

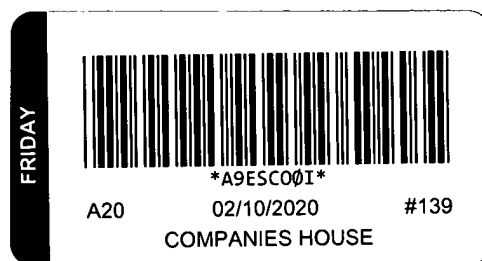
Essex Schools Limited

Annual Report and Financial Statements

Year Ended

31 March 2020

Company Number 07195004



Essex Schools Limited

Company Information

Directors	N Mackee R A M Gillespie A Trow P Would S Thorpe Costa
Company secretary	B Begio
Registered number	07195004
Registered office	3rd Floor 200 Aldersgate Street (South Building) London EC1A 4HD
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU
Banker	Lloyds Banking Group Western Branch 60 Conduit Street London W1S 2GA
Solicitor	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA

Essex Schools Limited

Contents

	Page(s)
Strategic report	1 - 2
Directors' report	3 - 4
Statement of directors' responsibilities	5
Independent auditor's report to the members of Essex Schools Limited	6 - 8
Statement of profit and loss and other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 25

Essex Schools Limited

Strategic report For the year ended 31 March 2020

The directors present their strategic report for the year ended 31 March 2020.

Business review

Solid progress has again been made during the year on all aspects of the Project.

On the hard and soft facilities management aspects of the Project scope, the Company continued to provide services at or above contractual performance and availability targets.

Development and financial performance during the year

As reported in the Company's statement of profit and loss and other comprehensive income on page 9, revenue has increased by £519,000 in 2020 to £2,756,000 from £2,237,000 in 2019 due to the variance in costs incurred. The revenue recognised is a product of the costs incurred at the applicable mark up.

The profit for the year after taxation was £341,000 (2019: £263,000). Operations were in line with expectation for the period. The directors consider the results for the year satisfactory.

Key performance indicators (KPIs)

The key performance indicator for the Company is the level of performance and unavailability deductions levied by the client, since this reflects the quality of service being provided. During the period all deductions have been passed to the service provider subcontractor.

Going concern

In assessing the going concern status of the Company, and with due regard to potential implications of the COVID pandemic, the directors have reviewed the Company's projected cash flows which have been prepared on the basis of a detailed analysis of the Company's finances and contracts. In light of the Government's Procurement Policy note (PPN 02/20) the directors are satisfied that future income streams are secured and therefore that cash inflows are not impaired.

The company's net liabilities at 31 March 2020 are £20,535,000 (2019: £19,246,000). After consideration of these projections 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.

Principal risks and uncertainties

Essex County Council ("the Authority") is the sole client of the Company but the directors consider that no risk arises from this since the Authority's obligations are underwritten by The Government.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten by parent company guarantees.

Essex Schools Limited

Strategic report (continued) For the year ended 31 March 2020

Financial risk management policies and objectives

The Company's principal financial instruments comprise short term bank deposits and bank debt. The Company has in place hedging arrangements to eliminate risk from interest rate movements.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. The Company's funding has been arranged using the principles of project finance with the terms of the financial instruments, and the resulting profile of the debt services costs, tailored to match the expected revenues arising from the concession agreement.

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 and subordinated debt interest rates have been fixed through use of fixed funding rates, plus a margin. Details of these can be found in note 14.

Inflation risk

The Company's project revenue and most of its costs are linked to inflation at the inception of the project, however, in addition, suitable hedging has been put in place to cover the surplus revenue that is not linked to related indexed costs.

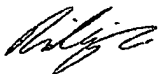
Liquidity risk

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.

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.

By order of the board



R A M Gillespie
Director

Date: 25/09/2020

Essex Schools Limited

Directors' report For the year ended 31 March 2020

The directors present their annual report and the audited financial statements of Essex Schools Limited for the year ended 31 March 2020. Essex Schools Limited is incorporated and domiciled in the UK and limited by shares.

Principal activities

Essex Schools Limited is the special purpose company set up to contract with Essex County Council in relation to the design, build, finance and operation of a number of schools in the Essex area under the Essex Schools BSF Project.

There have not been any significant changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

Results and dividends

During the year under review the Company made a profit on ordinary activities before taxation of £339,000 (2019: £315,000). There was a tax credit of £2,000 (2019: charge of £52,000) giving a profit after taxation for the year of £341,000 (2019: £263,000). The directors have not recommended a dividend (2019: £nil).

Directors

The directors who served the Company during the year and since the year end were as follows:

N Mackee
R A M Gillespie
A Trow
P Would
P Bannister (resigned 22 May 2020)
E Brown (resigned 22 May 2020)
J Fegan (resigned 22 May 2020)
M Hill (appointed 17 July 2019, resigned 22 May 2020)
J Pedretti (resigned 22 May 2020)
K Rae (resigned 22 May 2020)
P Shadbolt (resigned 22 May 2020)
K Williams (resigned 22 May 2020)
A Yusuf (resigned 17 July 2019)
S Thorpe Costa (appointed 22 May 2020)

Political contributions

The Company made no political contributions during the current or previous year.

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Essex Schools Limited

Directors' report (continued) For the year ended 31 March 2020

Auditor

BDO LLP is deemed to be re-appointed under section 487(2) of the Companies Act 2006. BDO LLP have expressed their willingness to continue in office.

This report was approved by the board and signed on its behalf.



R A M Gillespie
Director

Date: 25/09/2020

Essex Schools Limited

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements For the year ended 31 March 2020

The directors are responsible for preparing the Strategic Report, 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Essex Schools Limited

Independent auditor's report to the members of Essex Schools Limited

Opinion

We have audited the financial statements of Essex Schools Limited ("the Company") for the year ended 31 March 2020 which comprise the statement of profit and loss and other comprehensive income, the balance sheet, the statement of changes in equity, the statement of cashflow 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 Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report, other than the financial statements and our auditor's report thereon. 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.

Essex Schools Limited

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

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have 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 Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, 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 at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Essex Schools Limited

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

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.



Alexander Tapp (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
United Kingdom

Date: 25 September 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Essex Schools Limited

Statement of profit and loss and other comprehensive income For the year ended 31 March 2020

	Note	2020 £000	2019 £000
Turnover	3	2,756	2,237
Cost of sales		(2,186)	(1,598)
Gross profit		570	639
Administrative expenses		(329)	(375)
Operating profit	4	241	264
Interest receivable	5	5,304	5,418
Interest payable and similar charges	6	(5,206)	(5,367)
Profit on ordinary activities before taxation		339	315
Tax credit/(charge) on profit on ordinary activities	7	2	(52)
Profit for the financial year		341	263
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Effective portion of fair value changes in cash flow hedges		(2,503)	(305)
Tax recognised in relation to change in fair value cashflow hedges		874	52
Other comprehensive loss for the year		(1,629)	(253)
Total comprehensive (loss)/income for the year		(1,288)	10

All of the activities of the Company are classed as continuing.

The notes on pages 13 to 25 form part of these financial statements.

Essex Schools Limited
Registered number:07195004

Balance sheet
As at 31 March 2020

	Note	2020 £000	2019 £000
Current assets			
Debtors: amounts falling due after more than one year	8	62,410	64,255
Debtors: amounts falling due within one year	8	2,480	2,711
Cash at bank		6,795	6,111
		<u>71,685</u>	<u>73,077</u>
Current liabilities			
Creditors: amounts falling due within one year	9	(3,910)	(3,907)
Net current assets		<u>67,775</u>	<u>69,170</u>
Total assets less current liabilities		<u>67,775</u>	<u>69,170</u>
Non-current liabilities			
Creditors: amounts falling due after more than one year	10	(88,309)	(88,416)
Net liabilities		<u>(20,534)</u>	<u>(19,246)</u>
Capital and reserves			
Share capital	15	-	-
Cashflow hedge reserve	16	(18,158)	(16,529)
Profit and loss account	16	(2,376)	(2,717)
Shareholders' deficit		<u>(20,534)</u>	<u>(19,246)</u>

The financial statements were approved by the directors and authorised for issue on 25/09/2020 and are signed on their behalf by:



R A M Gillespie
Director

The notes on pages 13 to 25 form part of these financial statements.

Essex Schools Limited

Statement of changes in equity For the year ended 31 March 2020

	Called up share capital £000	Cashflow hedge reserve £000	Profit and loss account £000	Total equity £000
At 1 April 2019	-	(16,529)	(2,717)	(19,246)
Comprehensive income for the year				
Profit for the financial year	-	-	341	341
Other comprehensive income	-	(1,629)	-	(1,629)
Total comprehensive income for the year	-	(1,629)	341	(1,288)
At 31 March 2020	-	(18,158)	(2,376)	(20,534)

Statement of changes in equity For the year ended 31 March 2019

	Called up share capital £000	Cashflow hedge reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2018	-	(16,276)	(2,980)	(19,256)
Comprehensive income for the year				
Profit for the financial year	-	-	263	263
Other comprehensive income	-	(253)	-	(253)
Total comprehensive income for the year	-	(253)	263	10
At 31 March 2019	-	(16,529)	(2,717)	(19,246)

The notes on pages 13 to 25 form part of these financial statements.

Essex Schools Limited

Statement of cash flows For the year ended 31 March 2020

	2020 £000	2019 £000
Cash flows from operating activities		
Profit for the year	341	263
Adjustments for:		
Interest receivable	(5,304)	(5,418)
Interest payable and similar charges	5,206	5,367
Taxation	(2)	52
Service revenue	(2,661)	(2,263)
Decrease in debtors	207	167
Decrease in creditors	(209)	(857)
Net cash generated from operating activities	(2,422)	(2,689)
Cash flows from investing activities		
Interest received	49	28
Unitary charge received	10,671	10,702
Net cash from investing activities	10,720	10,730
Cash flows from financing activities		
Repayment of borrowings	(2,473)	(2,518)
Interest paid	(5,141)	(5,302)
Net cash used in financing activities	(7,614)	(7,820)
Net increase in cash and cash equivalents	684	221
Cash and cash equivalents at beginning of year	6,111	5,890
Cash and cash equivalents at the end of year	6,795	6,111
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	6,795	6,111
	6,795	6,111

The notes on pages 13 to 25 form part of these financial statements.

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

1. Accounting policies

A summary of the principal accounting policies adopted by the directors, which have been applied consistently in the current and prior periods, is shown below.

Essex Schools Limited (the "Company") is a Company limited by shares and incorporated and domiciled in the UK.

The financial statements are prepared on the going concern basis in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102").

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

1.1 Measurement convention

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

1.2 Going concern

In assessing the going concern status of the Company, and with due regard to potential implications of the COVID pandemic, the directors have reviewed the company's projected cash flows which have been prepared on the basis of a detailed analysis of the Company's finances and contracts. In light of the Government's Procurement Policy note (PPN 02/20) the directors are satisfied that future income streams are secured and therefore that cash inflows are not impaired.

The directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to December 2036. 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.

1.3 Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price plus 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 rate of interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

1. Accounting policies (continued)

1.3 Basic financial instruments (continued)

Finance debtors

The finance debtor has been recognised based upon the Finance debtor and service income policy below. This is classified as a basic financial instrument as the debtor relates to the construction phase and only risk held is credit risk. Any performance conditions are linked to the operating phase revenue and therefore not relevant.

Restricted cash

The Company is obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within "cash at bank and in hand" balance, amounts to £4,227,000 (2019: £4,025,000) at the year end.

1.4 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

The Company has entered into an interest rate swap and designated this as hedges for 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.

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

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

1. Accounting policies (continued)

1.5 Turnover

The Company is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company under FRS102 section 34C, because the risks and rewards of ownership as set out in that Standard 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 FRS102 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.

All turnover and profit on ordinary activities before taxation originate in the United Kingdom. Turnover is recognised in accordance with the finance debtor and services income accounting policy above and excludes VAT.

1.6 Expenses

Operating costs

Operating costs are added to amounts recoverable on contracts during the construction period. Following commissioning, regular operating and maintenance costs and central costs will be expensed to the profit and loss account as incurred.

Interest receivable and interest payable

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

The finance cost of the debt is allocated to periods over the term of the debt at the contracted rates on the principal amounts outstanding. Any payments under the interest rate hedging contracts are charged to the period to which it relates.

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

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

1. Accounting policies (continued)

1.7 Taxation

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

Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date, and any adjustments 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 on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date. Deferred tax balances are not discounted.

1.8 Impairment

Financial assets (including trade, finance 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.

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

2. Accounting estimates and judgements

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

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

- Accounting for the service concession contract and finance debtors require of estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the PFI contract. The service margin estimates are revised in March and September every year.

3. Turnover

An analysis of turnover is given below:

	2020 £000	2019 £000
Revenue from operations	2,756	2,237

4. Operating profit

The operating profit is stated after charging:

	2020 £000	2019 £000
Auditor's fee	12	11

This includes £1,000 (2019: £1,000) paid on behalf of the parent company for which no recharge was made.

The Company had no employees during the year (2019: Nil). The directors did not receive remuneration during the current or prior period. None of the directors received any defined benefit or defined contribution pension scheme contributions from the Company (2019: £Nil).

Amounts payable to shareholders for director services was £36,000 (2019: £35,000).

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

5. Interest receivable

	2020 £000	2019 £000
Interest receivable on finance debtor	5,255	5,390
Other interest receivable	49	28
	<u>5,304</u>	<u>5,418</u>

6. Interest payable and similar charges

	2020 £000	2019 £000
Interest rate swap payments	2,290	2,379
Senior debt interest	1,822	1,867
Sub-debt interest	1,005	1,032
Amortisation of loan arrangement fees	66	66
Commitment fees	23	23
	<u>5,206</u>	<u>5,367</u>

7. Taxation on ordinary activities

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

	2020 £000	2019 £000
Current taxation		
UK corporation tax on profit for the year	9	-
Total current tax	<u>9</u>	<u>-</u>
Deferred taxation		
Revaluation of fair value of derivatives	(874)	(52)
Origination and reversal of timing differences	(11)	52
Total tax	<u>(876)</u>	<u>-</u>

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

7. Taxation on ordinary activities (continued)

	Current tax £000	Deferred tax £000	2020 Total tax £000	Current tax £000	Deferred tax £000	2019 Total tax £000
Recognised in profit and loss account	9	(11)	(2)	-	52	52
Recognised directly in equity	-	(874)	(874)	-	(52)	(52)
Total tax	-	(885)	(876)	-	-	-
					2020 £000	2019 £000
Profit for the financial year					341	263
Total tax (credit)/expense					(2)	52
Profit excluding taxation					339	315
Taxation using the UK corporation tax rate of 19% (2019:19%)					65	60
Utilisation of tax losses					(65)	(60)
Total current tax					-	-

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

8. Debtors

	2020 £000	2019 £000
Amounts falling due after more than one year		
Finance debtor	57,583	60,313
Deferred taxation (note 13)	4,827	3,942
	<u>62,410</u>	<u>64,255</u>
	2020 £000	2019 £000
Amounts falling due within one year		
Finance debtors	2,278	2,303
Trade debtors	-	209
Prepayments and accrued income	202	199
	<u>2,480</u>	<u>2,711</u>

9. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Term loans	2,459	2,263
Subordinated loans	245	238
Trade creditors	162	466
Corporation tax	9	-
Accruals and deferred income	615	562
VAT	420	378
	<u>3,910</u>	<u>3,907</u>

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

10. Creditors: Amounts falling due after more than one year

	2020 £000	2019 £000
Term loans	58,718	61,176
Subordinated loans	8,221	8,439
Derivative financial instruments	22,418	19,915
Less: unamortised issue costs	(1,048)	(1,114)
	<u>88,309</u>	<u>88,416</u>

11. Creditors: Analysis of debt

	2020 £000	2019 £000
In less than one year	2,704	2,501
Between one and two years	2,888	2,677
Between two and five years	9,576	9,044
In five years or more	54,474	57,895
	<u>69,642</u>	<u>72,117</u>
Less: unamortised issue costs	(1,048)	(1,114)
	<u>68,594</u>	<u>71,003</u>

12. Loans

The bank loan is provided by Lloyds TSB, and is to be used to finance the operation of the project over its remaining life. The loan is repayable in instalments based on an agreed percentage amount of the total facility per annum over 25 years commencing 30 September 2012.

The loan is secured by a fixed and floating charge over all the assets of the Company and a charge over the shares of the Company.

Interest on the facility is charged at rates linked to LIBOR. The Company has entered into fixed interest rate swaps to mitigate its interest rate exposure which have a negative fair value at 31 March 2020 of £22,418,000 (2019: £19,915,000). The fixed interest rate on the facility, including all margins, is 6.725%. The Company does not hold or issue derivative financial instruments for speculative purposes.

The Senior Lender requires a minimum forward looking and historic Annual Debt Service Cover Ratio of 1:05 and a minimum Loan Life Cover Ratio of 1:10 and a Senior Debt Service Reserve and Loan Life Cover Reserve to be maintained during the operational phase. There are no covenant requirements during the construction phase. The next testing period is 30 September 2020.

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

13. Deferred tax asset

Deferred tax asset is attributable to the following:

	2020 £000	2019 £000
Assets		
Deferred tax on taxable losses	569	558
Deferred tax on revaluation of fair value of derivatives	4,258	3,384
	<u>4,827</u>	<u>3,942</u>

Deferred tax asset is recognised on taxable losses and on the revaluation of the swap derivative on the interest rate swap held by the Company, which is accounted for under cash flow hedges.

Movements in the deferred tax asset on revaluation of fair value of derivatives is shown through the cash flow hedge reserve.

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

14. Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2020 £000	2019 £000
Assets measured at amortised cost:		
- Finance debtor	59,861	66,105
- Trade and other receivables	-	216
	<u>59,861</u>	<u>66,321</u>
Assets measured at cost less impairment		
- Cash and cash equivalents	<u>6,795</u>	<u>6,111</u>
Liabilities measured at amortised cost		
- Trade and other payables	(776)	(1,028)
- Bank loan	(61,177)	(63,439)
- Subordinated debt	(8,466)	(8,677)
	<u>(70,419)</u>	<u>(73,144)</u>
Liabilities measured at fair value through profit and loss		
- Interest rate swap	<u>(22,418)</u>	<u>(19,915)</u>

Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate swap 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.

The Company has an interest rate swap agreement under the bank loan which expires in December 2035. A fixed rate of 4.525% 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.

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

14. Financial instruments (continued)

Financial instruments measured at fair value (continued)

Fair values

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

	2020 £000	2019 £000
Amounts falling due after more than one year		
Financial liabilities designated as fair value through profit or loss		
- Interest rate swap	(22,418)	(19,915)

15. Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	-	-

16. Reserves

The Company has the following reserves:

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 (net of tax) related to hedged transactions that have not yet occurred.

Profit and loss account

The profit and loss account represents cumulative profits and losses net of dividends paid and other adjustments.

17. Related party transactions

The Company has the following related parties:

Name of related party	Relationship
Skanska TAM Limited	45% Shareholder of Essex Schools (Holdings) Limited
Equitix Education Limited	18% Shareholder of Essex Schools (Holdings) Limited
Building Schools for the Future Investments LLP	9% Shareholder of Essex Schools (Holdings) Limited
Essex County Council	9% Shareholder of Essex Schools (Holdings) Limited
RM Education Limited	Group member of RM plc. 9% Shareholder of Essex Schools (Holdings) Limited
Essex LEP Limited	10% Shareholder of Essex Schools (Holdings) Limited

Essex Schools Limited

Notes to the financial statements For the year ended 31 March 2020

17. Related party transactions (continued)

Name of related party	Type of transaction	2020	2020	2019	2019
		Income/ (charges) £'000	Balance due (to)/from £'000	Income/ (charges) £'000	Balance due (to)/from £'000
Skanska TAM Limited	Director fees	19	-	19	-
	Loan notes	-	(3,810)	-	(3,905)
Equitix Education Limited	Loan note interest	(452)	-	(464)	-
	Director fees	6	-	6	-
	Loan notes	-	(1,524)	-	(1,562)
Building Schools for the future Investments LLP	Loan note interest	(181)	-	(186)	-
	Director fees	4	-	3	-
	Loan notes	-	(762)	-	(781)
Essex County Council	Loan note interest	(90)	-	(93)	-
	Director fees	4	-	3	4
	Loan notes	-	(762)	-	(781)
RM Education Limited	Loan note interest	(90)	-	(93)	-
	Unitary charge	10,750	-	10,689	-
	Director fees	4	-	3	-
Essex LEP Limited	Loan notes	-	(762)	-	(781)
	Loan note interest	(90)	-	(93)	-
	Director fees	-	-	-	-
	Management fee	(250)	-	(244)	-
	Loan notes	-	(847)	-	(868)
	Loan note interest	(101)	-	(103)	-

18. Controlling party

The Company's immediate parent company is Essex Schools (Holdings) Limited, a company incorporated in England and Wales, registered number 07191953. The Company has no ultimate controlling party.

19. Post balance sheet events

On 22nd May 2020 Skanska TAM Limited and RM PLC transferred, respectively 45% and 9% ordinary shares to Equitix Education Limited, acting as an Agent of Equitix MA 1 Infrastructure B Ltd. In addition Essex County Council transferred 9% ordinary shares to Building Schools for the Future Investment LLP.