

Registered in England No: 4364914

HARROW COMMUNITY SCHOOLS PFI LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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Harrow Community Schools PFI Limited

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Harrow Community Schools PFI Limited

Directors' report For the year ended 30 June 2014

The directors present their report and the audited financial statements of the Company for the year ended 30 June 2014.

Principal activity and business review

The principal activity of the Company is the design, construction, and facilities management operation of three schools on two sites under a private finance initiative ("PFI") with London Borough of Harrow.

The construction phase of the project was completed in February 2006 in line with the original programme and full operational services commenced thereafter.

The directors have reviewed the activities of the business for the year and the position as at 30 June 2014 and consider them to be satisfactory.

Results and dividends

The trading results for the year under review and the Company's financial position at 30 June 2014 are shown in the attached financial statements. The Company has made a profit during the year of £279,999 (2013: £209,895) and the shareholders' funds at 30 June 2014 show a surplus of £104,338 (2013: deficit of £175,661).

The directors do not recommend the payment of a dividend for the year ended 30 June 2014 (2013: £nil).

Directors and their interests in shares of the Company

The directors of the Company who held office during the year and to the date of this report are listed below:

	Appointment date	Resignation date
A L Roshier		
A Freeman		1 December 2014
A G Waddington	1 December 2014	

None of the directors held any disclosable beneficial interests in the Company at 30 June 2014 (2013: £nil), or at any time during the year.

Key performance indicators

The Company's management produce comparisons of actual cash flows against forecast cash flows from the finance model and analyse any fluctuations.

The directors believe that there are no other key performance indicators that require disclosure for an understanding of the development, performance or position of the business.

Harrow Community Schools PFI Limited

Directors' report

For the year ended 30 June 2014 (*continued*)

Principal risks and uncertainties

The Company's revenue is based on a fixed price contract, subject to adjustments for retail price index increases. Therefore, profit margins are susceptible to inflation rate fluctuations. In order to manage this risk, the Company has ensured that costs are fixed wherever possible. In addition, under the terms of the contracts with sub-contractors, certain costs will be periodically reviewed, usually by means of benchmarking, with possibilities of price reductions being agreed in the future. In addition, in most cases, contractual costs will be subject to retail price index increases.

The design, construction and facilities management operations of the schools are subcontracted out. Significant risks are passed down to the key subcontractors within limits set out as liability caps. However, contractual default by these subcontractors or losses/deductions reaching the liability caps would transfer the risks back to the Company.

Under the PFI project agreement with the London Borough of Harrow, any general change in law risk is transferred to the Company. However, some risks are passed on to subcontractors, e.g. during the construction phase this risk is passed down to building subcontractors, during the services phase this risk is transferred to the facilities management providers' subcontractors under the facilities management contract.

Strategic report

The Company has taken advantage of the exemption, under section 414B of the Companies Act 2006, from preparing a strategic report for the financial year.

Political and charitable contributions

The Company made no political or charitable contributions during the year (2013: £nil).

Disclosure of information to auditor

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 auditor is unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Harrow Community Schools PFI Limited

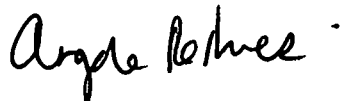
Directors' report For the year ended 30 June 2014 (*continued*)

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Registered office:
1 Gresham Street
London
EC2V 7BX
United Kingdom

By Order of the Board



A L Roshier
Director

Approved by the directors on **19** December 2014.

Harrow Community Schools PFI Limited

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Independent auditor's report to the members of Harrow Community Schools PFI Limited

We have audited the financial statements of Harrow Community Schools PFI Limited for the year ended 30 June 2014 set out on pages 8 to 19. 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).

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.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

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 30 June 2014 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.



Amanda Moses (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Arlington Business Park

Theale

Reading

RG7 4SD

23 December 2014

Harrow Community Schools PFI Limited

Profit and loss account for the year ended 30 June 2014

	Notes	2014 £	2013 £
Turnover	2	1,290,273	1,090,867
Cost of sales		(929,943)	(791,719)
Gross profit		360,330	299,148
Administrative expenses		(16,518)	(21,835)
Operating profit	3	343,812	277,313
Interest receivable	6	904,821	928,782
Interest payable and similar charges	7	(885,580)	(926,352)
Profit on ordinary activities before taxation		363,053	279,743
Tax on profit on ordinary activities	8	(83,054)	(69,848)
Profit for the financial year		279,999	209,895

All results are in respect of continuing activities.

The Company has no recognised gains or 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 notes on pages 11 to 19 form part of these financial statements.

Harrow Community Schools PFI Limited

Balance sheet as at 30 June 2014

	Notes	2014 £	2013 £
Current assets			
Debtors: amounts falling due after one year	10	12,709,599	13,116,295
Debtors: amounts falling due within one year	10	642,235	600,253
Cash at bank	11	2,297,154	2,050,621
		15,648,988	15,767,169
Creditors: amounts falling due within one year	12	(3,025,996)	(2,849,885)
Total assets less current liabilities		12,622,992	12,917,284
Creditors: amounts falling due after one year	13	(12,518,654)	(13,092,945)
Net assets/(liabilities)		104,338	(175,661)
Capital and reserves			
Called up share capital	14	12,499	12,499
Share premium reserve	15	12,499	12,499
Profit and loss account	16	79,340	(200,659)
Equity shareholders' funds/(deficit)	17	104,338	(175,661)

The notes on pages 11 to 19 form part of these financial statements.

These financial statements for Company Registration number 4364914 were approved by the board of directors on **19** December 2014 and signed on its behalf by:



A L Roshier
Director

Harrow Community Schools PFI Limited

Cash flow statement for the year ended 30 June 2014

	Note	2014 £	2014 £	2013 £	2013 £
Reconciliation of operating profit to net cash from operating					
Operating profit			343,812		277,313
Decrease in finance debtors			321,355		300,470
Increase in other debtors			(19,487)		(19,824)
Increase in creditors			123,688		151,949
Net cash inflow from operating activities			769,368		709,908
Cash flow statement					
Net cash inflow from operating activities			769,368		709,908
Returns on investments and servicing of finance					
Interest received		904,821		928,782	
Interest paid		(874,680)		(915,451)	
			30,141		13,331
Cash inflow before financing			799,509		723,239
Financing					
Repayment of bank loans		(429,075)		(415,928)	
Repayment of loan stock		(121,797)		(109,845)	
			(550,872)		(525,773)
Corporation tax paid			(2,104)		(1,780)
Increase in cash in the year			246,533		195,686
Reconciliation of net cash flow to movement in net debt					
Increase in cash in the year			246,533		195,686
Cash outflow from decrease in debt			550,872		525,773
Change in net debt resulting from cashflows			797,405		721,459
Non-cash flows			(10,899)		(10,901)
Net debt at beginning of year			(11,566,700)		(12,277,258)
Net debt at end of year	18		(10,780,194)		(11,566,700)

The notes on pages 11 to 19 form part of these financial statements.

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014

1. Accounting policies

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

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable UK Accounting Standards, the Companies Act 2006 and the accounting policies set out below.

Cash

Cash, for the purpose of the cash flow statement, comprises working capital, restricted cash balances and deposits repayable on demand.

Turnover

All turnover and profit on ordinary activities before taxation originates in the UK. Turnover is recognised in accordance with the finance debtor and services income accounting policy below.

Finance debtor and services income

The Company is an operator of a Private Finance Initiative contract. The underlying asset is not deemed to be a tangible asset of the Company under FRS 5 Application Note F because rewards of ownership as set in that standard are deemed to lie principally with London Borough of Harrow.

During 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 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 FRS 5 Application Note G.

The Company recognises income with regards to the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable for those services. Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when the services are performed.

Loan issue costs

Cost associated with the issue of loans are capitalised and netted off against the loan amount in the balance sheet. The finance cost of debt is allocated to periods over the term of the debt at a constant rate on the carrying value.

Interest

Interest costs are expensed to profit and loss account when incurred.

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014 (*continued*)

1. Accounting policies (*continued*)

Taxation

The charge for taxation is based on the profit 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.

2. Analysis of turnover

	2014 £	2013 £
Services income	<u>1,290,273</u>	<u>1,090,867</u>

All turnover originates in the United Kingdom.

3. Operating profit

Operating profit is stated after charging:

	2014 £	2013 £
Auditor's remuneration		
- for the statutory audit of the company	10,000	11,000
- taxation services	<u>5,990</u>	<u>5,865</u>

4. Directors remuneration

None of the directors received any emoluments from the company (2013: £nil). However, a total payment of £30,000 (2013: £24,000) was made for the services of directors. See note 20 for details.

5. Particulars of employees

The Company had no employees during the year (2013: no employees).

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014 (*continued*)

6. Interest receivable

	2014	2013
	£	£
Finance debtor interest receivable	899,431	919,926
Bank interest receivable	5,390	8,856
	<u>904,821</u>	<u>928,782</u>

7. Interest payable and similar charges

	2014	2013
	£	£
Bank fees payable	6,852	6,643
Interest payable on bank loan	771,384	798,542
Interest payable on loan stock	96,445	110,266
Amortisation of issue costs	10,899	10,901
	<u>885,580</u>	<u>926,352</u>

8. Tax on profit on ordinary activities

	2014	2013
	£	£
(a) Tax on profit on ordinary activities		
Current tax		
United Kingdom corporation tax	20,208	2,103
Deferred tax		
Deferred taxation (note 9)	62,846	67,745
	<u>83,054</u>	<u>69,848</u>

(b) Factors affecting the tax charge for the current period

	2014	2013
	£	£
Current tax reconciliation		
Profit on ordinary activities before tax	363,053	279,743
Current tax at 22.50% (2013: 23.75%)	81,692	66,439
Effects of:		
Utilisation of tax losses and other deductions	(61,484)	(64,336)
Total current tax charge	<u>20,208</u>	<u>2,103</u>

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014 (*continued*)

8. Tax on profit on ordinary activities (*continued*)

(c) Factors that may affect future tax charges

On 20 March 2013 the Chancellor proposed changes to further reduce the main rate of corporation tax by a further one percent to 20 per cent on 1 April 2015. This tax change became substantively enacted on 2 July 2013.

This will reduce the company's future tax charge accordingly.

9. Deferred taxation

	2014 £	2013 £
Asset at beginning of year	62,846	130,591
Charged in the year	(62,846)	(67,745)
Asset at end of year (note 10)	-	62,846
Movement in provision		
Losses and other deductions	(54,649)	(62,304)
Effect of tax rate change on opening balance	(8,197)	(5,441)
	(62,846)	(67,745)

The deferred tax asset relates to losses and other deductions and has been included in debtors falling due after one year (refer to note 10). There is no unprovided deferred tax.

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014 (*continued*)

10. Debtors

	2014 £	2013 £
Amounts falling due within one year:		
Finance debtor	343,851	321,356
Trade debtors	264,444	252,360
Prepayments and accrued income	33,940	26,537
	<u>642,235</u>	<u>600,253</u>
Amounts falling due after one year:		
Finance debtor	12,709,599	13,053,449
Deferred tax	-	62,846
	<u>12,709,599</u>	<u>13,116,295</u>
Total debtors	<u>13,351,834</u>	<u>13,716,548</u>

11. Cash at bank

	2014 £	2013 £
Restricted cash balances	2,074,340	1,842,120
Non-restricted cash balances	222,814	208,501
	<u>2,297,154</u>	<u>2,050,621</u>

Of the restricted cash balances, £158,947 (2013: £328,862) is held with BOS plc and £1,515,393 (2013: £1,513,258) held with Nationwide Building Society. Withdrawals from these bank accounts are restricted to items set out in the Credit Agreement with Nationwide Building Society and the Company must satisfy certain requirements before being permitted to withdraw any amounts from these bank accounts.

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014 (*continued*)

12. Creditors: amounts falling due within one year

	2014	2013
	£	£
Bank loan	460,299	429,076
Loan stock	109,295	106,199
Trade creditors	63,149	73,440
Corporation tax	20,208	2,103
Other creditors	91,059	91,126
Accruals and deferred income	2,292,885	2,158,840
	3,036,895	2,860,784
Issue costs	(10,899)	(10,899)
	3,025,996	2,849,885

13. Creditors: amounts falling due after one year

	2014	2013
	£	£
Bank loan	12,093,672	12,553,969
Loan stock	622,986	747,879
	12,716,658	13,301,848
Issue costs	(198,004)	(208,903)
	12,518,654	13,092,945

	2014	2013
	£	£
Debt can be analysed as falling due as follows:		
In one year or less	569,594	535,275
Between one and two years	586,637	569,594
Between two and five years	1,984,945	1,872,754
In five years or more	10,145,076	10,859,500
	13,286,252	13,837,123
Issue costs	(208,903)	(219,802)
	13,077,349	13,617,321

Harrow Community Schools PFI Limited

Notes to the financial statements

For the year ended 30 June 2014 (*continued*)

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

The Company has fully drawn on the bank loan facility, which expires on 31 August 2033.

The bank loan has a fixed interest rate of 5.19% plus a margin of 0.85%. The bank loan is secured, in favour of Nationwide Building Society, with fixed and floating charges over the Company and all of its property and assets, present and future, including goodwill, book debts, uncalled capital, buildings, fixtures, and fixed plant and machinery. There is also a legal mortgage of shares owned in the Company by its shareholders in favour of Nationwide Building Society as security for the payment of all obligations and liabilities owed by the Company to Nationwide.

As at 30 June 2014, the loan stock is subscribed for by DIF Infrastructure II UK Partnership. The loan stock has an interest coupon of 12.0%. The loan stock owed by the Company to DIF Infrastructure II UK Partnership are secured by way of a second ranking legal mortgage of shares owned in the Company in favour of DIF Infrastructure II UK Limited.

14. Share capital

Allotted, called up and fully paid:

	2014		2013	
	Number	£	Number	£
Ordinary shares of £0.50 each	24,998	12,499	24,998	12,499

15. Share premium reserve

	2014	2013
	£	£
At beginning and end of year	12,499	12,499

16. Profit and loss account

	2014	2013
	£	£
Retained loss brought forward	(200,659)	(410,554)
Profit for the financial year	279,999	209,895
Retained profit/(loss) carried forward	79,340	(200,659)

Harrow Community Schools PFI Limited

Notes to the financial statements For the year ended 30 June 2014 (*continued*)

17. Reconciliation of movements in shareholders' funds/(deficit)

	2014 £	2013 £
Opening shareholders' deficit	(175,661)	(385,556)
Profit for the financial year	279,999	209,895
Closing shareholders' funds/(deficit)	<u>104,338</u>	<u>(175,661)</u>

18. Analysis of net debt

	2013 £	Cash flows £	Non-cash flows £	2014 £
Cash in hand and at bank	2,050,621	246,533	-	2,297,154
Debt falling due within one year	(535,275)	550,872	(585,191)	(569,594)
Debt falling due after one year	(13,301,848)	-	585,191	(12,716,657)
Loan issue costs	219,802	-	(10,899)	208,903
	<u>(11,566,700)</u>	<u>797,405</u>	<u>(10,899)</u>	<u>(10,780,194)</u>

19. Commitments and contingent liabilities

At the balance sheet date the Company had no commitments (2013: £nil) or contingent liabilities (2013: nil).

20. Related party transactions

At 30 June 2014, the Company owed DIF Infrastructure II UK Partnership £732,281 (2013: £854,078) in unpaid loan stock. During the year, the Company paid £98,888 (2013: £112,469) of loan stock interest and repaid £121,797 (2013: £109,842) of loan stock capital to DIF Infrastructure II UK Partnership, a related party by virtue of being controlled under common influence. At the balance sheet date the Company owed DIF Infrastructure II UK Partnership £14,686 (2013: £17,128) in respect of accrued loan stock interest.

During the year the Company expensed £30,000 (2013: £24,000) in respect of directors' fees payable to DIF Infrastructure II BV, a related party by virtue of being controlled under common influence. At the balance sheet date the Company owed DIF Infrastructure II BV £nil (2013: £nil) in accrued directors' fees.

Harrow Community Schools PFI Limited

Notes to the financial statements

For the year ended 30 June 2014 (*continued*)

21. Ultimate controlling party

The immediate parent company is DIF Infrastructure II UK Limited which is registered in England and Wales.

DIF Infrastructure II B.V. and DIF Infrastructure II C.V. together form the DIF Infrastructure II Fund (the "Fund"). The Fund owns DIF Infrastructure II UK Limited, is owned by the Investors (none of them owns 25% or more in the Fund) and is managed by DIF.