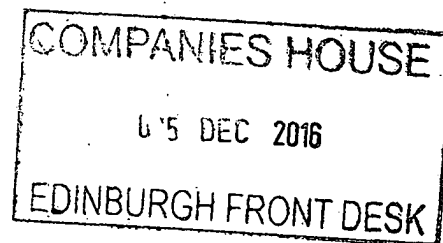


Falkirk Schools Gateway Limited
Annual Report and Financial Statements
31 March 2016



Falkirk Schools Gateway Limited
Annual Report and Financial Statements
Year Ended 31 March 2016

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Falkirk Schools Gateway Limited

Officers and Professional Advisers

The board of directors	C Bell U F Cameron G J Greenhorn R G Jack D H Ogilvie (Resigned 1 April 2015) G Quaife D Smith (Appointed 1 April 2015) D Spiller
Company secretary	Maclay Murray & Spens LLP
Registered office	Quartermile One 15 Lauriston Place Edinburgh EH3 9EP
Auditor	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors Level 4 Atria One 144 Morrison Street Edinburgh EH3 8EX
Bankers	Royal Bank of Scotland Plc PO Box 412 62/63 Threadneedle Street London EC2R 8LA
Solicitors	Maclay Murray & Spens LLP Quartermile One 15 Lauriston Place Edinburgh EH3 9EP

Falkirk Schools Gateway Limited

Directors' Report

Year Ended 31 March 2016

The directors present their report and the financial statements of the Company for the year ended 31 March 2016.

Principal Activities

The principal activity of the Company is the provision of design, construction, finance and facilities management for 4 schools to Falkirk Council under the Government's Public Private Partnership (PPP) programme.

Performance Review

The entity transitioned from previous UK GAAP to FRS 102 as at 1 April 2014. The accounts for both years are presented under FRS 102, the adjustments to the prior year reported financial position and financial performance are given in note 20.

The profit for the year, after taxation, amounted to £258,534 (2015: £119,630).

The profit for the 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.

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.

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 brought onto the balance sheet. 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.

Directors

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

C Bell	
U F Cameron	
G J Greenhorn	
R G Jack	
G Quaife	
D Spiller	
D Smith	(Appointed 1 April 2015)
D H Ogilvie	(Resigned 1 April 2015)

Dividends

The directors do not recommend the payment of a dividend.

Falkirk Schools Gateway Limited

Directors' Report *(continued)*

Year Ended 31 March 2016

Financial Risk

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company is credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the income is ultimately derived from established public sector counterparties.

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.

Small Company Provisions

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

This report was approved by the board of directors on^{16/11/16}..... and signed on behalf of the board by:


R G Jack
Director

Falkirk Schools Gateway Limited

Directors' Responsibilities Statement

Year Ended 31 March 2016

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

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

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 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

The Directors' Responsibilities were approved by the board on16/11/16..... and signed on its behalf by:


R G Jack
Director

Falkirk Schools Gateway Limited

Independent Auditors' Report to the Members of Falkirk Schools Gateway Limited

Year Ended 31 March 2016

Our Opinion

In our opinion, Falkirk Schools Gateway Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 March 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other Matters on Which We are Required to Report by Exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Falkirk Schools Gateway Limited

Independent Auditors' Report to the Members of Falkirk Schools Gateway Limited *(continued)*

Year Ended 31 March 2016

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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

Respective Responsibilities of Directors and Auditor

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the Audit of the Financial Statements

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Falkirk Schools Gateway Limited

Independent Auditors' Report to the Members of Falkirk Schools Gateway Limited *(continued)*

Year Ended 31 March 2016

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Paul Cheshire (Senior Statutory Auditor)

For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh

16/11/16

Falkirk Schools Gateway Limited

Statement of Comprehensive Income

Year Ended 31 March 2016

	Note	2016 £	2015 £
Turnover	4	4,363,251	4,007,686
Cost of sales		(3,131,872)	(2,827,410)
Gross profit		1,231,379	1,180,276
Administrative expenses		(652,532)	(650,133)
Operating profit		578,847	530,143
Other interest receivable and similar income	8	7,292,141	7,354,668
Interest payable and similar charges	9	(7,530,697)	(7,734,935)
Profit on ordinary activities before taxation		340,291	149,876
Tax on profit on ordinary activities	10	(81,757)	(30,246)
Profit for the financial year		258,534	119,630
Fair value movements on cash flow hedging instruments, net of tax		769,341	(6,978,775)
Total comprehensive income for the year		1,027,875	(6,859,145)

All the activities of the Company are from continuing operations.

The notes on pages 11 to 23 form part of these financial statements.

Falkirk Schools Gateway Limited

Statement of Financial Position

As at 31 March 2016

	Note	2016 £	2015 £
Current assets			
Debtors: due within one year	11	11,354,958	10,524,946
Debtors: due after more than one year	11	105,444,765	108,684,011
Cash at bank and in hand		8,232,534	7,749,368
		<u>125,032,257</u>	<u>126,958,325</u>
Creditors: amounts falling due within one year	12	<u>(3,532,684)</u>	<u>(3,218,122)</u>
Net current assets		<u>121,499,573</u>	<u>123,740,203</u>
Total assets less current liabilities		<u>121,499,573</u>	<u>123,740,203</u>
Creditors: amounts falling due after more than one year	13	<u>(166,106,879)</u>	<u>(169,375,384)</u>
Net liabilities		<u>(44,607,306)</u>	<u>(45,635,181)</u>
Capital and reserves			
Called up share capital	16	203	203
Hedging reserve	17	(45,017,801)	(45,787,142)
Retained earnings	17	410,292	151,758
Shareholders' deficit		<u>(44,607,306)</u>	<u>(45,635,181)</u>

These financial statements were approved by the board of directors and authorised for issue on 16/11/16, and are signed on behalf of the board by:


R G Jack
Director

Company registration number: SC313818

The notes on pages 11 to 23 form part of these financial statements.

Falkirk Schools Gateway Limited

Statement of Changes in Equity

Year Ended 31 March 2016

	Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 April 2014	203	(38,808,367)	32,128	(38,776,036)
Profit for the year			119,630	119,630
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	(6,978,775)	—	(6,978,775)
Total comprehensive income for the year	—	(6,978,775)	119,630	(6,859,145)
At 31 March 2015	203	(45,787,142)	151,758	(45,635,181)
Profit for the year			258,534	258,534
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	769,341	—	769,341
Total comprehensive income for the year	—	769,341	258,534	1,027,875
At 31 March 2016	203	(45,017,801)	410,292	(44,607,306)

Included in the fair value movement on cash flow hedging instruments is £4,659,207 (2015: £4,716,843) that was recycled through Interest Payable in the statement of comprehensive income.

The notes on pages 11 to 23 form part of these financial statements.

Falkirk Schools Gateway Limited

Notes to the Financial Statements

Year Ended 31 March 2016

1. Statement of compliance

The individual financial statements of Falkirk Schools Gateway 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.

2. General information

Falkirk Schools Gateway Limited ('the Company') is incorporated and domiciled in the UK. The address of its registered office is Quartermile One, 15 Lauriston Place, Edinburgh, EH3 9EP.

The principal activity of the Company is the provision of design, construction, finance and facilities management for 4 schools to Falkirk Council under the Government's Public Private Partnership (PPP).

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

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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement 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. The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom.

(b) Going concern

The directors acknowledge that the Company is in net liabilities, however this is a result of the Interest rate swaps, which are significantly out of the money, being brought onto the balance sheet. 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.

(c) Transition to FRS 102

The entity transitioned from previous UK GAAP to FRS 102 as at 1 April 2014. Details of how FRS 102 has affected the reported financial position and financial performance is given in note 20.

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

(d) 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.

(e) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements 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.

Significant judgements

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

i) Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates and movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those instruments on its balance sheet. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by the shareholders based on counterparty information that is independent of the Company, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments. There is also a judgement on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

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 balance sheet, 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 compares that with the carrying value of the asset or assets in the balance sheet. 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.

ii) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract.

(f) Revenue recognition

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

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

3. Accounting policies *(continued)*

(g) 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 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.

(h) 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.

4. Turnover

Turnover arises from:

	2016	2015
	£	£
Rendering of services	<u>4,363,251</u>	<u>4,007,686</u>

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

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

5. Auditors' remuneration

	2016	2015
	£	£
Fees payable for the audit of the financial statements	<u>9,560</u>	<u>8,627</u>

Included in the fee above is £1,850 (2015: £1,785) for the audit of the immediate parent entity Falkirk Schools Gateway HC Limited.

6. Particulars of employees and directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2015: nil).

7. Directors' remuneration

The directors aggregate remuneration in respect of qualifying services was:

	2016	2015
	£	£
Remuneration	<u>18,119</u>	<u>15,762</u>

8. Other interest receivable and similar income

	2016	2015
	£	£
Interest on cash and cash equivalents	34,369	31,282
Bank interest receivable	21,659	—
Finance debtor interest	<u>7,236,113</u>	<u>7,323,386</u>
	<u>7,292,141</u>	<u>7,354,668</u>

9. Interest payable and similar charges

	2016	2015
	£	£
Interest on bank loans and overdrafts	6,199,289	6,338,124
Interest due to Group undertakings	1,268,463	1,269,782
Loss on financial instruments	7,882	71,777
Other interest payable and similar charges	<u>55,063</u>	<u>55,252</u>
	<u>7,530,697</u>	<u>7,734,935</u>

10. Tax on profit on ordinary activities

Major components of tax expense

	2016	2015
	£	£
Current tax:		
UK current tax expense	59,319	49,723
Adjustments in respect of prior periods	<u>(153)</u>	<u>(950)</u>
Total current tax	<u>59,166</u>	<u>48,773</u>

Falkirk Schools Gateway Limited

Notes to the Financial Statements (continued)

Year Ended 31 March 2016

10. Tax on profit on ordinary activities (continued)

	2016 £	2015 £
Deferred tax:		
Origination and reversal of timing differences	<u>22,591</u>	<u>(18,527)</u>
Tax on profit on ordinary activities	<u>81,757</u>	<u>30,246</u>

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is higher than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 21%).

	2016 £	2015 £
Profit on ordinary activities before taxation	<u>340,291</u>	<u>149,876</u>
Profit on ordinary activities by rate of tax	<u>68,058</u>	<u>31,474</u>
Adjustment to tax charge in respect of prior periods	(153)	–
Effect of expenses not deductible for tax purposes	<u>3,153</u>	<u>–</u>
Unused tax losses	–	34
Tax rate changes	<u>10,699</u>	<u>1,262</u>
Tax on profit on ordinary activities	<u>81,757</u>	<u>32,770</u>

Factors that may affect future tax expense

On 26 October 2015, a reduction in the UK corporation tax rate from 20% to 18% was substantively enacted. The reduction is to take effect in two stages from 1 April 2017 (19%) and then from 1 April 2020 (18%). As a result, relevant deferred tax balances have been re-measured at the rate at which the majority of the deferred tax balance is expected to unwind

This change has reduced the deferred tax asset at the balance sheet date by £9,421.

In his Budget speech on 16 March 2016 the Chancellor of the Exchequer proposed that the above UK corporation tax rate of 18% effective from 1 April 2020 be further reduced to 17%. This change had not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. If enacted, the change would reduce the deferred tax asset at the balance sheet by £555,508.

11. Debtors

Debtors falling due within one year are as follows:

	2016 £	2015 £
Trade debtors	<u>178,989</u>	<u>167,953</u>
Prepayments and accrued income	<u>482,580</u>	<u>534,625</u>
Finance debtor	<u>1,652,863</u>	<u>1,537,548</u>
Other debtors	<u>9,040,526</u>	<u>8,284,820</u>
	<u>11,354,958</u>	<u>10,524,946</u>

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

11. Debtors *(continued)*

Debtors falling due after one year are as follows:

	2016	2015
	£	£
Deferred tax asset	9,999,150	11,585,533
Finance debtor	95,445,615	97,098,478
	<u>105,444,765</u>	<u>108,684,011</u>

The movement in the finance debtor is analysed as follows:

	2016	2015
	£	£
At beginning of year	98,636,026	100,062,418
Repayments	(1,537,548)	(1,426,392)
At end of year	<u>97,098,478</u>	<u>98,636,026</u>

Other debtors consist of the unitary charge control account.

12. Creditors: amounts falling due within one year

	2016	2015
	£	£
Bank loans and overdrafts	951,662	616,499
Trade creditors	385,770	438,929
Amounts owed to Group undertakings	654,791	649,312
Accruals and deferred income	285,941	259,557
Corporation tax	59,504	49,723
Social security and other taxes	436,901	445,987
Other creditors	758,115	758,115
	<u>3,532,684</u>	<u>3,218,122</u>

Amounts owed to group undertakings represent subordinated interest payable £641,531 (2015: £634,840) and subordinated debt capital £13,260 (2015: £14,472).

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

	2016	2015
	£	£
Bank loans and overdrafts	101,649,693	102,579,819
Amounts owed to Group undertakings	9,377,434	9,390,562
Derivative financial liability	55,079,752	57,405,003
	<u>166,106,879</u>	<u>169,375,384</u>

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

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

Included within bank loans is a loan for £102,838,627 (2015: £103,507,162) repayable in semi annual instalments commencing on 31 March 2010. The final repayment date of this bank loan is 31 July 2038. These figures are net of debt issue costs of £237,272 (2015: £310,844) which will be released to the profit and loss account over the life of the loan.

Bank loans bear interest based on LIBOR. As part of the interest rate management strategy the Company entered into an interest rate swap in respect of part of the debt maturing in July 2038. Under this swap and the senior debt financing in place, the Company receives interest on a variable basis and currently pays interest at a fixed rate of 5.19%. The bank loans are secured by a floating charge over the assets of the Company.

The Subordinated debt bears interest at 13.5%. The debt is repayable in 58 consecutive six monthly instalments, the first of which was repaid in March 2010 with the final instalment due on July 2038.

14. Deferred tax

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

	2016 £	2015 £
Included in debtors (note 11)	<u>9,999,150</u>	<u>11,585,533</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2016 £	2015 £
Derivative financial liabilities	9,917,209	11,481,001
Other short term timing differences	<u>81,941</u>	<u>104,532</u>
	<u>9,999,150</u>	<u>11,585,533</u>

The net deferred tax liability expected to reverse in 2017 is £10,328. This primarily relates to the reversal of timing differences on capital allowances offset by expected utilisation of tax losses and short term timing differences.

	2015 £
Opening balance	11,585,533
Movement through the profit or loss	(22,591)
Movement through other comprehensive income	<u>(1,563,792)</u>
Closing balance	<u>9,999,150</u>

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

15. Financial instruments

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

	2016 £	2015 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>97,098,478</u>	<u>98,636,026</u>
Financial liabilities		
Derivative financial liabilities measured at fair value through profit or loss	(55,079,752)	(57,405,003)
Financial liabilities measured at amortised cost	<u>(112,633,580)</u>	<u>(113,236,192)</u>

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

15. 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 18 May 2007 and expire on 30 July 2038.

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 31 March 2009 and expire on 31 July 2038.

Under the terms of the project agreements, the Company is permitted to charge its principal customer, Falkirk Council Education Services an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April using the current RPI for February against the base date RPI. These derivative arrangements (RPI swaps) have 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 March 2016 amounted to net liabilities of £55,079,751 (2015: £55,814,232) comprising liabilities of £51,748,821 for RPI swaps (2015: £49,451,149) and liabilities of £3,330,929 for interest rate swaps (2015: £6,363,083). The effective portion 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 credit of £768,491 (2015: debit of £6,978,776). The ineffective portion of the movements in the fair value have been recorded in the profit and loss amounting to a debit of £71,777 (2015: debit of £7,882).

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

16. Called up share capital

Issued, called up and fully paid

	2016		2015	
	No	£	No	£
Ordinary Class A shares of £1 each	200	200	200	200
Ordinary Class B shares of £1 each	1	1	1	1
Ordinary Class C shares of £1 each	1	1	1	1
Ordinary Class D shares of £1 each	1	1	1	1
	<u>203</u>	<u>203</u>	<u>203</u>	<u>203</u>

17. Reserves

Hedging reserve - This reserve records fair value movements on cash flow hedging instruments.

Retained earnings - This reserve records retained earnings and accumulated losses.

18. Related party transactions

The Company is primarily owned by Falkirk Schools Gateway HC Limited.

Ogilvie Securities Limited holds a 22.5% shareholding in Falkirk Schools Gateway HC Limited.

Infrastructure Investments General Partner Limited holds a 29.5% shareholding in Falkirk Schools Gateway HC Limited.

Forth Utilities Limited holds a 17% shareholding in Falkirk Schools Gateway HC Limited. FES FM Limited, a related group entity of Forth Limited is contracted to provide facilities management services and received £2,611,790 (2015: £2,309,454) for work done in the year. As at 31 March 2016 Falkirk Schools Gateways Limited had an outstanding balance owing to FES FM Limited of £206,349 (2015: £189,633) which was settled in April 2016.

Gateway Falkirk Limited holds a 22.5% shareholding in Falkirk Schools Gateway HC Limited. The Company paid £235,386 (2015: £232,986) to Gateway Falkirk Limited for the provision of financial administration and general management services to the Company. R Jack and D Spiller, both Directors of the Company, are also Directors of Gateway Falkirk Limited.

19. Controlling party

The Company considers the immediate parent company to be Falkirk Schools Gateway HC Limited, which owns greater than 98% of the issued share capital. The Directors deem that Falkirk Schools Gateway HC Limited had no controlling parties during the period. The Ownership of Falkirk Schools Gateway HC Limited is shared between Infrastructure Investments Limited Partnership, Forth Utilities Limited, Ogilvie Securities Limited and Gateway Falkirk Limited. The financial statements of Falkirk Gateway HC Limited can be obtained from Companies House, 139 Fountainbridge, Edinburgh, EH3 9FF.

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

20. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Profit for the financial year		31 March 2015
		£
UK GAAP - As previously reported		193,849
Effective Interest Rate adjustment on Bank loans	B	(20,998)
Ineffectiveness on interest rates swaps	A	(71,776)
Deferred tax impact of adjustments	C	
- Derivative financial instruments		14,355
- Effective Interest Rate adjustment on Bank loans		4,200
Total Adjustment to profit for the financial year		(74,219)
FRS 102		<u>119,630</u>

Other Comprehensive Income		31 March 2015
		£
UK GAAP - As previously reported		-
Derivative financial instrument	A	(8,723,470)
Deferred tax impact of adjustments	C	
- Derivative financial instruments	E	1,744,695
FRS 102		<u>(6,978,775)</u>

Total Equity		1 April 2014	31 March 2015
		£	£
UK GAAP - As previously reported		508,090	701,939
Derivative Financial Instruments	A	(48,609,756)	(57,405,002)
Effective Interest Rate adjustment to bank loans	B	(495,401)	(516,399)
Deferred taxation	C	9,821,031	11,584,281
FRS 102		<u>(38,776,036)</u>	<u>(45,635,181)</u>

A. Derivative Financial Instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. This requires the instrument to be brought onto the balance sheet, the Company has adopted hedge accounting limiting the impact of fair value movements in the profit or loss. Previously under UK GAAP the company did not recognise these instruments in the financial statements. Accordingly at transition a liability of £48,609,756 was recognised. In the year ended 31 March 2015 a charge of £71,776 was recognised in the statement of comprehensive income for the ineffective portion of the hedge, the remaining £8,723,470 was recognised in the statement of comprehensive income. A liability of £57,405,002 was recognised at that date.

B. Effective Interest Rate Adjustment to bank loans

Under FRS 102, debt instruments must be recorded at amortised cost using the effective interest method, previously finance costs were allocated over the term of the instrument on a straight line

Falkirk Schools Gateway Limited

Notes to the Financial Statements *(continued)*

Year Ended 31 March 2016

basis. On transition the Loans were increased by £495,401 with a further £20,998 debit recognised in the profit and loss account for the year ended 31 March 2015.

C. Deferred Taxation

The Company has accounted for deferred taxation on transition as follows:

(i) Derivative financial instruments – Deferred tax of £9,721,951 has been recognised at 20% on the liability recognised on transition at 1 April 2014. In the year ended 31 March 2015 the company has recognised a debit of £1,744,695 in the statement of comprehensive income in respect of the increase in the value of derivative financial instruments.

(ii) Effective Interest Rate adjustment to bank loans - Deferred tax of £103,280 has been recognised at 20% of the adjustment. The deferred tax balance will be amortised on a straight line basis over a 10 year period as required by the Change of Accounting Practice regulations set out by HMRC.