Kenton School Services Limited

Annual report and financial statements

for the year ended 31 March 2011

Registration number 03808875

Kenton School Services Limited

Annual report and financial statements for the year ended 31 March 2011

Kenton School Services Limited

Directors and advisors

Directors

A E Birch
R J W Manley

Company secretary

Semperian Secretariat Services Limited

Registered office

St Martins House
1 Gresham Street
London
EC2V 7BX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Kenton School Services Limited

Directors' report for the year ended 31 March 2011

Registration number: 03808875

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

Results, principal activities and review of business

The company entered into a contract under the Private Finance Initiative ('PFI') in January 2001 with the governing body of JFS School and the London Borough of Brent to design, build and finance and to provide related facilities management services for the 25 years concession term The construction phase was completed during August 2002 The service phase of the contract is now in progress and is expected to generate income in accordance with contractual arrangements

The profit for the year is £264,000 (year ended 31 March 2010 profit of £68,000) The directors consider the performance of the company during the year, the financial position at the end of the year, and its prospects for the future, to be satisfactory

In line with the current contractual circumstances of the company, a financial model covering the periods up to September 2027 has been produced From this model the directors are satisfied the company will generate positive cashflows and profits over the life of the contract

Change in Facilities Management provider and project stabilisation

On 26 March 2010, Jarvis plc and its subsidiary companies, including the company's Facilities Management ('FM') provider, Jarvis Accommodation Services Limited ('JAS'), went into administration Plans were put in place by the directors of the company to self deliver the FM contract (through PPP Infrastructure Management Limited ('PIML') as a temporary provider) to ensure the continuity of delivery of services and availability of facilities, whilst consideration was given to the identification of, and negotiation with a longer term replacement FM provider During this interim period all risks that were previously borne by JAS were taken on by the Company

An agreement was reached with the JAS Administrators on 1 April 2010, with regard to the settlement of the net liabilities owed to JAS at the date of administration. Of the £387,000 owed to JAS, an amount of £259,000 was paid to the JAS administrators and £128,000 was waived This profit is recognised in these financial statements During the interim period the costs incurred by the company in order to self deliver the FM contract have been lower than those anticipated under the original FM contract

The formal appointment of PIML as the FM provider was completed on 31 March 2011, with services commencing on 1 April 2011 The Company incurred transaction costs associated with negotiation of the new FM contract of £300,000, which were capitalised to the finance debtor in the year On 31 March 2011, PIML, a wholly owned subsidiary of the Semperian Group, was sold to Compass Contract Services (U K) Limited who will assume responsibility for the delivery of the facilities management services

The new FM contract is on substantially the same basis as the previous contract with JAS with the exception that the risk of the adequacy of the lifecycle fund now lies with the company As a consequence of taking on this additional risk, the company conducted a review of the lifecycle plan for the remainder of the contract concession As a result of the above changes the allocation of project revenues between the remuneration of the finance debtor and future service revenue has been revised Additional funds of £2,530,000, were injected by way of zero coupon loan stock, in order to stabilise the project

Dividends

No dividend has been paid during the year (year ended 31 March 2010 £nil)

Principal risks and uncertainties

The company has taken on the activity, as detailed above, and is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations The financial risks and the measures taken to mitigate them are as detailed in the following section

Financial risk management

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance The board has policies for managing each of these risks and they are summarised below

Interest rate risk

The senior debt interest has been fixed through the use of interest rate swaps, plus a margin, while the subordinated debt interest is at a fixed rate Details of these can be found on page 13

Inflation risk

The company has chosen to manage its exposure to inflation risk through the use of an RPI swap Details can be found on page 9

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due

Credit risk

The company receives the bulk of its revenue from JFS and London Borough of Brent and is not exposed to significant credit risk Cash investments are with institutions of a suitable credit quality

Major maintenance replacement risk

The company takes the risk that its projections for ongoing major maintenance replacement of the building and relevant equipment are adequate These projections have been agreed with third parties and are subject to regular review by the directors

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business

Directors

The directors of the company during the year, and up to the date of signing the financial statements, are set out below

A E Birch
R J W Manley

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Statement of disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved, so far as the director is aware, there is no relevant audit information of which PricewaterhouseCoopers LLP ('PwC') are unaware, and the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information, and to establish that PwC are aware of that information

Kenton School Services Limited

Directors' report for the year ended 31 March 2011 (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office

By order of the board

On behalf of Semperian Secretariat Services Limited
Company secretary

KIM CLEAR

28 JULY 2011

Independent auditors' report to the members of Kenton School Services Limited

We have audited the financial statements of Kenton School Services Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement 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) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

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 In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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

Steve Kentish

Steven Kentish (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

29 July 2011

Kenton School Services Limited

Profit and loss account
for the year ended 31 March 2011

	Notes	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Turnover	1	**2,869**	2,650
Cost of sales (including exceptional items see note 2)		**(2,291)**	(2,412)
Gross profit		**578**	238
Administrative expenses		**(222)**	(131)
Operating profit	2	**356**	107
Interest receivable and similar income	3	**1,450**	1,479
Interest payable and similar charges	4	**(1,465)**	(1,491)
Profit on ordinary activities before taxation		**341**	95
Tax on profit on ordinary activities	5	**(77)**	(27)
Profit for the year	12	**264**	68

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom

There is no difference between the profit for the period on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalent.

The company has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

The movements on reserves are shown in note 12 to the financial statements.

Kenton School Services Limited

Balance sheet
as at 31 March 2011

	Notes	31 March 2011 £'000	31 March 2010 £'000
Current assets			
Debtors amounts falling due within one year	6	**1,134**	1,060
Debtors amounts falling due after more than one year	7	**19,597**	19,827
Cash at bank and in hand		**6,915**	4,260
		27,646	25,147
Creditors: amounts due falling within one year	8	**(4,272)**	(1,464)
Net current assets		**23,374**	23,683
Creditors: amounts falling due after more than one year	9	**(22,804)**	(23,454)
Provisions for liabilities and charges	10	**(248)**	(171)
Net assets		**322**	58
Capital and reserves			
Called up share capital	11	**218**	218
Profit and loss reserve	12	**104**	(160)
Total shareholder's funds	12	**322**	58

The financial statements on pages 6 to 15 were approved by the board on 29 July 2011 and were signed on its behalf by

Director
ALAN BIRCH

Kenton School Services Limited

Notes to the financial statements for the year ended 31 March 2011

1 Principal accounting policies

A summary of the company's principal accounting policies, which have been consistently applied, is set out below

Basis of preparation of accounts

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting and financial reporting standards in the United Kingdom.

Going concern

The directors have reviewed the company's projected profits and cash flows by reference to a financial model covering accounting periods up to September 2027 Having examined the current status of the company's principal contracts and likely developments in the foreseeable future, the directors consider that the company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis

Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes All turnover originates in the United Kingdom

The company recognises income when it has fully fulfilled its contractual obligations In accordance with Financial Reporting Standard 5 'Reporting the substance of transactions' – Application Note G, the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs

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

Finance debtor and interest receivable

In accordance with Financial Reporting Standard (FRS) 5 'Reporting the substance of transactions' – Application Note F, the costs incurred in constructing the assets have been treated as a finance debtor This treatment arose from applying the guidance within the Application Note which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer

The finance debtor represents the costs arising on the construction of the assets including initial tender costs During asset construction, finance debtor interest income is recognised on an accruals basis and is capitalised within the finance debtor receivable Once the project reached its operational phase and was accepted by the customer a constant proportion of the planned net revenue arising from the project was allocated to remunerate the finance debtor Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract Over the course of the contract term the finance debtor is expected to be fully repaid

Financial instruments

Discounts, premia and related costs of debt issue are charged to the profit and loss account over the life of the instrument to which they relate Income and expenditure arising on financial instruments held for hedging purposes is recognised on an accruals basis and credited or charged to the profit and loss account in the financial period in which it arises Financial instruments are valued using market value, for disclosure purposes

Debt issue costs

Debt issue costs incurred have been offset against the related debt and will be charged to the profit and loss account at a constant rate on the carrying value of the debt

Major maintenance replacement

As noted in the directors' report, the company is responsible for the major maintenance replacement activity associated with its principal activity Where appropriate, income is deferred to future periods, based on a forecast of the future major maintenance expenditure, in order to match that element of income with the costs to which it relates The turnover and costs of sales are recorded, in the profit and loss account, in the period in which the costs of major maintenance replacement are incurred

Kenton School Services Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Principal accounting policies (continued)

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) 'cash flow statements' the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company's ultimate parent undertaking, Semperian PPP Investment Partners Holdings Limited, prepares a consolidated cash flow statement, in which the company's cash flows are included

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

2 Operating profit

Cost of sales include an exceptional credit of £128,000 (2010 £nil) in respect of the profit made on the settlement of the net liabilities owed to JAS at the date of administration

The company had no employees, other than the directors, during the year (year ended 31 March 2010 none) The emoluments of the directors are paid by the controlling parties The directors services to this company and to a number of fellow group companies are primarily of a non executive nature The controlling parties charged £38,844 (year ended 31 March 2010 £37,471) to the company in respect of these services The audit fee in respect of the company was £7,000 for the year (year ended 31 March 2010 £7,000)

The company has an RPI swap which converts the variable rate linked to RPI to a fixed rate of 2 6% The fair value of this class of derivative financial instruments at 31 March 2011 is £1,582,169 (31 March 2010 £1,250,098)

3 Interest receivable and similar income

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Imputed interest receivable on finance debtor	**1,437**	1,466
Interest receivable on bank deposits	**13**	13
	1,450	1,479

4 Interest payable and similar charges

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Interest payable on senior debt	**1,229**	1,265
Interest payable on subordinated debt	**211**	200
Amortisation of loan issue costs	**25**	26
	1,465	1,491

Notes to the financial statements for the year ended 31 March 2011 (continued)

5 Tax charge on ordinary activities

(a) Analysis of tax for the year

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Current tax.	-	-
Deferred tax: (note 10)		
Origination and reversal of timing differences	96	27
Impact of 26% tax rate adjustment arising from Finance Act 2011	(19)	-
Tax charge on profit on ordinary activities	77	27

(b) Factors affecting current tax

The tax assessed for the year is lower (year ended 31 March 2010 lower) than the standard rate of corporation tax in the UK of 28% (year ended 31 March 2010 28%) The differences are explained below

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Profit on ordinary activities before taxation	341	95
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (year ended 31 March 2010 28%)	95	26
Effects of		
Timing differences	(54)	(49)
Utilised tax losses	284	(84)
Finance debtor amortisation	121	107
Capital allowances	(446)	-
Current tax charge for the year	-	-

5 Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

The current tax charge will continue to be affected by timing differences, although these timing differences will have an opposite impact on the deferred tax charge so there should be no overall impact on the tax charge The Finance Act (No 3) 2011, which was substantively enacted on 29 March 2011, includes legislation reducing the corporation tax rate from 28 per cent to 26 per cent from 1 April 2011 The deferred tax liability at 31 March 2011 has been re-measured accordingly

Further annual reductions in the corporation tax rate of 1% until 1 April 2014 have been announced, when the main corporation tax rate reaches 23% As at the Balance Sheet date these further proposed changes to rates had not been substantively enacted and, therefore, are not recognised in these financial statements On 5 July 2011, the reduction in the main rate of corporation tax to 25% from 1 April 2012 was substantively enacted, but as this is after the balance sheet date, this does not have any impact on these financial statements If all of these potential changes are enacted the overall effect on the deferred tax balances would be to further reduce the deferred tax liability by £28,541

6 Debtors: amounts falling due within one year

	31 March 2011	31 March 2010
	£'000	£'000
Trade debtors	**404**	480
Finance debtor	**530**	432
Prepayments and accrued income	**200**	148
	1,134	1,060

7 Debtors: amounts falling due after more than one year

	31 March 2011	31 March 2010
	£'000	£'000
Finance debtor	**19,107**	19,337
Group relief receivable	**490**	490
	19,597	19,827

Notes to the financial statements for the year ended 31 March 2011 (continued)

8 Creditors: amounts falling due within one year

	31 March 2011 £'000	31 March 2010 £'000
Senior debt	**605**	544
Subordinated debt	**34**	15
Trade creditors	**58**	463
Accruals and deferred income	**3,482**	356
VAT payable	**93**	86
	4,272	1,464

The accruals and deferred income balance includes an amount of £2,700,000 which relates to income deferred in respect of major maintenance obligations, as a significant amount of maintenance work will be completed in the next financial year

9 Creditors: amounts falling due after more than one year

(a) Total

	31 March 2011 £'000	31 March 2010 £'000
Debt (as analysed below)	**21,614**	19,712
Deferred income	**1,190**	3,742
	22,804	23,454

(b) Debt	31 March 2011 £'000	31 March 2010 £'000
Senior debt	**18,340**	18,909
Subordinated debt	**4,136**	1,610
	22,476	20,519
Less included in creditors falling due within one year	**(639)**	(559)
Less unamortised issue costs	**(223)**	(248)
	21,614	19,712

9 Creditors: amounts falling due after more than one year (continued)

	31 March 2011 £'000	31 March 2010 £'000
Maturity of debt		
In one year or less	**663**	584
In more than one year but less than two years	**638**	642
In more than two years but not more than five years	**2,690**	2,261
In more than five years	**18,485**	17,032
	22,476	20,519
Less creditors falling due within one year	**(639)**	(559)
Less unamortised issue costs	**(223)**	(248)
	21,614	19,712

The senior debt consists of two tranches repayable, in instalments, by March 2026 Principal repayments commenced in January 2006 At 31 March 2011, the amounts outstanding on the first and second tranches were £15,854,000 (31 March 2010 £16,500,000) and £2,485,000 (31 March 2010 £2,409,000) respectively

The interest rates, on the first and second tranches, are fixed through the use of swaps at 6 65% and 6 13% per annum The fair value of this class of derivative financial instruments at 31 March 2011 is £(3,136,000) (31 March 2010 £(3,484,000))

Of the loan notes, provided by the immediate parent undertaking, XJ6 Schools Holdings Limited, which are subordinated to the right of payment of senior debt providers and are unsecured, £1,606,000 (2010 £1,610,000) have an interest rate fixed at 12% per annum, whilst the remainder (£2,530,000 (2010 £nil)) are zero coupon The final repayment date of the loan notes is 3 September 2027

The senior loan is secured by way of a first fixed charge over the company's interest in the finance receivable asset

10 Provisions for liabilities and charges

Deferred tax	**31 March 2011**	31 March 2010
	£'000	£'000
Deferred taxation liability	**248**	171
The movements in deferred taxation during the year are as follows		
At 1 April	**171**	144
Charge to the profit and loss account (note 5 (a))	**77**	27
At 31 March	**248**	171
The deferred tax liability consists of		
Accelerated capital allowances	**1,618**	1,368
Other timing differences	**1,039**	1,114
Tax losses recognised	**(2,409)**	(2,311)
	248	171

11 Called up share capital

	31 March 2011	31 March 2010
	£'000	£'000
Authorised		
218,300 Ordinary shares of £1 each	**218**	218
Allotted, called up and fully paid		
218,300 Ordinary shares of £1 each	**218**	218

Notes to the financial statements
for the year ended 31 March 2011 (continued)

12 Reconciliation of movements in total shareholder's funds and in reserves

	Share capital	Profit and loss reserve	Total shareholder's funds
	£'000	£'000	£'000
At 1 April 2009	218	(228)	(10)
Profit for the year	-	68	68
At 1 April 2010	218	(160)	58
Profit for the year	-	264	264
At 31 March 2011	**218**	**104**	**322**

13 Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is XJ6 Schools Holdings Limited which is registered in England and Wales The ultimate parent undertaking and controlling party is Semperian PPP Investment Partners Holdings Limited which is registered in Jersey The smallest group and largest group to consolidate these financial statements is Semperian PPP Investment Partners Holdings Limited

Consolidated financial statements for Semperian PPP Investment Partners Holdings Limited can be obtained from the Company Secretary at St Martins' House, 1 Gresham Street, London, EC2V 7BX

14 Related parties

As the wholly owned subsidiary of Semperian PPP Investment Partners Holding Limited, the company has taken advantage of the exemption under Financial Reporting Standard No 8 – 'Related Party Disclosures' of the requirement to disclose transactions between it and other wholly owned group companies