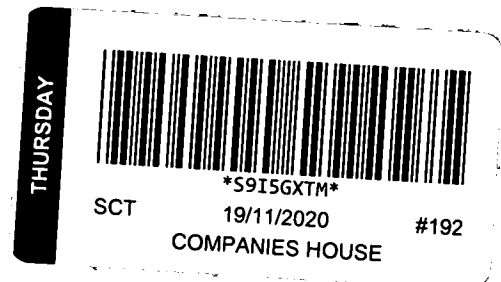


COMPANY REGISTRATION NUMBER: SC300469

FCC (East Ayrshire) Limited
Annual Report and Financial Statements
31 December 2019

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FCC (East Ayrshire) Limited
Annual Report and Financial Statements
Year Ended 31 December 2019

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FCC (East Ayrshire) Limited

Officers and Professional Advisers

The Board of Directors

S Cook
D Gilmour
J Cavill
D Davies
J George
J Hanley

Company Secretary

Infrastructure Managers Limited

Registered Office

2nd Floor
11 Thistle Street
Edinburgh
EH2 1DF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Level 4
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Bankers

Barclays Bank Plc
Market Place
Leicester
LE87 2BB

Solicitors

Dentons UKMEA LLP
Quartermile One
15 Lauriston Place
Edinburgh
EH3 9EP

FCC (East Ayrshire) Limited

Directors' Report

Year Ended 31 December 2019

The directors present their report and the audited Annual Report and Financial Statements of FCC (East Ayrshire) Limited ("the Company") for the year ended 31 December 2019.

Principal Activities

The principal activity of the Company is the provision of finance and facilities management services for four schools to East Ayrshire Council under the Government's Public Private Partnership (PPP) programme. The contract is in year 13 of its term expiring 2038.

Performance Review

The profit for the financial year, after taxation, amounted to £332,001 (2018: £364,788).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

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

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the Group loan agreement.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

S Cook
D Gilmour
J Cavill
D Davies
J George
J Hanley

Dividends

Particulars of recommended dividends are detailed in note 11 to the Annual Report and Financial Statements.

FCC (East Ayrshire) Limited

Directors' Report *(continued)*

Year Ended 31 December 2019

Financial Instruments

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company are credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash flow and liquidity risk

Many of the cash flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings.

Events after the End of the Reporting Period

Particulars of events after the reporting date are detailed in note 20 to the Annual Report and Financial Statements.

Qualifying Third Party Indemnity Provisions

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

Small Company Provisions

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

Disclosure of Information to Auditors

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

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, are deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

May 14, 2020

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



Infrastructure Managers Limited
Company Secretary

FCC (East Ayrshire) Limited

Directors' Responsibilities Statement

Year Ended 31 December 2019

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

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and applicable law).

Under company law the directors must not approve the Annual Report and Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing the Annual Report and Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Financial Statements; and
- prepare the Annual Report and Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Annual Report and 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.

FCC (East Ayrshire) Limited

Independent Auditors' Report to the Members of FCC (East Ayrshire) Limited

Year Ended 31 December 2019

Report on the Audit of the Financial Statements

Opinion

In our opinion, FCC (East Ayrshire) Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

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

Independence

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

Conclusions Relating to Going Concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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

FCC (East Ayrshire) Limited

Independent Auditors' Report to the Members of FCC (East Ayrshire) Limited *(continued)*

Year Ended 31 December 2019

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Directors' Report

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

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

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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.

FCC (East Ayrshire) Limited

Independent Auditors' Report to the Members of FCC (East Ayrshire) Limited *(continued)*

Year Ended 31 December 2019

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

Use of This Report

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

Other Required Reporting

Companies Act 2006 Exception Reporting

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

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

We have no exceptions to report arising from this responsibility.

FCC (East Ayrshire) Limited

Independent Auditors' Report to the Members of FCC (East Ayrshire) Limited *(continued)*

Year Ended 31 December 2019

Entitlement to Exemptions

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



Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh
14 May 2020

FCC (East Ayrshire) Limited
Statement of Comprehensive Income
Year Ended 31 December 2019

	Note	2019 £	2018 £
Turnover	4	3,697,575	4,163,411
Cost of sales		(2,884,547)	(3,317,404)
Gross profit		813,028	846,007
Administrative expenses		(465,858)	(521,540)
Other operating income	5	203,210	203,210
Operating profit	6	550,380	527,677
Other interest receivable and similar income	8	4,154,904	4,259,779
Interest payable and similar expenses	9	(4,303,259)	(4,341,185)
Profit before taxation		402,025	446,271
Tax on profit	10	(70,024)	(81,483)
Profit for the financial year		332,001	364,788
Fair value movements on cash flow hedging instruments, net of tax		654,845	297,649
Total comprehensive income for the year		986,846	662,437

All the activities of the Company are from continuing operations.

The notes on pages 12 to 23 form part of these Financial Statements.

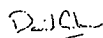
FCC (East Ayrshire) Limited

Statement of Financial Position

As at 31 December 2019

	Note	2019 £	2018 £
Current assets			
Debtors: amounts falling due within one year	12	5,437,816	5,615,690
Debtors: amounts falling due after more than one year	12	70,487,060	72,804,034
Cash at bank and in hand		6,442,939	5,340,379
		<u>82,367,815</u>	<u>83,760,103</u>
Creditors: amounts falling due within one year	13	(4,132,566)	(3,291,792)
Net current assets		<u>78,235,249</u>	<u>80,468,311</u>
Total assets less current liabilities		<u>78,235,249</u>	<u>80,468,311</u>
Creditors: amounts falling due after more than one year	14	(102,581,571)	(104,908,356)
Provisions for liabilities	15	(15,612)	(18,735)
Net liabilities		<u>(24,361,934)</u>	<u>(24,458,780)</u>
Capital and reserves			
Called up share capital	18	50,000	50,000
Hedging reserve	19	(24,630,866)	(25,285,711)
Profit and loss account	19	218,932	776,931
Total shareholders' deficit		<u>(24,361,934)</u>	<u>(24,458,780)</u>

The Financial Statements were approved by the board of directors and authorised for issue on ..May.14, 2020 and are signed on behalf of the board by:



D Gilmour
Director

Company registration number: SC300469

The notes on pages 12 to 23 form part of these Financial Statements.

FCC (East Ayrshire) Limited

Statement of Changes in Equity

Year Ended 31 December 2019

		Called up share capital £	Hedging reserve £	Profit and loss account £	Total £
At 1 January 2018		50,000	(25,583,360)	721,143	(24,812,217)
Profit for the financial year				364,788	364,788
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		—	297,649	—	297,649
Total comprehensive income for the year		—	297,649	364,788	662,437
Dividends paid and payable	11	—	—	(309,000)	(309,000)
Total investments by and distributions to owners		—	—	(309,000)	(309,000)
At 31 December 2018		50,000	(25,285,711)	776,931	(24,458,780)
Profit for the financial year				332,001	332,001
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		—	654,845	—	654,845
Total comprehensive income for the year		—	654,845	332,001	986,846
Dividends paid and payable	11	—	—	(890,000)	(890,000)
Total investments by and distributions to owners		—	—	(890,000)	(890,000)
At 31 December 2019		<u>50,000</u>	<u>(24,630,866)</u>	<u>218,932</u>	<u>(24,361,934)</u>

Included in the fair value movement on cash flow hedging instruments is £2,422,578 (2018: £2,572,912) that was recycled through Interest Payable in the Statement of Comprehensive Income.

The notes on pages 12 to 23 form part of these Financial Statements.

FCC (East Ayrshire) Limited

Notes to the Annual Report and Financial Statements

Year Ended 31 December 2019

1. General Information

FCC (East Ayrshire) Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is incorporated and domiciled in the UK. The address of its registered office is 2nd Floor, 11 Thistle Street, Edinburgh, EH2 1DF

The principal activity of the Company is the provision of finance and facilities management services for four schools to East Ayrshire Council under the Government's Public Private Partnership (PPP) programme.

The Company's functional and presentation currency is the pound sterling.

2. Statement of Compliance

The individual financial statements of FCC (East Ayrshire) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

3. Accounting Policies

(a) Basis of preparation

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The directors acknowledge that the Company is in net liabilities, however this is a result of the Interest rate and RPI swaps, which are significantly out of the money, being included on the Statement of Financial Position. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the Company's ability to meet its liabilities as they fall due. After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

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

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(c) Disclosure exemptions

The Company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

The Company is wholly owned by FCC (East Ayrshire) Holdings Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compare that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

(e) Revenue recognition

Turnover represents the services share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover and reimbursement of the finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

(g) Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

The Company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the Company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

(k) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

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

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

(I) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). **The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

The Company has elected to early adopt the FRS 102 Interest Rate Benchmark Reform Amendment.

4. Turnover

Turnover arises from:

	2019	2018
	£	£
Rendering of services	<u>3,697,575</u>	<u>4,163,411</u>

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

4. Turnover *(continued)*

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

5. Other Operating Income

	2019	2018
	£	£
Other operating income	<u>203,210</u>	<u>203,210</u>

Other operating income relates to the release of the deferred capital contribution, being amortised over the concession period.

6. Operating Profit

Operating profit or loss is stated after charging:

	2019	2018
	£	£
Impairment of trade debtors	—	258
Fees payable for the audit of the annual report and financial statements	<u>10,395</u>	<u>9,785</u>

Included in the fee above is £2,110 (2018: £1,987) for the audit of the immediate parent entity FCC (East Ayrshire) Holdings Limited.

7. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year amounted to nil (2018: nil). The directors are not employed by the Company and did not receive any remuneration from the Company during the year (2018: £nil).

8. Other Interest Receivable and Similar Income

	2019	2018
	£	£
Interest on cash and cash equivalents	11,375	23,671
Interest receivable on finance debtor	<u>4,143,529</u>	<u>4,236,108</u>
	<u>4,154,904</u>	<u>4,259,779</u>

9. Interest Payable and Similar Expenses

	2019	2018
	£	£
Interest on bank loans and overdrafts	3,538,115	3,579,412
Interest due to Group undertakings	728,211	731,037
Other interest payable and similar expenses	36,933	30,736
	<u>4,303,259</u>	<u>4,341,185</u>

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

10. Tax on Profit

Major components of tax expense

	2019 £	2018 £
Current tax:		
UK current tax expense	73,147	84,606
Deferred tax:		
Origination and reversal of timing differences	(3,123)	(3,123)
Tax on profit	<u>70,024</u>	<u>81,483</u>

Reconciliation of tax expense

The tax assessed on the profit for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £	2018 £
Profit before taxation	402,025	446,271
Profit by rate of tax	76,385	81,554
Change in tax rate	(6,361)	(71)
Total tax charge	<u>70,024</u>	<u>81,483</u>

11. Dividends

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

	2019 £	2018 £
Interim dividend of £17.80 (2018: £6.18) per ordinary share	<u>890,000</u>	<u>309,000</u>

12. Debtors

Debtors amounts falling due within one year are as follows:

	2019 £	2018 £
Trade debtors	6,317	17,582
Prepayments and accrued income	31,567	45,284
Finance debtor	2,152,859	1,980,222
Other debtors	3,247,073	3,572,602
	<u>5,437,816</u>	<u>5,615,690</u>

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

	2019 £	2018 £
Deferred tax asset	5,044,876	5,179,001
Finance debtor	65,442,184	67,625,033
	<u>70,487,060</u>	<u>72,804,034</u>

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

12. Debtors *(continued)*

The movement in the finance debtor is analysed as follows:

	2019 £	2018 £
At beginning of year	69,605,255	71,537,217
Repayments	(2,010,210)	(1,931,962)
At end of year	<u>67,595,045</u>	<u>69,605,255</u>

13. Creditors: amounts falling due within one year

	2019 £	2018 £
Bank loans and overdrafts	1,245,639	766,958
Trade creditors	699,915	698,424
Amounts owed to Group undertakings	277,278	217,085
Accruals and deferred income	1,415,217	1,127,169
Corporation tax	70,452	80,557
Taxation and social security	326,145	298,960
Other creditors	97,920	102,639
	<u>4,132,566</u>	<u>3,291,792</u>

Amounts owed to Group undertakings includes accrued interest of £183,690 (2018: £182,479) charged on fixed rate unsecured loan stock. The balance relates to the capital repayment due on that loan stock due within the year. The fixed rate unsecured loan stock carries an interest rate of 9% per annum and interest is paid in March and September each year. The subordinated loan stock is unsecured and repayable in half yearly instalments, also in March and September, with final repayment due in September 2037.

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

	2019 £	2018 £
Bank loans and overdrafts	61,259,600	62,500,223
Amounts owed to Group undertakings	8,003,865	8,097,847
Accruals and deferred income	3,642,364	3,845,574
Derivative financial liability	29,675,742	30,464,712
	<u>102,581,571</u>	<u>104,908,356</u>

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

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

Included within creditors: amounts falling due after more than one year is an amount of £61,972,693 (2018: £62,241,000) in respect of liabilities payable or repayable by installments which fall due for payment after more than five years from the reporting date.

a) The bank loan is secured by a bond and floating charge over all the assets, rights and undertakings of the Company. The loan is repayable under an instalment scheme whereby small repayments are made in the first few years of the loan, the final repayment is due on 30 September 2037. The loan bears interest at LIBOR plus 1.0%, however the Company has an interest rate swap arrangement receiving LIBOR and paying interest fixed at 4.425% for the full amount of the loan drawn, hence fixing the total interest payable on the bank loan to 5.425%. The full amount of loan drawdowns at 31 December 2019 is £62,717,178 (2018: £63,516,053). Issue costs of £211,939 (2018: £248,872) have been set off against the total loan drawdowns.

b) Amounts owed to Group undertakings - On 31 March 2011, the Company issued a £8,445,000 fixed rate unsecured loan stock bearing investment sum to its immediate parent FCC Services (East Ayrshire) Holdings Limited. The investment bears a rate of 9% per annum and principal repayments commenced on 31 March 2011 and will be repaid in full by September 2037. The rate on the principal amount accrues daily and is payable in cash on 30 September and 31 March each year. Interest not settled by cash on these dates is added to the principal and the Coupon accrues on this uplifted amount in the next period. Interest settled using this mechanism was £728,211 (2018: £731,037). The investment sum was advanced under a subordinated loan agreement and is therefore unsecured and would rank alongside ordinary creditors in the event of a winding up.

15. Provisions for Liabilities

	Deferred tax (note 16) £
At 1 January 2019	18,735
Deferred tax	(3,123)
At 31 December 2019	<u>15,612</u>

16. Deferred Tax

The deferred tax included in the statement of financial position is as follows:

	2019 £	2018 £
Included in debtors (note 12)	5,044,876	5,179,001
Included in provisions for liabilities (note 15)	(15,612)	(18,735)
	<u>5,029,264</u>	<u>5,160,266</u>

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

16. Deferred Tax *(continued)*

	2019 £
Opening balance	5,160,266
Movement through the profit or loss	3,123
Movement through other comprehensive income	(134,125)
Closing balance	<u>5,029,264</u>

The deferred tax asset relates to the fair value losses on the derivative financial instruments.

There are no unused tax losses or unused tax credits.

The net deferred tax liability expected to reverse in 2020 is £3,123.

17. Financial Instruments

The carrying amount for each category of financial instrument is as follows:

	2019 £	2018 £
Financial assets that are debt instruments measured at amortised cost		
Financial assets that are debt instruments measured at amortised cost	<u>82,371,006</u>	<u>78,581,104</u>
Financial liabilities measured at fair value through profit or loss		
Derivative financial liabilities measured at fair value	<u>29,675,742</u>	<u>(30,464,712)</u>
Financial liabilities measured at amortised cost		
Financial liabilities measured at amortised cost	<u>77,250,333</u>	<u>(77,981,292)</u>

The fair values of the interest rate swap have been calculated by discounting the fixed cash flows at forecasted forward interest rates over the term of the financial instrument. The bank borrowing and finance debtor are both held at amortised cost.

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

17. Financial Instruments *(continued)*

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

Interest rate swaps

The Company has entered into interest rate swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into on 27 July 2006 and amended on 20 April 2007 and expire on 30 September 2037.

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the vast majority of variable cash inflows arising from the operation of the Company's service concession asset in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 27 July 2006 and expire on 30 September 2037.

Under the terms of the project agreements, the Company is permitted to charge its principal customer, East Ayrshire Council an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April using the current RPI for January against the base date RPI by an amount computed by reference to the average movement in RPI over the previous 12-month period measured from 1 April through to 31 March. This derivative arrangement (RPI swap) has the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges. The vast majority of the Company's cash outflows relate to borrowings (after interest rate swaps - see above) that carry a fixed coupon so that both the principal repayments, and coupon payments (after interest rate swaps - see above) are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Company can meet its obligations under the terms of its borrowing arrangements.

The Directors believe that the hedging relationship is highly effective and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 December 2019 amounted to net liabilities of £29,675,742 (2018: £30,464,712) comprising liabilities of £4,181,533 for RPI swaps (2018: £6,839,435) and liabilities of £25,494,209 for interest rate swaps (2018: £23,625,277). All of the movements during the year in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a debit of £654,846 (2018: credit of £297,649).

FCC (East Ayrshire) Limited

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

Year Ended 31 December 2019

18. Called Up Share Capital

Issued, called up and fully paid

	2019		2018	
	No.	£000	No.	£000
Ordinary shares of £1 each	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and the repayment of capital.

19. Reserves

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

Retained earnings records retained earnings and accumulated losses.

20. Events after the End of the Reporting Period

Coronavirus was declared a pandemic in March 2020 and since then there has been widespread disruption in the UK. As the pandemic accelerated after the year end this event has been classified as a non-adjusting post balance sheet event. As disclosed in the Directors' Report, the directors have considered the future financial impact to the Company of the Coronavirus. Although the likely full impact is unknown, it is expected to be minimal.

21. Related Party Transactions

The company is wholly owned by FCC (East Ayrshire) Holdings Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

The following disclosures are with entities in the group that are not wholly owned:

The company paid £19,648 (2018: £20,797) to BILF Bidco Limited and its subsidiaries for the provision of 2 directors and the provision of management services.

The company paid £12,167 (2018: £11,760) to Nord/LB Project Holding Limited for the provision of 2 directors.

The company paid £nil (2018: £29,631) to Infrastructure Investors Limited for the provision of 2 directors and for the provision of management services.

22. Controlling Party

The immediate parent undertaking is FCC (East Ayrshire) Holdings Limited.

The company is a wholly owned subsidiary of FCC (East Ayrshire) Holdings Limited, a company incorporated in Scotland, registered number SC300470. The financial statements of FCC (East Ayrshire) Holdings Limited can be obtained from Companies House.

Ownership of FCC (East Ayrshire) Holdings Limited is split between Schools Capital Limited (50%), PFI Infrastructure Finance Limited (20%) and Nord/LB Project Holding Limited (30%). Accordingly there is no overall parent company and no ultimate controlling party.