FocusEducation (Lincolnshire) Limited

Directors' report and financial statements

Registered number 04236500

Year ended 31 December 2010

Contents

Company information

Executive Director

M J Coleman (resigned 10 December 2010)

Non-Executive Directors

M E Davis (resigned 30 June 2010)
M A Donn
K W Gillespie
B Millsom (appointed 10 December 2010)
H Murphy (appointed 10 December 2010)
G Neville (appointed 10 December 2010)
J Ostle (appointed 30 June 2010, resigned 10 December 2010)
M Turnbull Fox (appointed 10 December 2010)

Registered Office

3rd Floor, the Venus
1 Old Park Lane
Trafford
Manchester
M41 7HG

Registered Auditors

KPMG Audit Plc
St James' Square
Manchester
M2 6DS

Solicitors

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Bankers

Bank of Scotland
Client Banking England
11 Earl Grey Street
Edinburgh
EH3 9BN

Company Secretary

Allison Mitchell LLB ACIS
3rd Floor, The Venus
1 Old Park lane
Trafford M41 7HG

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal activities

The principal activities of the company are to design, finance, construct and operate certain facilities and provide non educational services at a number of schools in Lincolnshire for the period until 31 August 2032 under a concession agreement with Lincolnshire County Council The agreement to provide new schools and associated facilities management was signed on 27 September 2001 and a Deed of Variation relating to the agreement was signed on 13 August 2004

Business review

The results for the year are set out in the profit and loss account on page 8

Development and performance of the business

The project has now completed its seventh year of operations since the construction phase was completed Full operational services are now being provided and these are generally progressing well, with minimal performance deductions

Principal risks and uncertainties

The availability fee and the majority of the costs are contractually linked to the RPIx index A relatively small proportion of total costs are not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios The most significant of these costs is insurance, though claims history so far is good and current premium renewals have not been excessive

A small proportion of cash flow is derived from bank interest on cash balances The reduction in credit interest rates in the year is therefore a risk to the business and its compliance with debt covenants

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator These are reported quarterly to the Board and have been small in relation to total unitary payments

Another key indicator is the ratio of operating cash flow to the senior debt service amount This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider

Proposed dividend and transfer to reserves

The company made a dividend payment in the year of £nil *(2009 £nil)* The loss for the year is £88,475 *(2009 £91,000 loss)*

Directors and directors' interests

The directors who held office during the year are set out on page 1

Political and charitable contributions

There were no donations of a political or charitable nature made during the year *(2009 £nil)*

Financial instruments

The company's principal financial instruments comprise of a term loan and unsecured loan stock The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues arising from the concession

Going concern

The directors have reviewed the net liabilities position at 31 December 2010 and believe that it will not impact on the ability of the company to continue trading for the foreseeable future and have therefore prepared the accounts on a going concern basis

Directors' report *(continued)*

Financial instruments (continued)

The company does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities

Interest rate risk

The term loan is exposed to interest rate risk

The company has entered into a fixed interest rate swap to avoid volatility on debt service costs on its floating rate debt

The unsecured loan stock is not exposed to interest rate risk

Corporate Governance

The Company is committed to high standards of corporate governance, as are appropriate for the longer term obligations to finance, construct and operate non-educational services for the new schools under the Private Finance Initiative programme

Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with Lincolnshire County Council The Board has taken note of the UK Corporate Governance Code, which applies to equity quoted plcs with certain reporting requirements, this company, not being an equity quoted plc, is not bound by the code's requirements but has voluntarily adopted those principles considered relevant

This report is a narrative on the principles of the corporate governance, as applied in this company It does not provide a detailed statement to identify those provisions of the Code from which the company's governance differs

A *The Board*

1 The Board meets quarterly and reviews operating performance against the financial model and detailed management budgets This model incorporates all aspects of the strategic business plan and associated risks, all proposals for contract variations are vetted before approval against the model

The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project

2 The position of Chairman is rotated on a quarterly basis and the nominated chair leads the Board

3 The Board comprises 6 non-executive directors nominated by each participating shareholder

4 The Board receives quarterly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the school project

5 Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision

Directors' report *(continued)*

Corporate Governance *(continued)*

6 For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation

B *Remuneration*

No directors received remuneration directly from the subsidiary company The remuneration for the services of the Non-Executive Directors is set out in Note 4

C *Dialogue with Institutions*

The Board maintains regular liaison with Bank of Scotland as the senior funder on this project

D *Financial Reporting*

1 The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the Company and ensures that they are consistently applied

2 The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships

3 The Board has decided to undertake the role of an Audit Committee with all directors except the Executive Director The Audit Committee meets annually to review the Management Letter tabled by the Auditors

4 The Board continue to satisfy themselves that, given the contractual and long-term funding provisions, the Company will continue to trade as a going concern

E *Internal Controls*

1 The Board annually review the need for a formal internal audit function

2 The Board maintains a sound system of internal control to safeguard shareholders' investments and the company's assets

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the 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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in the office

By order of the board

Alison Mitchell LLB ACIS
Secretary

3rd Floor, The Venus
1 Old Park Lane
Trafford
Manchester

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 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 group and the parent 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 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

KPMG

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of FocusEducation (Lincolnshire) Limited

We have audited the financial statements of FocusEducation (Lincolnshire) Limited for the year ended Year ended 31 December 2010 set out on pages 8 to 17 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

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) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm.

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 year ended 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK 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

Independent auditors' report to the members of FocusEducation (Lincolnshire) Limited *(continued)*

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

John Costello (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

24/6/11

Profit and loss account

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Turnover	2	**1,275**	1,565
Net operating costs	3	**(1,278)**	(1 519)
Operating (loss)/profit		**(3)**	46
Interest payable and similar charges	6	**(1,473)**	(1,521)
Other interest receivable and similar income	7	**1,362**	1,384
Loss on ordinary activities before taxation		**(114)**	(91)
Taxation	8	**25**	-
Retained loss for the year	16	**(89)**	(91)

All amounts relate to continuing activities

The company has no recognised gains or losses other than the retained profit for the year and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the result as disclosed in the Profit and Loss account and the result on an unmodified historical cost basis

Balance sheet
at 31 December 2010

	Note	2010 £000	2009 £000
Current assets			
Debtors amounts falling due within one year	9-10	**527**	444
amounts falling due after more than one year	9-10	**19,641**	20,073
	9	**20,168**	20,517
Cash at bank and in hand		**2,633**	2,715
		22,801	23,232
Creditors amounts falling due within one year	11	**(1,869)**	(1,749)
Net current assets		**20,932**	21,483
Creditors amounts falling due after more than one year	12	**(20,512)**	(21,026)
Provisions for liabilities and charges	14	**(572)**	(520)
Net liabilities		**(152)**	(63)
Capital and reserves			
Called up share capital	15	**20**	20
Profit and loss account	16	**(172)**	(83)
Shareholders' funds		**(152)**	(63)

These financial statements were approved by the board of directors on 10 June 2011 and were signed on its behalf by

Kenneth W. Gillespie

Kenneth Gillespie
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2010

	2010 £000	2009 £000
(Loss) for the financial year	**(89)**	(91)
Dividend	-	-
Net reduction to shareholders' funds	**(89**	(91)
Opening shareholders' funds	**(63)**	28
Closing shareholders' funds	**(152)**	(63)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

As 100% of the Company's voting rights are controlled within the group headed by Catalyst Investment Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Catalyst Investment Holdings Limited, within which this Company is included, can be obtained from the address given in note 17

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Going concern

The company currently has £21,350,000 of total debt The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities

The company has considerable financial resources together with long-term contracts with the Local Education authority As a consequence, the directors believe that the company is well placed to manage its business risks successfully

The company is dependent on support from Focus Education Limited, its parent undertaking, for continued operation as a going concern The directors of Focus Education Limited have confirmed their intention to support the company for at least the next 12 months and the foreseeable future

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Turnover

Turnover on operational services represents the value of work performed in the period under the concession agreement, together with any additional services provided

In the operational phase, the balance of unitary payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease) is accounted for as turnover This figure is adjusted in each period to ensure that income recognised more accurately reflects the value of economic benefits provided to the public sector client in each period, and is necessary due to the inflationary nature of the unitary payments As a consequence of this adjustment to turnover, which is generally positive in the first half of the concession and negative in the second half (and must net out over the whole concession), a unitary payment control account debtor is recorded on the balance sheet

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks and work in progress / amounts recoverable under contracts

Costs incurred in the construction of the schools have been accounted for under Financial Reporting Standard ('FRS') 5 Application Note F Applying the guidance within the Application Note indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to Lincolnshire County Council As such, all construction costs incurred on the project, including interest on finance up to the date of commission and incidental costs, are recorded as amounts recoverable under contracts during the construction phase of the project Costs are recognised as cost of sales to the extent that they relate to the value of work done in respect of turnover recognised

On the services commencement date, the amounts outstanding under the contract are transferred from amounts recoverable under contracts into a finance debtor

Finance lease debtor

Amounts receivable under the agreement with Lincolnshire County Council relating to the school facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest Interest receivable is recognised over the period of the contract based on the interest rate implicit in the contract

Capitalisation of interest

Loan interest incurred during the construction of the schools is capitalised into the finance debtor

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Lifecycle costs

Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Interest bearing borrowings

Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount

Notes *(continued)*

2 Analysis of turnover and profit on ordinary activities before taxation

	2010		2009	
	Turnover	**Attributable loss**	Turnover	Attributable loss
	£000	**£000**	£000	£000
Operational services	**1,275**	**(88)**	1,565	(91)

3 Net operating costs

	2010	2009
	£000	£000
Service costs	**772**	1,065
Lifecycle maintenance charge	**223**	217
Materials, site and production costs	**75**	74
Other charges	**197**	152
	1,267	1,508
Fees charged by auditors and their associates include		
Audit of these financial statements	**11**	11
	1,278	1,519

4 Remuneration of directors

	2010	2009
	£000	£000
Recharges in respect of directors services	**81**	27

None of the directors received emoluments directly from the company or from the parent company *(2009 none)*

5 Staff numbers and costs

No staff are directly employed by the company (*2009 none*) Services provided by the contractors include the provision of staff and management to perform contractual responsibilities Costs associated with the staff and management are included within the contractors' service charges

6 Interest payable and similar charges

	2010	2009
	£000	£000
Interest payable on bank loans	**1,181**	1 227
Amounts payable to group undertakings	**268**	270
Amortisation of issue costs	**24**	24
	1,473	1 521

Notes *(continued)*

7 Other interest receivable and similar income

	2010 £000	2009 £000
Bank interest receivable	14	10
Finance debtor interest receivable	1,348	1,374
	1,362	1,384

8 Taxation

Analysis of (charge)/credit in year	2010 £000	2009 £000
UK corporation tax		
Current tax charge on income for the year	-	-
Adjustment in respect of prior years	25	-
	25	-

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2009 lower)* than the standard rate of corporation tax in the UK 28% *(2009 28%)* The differences are explained below

	2010 £000	2009 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(114)	(91)
Current tax at 28% (*2009 28%)*	(32)	(25)
Effects of		
Unutilised tax losses	32	18
Losses carried back	-	7
Adjustment in respect of prior years	25	-
Total current tax credit/charge (see above)	25	-

No deferred tax asset has been recognised due to the uncertainty of future profits There are tax losses of £114,000 available for offset against future trading profits *(2009 £91,000)*

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011 This tax change became substantively enacted in July 2010

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 This change became substantively enacted on 29 March 2011

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014

The effect on Focus Education (Lincolnshire) Limited of the remaining proposed changes to the UK tax system will be reflected in the Focus Education (Lincolnshire) Limited's financial statements in future years, as appropriate, once the proposals have been substantively enacted

Notes *(continued)*

9 Debtors

	2010 £000	2009 £000
Finance debtor	**20,073**	20,478
Trade debtors	**56**	17
Other debtors	**39**	15
Corporation tax	**-**	7
	20,168	20,517

The ageing profile of the finance debtor is shown in note 10

10 Debtors: amounts falling due after more than one year

	2010 £000	2009 £000
Finance Debtor	**19,641**	20,073
Amounts falling due after more than one year	**19,641**	20,073

	2010 £000	2009 £000
Amounts due within 1 year	**527**	405
1-2 years	**461**	432
2-5 years	**1,581**	1,481
Over 5 years	**17,599**	18 160
	20,168	20,478
Less amounts due within 1 year	**(527)**	(405)
Amounts falling due after more than one year	**19,641**	20.073

The movement in the finance debtor balance can be considered as follows

	2010 £000	2009 £000
Opening debtor	**20,478**	20 857
Capital element of payments received in year	**(405)**	(379)
Total finance debtor	**20,073**	20.478

Notes *(continued)*

11 Creditors amounts falling due within one year

	2010 £000	2009 £000
Amounts owed to group undertakings	**54**	178
Trade creditors	**77**	18
Other taxes and social security	**117**	116
Accruals and deferred income	**248**	392
Senior loan	**521**	489
Other creditors	**852**	556
	1,869	1 749

12 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Senior loan	**18,156**	18,653
Amounts owed to group undertakings	**2,356**	2,373
	20,512	21,026

13 Analysis of debt

	2010 £000	2009 £000
Debt can be analysed as falling due		
In one year or less or on demand	**575**	660
Between one and two years	**586**	549
Between two and five years	**2,008**	1,880
In five years or more	**18,181**	18,884
	21,350	21,973
Less issue costs	**(263)**	(287)
	21,087	21 686

The company has a term loan facility of £21,830,000 due for expiry 28 February 2030 secured by a fixed and floating charge over the assets of the group This facility is spilt into two tranches – Tranche A (£18,730,000) and Tranche B (£3,100,000) For Tranche A, until 31 August 2003, the rate paid was LIBOR plus a 1 1% margin This margin changed to 0 75% for the following 5 years, 0 85% for 10 years and 0 95% thereafter For Tranche B the rate paid was LIBOR plus a 1 0% margin until the date of completion of the Sincil (formerly South Park) variation and 0 9% thereafter The company has entered into swap transactions resulting in interest being charged on this loan at a fixed rate of 5 52% (Tranche B 5 36%)

The amounts due to the parent company are in respect of unsecured loan notes in FocusEducation (Lincolnshire) Holdings Limited which have been issued in respect of the project The loan notes are redeemable by 31 August 2032 and bear interest at 11%

Notes *(continued)*

14 Provisions for liabilities and charges

	Lifecycle maintenance £000
At beginning of year	520
Charge to the profit and loss for the year	223
Utilised during the year	(171)
At end of year	**572**

15 Called up share capital

	2010 £000	2009 £000
Allotted, called up and fully paid		
Equity 20,000 ordinary shares of £1 each	**20**	20

16 Reserves

	Profit and loss account 2010 £000
At beginning of year	(83)
Loss for the financial year	(89)
At end of year	**(172)**

17 Ultimate holding company

The Company is a subsidiary undertaking of Catalyst Investment Holdings Limited which is the ultimate parent company incorporated in England and Wales

The largest group in which the results of the Company are consolidated is that headed by Catalyst Investment Holdings Limited incorporated in England and Wales No other group financial statements include the results of the Company The consolidated financial statements of this group are available to the public and may be obtained from 3rd Floor, The Venus, 1 Old Park Lane, Trafford, Manchester, M41 7HG