

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

AUDITED

**DIRECTORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2021**

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

COMPANY INFORMATION

DIRECTORS

Mr A. T. S. Parry
Mr A. W. Hopps

COMPANY SECRETARY

Mr A. T. S. Parry

REGISTERED NUMBER

SC210981

REGISTERED OFFICE

Dundas & Wilson LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

INDEPENDENT AUDITORS

Wellden Turnbull Limited
Chartered Accountants & Statutory Auditors
Albany House
Claremont Lane
Esher
Surrey
KT10 9FQ

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

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COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2021

The directors present their report and the financial statements for the year ended 31 March 2021.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

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

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were that of designing, constructing, financing, maintaining and providing building management services for schools under the Government's Private Finance Initiative ("PFI").

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £570,486 (2020 - £481,944).

Dividends of £500,000 (2020 - £151,500) were paid during the year and the directors have not recommended a final dividend to be paid (2020 - £nil).

DIRECTORS

The directors who served during the year were:

Mr A. T. S. Parry
Mr A. W. Hopps

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2021**

POST BALANCE SHEET EVENTS

Subsequent to the year end date, global economies and financial markets have continued to be affected by the uncertainties arising from the COVID-19 virus pandemic. The Company earns income from a PFI contract with The Highland Council which matures in 2027. The Directors have assessed the impact and risk of the current market conditions on the Company and do not believe these to be material in nature. Details of the Directors' going concern assessment are included in note 2.4.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

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

Mr A. T. S. Parry
Director

Date: 6 December 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

OPINION

We have audited the financial statements of Community Schools (Highlands) Limited (the 'Company') for the year ended 31 March 2021, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

EMPHASIS OF MATTER

We draw attention to note 2.4 of the financial statements which sets out the basis for management's assessment of the Company's position as a going concern, including assessment of the impact of COVID-19 on the Company, and the subsequent preparation of the accounts on a going concern basis. Our opinion is not modified in this respect. We draw attention to note 2.15 of the financial statements, which describes the accounting treatment for fair value gains and losses on financial instrument swaps held by the Company. Our opinion is not modified in this respect.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNITY SCHOOLS (HIGHLANDS) LIMITED (CONTINUED)

OTHER INFORMATION

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' Report thereon. The directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' Report and from the requirement to prepare a Strategic Report.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities Statement set out on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNITY SCHOOLS (HIGHLANDS) LIMITED (CONTINUED)

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 Auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Enquiry of management and those charged with governance as to actual and potential litigation and claims;
- Enquiry of management and those charged with governance to identify any instances of non-compliance with laws and regulations;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
- Assessing the reasonableness of revenue recognised in the period based on PFI contract terms and obligations and the requirement of accounting standards;
- Reviewing and challenging the underlying fair valuation of the Company's swap instruments in the context of market available data to assess for indicators of management bias;
- Reviewing and challenging the underlying assumptions and valuation methodology used for the valuation of the Company's group and third party loans including assessing the reasonableness of valuation inputs and assumptions in the context of market available data to assess for indicators of management bias;
- Reviewing the tax provisions of the Company with the assistance of our independent tax specialists; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNITY SCHOOLS (HIGHLANDS) LIMITED (CONTINUED)

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Nelligan FCA (Senior Statutory Auditor)

for and on behalf of

Wellden Turnbull Limited

Chartered Accountants

Statutory Auditors

Albany House
Claremont Lane
Esher
Surrey
KT10 9FQ

Date: 6 December 2021

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2021**

| | Note | 2021 £ | 2020 £ |
|--|------|-----------------------|-----------------------|
| Turnover | 4 | 2,401,049 | 2,282,580 |
| Cost of sales | | (1,523,278) | (1,534,827) |
| GROSS PROFIT | | <u>877,771</u> | <u>747,753</u> |
| Administrative expenses | | (154,106) | (155,624) |
| OPERATING PROFIT | 5 | <u>723,665</u> | <u>592,129</u> |
| Interest receivable and similar income | 7 | 548,405 | 664,169 |
| Interest payable and similar expenses | 8 | (543,441) | (636,904) |
| PROFIT BEFORE TAX | | <u>728,629</u> | <u>619,394</u> |
| Tax on profit | 9 | (158,143) | (137,450) |
| PROFIT FOR THE FINANCIAL YEAR | | <u><u>570,486</u></u> | <u><u>481,944</u></u> |

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

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021**

| | 2021 £ | 2020 £ |
|--|----------------|----------------|
| Profit for the financial year | 570,486 | 481,944 |
| OTHER COMPREHENSIVE INCOME | | |
| Fair value gains on swaps | 323,475 | 247,954 |
| Deferred tax arising on fair value adjustments | (61,460) | (47,111) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | 262,015 | 200,843 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>832,501</u> | <u>682,787</u> |

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

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED
REGISTERED NUMBER: SC210981

BALANCE SHEET
AS AT 31 MARCH 2021

| | Note | 2021 £ | 2020 £ |
|---|------|-------------------------|-----------------------|
| CURRENT ASSETS | | | |
| Debtors: amounts falling due after more than one year | 11 | 5,297,790 | 6,586,025 |
| Debtors: amounts falling due within one year | 11 | 745,419 | 774,862 |
| Cash at bank and in hand | 12 | 3,219,490 | 3,072,486 |
| | | <u>9,262,699</u> | <u>10,433,373</u> |
| Creditors: amounts falling due within one year | 13 | (1,837,889) | (1,708,443) |
| NET CURRENT ASSETS | | <u>7,424,810</u> | <u>8,724,930</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>7,424,810</u> | <u>8,724,930</u> |
| Creditors: amounts falling due after more than one year | 14 | (5,591,645) | (7,173,550) |
| PROVISIONS FOR LIABILITIES | | | |
| Deferred tax | 18 | (677,758) | (728,474) |
| | | <u>(677,758)</u> | <u>(728,474)</u> |
| NET ASSETS | | <u><u>1,155,407</u></u> | <u><u>822,906</u></u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 19 | 1 | 1 |
| Share premium account | 21 | 197 | 197 |
| Other reserves | 21 | (645,286) | (907,301) |
| Profit and loss account | 21 | 1,800,495 | 1,730,009 |
| SHAREHOLDERS' FUNDS | | <u><u>1,155,407</u></u> | <u><u>822,906</u></u> |

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Mr A. T. S. Parry
Director

Date: 6 December 2021

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

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021**

| | Called up share capital £ | Share premium account £ | Other reserves - Hedging reserve £ | Profit and loss account £ | Total equity £ |
|--|---------------------------------|-------------------------------|---|---------------------------------|-------------------|
| At 1 April 2019 | 1 | 197 | (1,108,144) | 1,399,565 | 291,619 |
| Comprehensive income for the year | | | | | |
| Profit for the year | - | - | - | 481,944 | 481,944 |
| Fair value gains on swaps | - | - | 247,954 | - | 247,954 |
| Deferred tax arising on fair value adjustments | - | - | (47,111) | - | (47,111) |
| Other comprehensive income for the year | - | - | 200,843 | - | 200,843 |
| Total comprehensive income for the year | - | - | 200,843 | 481,944 | 682,787 |
| Dividends: Equity capital | - | - | - | (151,500) | (151,500) |
| TOTAL TRANSACTIONS WITH SHAREHOLDERS | - | - | - | (151,500) | (151,500) |
| At 1 April 2020 | 1 | 197 | (907,301) | 1,730,009 | 822,906 |
| Comprehensive income for the year | | | | | |
| Profit for the year | - | - | - | 570,486 | 570,486 |
| Fair value gains on swaps | - | - | 323,475 | - | 323,475 |
| Deferred tax arising on fair value adjustments | - | - | (61,460) | - | (61,460) |
| Other comprehensive income for the year | - | - | 262,015 | - | 262,015 |
| Total comprehensive income for the year | - | - | 262,015 | 570,486 | 832,501 |
| Dividends: Equity capital | - | - | - | (500,000) | (500,000) |
| TOTAL TRANSACTIONS WITH SHAREHOLDERS | - | - | - | (500,000) | (500,000) |
| At 31 March 2021 | 1 | 197 | (645,286) | 1,800,495 | 1,155,407 |

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

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1. GENERAL INFORMATION

Community Schools (Highlands) Limited is a private Company, limited by shares, incorporated in Scotland, registered number SC210981. The registered office is Dundas & Wilson LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The financial statements are presented in sterling, which is the functional currency of the Company and rounded to the nearest £.

The following principal accounting policies have been applied:

2.2 Compliance with accounting standards

The accounts have been prepared in accordance with the provisions of FRS 102, with the exception of matters disclosed in note 2.15. Management have concluded that the financial statements present a true and fair view of the Company's affairs as at 31 March 2021 and its profit for the year then ended.

2.3 Financial reporting standard 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Cardale PFI Investments Limited as at 31 March 2021 and these financial statements may be obtained from the registered office at 4 Greengate, Cardale Park, Harrogate, North Yorkshire, HG3 1GY.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Going concern

The financial statements have been prepared on a going concern basis. The Company is profitable and generates sufficient cash from operations to meet its liabilities as they fall due. In assessing the appropriateness of the going concern basis of preparation, the Directors have taken into account the key risks of the business, including the uncertainty in relation to the impact of COVID-19. In doing so the Directors have considered the Company's business model and availability of cash resources. The Directors have prepared projected cash flow information for at least twelve months from the date of their approval of these financial statements. On the basis of this cash flow information, the Directors consider that the Company will continue to operate within the long term facility currently agreed. In addition, during the operational phase of the project, sufficient cash flow is projected to be generated to allow the Company to continue to meet its liabilities as they fall due for payment.

The Company's senior loan is repayable by 31 July 2025 and is supported by the future cash flows from a PFI contract with The Highland Council which matures 2027. Furthermore, the balance sheet asset position is driven down by the historic swap positions which are significantly out of the money. It is not the intention of management to close out these instruments before their maturity date and the required cash flows to service the swaps are built into forward cash flow models supporting management's going concern assessment. Having undertaken this assessment the Directors consider it is appropriate to prepare the financial statements on a going concern basis.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

The Company recognises income when it has fully fulfilled its contractual obligations. In accordance with FRS 102 the Company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the Company, within the financial statements as turnover and operating costs.

Transactions to which the Company does not have access to all the significant benefits and risks are excluded from the financial statements.

2.6 Finance debtor

The Company operates a PFI contract. During the operational phase, income is allocated between interest receivable and the finance debtor using an asset specific interest rate. The remainder of the PFI unitary charge is included within turnover.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.7 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.8 Interest payable

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Financial instruments

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Derivatives, including interest rate and inflation swaps, are not basic financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.14 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value at each reporting date. Fair value gains and losses are recognised in the statement of comprehensive income unless hedge accounting is applied and the hedge is a cash flow hedge.

To qualify for hedge accounting, the Company documents the hedged item, the hedging instrument and the hedging relationship between them and the causes of hedge ineffectiveness.

The Company elects to adopt hedge accounting for interest rate swaps (the 'swaps') where:

- The swaps are a qualifying hedging instrument with an external party that hedges rate risk on a loan, part of the nominal amount of a loan, or a group of loans managed together that share the same risk and that qualify as a hedged item;
- The hedging relationship between the swaps and the interest rate risk on the loan is consistent with the risk management objectives for undertaking hedges (i.e. to manage the risk that fixed interest rates become unfavourable in comparison to current market rates or the variability in cash flows arising from variable interest rates); and
- The change in the fair value of the swaps is expected to move inversely to the change in the fair value of the interest rate risk on the loan.

2.15 Hedge accounting

The Company uses variable to fixed interest rate swaps to manage its exposure to interest rate cash flow risk on its variable rate debt. These derivatives are measured at fair value at each balance sheet date.

To better reflect the nature of the long term financing structure in operation and in a modification to accounting standards, all cumulative hedging gains or losses on the hedged item are recognised as an asset or liability with a corresponding gain or loss recognised in the statement of comprehensive income. Management believe that this treatment better reflects the financing profile in operation across the life of the structure.

2.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

3.

JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the actual results.

Critical areas of judgement

The Company makes judgements in applying its accounting policies as described below:

The recoverability of the amounts recoverable on long term contracts is based on the receipt of the unitary fee in accordance with the contractual payment mechanisms contained in the project agreement with its client, The Highlands Council.

The accounting for service concession contracts and finance debtors requires estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.

An estimation is required on future LIBOR rates when accounting for loan facilities held at amortised cost, based on current market data. Actual rates will vary from forecast over the loan lifetime, rendering the effective interest rate calculated as an estimate subject to these variations.

The valuation of the interest rate swaps held requires estimation of the cost of capital associated with the loan facility and future LIBOR rates over the lifetime of the swap which is based on current market data.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

4. TURNOVER

An analysis of turnover by class of business is as follows:

| | 2021 £ | 2020 £ |
|---------------------------------------|------------------|------------------|
| Sales - unitary charge | 2,202,367 | 2,042,124 |
| Sales - utilities pass through income | 198,682 | 240,456 |
| | <u>2,401,049</u> | <u>2,282,580</u> |

All turnover arose within the United Kingdom.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

5. OPERATING PROFIT

The operating profit is stated after charging:

| | 2021 £ | 2020 £ |
|---|--------------|--------------|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | <u>5,250</u> | <u>5,250</u> |

6. EMPLOYEES

The average monthly number of employees, including the directors, during the year was as follows:

| | 2021 No. | 2020 No. |
|-----------|-------------|-------------|
| Directors | <u>2</u> | <u>2</u> |

During the year, no director received any emoluments (2020 - £nil).

7. FINANCE INCOME

| | 2021 £ | 2020 £ |
|---------------------------------------|----------------|----------------|
| Interest income on finance receivable | 545,862 | 649,058 |
| Bank interest receivable | 2,543 | 15,111 |
| | <u>548,405</u> | <u>664,169</u> |

8. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2021 £ | 2020 £ |
|-----------------------------|----------------|----------------|
| Bank interest payable | 430,978 | 506,303 |
| Other loan interest payable | 112,463 | 130,601 |
| | <u>543,441</u> | <u>636,904</u> |

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

9. TAXATION

| | 2021 £ | 2020 £ |
|--|----------------|----------------|
| CORPORATION TAX | | |
| Current tax on profits for the year | 208,859 | 186,997 |
| DEFERRED TAX | | |
| Origination and reversal of timing differences | (50,716) | (49,547) |
| | <u>158,143</u> | <u>137,450</u> |
| TAXATION ON PROFIT ON ORDINARY ACTIVITIES | | |

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2020 - higher than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

| | 2021 £ | 2020 £ |
|--|----------------|----------------|
| Profit on ordinary activities before tax | <u>728,628</u> | <u>619,394</u> |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%) | 138,439 | 117,685 |
| EFFECTS OF: | | |
| Short term timing difference leading to an increase (decrease) in taxation | 19,704 | 19,765 |
| TOTAL TAX CHARGE FOR THE YEAR | <u>158,143</u> | <u>137,450</u> |

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

There were no factors that may affect future tax charges.

10. DIVIDENDS

| | 2021 £ | 2020 £ |
|----------------|----------------|----------------|
| Dividends paid | <u>500,000</u> | <u>151,500</u> |

Dividends of £500,000 (2020 - £151,500) were paid during the year. The directors have not recommended a final dividend to be paid (2020 - £nil).

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

11. DEBTORS

| | 2021 £ | 2020 £ |
|-------------------------------------|------------------|------------------|
| DUE AFTER MORE THAN ONE YEAR | | |
| Finance debtor | 5,146,427 | 6,373,201 |
| Deferred tax asset | 151,363 | 212,824 |
| | <u>5,297,790</u> | <u>6,586,025</u> |
| | 2021 £ | 2020 £ |
| DUE WITHIN ONE YEAR | | |
| Finance debtor | 745,419 | 774,419 |
| Prepayments and accrued income | - | 443 |
| | <u>745,419</u> | <u>774,862</u> |

12. CASH AND CASH EQUIVALENTS

| | 2021 £ | 2020 £ |
|--------------------------|------------------|------------------|
| Cash at bank and in hand | <u>3,219,490</u> | <u>3,072,486</u> |

13. CREDITORS: Amounts falling due within one year

| | 2021 £ | 2020 £ |
|------------------------------------|------------------|------------------|
| Bank loans | 1,140,095 | 1,108,884 |
| Trade creditors | 110,989 | 108,273 |
| Amounts owed to group undertakings | 121,064 | 117,782 |
| Corporation tax | 208,859 | 186,997 |
| Taxation and social security | 87,788 | 84,715 |
| Accruals and deferred income | 169,094 | 101,792 |
| | <u>1,837,889</u> | <u>1,708,443</u> |

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

14. CREDITORS: Amounts falling due after more than one year

| | 2021 £ | 2020 £ |
|------------------------------------|------------------|------------------|
| Bank loans | 4,337,270 | 5,469,093 |
| Amounts owed to group undertakings | 457,726 | 584,333 |
| Fair value of derivative contracts | 796,649 | 1,120,124 |
| | <u>5,591,645</u> | <u>7,173,550</u> |

Secured loans

The loan from the Royal Bank of Scotland plc (senior debt) is secured by way of a fixed and floating charge over all the assets of the borrower, and by fixed charge over the cash balances and investments of the borrower. The subordinated loan is not secured.

Interest on the senior debt is charged at a margin of 0.95% over LIBOR. The repayment is at six monthly intervals until July 2025.

The Company has entered into interest hedging agreements to be applied to the expected future borrowings under the facilities. These are swap agreements that fix the interest rate at 6.07% plus applicable margins per annum to 31 July 2025 in respect of 100% of the facilities.

Interest on the subordinated debt is charged at 16% p.a. Repayment is at six monthly intervals until July 2025.

Payments of interest and principal in respect of subordinated debt are conditional on satisfaction of covenants specified in the loan agreement with The Royal Bank of Scotland plc.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

15. LOANS

Analysis of the maturity of loans is given below:

| | 2021 £ | 2020 £ |
|--|------------------|------------------|
| AMOUNTS FALLING DUE WITHIN ONE YEAR | | |
| Bank loans | 1,140,095 | 1,108,884 |
| Amounts owed to group undertakings | 121,064 | 117,782 |
| | <u>1,261,159</u> | <u>1,226,666</u> |
| AMOUNTS FALLING DUE 1-2 YEARS | | |
| Bank loans | 1,198,843 | 1,140,095 |
| Amounts owed to group undertakings | 127,335 | 121,064 |
| | <u>1,326,178</u> | <u>1,261,159</u> |
| AMOUNTS FALLING DUE 2-5 YEARS | | |
| Bank loans | 3,138,427 | 3,743,403 |
| Amounts owed to group undertakings | 330,391 | 397,397 |
| | <u>3,468,818</u> | <u>4,140,800</u> |
| AMOUNTS FALLING DUE AFTER MORE THAN 5 YEARS | | |
| Bank loans | - | 585,595 |
| Amounts owed to group undertakings | - | 65,872 |
| | <u>-</u> | <u>651,467</u> |
| | <u>6,056,155</u> | <u>7,280,092</u> |

16. BASIC FINANCIAL INSTRUMENTS

Financial assets held that are debt instruments measured at amortised cost amounted to £5,891,845 (2020 - £7,147,620).

Financial liabilities held that are debt instruments measured at amortised cost amounted to £6,167,144 (2020 - £7,388,366).

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

17. COMPLEX FINANCIAL INSTRUMENTS

The fair value of the Company's derivatives are as follows:

| | Principal | | Fair value | |
|------------------------------|--------------------|--------------------|-------------------|--------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | £ | £ | £ | £ |
| Interest rate swap contracts | <u>(5,512,472)</u> | <u>(6,621,673)</u> | <u>(796,649)</u> | <u>(1,120,124)</u> |

The Company uses derivatives to manage the exposure to interest rate movements on its senior debt. The fair values are calculated using valuation techniques, the inputs for which are based on market data at the balance sheet date.

The fair value of the interest swaps is determined using the forward curve for 6 Month GBP LIBOR.

The swap meets the conditions for hedge accounting, as set out in the accounting policies.

18. DEFERRED TAXATION

| | 2021 | 2020 |
|---------------------------------------|-------------------------|-------------------------|
| | £ | £ |
| At beginning of year | (515,650) | (518,086) |
| Charged to profit or loss | 50,716 | 49,547 |
| Charged to other comprehensive income | (61,460) | (47,111) |
| At end of year | <u><u>(526,394)</u></u> | <u><u>(515,650)</u></u> |

The deferred tax balance is made up as follows:

| | 2021 | 2020 |
|--|-------------------------|-------------------------|
| | £ | £ |
| Accelerated capital allowances | (677,758) | (728,474) |
| Timing differences arising from fair value adjustments | 151,363 | 212,824 |
| | <u><u>(526,395)</u></u> | <u><u>(515,650)</u></u> |

COMPRISING:

| | | |
|----------------------------|-------------------------|-------------------------|
| Asset - due after one year | 151,363 | 212,824 |
| Liability | (677,758) | (728,474) |
| | <u><u>(526,395)</u></u> | <u><u>(515,650)</u></u> |

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

19. SHARE CAPITAL

| | 2021 £ | 2020 £ |
|---|-----------|-----------|
| Allotted, called up and fully paid | | |
| 1 (2020 - 1) Ordinary share of £1.00 | <u>1</u> | <u>1</u> |

20. COMMITMENTS

Under the terms of an operating agreement with Mitie PFI Limited, the Company is committed to pay facilities management costs net of any deductions that are for the account of Mitie PFI Limited in the period to August 2028.

Payments in the year to 31 March 2021 were £1,113,685 (2020 - £1,084,071). The outstanding commitment at 31 March 2021 is £8,207,245 (2020 - £9,202,535).

21. RESERVES

Share premium account

The share premium account represents the amount paid above the notional amount for share capital.

Other reserves

Other reserves relates to the hedging reserve which represents movements in the fair value of the interest rate swap derivatives and associated deferred tax.

Profit & loss account

The profit and loss account represents cumulative profits and losses net of all adjustments.

22. RELATED PARTY TRANSACTIONS

The Company has taken advantage of FRS102 section 33 paragraph 1A not to disclose transactions with wholly owned group members.

23. POST BALANCE SHEET EVENTS

Subsequent to the year end, global economies have continued to be affected by the negative financial impact of the spread of the COVID-19 virus pandemic. This is considered a non-adjusting event at the year end date and details of the Directors' going concern assessments are included in note 2.4.

24. CONTROLLING PARTY

The Company's immediate parent undertaking is Community Schools Holdings Limited, a Company registered in Scotland.

Cardale PFI Investments Limited is considered to hold the ultimate controlling interest. Consolidated financial statements are available from the registered office at 4 Greengate, Cardale Park, Harrogate, North Yorkshire, HG3 1GY.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.