

Company Registration No. 03885037 (England and Wales)

NEWSCHOOLS (LEYTON) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020



NEWSCHOOLS (LEYTON) LIMITED

COMPANY INFORMATION

Directors	Mr B Dean Mrs S Clark
Secretary	HCP Management Services Limited
Company number	03885037
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

NEWSCHOOLS (LEYTON) LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Directors' responsibilities statement	3
Independent auditor's report to the members of NewSchools (Leyton) Limited	4 - 5
Statement of total comprehensive income	6
Balance sheet	7
Statement of changes in equity	8
Notes to the financial statements	9 - 20

NEWSCHOOLS (LEYTON) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2020

The directors present their annual report and financial statements for the year ended 31 March 2020.

Principal activities

The principal activity of the company is to design, build, finance and operate a new secondary school in Leyton in accordance with a 25 year contract with the Mayor & Burgesses of the London Borough of Waltham Forest (the "Council"). Contract negotiations were successfully completed in February 2000 and construction commenced immediately. The project has been operational since 1 September 2001.

The directors do not foresee any change in the activities of the company.

Directors

The directors who held office during the year were as follows:

Mr B Dean
Mrs S Clark

Results and dividends

The results for the year are set out on page 6.

An interim dividend of £151,000 was declared and paid during the year (2019: £183,000).

Financial Reporting, Risk and Internal Controls

The company has outsourced the financial reporting function to HCP Management Services Limited ("HCP"). Authorities remain vested in the Board members of the company. HCP reports regularly to the Board of the company. The Board receives monthly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the company operates. The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

Statement of disclosure to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

NEWSCHOOLS (LEYTON) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

Brexit

The risks from Brexit are a result of the risk it poses to the service providers, rather than the company itself. Therefore, this is linked to the service performance and service provider failure risks referred to above. The company is substantively insulated from these risks because non-performance will result in deductions being passed down to the service providers. However, there remains a risk that in extreme circumstances non-performance may result in the Council having the right to terminate the Project Agreement, however performance levels are significantly above threshold levels at which point the Council would be in that position.

The service providers have performed a review of their respective exposure to Brexit. The relevant concerns relate to availability of spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU. While there will likely be some disruption, each service provider has a strategy in place to keep this to a minimum. This will result in higher costs to the service providers but not impact the company itself. The directors are comfortable that the increased costs and disruption will not threaten the services providers to such an extent as to put the project at risk.

COVID-19 risk and going concern

The Company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy.

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due and therefore appropriate to prepare these financial statements on the going concern basis. Further information of the Directors' assessment including the consideration of the impact of COVID-19 is contained within note [1.2].

Registered office

The Company's Registered Office is 8 White Oak Square, Swanley, Kent, BR8 7AG.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption. Accordingly no strategic report has been prepared.

On behalf of the board



24 September 2020

Mr B Dean

Director

NEWSCHOOLS (LEYTON) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

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 they have elected to prepare the financial statements in accordance with applicable law and Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (UK Generally Accepted Accounting Practice applicable to Smaller Entities).

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 estimates that are reasonable and prudent;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

NEWSCHOOLS (LEYTON) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NEWSCHOOLS (LEYTON) LIMITED

Opinion

We have audited the financial statements of Newschools (Leyton) Limited ("the company") for the year ended 31 March 2020 which comprise the Statement of Total Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 1

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards applicable to smaller entities, including Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

NEWSCHOOLS (LEYTON) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF NEWSCHOOLS (LEYTON) LIMITED

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 3, 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 the 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: <http://www.frc.org.uk/auditorsresponsibilities>.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.



Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square
Bristol
BS1 4BE

25 September 2020

NEWSCHOOLS (LEYTON) LIMITED

STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £'000	2019 £'000
Turnover	3	1,838	1,842
Operating costs		(1,860)	(1,682)
Operating (loss)/profit		(22)	160
Interest receivable and similar income	7	455	525
Interest payable and similar expenses	8	(445)	(504)
(Loss)/profit before taxation		(12)	181
Taxation	9	2	(34)
(Loss)/profit for the financial year		(10)	147
Other comprehensive income			
Effective portion of fair value changes in cashflow hedge arising in the year		187	320
Tax recognised in relation to the change in fair value on cash flow hedges	9	(20)	(54)
Other comprehensive income for the year		167	266
Total comprehensive income for the year		157	413

The Statement of Total Comprehensive Income has been prepared on the basis that all operations are continuing operations.

The notes on pages 9 to 20 form an integral part of these Financial Statements

NEWSCHOOLS (LEYTON) LIMITED

BALANCE SHEET

AS AT 31 MARCH 2020

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
Current assets					
Debtors falling due after more than one year	10	4,534		5,560	
Debtors falling due within one year	10	1,382		1,435	
Cash at bank and in hand		2,638		2,544	
		<u>8,554</u>		<u>9,539</u>	
Creditors: amounts falling due within one year	11	<u>(1,208)</u>		<u>(1,205)</u>	
Net current assets			7,346		8,334
Creditors: amounts falling due after more than one year	12		(4,848)		(5,878)
Provisions for liabilities	15		(1,055)		(1,019)
Net assets			<u>1,443</u>		<u>1,437</u>
Capital and reserves					
Called up share capital	16		1		1
Hedging reserve			(465)		(632)
Profit and loss reserves			1,907		2,068
Total equity			<u>1,443</u>		<u>1,437</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime, and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved by the board of directors and authorised for issue on 24 September 2020 and are signed on its behalf by:

The accompanying notes on pages 9 to 20 form an integral part of these financial statements



Mr B Dean
Director

Company Registration No. 03885037

NEWSCHOOLS (LEYTON) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Share capital	Hedging reserve	Profit and loss reserves	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2018	1	(898)	2,104	1,207
Period ended 31 March 2019:				
Profit for the year	-	-	147	147
Other comprehensive income:				
Cash flow hedges gains arising in the year	-	320	-	320
Tax relating to other comprehensive income	-	(54)	-	(54)
Total comprehensive income for the year	-	266	147	413
Dividends	-	-	(183)	(183)
Balance at 31 March 2019	1	(632)	2,068	1,437
Period ended 31 March 2020:				
Loss for the year	-	-	(10)	(10)
Other comprehensive income:				
Cash flow hedges gains arising in the year	-	187	-	187
Tax relating to other comprehensive income	-	(20)	-	(20)
Total comprehensive income for the year	-	167	(10)	157
Dividends	-	-	(151)	(151)
Balance at 31 March 2020	1	(465)	1,907	1,443

The accompanying notes on pages 9 to 20 form an integral part of these financial statements

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

Company information

NewSchools (Leyton) Limited is a private company limited by shares incorporated, domiciled and registered in England and Wales, in the UK. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with the provision of FRS 102 Section 1A - small entities and the requirements of the Companies Act 2006 as applicable to Companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial Statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

In these financial statements, the company is considered a qualifying small entity for the purpose of FRS 102 and has applied the exemptions available under FRS 102 in respect of the cash flow statement and related notes.

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of 12 months from the date of approval of these financial statements, through to October 2021 which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Education.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Company's operating cash inflows are largely dependent on unitary charge receipts receivable from Waltham Forest Council and the Directors expect these amounts to be received even in severe but plausible downside scenarios.

The Company continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

(Continued)

Going Concern (continued)

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Turnover

Turnover is recognised in accordance with the service concession contract accounting policy. Turnover represents value of work done entirely in the United Kingdom and excludes value added tax. Turnover in relation to pass through revenue and other revenue is recognised when the services are performed.

1.4 Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits.

Restricted cash

The company is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £2,398,000 at the year end (2019: £2,119,000).

Classification of financial liabilities

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 company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, bank loans and unsecured subordinated loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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 company after deducting all of its liabilities.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

(Continued)

1.7 Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When a hedging instrument expires, or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

(Continued)

1.9 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in the profit and loss in the period it arises.

The cost to maintain the schools over the period of the agreement with the Council is charged to the profit and loss account. The charge is in line with an agreed lifecycle profile which ensures the schools meet the required standards at any given point in time. As the risk has been outsourced to the service provider a provision has been created in the balance sheet for the difference between the lifecycle profile and the invoiced amount.

1.10 Service concession contract accounting

The company is an operator of a Public Finance Initiative ("PFI") contract. The company entered into a project agreement (the "contract") with Waltham Forest Council (the "Council") to design, build, finance, operate and maintain 1 school site. Under the contract, the company has contracted to provide hard and soft facilities management services to the Council. The company has passed these obligations down to Sodexo Limited respectively via subcontracts. The obligation to provide major maintenance works (lifecycle) is retained by Sodexo. The contract does not entitle the Council to any share of the profits of the company. The Council is entitled to terminate the Contract in accordance with Part 20 of the Project agreement. If the Council exercise this right it is liable to pay the company compensation as set out in the Contract, which would include the senior debt, redundancy costs and other FM provider losses and the market value of the subordinated debt.

As the company entered into the contract prior to the date of transition to FRS102, the company has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the company under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase the Council pays Project Co. a fixed Unitary Charge payment, as determined in the Contract, that is inflated by RPI each year. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The company recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

1.11 Interest receivable and interest payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

(Continued)

1.12 Hedge accounting

The directors consider the company to have met the criteria for hedge accounting and the company has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements in applying the company's accounting policies are described below:

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Service concession accounting

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and the associated amortisation profile which is based on forecasted results of the service concession contract. Under the terms of the service concession contract, there is a maximum defined level of lifecycle expenditure over the length of the concession. Any further obligations for lifecycle expenditure sit with the company's service provider. As such, the level of judgement applied in estimating future lifecycle costs is minimal.

Valuation of derivative financial instruments

The directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The directors do not consider the impact of own credit risk to be material.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2020 £'000	2019 £'000
Turnover analysed by class of business		
Service revenue	1,740	1,751
Other revenue	41	33
Pass through revenue	57	58
	<u>1,838</u>	<u>1,842</u>

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

3 Turnover and other revenue (Continued)

	2020 £'000	2019 £'000
Turnover analysed by geographical market		
UK	1,838	1,842
	<u> </u>	<u> </u>

4 Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	22	13
	<u> </u>	<u> </u>
For other services		
Taxation compliance services	8	7
	<u> </u>	<u> </u>

In both the current year and prior year the audit fees include £2,000 paid for the audit of the parent company.

5 Employees

The Company had no employees during the year (2019: nil).

6 Directors' remuneration

	2020 £'000	2019 £'000
Sums paid to related parties for directors' services	55	53
	<u> </u>	<u> </u>

The directors did not receive any other remuneration during either the current or preceding year.

7 Interest receivable and similar income

	2020 £'000	2019 £'000
Interest receivable on bank deposits	13	10
Interest from finance debtor	442	515
	<u> </u>	<u> </u>
	455	525
	<u> </u>	<u> </u>

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

8 Interest payable and similar expenses

	2020 £'000	2019 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank loans	342	390
Interest on Subordinated debt	103	114
	<u>445</u>	<u>504</u>

9 Taxation

	2020 £'000	2019 £'000
Current tax		
UK corporation tax on profits for the current period	(2)	34
	<u></u>	<u></u>

The actual (credit)/charge for the year can be reconciled to the expected (credit)/charge for the year based on the profit or loss and the standard rate of tax as follows:

	2020 £'000	2019 £'000
(Loss)/profit before taxation	(12)	181
	<u></u>	<u></u>
Expected tax charge based on a corporation tax rate of 19.00% (2019 - 19.00%)	(2)	34
	<u></u>	<u></u>
Tax expense for the year	(2)	34
	<u></u>	<u></u>

In addition to the amount (credited)/charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2020 £'000	2019 £'000
Deferred tax arising on:		
Financial instruments treated as cash flow hedges	20	54
	<u></u>	<u></u>

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax asset as at 31 March 2020 has therefore been calculated based on this rate.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

10 Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Corporation tax recoverable	3	-
Finance Debtor	1,074	1,133
Other debtors	305	302
	<u>1,382</u>	<u>1,435</u>
Amounts falling due after more than one year:		
Finance Debtor	4,424	5,430
Deferred tax asset	110	130
	<u>4,534</u>	<u>5,560</u>
Total debtors	<u>5,916</u>	<u>6,995</u>

All financial assets above are held at amortised cost.

11 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Bank loans	746	712
Subordinated loans	105	93
Trade creditors	148	-
Corporation tax	-	6
Other taxation and social security	22	68
Other creditors	187	326
	<u>1,208</u>	<u>1,205</u>

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

12 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Bank loans and overdrafts	3,610	4,351
Subordinated loans	660	763
Financial Derivative Liability	578	764
	<u>4,848</u>	<u>5,878</u>

Bank loans and overdrafts and Subordinated loans above are held at amortised cost. The Financial Derivative Liability is held at fair value.

In order to hedge against interest rate variations on the loans, the company has entered into interest rate swap agreements, whereby the company has agreed to exchange at agreed intervals with its bankers sums reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount.

The fair value of the derivatives was determined by using the valuations provided by the derivative counterparties. The valuation shown is the "clean" price, comprised of the market valuation excluding accrued interest as at 31 March 2020 of £578,000 (2019: £764,000).

13 Loans and overdrafts

	2020 £'000	2019 £'000
Bank loans	4,356	5,063
Subordinated loans	765	856
	<u>5,121</u>	<u>5,919</u>
Payable within one year	851	805
Payable after one year	<u>4,270</u>	<u>5,114</u>

Included within Bank loan is an amount repayable after five years of £Nil (2019: £340,000) and included within subordinated loans are amounts repayable after five years of £85,000 (2019: £255,000).

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

13 Loans and overdrafts

(Continued)

Bank Loans

Bank loans represents amounts borrowed in respect of a Senior Debt Facility. The amounts drawn under the Senior Debt Facility are repayable in 45 half-yearly instalments commencing, 31 May 2002 and are based on an agreed repayment schedule.

The senior facility is secured by fixed and floating charges on the assets of the Company.

Interest payable on the senior loan is calculated as LIBOR plus margin plus an MLA (Mandatory Liquid Assets) rate determined by the cost of compliance with the MLA requirements of the Financial services Authority and/or the Bank of England. The margin prior to service commencement was 1.15% and 0.95% thereafter. The company has entered into a swap agreement fixing the interest rate to 6.415% per annum in respect of notional amounts drawn of £4,260,000 (2019: £4,940,000). This has been done in order to hedge against cash-flow interest rate risk arising from the variable rate debt. The swap expires on 31 May 2024.

Subordinated Loans

The subordinated loan is unsecured and represents amounts borrowed from the parent company, NewSchools (Leyton) Holdings Limited, under the Equity Subscription Agreement facility. The amounts drawn are repayable in 47 half-yearly instalments, the first instalment being paid on 31 May 2002. There was no early redemption made in accordance with the provisions of the Loan Notes Instruments in the year (2019: £nil). Interest charges on amounts drawn are at 12.5% per annum.

The subordinated loan is not secured over the assets of the Company.

14 Deferred taxation

	Assets 2020 £'000	Assets 2019 £'000
Balances:		
Interest rate SWAP	110	130
	<u>110</u>	<u>130</u>
Movements in the year:		2020 £'000
Deferred tax asset at 1 April 2019		(130)
Charge to profit or loss		32
Effect of change in tax rate - profit or loss		(12)
		<u>(110)</u>
Deferred tax asset at 31 March 2020		<u>(110)</u>

The deferred tax asset set out above is expected to reverse over the life of the SWAP instrument and Loan Issue costs associated with the Senior Debt instrument and relates to the utilisation of tax losses against future expected profits of the same period.

The deferred tax asset expected to be utilised in the forthcoming financial year is £nil.

NEWSCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

15 Provisions for liabilities

	2020 £'000	2019 £'000
Lifecycle	1,055	1,019

The provision for Lifecycle unwinds over the remainder of the contract

16 Share capital

	2020 £'000	2019 £'000
Ordinary share capital Issued and fully paid 1,000 Ordinary Shares of £1 each	1	1

17 Related party transactions

The Company has entered into transactions in the ordinary course of business with its management service provider HCP Management Services Limited. HCP Holdings Limited, the parent company of HCP Management Services Limited, is invested with Funds under the management of Innisfree Limited, who also manage the funds invested in the Company.

During the year the Company incurred costs of £182,000 (2019: £160,000) in respect of management services and other associated services to HCP Management Services Limited. As at 31 March 2020: £17,000 (2019: £Nil) due to HCP Management Services Limited remains outstanding and is included in trade creditors.

During the year ended 31 March 2020, the Company incurred £31,000 (2019: £31,000) in respect of directors' services from Innisfree M&G PPP Fund LP and £23,000 (2019: £23,000) in respect of directors' services from Innisfree PFI Continuation Fund LP. There were no amounts outstanding due to either Innisfree M&G PPP Fund LP or Innisfree PFI Continuation Fund LP at 31 March 2020 or 31 March 2019.

18 Controlling party

The Company is a wholly owned subsidiary of NewSchools (Leyton) Holdings Limited. NewSchools (Leyton) Holdings Limited is owned 57.5% by Innisfree Nominees Ltd acting in the capacity of nominee on behalf of Innisfree M&G PPP Fund LP and 42.5% by Innisfree Nominees Ltd acting in the capacity of nominee on behalf of Innisfree PFI Continuation Fund, both of which are Limited Partnerships registered in England and Wales. The registered office of NewSchools (Leyton) Holdings Limited is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

In the directors' opinion, the ultimate controlling party at the balance sheet date is Innisfree M&G PPP Fund LP. The registered office of Innisfree M&G PPP Fund LP is 1st Floor Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR. The accounts of the holding company are not consolidated in the accounts of any other entity.