)
	(28,094,323)	(31,972,695)

(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.

(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:

	2021 Carrying Amount	Within 1 year	Between 1-2 years	Between 2-5 years	5 years and over
	£	£	£	£	£
Interest rate swap	**(4,664,672)**	**(733,593)**	**(622,685)**	**(1,620,657)**	**(1,687,737)**
	(4,664,672)	**(733,593)**	**(622,685)**	**(1,620,657)**	**(1,687,737)**

	2020 Carrying Amount	Within 1 year	Between 1-2 years	Between 2-5 years	5 years and over
	£	£	£	£	£
Interest rate swap	(6,943,737)	(1,042,775)	(967,465)	(2,418,198)	(2,746,079)
	(6,943,737)	(1,042,775)	(967,465)	(2,418,198)	(2,746,079)

Notes to the financial statements *(continued)*

16 Financial instruments *(continued)*

(c) Hedge accounting (continued)

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:

	2021	2020
	£	£
Liabilities measured at fair value through profit and loss		
- Interest rate swaps	**4,664,672**	6,943,737

17 Related parties

The share capital of the Company is held wholly by Salford Schools Solutions Holdco Limited.

Schools Capital Limited and Equitix Infrastructure 5a Limited jointly own Salford Schools Solutions Holdco Limited.

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

	Transactions		Payables to	
	2021	2020	**2021**	2020
	£	£	**£**	£
Schools Capital Limited (shareholder of parent company)				
- Provisions of goods and services as directors	**39,017**	-	**-**	-
- Interest on loan	**91,257**	91,524	**(22,849)**	(22,867)
- Subordinated loan	**1,620**	-	**(707,128)**	(708,748)
Infrastructure Investments LP				
- Provisions of goods and services as directors	**40,609**	78,214	**-**	(61,484)
Equitix Infrastrucutre 5a Limited (shareholder of the parent company during the year)				
- Provisions of goods and services as directors	**79,626**	78,214	**-**	(29,709)
- Interest on loan	**91,257**	91,524	**(22,849)**	(22,867)
- Subordinated loan	**1,620**	-	**(707,128)**	(708,748)

Notes to the financial statements *(continued)*

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 3rd Floor, Suite 6C, Sevendale House, 5-7 Dale Street, Manchester, M1 1JB.

The directors consider there to be no ultimate controlling entity.