COMPANY REGISTRATION NUMBER: SC206930

The Edinburgh Schools Partnership Limited

Annual Report and Financial Statements

31 March 2017

The Edinburgh Schools Partnership Limited

Annual Report and Financial Statements

Year Ended 31 March 2017

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The Edinburgh Schools Partnership Limited

Officers and Professional Advisers

The Board of Directors	C J Anderson (Appointed 1 April 2017) S C McInnes (Resigned 31 October 2016) J I Cavill N Woodburn (Appointed 31 October 2016) D F Gilmour A C Ritchie M T Smith C T Solley K A McLellan (Resigned 1 April 2017)
Company Secretary	Infrastructure Managers Limited
Registered Office	2nd Floor 11 Thistle Street Edinburgh EH2 1DF
Auditors	PricewaterhouseCoopers LLP Chartered Accountants Level 4 Atria One 144 Morrison Street Edinburgh EH3 8EX
Bankers	Lloyds Bank Corporate Markets New Uberior House Edinburgh EH3 9BN

The Edinburgh Schools Partnership Limited

Strategic Report

Year Ended 31 March 2017

The directors present their strategic report on the Company for the year ended 31 March 2017.

Principal objectives and strategies

The Company's major activity is to design, construct, refurbish and provide lifecycle management, facilities management, cleaning and catering to schools within the Edinburgh area over a 30 year period. Included within the project are 10 primary, 5 secondary, 3 special needs schools and 1 community centre.

Review of business

As the Company is in the full operational phase it faces operational risks and actively monitors financial performance against loan covenants. On 29 January 2016, an external wall at Oxgangs Primary School collapsed. Subsequent investigations took place on that particular wall and 3 other schools and it was noted that all schools had varying degrees of building defects. As a result, 2 schools were closed during the previous financial year to allow rectification works to be performed, with the Company incurring unavailability penalties whilst the schools were closed. Structural reviews were performed over the remainder of the project schools between March and April 2016. The reports again showed varying degrees of structural issues at each school, resulting in further closures for the rectification works to be completed. Each school was assessed in isolation with rectification works completed and reviewed by structural engineers for both the Company and City of Edinburgh Council. Once all parties were satisfied with the work completed, the schools were signed off as ready for re-occupation. All schools were re-opened on or before 17 August 2016.

In the financial statements for the year ended 31 March 2016 approved on 23 December 2016, a provision was made for £2.8m to cover rectification costs and availability penalties. This provision was fully utilised in the current year.

Additional costs of £1.4m were incurred in the year to 31 March 2017.

The Company also suffered availability penalties throughout the period from January 2016 to June 2016, some of these were covered by the provision in the prior year whilst the remainder were incurred in the current financial year.

The loss for the year, after taxation, amounted to £2,629,452 (2016: profit of £588,893).

The loss for the year will be transferred to reserves.

Going concern

As noted in the business review above, an external wall collapsed at Oxgangs Primary School which was determined to be a building defect, this event triggered a review over the rest of the schools in the project with results showing varying structural issues in all schools. The rectification works were all completed and the schools were opened and available for use by 17 August 2016. On 26 October 2016 the Company was in technical default on its senior debt, however this was waived on 14 December 2016 when the Company's shareholders issued the Company with an additional shareholder loan for £5.5m. This additional loan was provided in order to cover the immediate costs of the Company and to provide it with sufficient cash to continue to meet all of its liabilities for the foreseeable future. Further to this, the directors have reviewed forecasts of future cash flows, this forecast has been sensitised for many scenarios. No further breaches in covenants have occurred or are forecast. Based on the review performed by the directors they believe that there is a reasonable expectation that the Company has sufficient resources to continue as a going concern for the foreseeable future, therefore the accounts have been prepared on a going concern basis.

Key performance indicators

The directors intend for the business to continue to operate in line with the financial forecast model, contractual terms and do not expect any strategic changes.

The Edinburgh Schools Partnership Limited

Strategic Report *(continued)*

Year Ended 31 March 2017

Principal risks and uncertainties

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. Due to the issues noted above the Company was placed in default by the Senior Lender in October 2016, however this was waived in December 2016. The directors will continue to monitor the covenants closely and provide the support needed to ensure the Company stays compliant with the covenants set out in the Common Terms Agreement.

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

Interest rate risk

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

Cash Flow and Liquidity risk

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

This report was approved by the board of directors on 2 August 2017 and signed on behalf of the board by:

D F Gilmour
Director

The Edinburgh Schools Partnership Limited

Directors' Report

Year Ended 31 March 2017

The directors present their report and the financial statements of the Company for the year ended 31 March 2017.

Directors

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

J I Cavill	
D F Gilmour	
A C Ritchie	
M T Smith	
C T Solley	
N Woodburn	(Appointed 31 October 2016)
C J Anderson	(Appointed 1 April 2017)
S C McInnes	(Resigned 31 October 2016)
K A McLellan	(Resigned 1 April 2017)

Dividends

Particulars of dividends paid are detailed in note 10 to the financial statements.

Future developments

The directors intend for the Company to continue to operate in line with the financial forecast model, contractual terms and do not expect any strategic changes.

Disclosure of information to auditors

In so far as the directors are aware:

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

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

This report was approved by the board of directors on 2 August 2017 and signed by order of the board by:

Infrastructure Managers Limited
Company Secretary

The Edinburgh Schools Partnership Limited

Directors' Responsibilities Statement

Year Ended 31 March 2017

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

The Directors' Responsibilities were approved by the board on 2 August 2017 and signed on its behalf by:

D F Gilmour

Director

Independent Auditors' Report to the Members of The Edinburgh Schools Partnership Limited

Year Ended 31 March 2017

Report on the financial statements

Our opinion

In our opinion, The Edinburgh Schools Partnership Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Statement of Financial Position as at 31 March 2017;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of cash flows; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)

For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh

2 August 2017

The Edinburgh Schools Partnership Limited

Statement of Comprehensive Income

Year Ended 31 March 2017

	Note	2017 £	2016 £
Turnover	4	**6,291,958**	11,288,217
Cost of sales		**(8,683,236)**	(12,012,960)
Gross loss		**(2,391,278)**	(724,743)
Administrative expenses		**(1,960,397)**	(617,718)
Operating loss		**(4,351,675)**	(1,342,461)
Other interest receivable and similar income	7	**4,899,917**	5,175,338
Interest payable and similar expenses	8	**(3,893,211)**	(3,678,746)
(Loss)/profit before taxation		**(3,344,969)**	154,131
Tax on (loss)/profit	9	**715,517**	434,762
(Loss)/profit for the financial year		**(2,629,452)**	588,893
Fair value movements on cash flow hedging instruments, net of tax		**261,419**	(98,319)
Total comprehensive (expense)/income for the year		**(2,368,033)**	490,574

All the activities of the Company are from continuing operations.

The Edinburgh Schools Partnership Limited

Statement of Financial Position

As at 31 March 2017

	Note	2017 £	2016 £
Current assets			
Debtors: due within one year	11	**5,054,332**	2,416,065
Debtors: due after more than one year	11	**65,954,303**	70,137,629
Cash at bank and in hand		**8,095,169**	12,360,990
		79,103,804	84,914,684
Creditors: amounts falling due within one year	12	**(7,019,289)**	(6,067,965)
Net current assets		**72,084,515**	78,846,719
Total assets less current liabilities		**72,084,515**	78,846,719
Creditors: amounts falling due after more than one year	13	**(66,117,725)**	(63,737,458)
Provisions			
Taxation including deferred tax	15	**(5,730,607)**	(6,336,902)
Other provisions	15	**(1,307,918)**	(7,476,061)
		(7,038,525)	(13,812,963)
Net (liabilities)/assets		**(1,071,735)**	1,296,298
Capital and reserves			
Called up share capital	17	**83,395**	83,395
Hedging reserve	18	**(8,304,352)**	(8,565,771)
Retained earnings	18	**7,149,222**	9,778,674
Shareholders' (deficit)/funds		**(1,071,735)**	1,296,298

These financial statements were approved by the board of directors and authorised for issue on 2 August 2017, and are signed on behalf of the board by:

David Gilmour

D F Gilmour
Director

Company registration number: SC206930

The notes on pages 13 to 24 form part of these financial statements.

The Edinburgh Schools Partnership Limited

Statement of Changes in Equity

Year Ended 31 March 2017

		Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 April 2015		83,395	(8,467,452)	9,306,781	922,724
Profit for the year				588,893	588,893
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		–	(98,319)	–	(98,319)
Total comprehensive (expense)/income for the year		–	(98,319)	588,893	490,574
Dividends paid and payable	**10**	–	–	(117,000)	(117,000)
Total investments by and distributions to owners		–	–	(117,000)	(117,000)
At 31 March 2016		83,395	(8,565,771)	9,778,674	**1,296,298**
Loss for the year				(2,629,452)	**(2,629,452)**
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		–	261,419	–	**261,419**
Total comprehensive (expense)/income for the year		–	261,419	(2,629,452)	**(2,368,033)**
At 31 March 2017		83,395	(8,304,352)	7,149,222	**(1,071,735)**

Included in the fair value movement on cash flow hedging instruments is £1,691,072 (2016: £1,788,622) that was recycled through Interest Payable in the statement of comprehensive income.

The notes on pages 13 to 24 form part of these financial statements.

The Edinburgh Schools Partnership Limited

Statement of Cash Flows

Year Ended 31 March 2017

	Note	2017 £	2016 £
Cash generated from operations	19	**(7,675,687)**	3,543,555
Interest paid		**(3,198,953)**	(3,598,869)
Interest received		**4,899,917**	5,088,345
Tax paid		**(331,094)**	(591,514)
Net cash (used in)/from operating activities		**(6,305,817)**	4,441,517
Cash flows from financing activities			
Repayments of borrowings		**(3,460,004)**	(3,840,761)
Proceeds from loans from group undertakings		**5,500,000**	–
Repayments of loans from group undertakings		**–**	(261,425)
Dividends paid		**–**	(117,000)
Net cash from/(used in) financing activities		**2,039,996**	(4,219,186)
Net (decrease)/increase in cash and cash equivalents		**(4,265,821)**	222,331
Cash and cash equivalents at beginning of year		**12,360,990**	12,138,659
Cash and cash equivalents at end of year		**8,095,169**	12,360,990

The notes on pages 13 to 24 form part of these financial statements.

1. Statement of compliance

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

2. General information

The Edinburgh Schools Partnership Limited ('the Company') is incorporated and domiciled in the UK. The address of its registered office is 2nd Floor, 11 Thistle Street, Edinburgh, EH2 1DF.

The Company was formed to design, construct, refurbish and provide lifecycle maintenance, facilities management, cleaning and catering to schools within the Edinburgh area over a 30 year period.

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

3. Accounting policies

(a) Basis of preparation

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

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

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

(b) Going concern

As noted in the business review above, an external wall collapsed at Oxgangs Primary School which was determined to be a building defect, this event triggered a review over the rest of the schools in the project with results showing varying structural issues in all schools. The rectification works were all completed and the schools were opened and available for use by 17 August 2016. On 26 October 2016 the Company was in technical default on its senior debt, however this was waived on 14 December 2016 when the Company's shareholders issued the Company with an additional shareholder loan for £5.5m. This additional loan was provided in order to cover the immediate costs of the Company and to provide it with sufficient cash to continue to meet all of its liabilities for the foreseeable future. Further to this, the directors have reviewed forecasts of future cash flows, this forecast has been sensitised for many scenarios. No further breaches in covenants have occurred or are forecast. Based on the review performed by the directors they believe that there is a reasonable expectation that the Company has sufficient resources to continue as a going concern for the foreseeable future, therefore the accounts have been prepared on a going concern basis.

3. Accounting policies *(continued)*

(c) Judgements and key sources of estimation uncertainty

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

Significant judgements

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

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

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

ii) Income taxation

Current taxation
The taxation charge or credit arising on profit before taxation and in respect of gains or losses recognised through other comprehensive income reflect the tax rates in effect or substantially enacted at the balance sheet date as appropriate. The determination of appropriate provisions for taxation requires the Directors to take into account anticipated decisions of HM Revenue and Customs which inevitably requires the Directors to use judgements as to the appropriate estimate of taxation provisions.

Deferred taxation
Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Judgements are required to be made as to the calculation and identification of timing differences and in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgement requires the Directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

Key sources of estimation uncertainty

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

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider

3. Accounting policies *(continued)*

the fair value and/or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Accounting for service concession arrangements

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

(d) Revenue recognition

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

(e) Income tax

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

Current or deferred taxation assets and liabilities are not discounted.

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

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

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

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

3. Accounting policies *(continued)*

(f) Provisions

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

(g) Financial instruments

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

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

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

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

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

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

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

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

3. Accounting policies *(continued)*

(h) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps").

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

(i) Cash and cash equivalents

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

(j) Finance debtor

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

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

(k) Borrowings

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

4. Turnover

Turnover arises from:

	2017	2016
	£	£
Rendering of services	**6,291,958**	11,288,217

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

5. Auditors' remuneration

	2017	2016
	£	£
Fees payable for the audit of the financial statements	**10,197**	10,580

Fees payable to the company's auditor and its associates for other services:		
Taxation advisory services	**5,230**	5,000

Included in the fee above is £2,060 (2016: £2,180) for the audit of the immediate parent entity ESP (Holdings) Limited.

6. Particulars of employees and directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2016: nil). The directors did not receive any remuneration from the Company during the year (2016: £nil).

7. Other interest receivable and similar income

	2017	2016
	£	£
Interest on cash and cash equivalents	**37,051**	77,354
Finance debtor interest	**4,862,866**	5,005,619
Gain on financial instruments	**–**	86,993
Other interest receivable and similar income	**–**	5,372
	4,899,917	5,175,338

8. Interest payable and similar expenses

	2017	2016
	£	£
Interest on bank loans and overdrafts	**3,198,953**	3,419,524
Interest due to Group undertakings	**388,667**	179,345
Loss on financial instruments	**224,509**	–
Other interest payable and similar charges	**81,082**	79,877
	3,893,211	3,678,746

9. Tax on (loss)/profit

Major components of tax income

	2017	2016
	£	£
Current tax:		
UK current tax expense	**–**	187,800
Adjustments in respect of prior periods	**(1,230)**	(6,040)
Total current tax	**(1,230)**	181,760

9. Tax on (loss)/profit *(continued)*

	2017	2016
	£	£
Deferred tax:		
Origination and reversal of timing differences	**(520,901)**	(9,421)
Impact of change in tax rate	**(193,386)**	(607,101)
Total deferred tax	**(714,287)**	(616,522)
Tax on (loss)/profit	**(715,517)**	(434,762)

Reconciliation of tax income

The tax assessed on the loss for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK of 20% (2016: 20%).

	2017	2016
	£	£
(Loss)/profit before taxation	**(3,344,969)**	154,131
(Loss)/profit by rate of tax	**(668,994)**	30,826
Adjustment to tax charge in respect of prior periods	**(1,230)**	(6,040)
Effect of expenses not deductible for tax purposes	**148,093**	147,553
Effect of change in tax rates	**(193,386)**	(607,101)
Tax on (loss)/profit	**(715,517)**	(434,762)

Factors that may affect future tax income

During the year, as a result of the change to the future UK main corporation tax rate from 18% to 17% that was substantively enacted on 6 September 2016 and that will be effective from 1 April 2020, the relevant deferred tax balances have been re-measured. This change has reduced the deferred tax liability at the Statement of Financial Position date by £168,236.

10. Dividends

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

	2017	2016
	£	£
Interim dividend of £nil (2016: £1.40) per ordinary share	**–**	117,000

11. Debtors

Debtors falling due within one year are as follows:

	2017	2016
	£	£
Trade debtors	**1,364,265**	60,953
Prepayments and accrued income	**414,499**	543,337
Corporation tax repayable	**403,255**	70,929
Finance debtor	**2,815,314**	1,740,846
Other debtors	**56,999**	–
	5,054,332	2,416,065

11. Debtors *(continued)*

Debtors falling due after one year are as follows:

	2017	2016
	£	£
Deferred tax asset	**2,870,602**	2,907,661
Finance debtor	**63,083,701**	67,229,968
	65,954,303	70,137,629

The movement in the finance debtor is analysed as follows:

	2017	2016
	£	£
At beginning of year	**68,970,814**	71,449,235
Repayments	**(3,071,799)**	(2,478,421)
At end of year	**65,899,015**	68,970,814

12. Creditors: amounts falling due within one year

	2017	2016
	£	£
Bank loans and overdrafts	**2,959,785**	3,400,933
Trade creditors	**2,771,308**	1,688,786
Amounts owed to Group undertakings	**467,242**	78,575
Accruals and deferred income	**445,902**	380,173
Social security and other taxes	**375,052**	511,968
Other creditors	**–**	7,530
	7,019,289	6,067,965

Amounts owed to Group undertakings relate to £467,242 (2016: £78,575) for accrued interest on the subordinated loan notes, the accrued interest is unsecured, repayable on demand and incurs interest at 13.07% if it remains unpaid at each repayment date (31 March and 30 September).

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

	2017	2016
	£	£
Bank loans and overdrafts	**48,185,612**	51,123,386
Amounts owed to Group undertakings	**6,702,366**	1,202,366
Derivative financial liability	**11,229,747**	11,411,706
	66,117,725	63,737,458

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

a) The bank loan is secured by a bond and floating charge over all the assets, rights and undertakings of the Company. The loan is repayable under an instalment scheme whereby small repayments are made in the first few years of the loan. The full amount of loan drawdown at 31 March 2017 is £51,639,346 (2016: £55,093,698). Issue costs of £507,045 (2016: £569,078) have been set off against the total loan drawdowns.

b) Amounts owed to Group undertakings - In November 2001 the Company issued £9,742,310 subordinated loan notes to its immediate parent company, ESP (Holdings) Limited, with a further £1,035,373 issued in April 2004 and £5,500,000 issued in December 2016. The loan notes bear interest of 13.07% per annum and payment of capital falls due in the year 2033. The Coupon on the principal amount accrues daily and is payable in cash on 30 September and 31 March each year. The investment sum was advanced under a subordinated loan agreement and is therefore unsecured, and would rank alongside ordinary creditors in the event of a winding up.

14. Deferred tax

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

	2017	2016
	£	£
Included in debtors (note 11)	**2,870,602**	2,907,661
Included in provisions (note 15)	**(5,730,607)**	(6,336,902)
	(2,860,005)	(3,429,241)

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

	2017	2016
	£	£
Accelerated capital allowances	**(5,730,607)**	(6,336,902)
Unused tax losses	**933,519**	820,169
Other short term timing differences	**28,026**	33,385
Derivative Financial Instruments	**1,909,057**	2,054,107
	(2,860,005)	(3,429,241)

The net deferred tax liability expected to increase in 2018 is £466,121. This primarily relates to the increased level of tax losses created, slightly offset by the timing differences on capital allowances and short term timing differences.

	2017
	£
Opening balance	(3,429,241)
Movement through the profit or loss	714,287
Movement through other comprehensive income	(145,051)
Closing balance	**(2,860,005)**

15. Provisions

	Lifecycle	Deferred tax (note 14)	Remediation Costs	**Total**
	£	£	£	**£**
At 1 April 2016	4,642,251	6,336,902	2,833,810	**13,812,963**
Additions	–	–	1,395,187	**1,395,187**
Charge against provision	(3,334,333)	(606,295)	(4,228,997)	**(8,169,625)**
At 31 March 2017	1,307,918	5,730,607	–	**7,038,525**

Lifecycle Provision
The lifecycle provision relates to maintaining the schools to their contractual specification. This work is subcontracted out over a 30 year period and represents the maximum amount that can be claimed at the balance sheet date for all maintenance work to date.

Remediation Cost Provision
On 29 January 2016, an external wall collapsed at Oxgangs Primary School which was determined to be a building defect, further investigations were made over the remainder of the schools in the portfolio. The results of these investigations showed varying structural issues across each school that required remediation. As the first event occurred during the 2016 financial year, the Company provided for £2.8m for the remediation works for all schools and deductions withheld for the period to March 2016. Additional costs of £1.4m were incurred in the year to March 2017. The provision was fully utilised by March 2017.

16. Financial instruments

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

	2017	2016
	£	£
Financial assets		
Financial assets that are debt instruments measured at amortised cost	**65,899,015**	68,970,814
Financial liabilities		
Derivative financial liabilities measured at fair value through profit or loss	**(11,229,747)**	(11,411,706)
Financial liabilities measured at amortised cost	**(58,341,712)**	(56,296,064)

The fair values of the interest rate swap have been calculated by discounting the fixed cash flows at forecasted forward interest rates over the term of the financial instrument, the discount rate applied equals the spot rate for each valuation date. The bank borrowing and finance debtor are both held at amortised cost.

16. Financial instruments *(continued)*

Hedge accounting

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

Interest rate swaps

The Company has entered into two interest rate swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The two interest rate swaps were entered into on 15 November 2001 and 6 April 2004 and both expire on 31 March 2031.

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

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 March 2017 amounted to net liabilities of £11,229,747 (2016: £11,411,706). The effective portion of the movements in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £178,181 (2016: debit of £129,915). The ineffective portion of the movements in the fair value have been recorded in the profit and loss amounting to a debit of £224,509 (2016: credit of £86,993).

17. Called up share capital

Issued, called up and fully paid

	2017		2016	
	No	**£**	No	£
Ordinary shares of £1 each	**83,395**	**83,395**	83,395	83,395

18. Reserves

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

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

19. Cash generated from operations

	2017 £	2016 £
(Loss)/profit for the financial year	**(2,629,452)**	588,893
Adjustments for:		
Other interest receivable and similar income	**(4,899,917)**	(5,175,338)
Interest payable and similar expenses	**3,893,211**	3,678,746
Tax on (loss)/profit	**(715,517)**	(434,762)
Changes in:		
Trade and other debtors	**1,897,325**	2,614,798
Trade and other creditors	**946,806**	734,260
Provisions	**(6,168,143)**	1,536,958
	(7,675,687)	3,543,555

20. Related party transactions

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

21. Controlling party

The immediate and ultimate parent undertaking is ESP (Holdings) Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The accounts of ESP (Holdings) Limited registered at 2nd Floor, 11 Thistle Street, Edinburgh, EH2 1DF can be obtained from the Registrar of Companies.