

# **QHS DBFMCo Limited**

Report and Financial statements  
For the year ended 30 September 2020



**Company No. SC581585**

## Officers and professional advisers

<b>Company registration number</b>	SC581585
<b>Registered office</b>	PO Box 17452 2 Lochside View Edinburgh EH12 1LB
<b>Directors</b>	K Bradley A McCrorie P McGirk C Campbell R Park P McVey L Simmons N Gemmell M Templeton
<b>Company Secretary</b>	Galliford Try Secretariat Services Limited
<b>Bankers</b>	Barclays Bank plc PALL MALL 2 Leicestershire LE87 2BB
<b>Auditor</b>	Azets Audit Services Chartered Accountants Exchange Place 3 Sempie Street Edinburgh EH3 8BL

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## Strategic Report (continued)

The directors submit their Strategic Report, the Report of the directors and the audited financial statements for the year ended 30 September 2020.

### Principal activities and business review

The Company, incorporated on 15 November 2017, has been established to enter a Design, Build, Finance and Maintain ("DBFM") concession contract with The City of Edinburgh Council. The DBFM contract involves the design, build and financing of the new Queensferry High School together with the provision of certain facilities management services within the building. The DBFM Project Agreement between QHS DBFMCo Limited and The City of Edinburgh Council was signed on 14 June 2018.

As part of this contract, the Company has entered a fixed-price sub-contract with Galliford Try Construction Limited t/a Morrison Construction (previously known as Galliford Try Building Limited) to design and build the facility. The construction of the school is due to complete in June 2021. The first phase was handed over in July 2020.

The Company has also entered a sub-contract with Galliford Try Construction Limited t/a Galliford Try Facilities Management (previously known as Galliford Try Building Limited) for the provision of facilities management services within the building.

The DBFM project is being financed by a combination of senior and subordinated debt. Senior debt facilities of £39.8m, provided by Nord/LB and £3.75m of subordinated debt provided by equity shareholders will fund the construction of the high school.

Phase 1 of the project was due to be completed on 30 March 2020, just after the national COVID lockdown was implemented. As the project was so close to completion this allowed Phase 1 to be handed over in July shortly after restrictions were lifted and an agreement was reached which allowed the Annual Service Payment to flow as planned, taking into account the subsequent delay in Phase 2 completion.

The Company is receiving service payments from The City of Edinburgh Council from the date of completion of each phase when the respective buildings become available. The construction and other related costs of building are being treated as an asset which will be repaid over the life of the contract.

The directors have considered the impact that COVID-19 could have on the operations of the Company and are satisfied that the Company will be able to continue for 12 months following the signing of these financial statements. This is on the basis that construction of phase 1 the project has already completed, the Company's sole customer is a public sector body backed by the Scottish Government, the Annual Service Payment is per the underlying service concession arrangement, interest costs are fixed and the running costs are either fixed or are not expected to fluctuate significantly.

### Results and dividends

The results for the year are set out on page 11. The profit for the year amounted to £210,324 (2019: £248,458). The directors do not recommend payment of a dividend in respect of the period.

Other comprehensive income for the period was (£325,489) (2019: (£4,510,443)) after accounting for the movements in the cashflow hedge. The fair value of the cash flow hedge was a liability of £6,701,888 (2019: £6,148,241).

## Strategic Report (continued)

### Principal risks and uncertainties

The City of Edinburgh Council (the “Authority”) is the sole client of the Company, but the directors consider that no risk arises from such a small client base since the Scottish Government has implicitly underwritten the Authority’s obligations.

Most of the performance risk under the DBFM Agreement and related contracts is passed on to the subcontractors Morrison Construction and Galliford Try Facilities Management. The obligations of the building subcontractor and service provider are underwritten by respective parent company guarantees. The Company is exposed to the risk of non-performance by its subcontractors; however, penalties imposed by the Authority will be passed onto the subcontractor at fault under the terms of the subcontracts.

The life-cycle risk on the project is passed down to the service provider Galliford Try Facilities Management.

Long-term project financing is in place for the duration of the concession. The funding fully amortises over the concession period leaving no refinancing risk.

The continued uncertainty in respect of Brexit poses a risk to the UK economy, however, we consider the risk to the DBFM project to be minimal given the majority of our costs are fixed, phase 1 is now completed and the annual service payment income due to be received over the life of the concession arrangement has been agreed, the service concession arrangement is with a public sector body and our finance costs are fixed due to the interest rate swap in place.

### Financial risk management

In order to ensure stability of cash flows and hence manage interest rate risk, the Company has a policy of maintaining all its bank debt at a variable rate and also entering into interest rate swaps, the purpose of which is to manage the interest rate risk arising from these borrowings.

The Company receives the bulk of its revenue from the Authority and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

### Key Performance Indicators

The key performance of the Company is monitored from a cash perspective. The cash position at the year end is considered adequate. When construction is complete and service payments are being received, this will be assessed on a six-monthly basis by the testing of the covenants of the senior debt provider. The key indicators are the debt service cover ratio and loan life cover ratio. During the construction phase the senior debt provider monitors the Company’s expenditure against a budgeted profile. During the operations period, performance is assessed on a six-monthly basis by the testing of the covenants of the senior debt provider. The key indicators are the debt service cover ratio and loan life cover ratio.

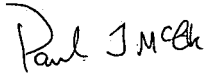
The Company has interest rate swaps in place which have resulted in a liability being included in the Balance Sheet. The swaps have been effected to minimise interest rate risk to the Company over the life of the senior debt loans. The swap profiles follow the loan drawdowns and are therefore fully effective. As such the Company has adopted hedge accounting and the movements are presented in the Statement of Total Comprehensive Income rather than the Income Statement. The profiles are monitored regularly to ensure they do not deviate from this profile and that hedge accounting continues to be permissible.

## Strategic Report (continued)

### **Future developments**

The directors do not anticipate any changes in the Company's activities.

This report has been approved by the board on 10 March 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Paul J McGirk'.

**P McGirk**  
**Director**

## Report of the directors

The directors submit their report and the audited financial statements for the year ended on 30 September 2020.

### Directors and their interests

The directors of the Company who held office during the year and to date are as follows:

K Bradley  
A McCrorie  
P McGirk  
P McVey  
R Park  
C Campbell  
L Simmons  
N Gemmell  
M Templeton  
G Sheret (resigned 2 April 2020)

In accordance with the Company's Articles of Association, none of its directors are required to retire.

### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 confirm that they have complied with the above requirements in preparing the financial statements.

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.

## Report of the directors (continued)

### Disclosure of information to the auditor

To the knowledge and belief of each of the persons who are directors at the time the report is approved:

- So far as each director is aware, there is no relevant information of which the Company's auditor is unaware; and
- He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information, and to establish that the Company's auditor is aware of the information.

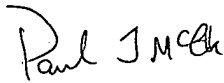
### Post balance sheet events

There have been no significant events affecting the Company since the year end.

### Auditor

On 7 September 2020 Group Audit Services Limited trading as Scott Moncrieff Audit Services changed its name to Azets Audit Services Limited. The name they practice under is Azets Audit Services and accordingly they have signed their report in their new name. The auditor, Azets Audit Services, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

This report has been approved by the board on 10 March 2021 and signed on its behalf by:



**P McGirk**  
**Director**



# Independent Auditor's Report to the Members of QHS DBFMCo Limited

## Opinion

We have audited the financial statements of QHS DBFMCo Limited (the 'Company') for the year ended 30 September 2020, which comprise the Income Statement, Statement of Total Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the 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 audit opinion.

## Conclusions relating to going concern

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

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

## Independent Auditor's Report to the Members of QHS DBFMCo Limited (continued)

### Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### 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 Strategic Report and the Report of the directors for the year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the directors have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

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

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.

## Independent Auditor's Report to the Members of QHS DBFMCo Limited (continued)

### Responsibilities of the directors

As explained more fully in the Statement of directors' responsibilities on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). The description forms part of our Auditor's Report.

### Use of our report

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

*Azets Audit Services*

**James McBride (Senior Statutory Auditor)**  
**For and on behalf of Azets Audit Services, Statutory Auditor**  
**Chartered Accountants**  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

Date: 10 March 2021

## Income Statement for the year ended 30 September 2020

		Year ended 30 September 2020	Year ended 30 September 2019
	Note	£	£
Turnover	3a	6,586,155	24,870,273
Cost of sales		<u>(6,508,919)</u>	<u>(24,616,205)</u>
<b>Gross profit</b>		<b>77,236</b>	<b>254,068</b>
Administration expenses		<b>(7,180)</b>	<b>(7,389)</b>
<b>Operating profit</b>	3b	<u><b>70,056</b></u>	<u><b>246,679</b></u>
Interest payable	4	<b>(1,465,892)</b>	<b>(845,221)</b>
Interest receivable	4	<b>1,655,495</b>	<b>905,280</b>
<b>Profit on ordinary activities before taxation</b>		<u><b>259,659</b></u>	<u><b>306,738</b></u>
Taxation	5	<b>(49,335)</b>	<b>(58,280)</b>
<b>Retained profit for the year</b>		<u><u><b>210,324</b></u></u>	<u><u><b>248,458</b></u></u>

The notes form part of these financial statements

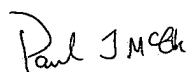
## Statement of Total Comprehensive Income for the year ended 30 September 2020

		Year ended 30 September 2020 £	Year ended 30 September 2019 £
	Note		
Retained profit for the year		210,324	248,458
Cash flow hedge - fair value movement in asset	16	(1,011,527)	(5,609,511)
Cash flow hedge - recycled to profit	16	457,880	175,243
Cash flow hedge - deferred tax asset	5	228,158	923,825
<b>Other comprehensive income for the year</b>		<b>(325,489)</b>	<b>(4,510,443)</b>
<b>Total comprehensive income for the year</b>		<b>(115,165)</b>	<b>(4,261,985)</b>

## Balance Sheet as at 30 September 2020

	Note	2020 £	2019 £
<b>Non-current assets</b>			
Financial asset due in more than one year	6	37,291,740	31,459,858
<b>Current assets</b>			
Deferred tax asset due in more than one year	17	1,144,404	967,362
Financial asset due in less than one year	6	1,077,000	605,578
Deferred tax asset due in less than one year	17	128,955	77,839
Debtors	7	336,072	400,852
Cash at bank in hand	8	1,161,973	3,443,056
		<u>3,848,404</u>	<u>5,494,687</u>
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	9	(3,364,604)	(2,940,947)
Net current assets		<u>483,800</u>	<u>2,553,740</u>
<b>Total assets less current liabilities</b>		<u>37,775,540</u>	<u>34,013,598</u>
Creditors – amounts falling due after more than one year	10	(42,713,800)	(38,836,693)
<b>Net liabilities</b>		<u>(4,938,260)</u>	<u>(4,823,095)</u>
<b>Capital and reserves</b>			
Called-up share capital	11	100	100
Cash flow hedge reserve	12	(5,428,530)	(5,103,041)
Profit and loss account	12	490,170	279,846
<b>Equity shareholders' funds</b>		<u>(4,938,260)</u>	<u>(4,823,095)</u>

The financial statements were authorised for issue by the board of directors on 10 March 2021 and signed on its behalf by:



**P McGirk**  
**Director**

**Registered Number: SC581585**

## Statement of Changes in Equity for the year ended 30 September 2020

	Called up share capital £	Profit & Loss Account £	Cash flow Hedge Reserve £	Total £
As at 1 October 2019	100	279,846	(5,103,041)	(4,823,095)
Profit for the year	-	210,324	-	210,324
Cash flow hedge movements	-	-	(325,489)	(325,489)
<b>As at 30 September 2020</b>	<b>100</b>	<b>490,170</b>	<b>(5,428,530)</b>	<b>(4,938,260)</b>

## Statement of Changes in Equity for the year ended 30 September 2019

	Called up share capital £	Profit & Loss Account £	Cash flow Hedge Reserve £	Total £
As 1 October 2018	100	31,388	(592,598)	(561,110)
Profit for the year	-	248,458	-	248,458
Cash flow hedge movements	-	-	(4,510,443)	(4,510,443)
<b>As at 30 September 2019</b>	<b>100</b>	<b>279,846</b>	<b>(5,103,041)</b>	<b>(4,823,095)</b>

## Statement of Cash Flows for the year ended 30 September 2020

	2020	2019
	£	£
<b>Cash flows from operating activities</b>		
Profit for the financial year	210,324	248,458
<b>Adjustments for:</b>		
Non-cash revenue	(6,229,609)	(24,870,273)
Annual Service Payment Received	1,580,057	-
Interest paid	1,465,892	845,221
Interest received	(1,655,495)	(905,280)
Taxation	49,335	58,280
Decrease in trade and other debtors	64,780	64,788
(Decrease) in trade and other creditors	(2,014,336)	(426,090)
<b>Cash from operations</b>	<b>(6,529,052)</b>	<b>(24,984,896)</b>
Income taxes paid	(49,342)	(43,298)
<b>Net cash generated from operating activities</b>	<b>(6,578,394)</b>	<b>(25,028,194)</b>
<b>Cash flows from investing activities</b>		
Interest received	1,743	5,823
<b>Cash flows from financing activities</b>		
Bank loans drawn	5,619,601	26,522,718
Interest paid	(1,305,070)	(729,461)
Loan arrangement and commitment fees paid	(18,963)	(124,800)
<b>Net cash used in financing activities</b>	<b>4,295,568</b>	<b>25,668,457</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,281,083)</b>	<b>646,086</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>3,443,056</b>	<b>2,796,970</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,161,973</b>	<b>3,443,056</b>



## Statement of Cash Flows for the year ended 30 September 2020

### Analysis of changes in Net Debt

	At 1 October 2019 £	Cash flows £	Other non- cash changes £	At 30 September 2020 £
<b>Cash and cash equivalents</b>				
Cash	3,443,056	(2,281,083)	-	1,161,973
	<u>3,443,056</u>	<u>(2,281,083)</u>	<u>-</u>	<u>1,161,973</u>
<b>Borrowings</b>				
Debt due within one year	-	(5,600,638)	3,383,468	(2,217,170)
Debt due more than one year	(33,146,332)	-	(3,544,290)	(36,690,622)
	<u>(33,146,332)</u>	<u>(5,600,638)</u>	<u>(160,822)</u>	<u>(38,907,792)</u>
<b>Total net debt</b>	<u>(29,703,276)</u>	<u>(7,881,721)</u>	<u>(160,822)</u>	<u>(37,745,819)</u>

# Notes to the Financial Statements

## 1 Principal accounting policies

### (a) General information

The financial statements are presented in Pounds Sterling (GBP) and are rounded to the nearest whole pound. The financial statements cover the results for the year ended 30 September 2020. The continuing activities of the company are to Design, Build and Finance the Queensferry High School together with the provision of certain facilities management services.

The Company is a private company limited by shares and was incorporated in Scotland. The registered office is:

PO Box 17452  
2 Lochside View  
Edinburgh  
EH12 1LB

The Company's registered number is SC581585.

### (b) Basis of preparation

These financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The preparation of the 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 2).

A summary of the more important accounting policies is set out below.

### (c) Going concern

During the year, the Company made a profit of £210,324 (2019: £248,458) and at the Balance Sheet date, its liabilities exceeded its assets by £4,938,260 (2019: £4,823,095) due to the recognition of the fair value of the interest rate swap of £6,701,888 (2019: £6,148,241) less the associated deferred tax asset of £1,273,359 (2019: £1,045,201). The financial statements have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future, being at least 12 months from the date of approval of these financial statements, for the following reasons:

- At the Balance Sheet date the Company has an un-drawn term loan facility of £5.6m (2019: £6.4m) to fund the remainder of the fixed price costs of the construction of the school. It also has further loan facilities totalling £1.4m which may be drawn in specific circumstances. In addition, private sector subordinated debt of £1,867,047 will be injected prior to the repayment of the equity bridge loan in March 2021.
- The directors have prepared and approved cash flow forecasts for the full contract term and based on this information the directors believe the Company will be able to meet all liabilities as they fall due.

The directors have thus formed the view that, at the time of approving the financial statements, the Company will have adequate resources to continue in existence for the foreseeable future. Therefore, the directors consider the adoption of the going concern basis in preparing the financial statements to be appropriate.

## Notes to the Financial Statements

### 1 Principal accounting policies (continued)

#### (c) Going concern (continued)

The directors have considered the impact that COVID-19 could have on the operations of the business and are satisfied that the Company will be able to trade for the 12 months following the signing of these financial statements. This is on the basis that phase 1 construction has completed, the Company's sole customer is a public sector body backed by the Scottish Government, the annual service payment (cash being received) is per the underlying service concession arrangement, interest costs are fixed and the running costs of the Company are either fixed or are not expected to fluctuate significantly.

If the Company were unable to continue in operation for the foreseeable future, adjustments would have to be made to reduce the Balance Sheet values of assets to their recoverable amounts and to provide for further liabilities that might arise.

#### (d) Consolidation

QHS DBFM Holdco Limited and QHS DBFMCo Limited are included within the Group accounts prepared by the immediate Parent Company, QHS DBFM Holdco Limited.

#### (e) 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.

#### (f) Interest

Interest and other costs of funding are charged to the Income Statement.

Interest receivable on the financial asset is credited to the Income Statement during the construction and operational phase of the project.

#### (g) Current and deferred taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. Deferred taxation has been recognised as a liability or asset if transactions have incurred at the Balance Sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. A deferred tax asset has been recognised in respect of the fair value of the cash flow hedges which have been recognised through the Statement of Total Comprehensive Income. Deferred tax assets and liabilities recognised have not been discounted.

## Notes to the Financial Statements

### 1 Principal accounting policies (continued)

#### (h) Financial asset

Construction and related costs of building the school excluding interest costs and other costs of funding, are being treated as a financial asset (contract debtor) under the terms of FRS 102. The financial asset will be repaid over the life of the contract as service income is received from City of Edinburgh Council.

Upon becoming operational, the income derived from the DBFM contract is allocated between the provision of the asset and the provision of the subsequent services. Upon acceptance of the constructed asset by The City of Edinburgh Council, the financial asset is amortised over the life of the contract against the relevant portion of the contracted income. The proportion of the financial asset to be amortised against contracted income receivable within one year is classified as a current asset and the remainder non-current.

#### (i) 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.

#### (j) 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.

#### (k) Creditors

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

#### (l) Financial liabilities

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. Finance costs and gains or losses relating to financial liabilities are charged to the Income Statement. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

#### (m) Financial Instruments

The Company, except for the derivative financial instruments noted below, only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the 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 payables or receivables, 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 financed at a rate of interest that is not the market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at

# Notes to the Financial Statements

## 1 Principal accounting policies (continued)

the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

### (n) Derivative financial instrument

The Company uses derivative financial instruments to manage exposures to interest rate risks. Interest rate swaps have been taken alongside the senior debt loans to provide a fixed interest rate over the life of the debt. These are measured at fair value on a mid-market basis and recognised in the Balance Sheet. The mark-to-market-value is the result of the valuation of the current interest coupons on market rates as well as the interest accrued as of the valuation date. All values are discounted from the payment date to the valuation date.

### (o) Hedging

Where transactions meet the specified criteria, hedge accounting is used for the related financial instrument. At the time an instrument is designated as a hedge, the Company formally documents the relationship between the hedging instrument and the hedged item. Documentation ensures that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument. Accordingly, the Company formally assessed, both at inception of the hedge and on an ongoing basis whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair values or cash flows of the hedged item.

For a hedge of variable interest rate risk of a recognised financial instrument the portion of the change in fair value of the hedging instrument that was effective is recognised in other comprehensive income within the Statement of Total Comprehensive Income. Any excess cumulative change in fair value is recognised in the Income Statement. The hedging gain or loss recognised in other comprehensive income is reclassified to the Income Statement when the hedged item is recognised in the Income Statement or when the hedging relationship ends. The treatment is discontinued if the hedging instrument expires or is sold or terminated, the entity revokes the designation or the hedge no longer meets the criteria for hedge accounting.

## 2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, the directors have made a judgement as to the value of profit relating to the construction stage of the project, the profit margin in respect of the operational revenue recognised during the operational phase and to the value of interest receivable on the financial asset recognised in the accounting for the service concession arrangement. Factors taken into account in reaching such decisions include the overall expected profit of the contract, the stage of completion of the contract and the relative budgeted revenue and costs associated with each contract component at the outset of the project.

The Company has interest rate swaps. The fair value is estimated by calculating the present value of the cash flows of each leg of the swap. The expected cash flows of the fixed leg, based on the fixed interest rate, are discounted by an appropriate discount factor. The expected cashflows for the floating rate based on the interest yield curves are also discounted. The present value of the interest rate swap is the difference between the values of the two streams of cash flows.

The financial asset is a long term asset. The amount allocated to current assets is the expected net movement in the following year.

## Notes to the Financial Statements

### 3a Turnover

All turnover arose within the United Kingdom and is attributable to the principal activity as disclosed within the Strategic report. Turnover is analysed as follows:

	2020 £	2019 £
<b>Turnover:</b>		
Construction revenue	6,078,719	24,862,367
Service revenue	150,890	7,906
Pass through income/other	356,546	-
	<u>6,586,155</u>	<u>24,870,273</u>

### 3b Operating profit

None of the directors received any remuneration as directors from the Company during the year (2019: £nil). The Company has no directly employed personnel (2019: none). The profit on ordinary activities is stated after charging auditor's remuneration of £5,460 (2019: £5,250) in respect of the audit of the Company and its immediate parent, QHS DBFM Holdco Limited. The auditor also received remuneration in respect of tax services and iXBRL tagging of £1,630 (2019: £1,600).

### 4 Interest payable and receivable

	2020 £	2019 £
<b>Interest payable</b>		
Bank loan interest payable and charges	(897,628)	(561,946)
Interest on loans from parent undertaking	(63,708)	(61,356)
Finance costs – recycled cashflow hedge	(457,880)	(175,243)
Letter of credit fees	(46,676)	(46,676)
	<u>(1,465,892)</u>	<u>(845,221)</u>
<b>Interest receivable</b>		
Interest receivable on financial asset	1,653,752	899,457
Bank interest receivable	1,743	5,823
	<u>1,655,495</u>	<u>905,280</u>

## Notes to the Financial Statements

### 5 Taxation

The current tax charge is the same as the (2019: the same as) amount calculated by applying the standard rate of UK corporation tax.

	2020 £	2019 £
Profit on ordinary activities before tax	<u>259,659</u>	<u>306,738</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%)	<u>49,335</u>	<u>58,280</u>
Taxation charge to profit	<u>49,335</u>	<u>58,280</u>

	2020 £	2019 £
<b>Reconciliation of corporation tax liability</b>		
Opening balance	22,344	7,362
Payment on account in the year	(49,342)	(43,298)
Tax charge for the year	<u>49,335</u>	<u>58,280</u>
Closing balance	<u>22,337</u>	<u>22,344</u>

#### Deferred tax asset

Fair value of cash flow hedge liability at the year end	<u>(6,701,888)</u>	<u>(6,148,241)</u>
Deferred tax asset at year end at 19% (2019: 17%)	<u>1,273,359</u>	<u>1,045,201</u>
Deferred tax movement in year	<u>228,158</u>	<u>923,825</u>

The deferred tax movements in the year have been recognised through the Statement of Total Comprehensive Income.

#### Future factors effecting tax

The Chancellor announced in the Budget on 3 March 2021, that there would be an increase in the top rate of corporation tax to 25% for companies generating taxable profits of more than £250,000. A corporation tax rate of 19% will apply to companies generating taxable profits of less than £50,000. A marginal rate will be applied for profits between these taxable profit bandings. This change becomes effective from 1 April 2023.

## Notes to the Financial Statements

### 6 Financial asset

	2020 £	2019 £
<b>Cost</b>		
As at 1 October 2019	32,050,040	6,288,216
Additions during the year:		
Net interest receivable	1,653,752	899,457
Construction and related costs	6,078,719	24,862,367
<b>At 30 September 2020</b>	<b>39,782,511</b>	<b>32,050,040</b>
<b>Repayment</b>		
As at 1 October 2019	15,396	7,490
Annual Service Payment income	(1,580,057)	-
Operational revenue recognised	150,890	7,906
<b>At 30 September 2020</b>	<b>(1,413,771)</b>	<b>15,396</b>
<b>Closing balance at 30 September 2020</b>	<b>38,368,740</b>	<b>32,065,436</b>
Financial asset – due for amortisation within one year	1,077,000	605,578
Financial asset – due for amortisation after one year	37,291,740	31,459,858
	<b>38,368,740</b>	<b>32,065,436</b>

Variable economic and market conditions are mitigated by the hedging of income and costs through the payment mechanism agreement. Any performance deductions which may be incurred against future unitary payments are passed on to the service provider leaving no net effect in the company.

### 7 Debtors

	2020 £	2019 £
<b>Amounts falling due within one year</b>		
Trade Debtors	336,072	-
VAT recoverable	-	400,852
	<b>336,072</b>	<b>400,852</b>

### 8 Cash at bank and in hand

	2020 £	2019 £
Cash and cash equivalents	<b>1,161,973</b>	<b>3,443,056</b>



## Notes to the Financial Statements

### 9 Creditors - amounts falling due within one year

	2020 £	2019 £
<b>Amounts falling due within one year</b>		
Loans	2,213,284	-
Amounts owed to immediate parent company	3,886	-
Trade creditors	28,209	35,718
Amounts owed to related parties	354,678	2,388,427
Accruals	49,819	36,578
VAT Liability	13,681	-
Corporation tax creditor	22,337	22,344
Current derivative financial liabilities (note 16)	678,710	457,880
	<b>3,364,604</b>	<b>2,940,947</b>

### 10 Creditors - amounts falling due after more than one year

	2020 £	2019 £
<b>Amounts falling after more than one year</b>		
Bank loans	34,840,844	31,356,377
Amounts owed to immediate parent company – subordinated debt	1,849,778	1,789,955
Non-current derivative financial liabilities (note 16)	6,023,178	5,690,361
	<b>42,713,800</b>	<b>38,836,693</b>

The term loan facility is provided by Nord/LB. The full facility is £36,621,515 which will be drawn over the construction period of the school. The term loan is repayable in instalments commencing on 31 March 2021 and ending on 30 September 2044. The equity bridge loan of £1,867,047 was drawn at the start of construction and is repayable on 8 March 2021, funded by a further drawdown of subordinated debt.

Interest is charged on the term loan and equity bridge loan at LIBOR plus a margin. There are interest rate swaps in place to give a fixed rate of interest. The loans are disclosed net of unamortised issue costs of £654,949 (2019: £733,100).

The term loan is secured by way of a fixed and floating charges over the assets of the company and security over the Company's interest in the lease to The City of Edinburgh Council in favour of Nord/LB (as security trustee).

The Company has received £1,710,686 (2019: £1,710,686) in the form of fixed rate subordinated loan notes from QHS DBFM Holdco Limited. The loan is stated at amortised cost, using the effective interest rate method. Interest is payable at a rate of 3.49% during construction. This will convert at practical completion (8 March 2021). At this point the loans and rolled up interest will convert into fixed rate subordinated loan notes with an interest rate of 10.3%. The loan notes are unsecured, fully subordinated to the term loan and are repayable in instalments commencing on 31 March 2021 and ending on 31 March 2045. Loan interest of £63,708 (2019: £61,356) was charged in the year and rolled up into the loan balance. The balance outstanding at the end of the year was £1,853,664 (2019: £1,789,955).

## Notes to the Financial Statements

### 10 Creditors - amounts falling due after more than one year (continued)

The term loan and subordinated loan notes are repayable as follows:

	2020	2019
	£	£
Less than one year	2,335,873	-
Between one and two years	1,332,495	2,335,873
Between two and five years	4,243,796	4,115,969
After 5 years	31,650,577	27,427,590
	<u>39,562,741</u>	<u>33,879,432</u>
Capital instrument charges < 1 year	(118,703)	-
Capital instrument charges > 1 year	(536,246)	(733,100)
	<u>38,907,792</u>	<u>33,146,332</u>

The derivative financial liabilities are repayable as follows:

	2020	2019
	£	£
Less than one year	678,710	457,880
Between one and two years	648,255	510,277
Between two and five years	1,606,947	1,363,327
After 5 years	3,767,976	3,816,757
	<u>6,701,888</u>	<u>6,148,241</u>

The hedging gain or loss (i.e. the movement in the fair value of the interest rate swap) that has previously been recognised in Other Comprehensive Income relating to the current year is recycled (i.e. reclassified) to profit or loss in the current year from Other Comprehensive Income as this part of the interest rate swap has been exercised in the year.

### 11 Called up share capital

	2020	2019
	£	£
<b>Allotted, issued and fully paid</b>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

All issued shares rank pari passu with each other, with one vote for each share and an equal right to dividends.

### 12 Reserves

#### Profit and Loss Account

The profit and loss account includes all current and prior year retained profit and losses.

#### Cash Flow Hedge Reserve

The movements in the fair value of the cash flow hedge less the corresponding deferred tax movements are included in this reserve.

## Notes to the Financial Statements

### 13 Related party transactions

The Company's related parties, and the extent of transactions with them during the year ended 30 September 2020 are set out below.

	<b>Purchases from related parties 2020 £</b>	<b>Amounts owed to related parties 2020 £</b>	<b>Purchases from related parties 2019 £</b>	<b>Amounts owed to related parties 2019 £</b>
Galliford Try Investments Limited	46,676	23,338	46,676	28,006
Galliford Try Construction Limited t/a Morrison Construction	5,949,374	291,212	24,303,044	2,347,098
Galliford Try Investments Consultancy Services Limited	134,735	13,324	133,239	13,324
Galliford Try Construction Limited t/a Galliford Try Facilities Management	173,839	26,804	-	-
<b>Total</b>	<b>6,304,624</b>	<b>354,678</b>	<b>24,482,959</b>	<b>2,388,428</b>

	<b>Annual Service Payments 2020 £</b>	<b>Pass through and other income 2020 £</b>	<b>Annual Service Payments 2019 £</b>	<b>Pass through and other income 2019 £</b>
The City of Edinburgh Council	1,580,057	356,546	-	-

Included within debtors is £336,072 (2019: £nil) due from The City of Edinburgh Council.

Galliford Try Investments Limited is a wholly owned subsidiary of Galliford Try Holdings Plc, and owns a stake in the joint venture, SPACE Scotland Limited. SPACE Scotland Limited owns 60% of QHS DBFM Holdco Limited.

Galliford Try Construction Limited (previously known as Galliford Try Building Limited) is a wholly owned subsidiary of Galliford Try Holdings Plc and has entered into a building sub-contract with the Company t/a Morrison Construction.

Galliford Try Investments Consultancy Services Limited is owned 100% by Galliford Try Investments Limited and provides operational and financial concession management services to the Company.

Galliford Try Facilities Management is a trading name of Galliford Try Construction Limited, which is owned by Galliford Try Plc.

During the year until 30 September 2020 the Company incurred an interest charge of £63,708 (2019: £61,356) in respect of subordinated loans totalling £1,710,686 (2019: £1,710,686) received from its immediate parent QHS DBFM Holdco Limited. This is anticipated by the loan note instrument and the cumulative interest charge of £142,977 (2019: £79,269) has been rolled up into the loan balance while the asset is in construction, resulting in a total balance of £1,853,664 (2019: £1,789,955).

## Notes to the Financial Statements

### 14 Immediate and ultimate parent undertaking

The Company is a wholly owned subsidiary of QHS DBFM Holdco Limited which is incorporated in Great Britain and registered in Scotland. Copies of QHS DBFMCo Limited's financial statements can be obtained from PO Box 17452, 2 Lochside View, Edinburgh, EH12 1LB.

QHS DBFM Holdco Limited is a joint venture in which SPACE Scotland Limited holds 60% of the share capital. The Directors consider there to be no ultimate controlling party.

### 15 Committed expenditure

As at 30 September 20, the Company has committed to expenditure of £3,450,554 (2019: £9,097,587) in respect of the Queensferry High School.

### 16 Financial assets and liabilities measured at fair value through other comprehensive income

	2020 £	2019 £
Current derivative financial liabilities (note 9)	678,710	457,880
Non-current derivative financial liabilities (note 10)	6,023,178	5,690,361
<b>Total financial liabilities measured at fair value through other comprehensive income</b>	<b>6,701,888</b>	<b>6,148,241</b>

The movement in the fair value of the financial liability was (£1,011,527) (2019: (£5,609,511)) and was recognised within other comprehensive income. £457,880 (2019: £175,243) of the fair value at the prior year end was recycled to the profit in the year.

The full value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months from the reporting date, and as a current asset or liability if the maturity of the hedged item is less than twelve months from the reporting date.

#### Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 30 September 2020 was £1,867,047 (2019: £1,867,047) and £36,621,515 (2019: £30,222,429).

At 30 September 2020, the fixed interest rates vary from 1.152% to 1.893% and the main floating rates are LIBOR. Gains and losses recognised in the hedging reserve within equity on interest rate swap contracts as of 30 September 2020 will be continuously released to the Income Statement until the related bank borrowings are repaid.

### 17 Deferred Tax

	2020 £	2019 £
Deferred tax asset (note 5)	1,273,359	1,045,201

The deferred tax asset is in respect of the fair value of the cash flow hedge liability. £128,955 (2019: £77,839) is included as due in less than one year with £1,144,404 (2019: £967,362) included as due within more than one year, in line with the ageing of the fair value of the hedging derivative.