Registered number: 04440009

UPP (LANCASTER) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

COMPANY INFORMATION

Directors	H Gervaise-Jones M Swindlehurst
Registered number	04440009
Registered office	First Floor 12 Arthur Street London EC4R 9AB
Independent auditor	KPMG LLP Chartered Accountants and Statutory Auditor 15 Canada Square London E14 5GL

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

Results and review of the business

The Company's principal activity is the development, funding, and construction of student accommodation under the University Partnerships Programme, in partnership with Lancaster University.

The project comprises of 4,347 student residential accommodation bedrooms on the Lancaster University campus.

The level of business, achieving budgeted occupancy, and the year-end financial position were in accordance with the Directors' expectations. The Directors anticipate that the future level of activity will be in accordance with their expectations and consider that the project will yield returns in line with current forecasts.

Despite the considerable impact on UK higher education ('HE') wrought by the COVID-19 pandemic and the impact of Brexit, the sector has maintained its position as the leading global destination for students after the USA. UCAS applicant data issued following the 30 June 2020 main scheme deadline identifies continued growth in demand of 2% overall or the equivalent of more than 14,000 extra applicants on the previous cycle.

This deadline saw applications from approximately 653,000 prospective students. Applicant numbers from the UK were up by 2%, a 7,980 increase on the 2019/20 cycle, however there was a decline in applicants from EU countries of 2%, the equivalent of 1,000 students. The number of applicants from outside the EU witnessed strong growth at 10%, an increase of 7,790 new prospective international students. The data also identified the continuing increase in the rate of application from 18-year-olds. This cohort has seen year on year increases over the last decade from 34.7% in 2012 to 38.9% in 2019. This figure increased again during the 2020 cycle to 40.5% of the 18-year-old population. This is positive news for the Company as this is by far the largest demand cohort for its accommodation.

The exit of the United Kingdom from the European Union (EU), which took place on 31 December 2020, continues to cast uncertainty across numerous sectors of the economy. Whilst there have been some concerns how this might impact EU and International student enrolment, demand modelling by the Higher Education Policy Institute and London Economics suggests any fall in EU numbers will be largely offset by an increase in the population of International students; an estimated net fall in the full time student population of 0.6 per cent.

Notwithstanding, the Board remain cognisant of the attendant risks relating to this process and will continue to actively manage these should they arise.

Principal risks and uncertainties

Financial risk management objectives and policies

The Company uses various financial instruments including loans, derivative instruments, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations. All of the Company's financial instruments are of sterling denomination and the company does not trade in financial instruments or derivatives.

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Company finances its operations through a mixture of retained profits, related party borrowings and bank borrowings. The Company exposure to interest rate fluctuations on its bank borrowings was managed by the use of interest swaps which fix variable interest rates for a period of time.

Inflation risk

Growth in rental income is linked to the movement in RPI and the Company manages some of its exposure to this index through the use of an RPI swap.

Liquidity risk

The Company seek to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably.

The maturity of borrowings is set out in note 14 to the financial statements.

Demand risk

The Company is subjected to risks arising from occupancy voids and lack of nominations by the university partners, which can lead to uncertain revenues. This risk is managed by maintaining strong relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income.

Portfolio risk

The assets of the Company are in the student market and reduced student numbers could impact upon financial performance. The Company seeks to mitigate this risk by building excellent long term relationships with its university partner and ensuring up to date in depth market analysis is completed each year to enable the Company to review its strategic position.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020

Key performance indicators

The following are considered by the Directors to be indicators of average performance of the company that are not necessarily evident from the financial statements but provide insight into the quality of underlying cash flows for the borrowers.

	2019/20	2018/19
Average Applications : Acceptance ratio	5.9:1	6.1:1
Average Core demand pool (no. of students)	11,050	10,940

The indicators above are directly related to performance of the university partner of the company and any changes in these statistics may potentially affect the performance of the company and in turn, the economic viability of this company.

The directors also monitor the occupancy levels of the student accommodation facilities.

	2019/20	2018/19
Average occupancy across the facilities	100.0%	100.0%

The target occupancy level is 98-99%, as such the directors are satisfied that the movements noted above exceed tolerable limits for the recovery of credit extended to the company.

The Company has to adhere to financial covenants on the associated senior debt financial instruments, such as debt service cover ratio. All of the financial covenants have been met during the financial year.

This report was approved by the board on 17 February 2021 and signed on its behalf.

H Gervaise-Jones
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors present their annual report and the financial statements for the year ended 30 September 2020.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on page 2.

Results and dividends

The profit for the year, after taxation, amounted to £725k *(2019 - £1,228k)*.

The directors do not propose the payment of a dividend (2019 - £Nil).

Going concern

The directors have prepared cashflow forecasts, which are based on detailed financial models and reflect contractual commitments, estimated future demand trends and the expected cashflows which show that the Company is able to meet its liabilities as they fall due.

In preparing these financial statements, the Directors have also considered the impacts of the Covid-19 pandemic on the ability of the Company to continue as a going concern. Whilst this situation is likely to generate continued uncertainty, the Directors are confident that the robust nature of the business model and its many credit-positive features will enable the Company to mitigate many of the risks arising. Notwithstanding this they recognise that the situation may give rise to as yet unidentified and unquantifiable risks.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements, and therefore continue to adopt the going concern basis in preparing these financial statements. For more information refer to Basis of preparation note in Financial Statements.

Directors

The directors who served during the year were:

R Bienfait (resigned 31 January 2020)
H Gervaise-Jones
M Swindlehurst

Future developments

Occupancy for the 2020/21 financial year has been secured at 99% which has exceed the directors expectations.

Qualifying third party indemnity provisions

During the year and up to the date of this report, the Company maintained liability insurance and third-party indemnification provisions for its directors, under which the Company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities of the Company.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

KPMG LLP was appointed in the year as auditor of the company in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 17 February 2021 and signed on its behalf.

H Gervaise-Jones
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UPP (LANCASTER) LIMITED

Opinion

We have audited the financial statements of UPP (Lancaster) Limited ("the company") for the year ended 31 August 2020 which comprise the profit and loss account, statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including 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 cashflow forecasts, which are based on detailed financial models and reflect contractual commitments, estimated future demand trends and the expected cashflows which show that the Company is able to meet its liabilities as they fall due.

In preparing these financial statements, the Directors have also considered the impacts of the Covid-19 pandemic on the ability of the Company to continue as a going concern. Whilst this situation is likely to generate continued uncertainty, the Directors are confident that the robust nature of the business model and its many credit-positive features will enable the Company to mitigate many of the risks arising. Notwithstanding this they recognise that the situation may give rise to as yet unidentified and unquantifiable risks.

On this basis, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements, and therefore continue to adopt the going concern basis in preparing these financial statements. For more information refer to Basis of preparation note in Financial Statements.

Strategic report and directors' report

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

Our responsibility is to read the strategic report and 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UPP (LANCASTER) LIMITED

Based solely on that work:

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

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. We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UPP (LANCASTER) LIMITED

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.

Craig Steven-Jennings (Senior statutory auditor)

for and on behalf of

KPMG LLP
Statutory Auditor,
Chartered Accountants

Chartered Accountants
Statutory Auditor
15 Canada Square
London
E14 5GL

17 February 2021

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 £000	*2019* *£000*
Turnover	4	**25,339**	*25,674*
Cost of sales		**(7,770)**	*(8,118)*
Gross profit		**17,569**	*17,556*
Administrative expenses		**(3,519)**	*(4,273)*
Operating profit	5	**14,050**	*13,283*
Interest payable and similar expenses	8	**(13,325)**	*(12,055)*
Profit before tax		**725**	*1,228*
Profit for the financial year		**725**	*1,228*

The notes on pages 15 to 34 form part of these financial statements.

The above results all relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 £000	*As restated* *2019* *£000*
Profit for the financial year		**725**	*1,228*
Other comprehensive income			
Unrealised (deficit)/surplus on revaluation of tangible fixed assets	10	**(5,871)**	*1,949*
Fair value movement of interest rate swap	16	**2,078**	*(25,165)*
Fair value movement on RPI swap	16	**12,577**	*(2,764)*
Other comprehensive income/(loss) for the year		**8,784**	*(25,980)*
Total comprehensive income/(loss) for the year		**9,509**	*(24,752)*

The notes on pages 15 to 34 form part of these financial statements.

Prior year restatements are disclosed in note 19.

BALANCE SHEET
AS AT 30 SEPTEMBER 2020

	Note		2020 £000		*As restated* *2019* *£000*
Fixed assets					
Tangible assets	10		**195,700**		*203,500*
			195,700		*203,500*
Current assets					
Debtors	11	**48**		*40*	
Cash at bank and in hand	12	**16,110**		*20,126*	
		16,158		*20,166*	
Creditors: amounts falling due within one year	13	**(3,533)**		*(8,688)*	
Net current assets			**12,625**		*11,478*
Total assets less current liabilities			**208,325**		*214,978*
Creditors: amounts falling due after more than one year	14		**(282,770)**		*(298,932)*
Net liabilities			**(74,445)**		*(83,954)*
Capital and reserves					
Called up share capital	17		**2,000**		*2,000*
Revaluation reserve	18		**43,867**		*50,195*
Cash flow hedge reserve	18		**(98,614)**		*(113,269)*
Profit and loss account	18		**(21,698)**		*(22,880)*
			(74,445)		*(83,954)*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 17 February 2021.

H Gervaise-Jones
Director

The notes on pages 15 to 34 form part of these financial statements.

Prior year restatement is disclosed in note 19.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 October 2019 (restated)	2,000	50,195	(113,269)	(22,880)	(83,954)
Profit for the year	-	-	-	725	725
Transfer from revaluation reserve	-	-	-	457	457
Loss on revaluation of leasehold property	-	(5,871)	-	-	(5,871)
Fair value movement on swaps	-	-	14,655	-	14,655
Transfer to profit and loss account	-	(457)	-	-	(457)
At 30 September 2020	2,000	43,867	(98,614)	(21,698)	(74,445)

The notes on pages 15 to 34 form part of these financial statements.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2020 was £457k.

Prior year restatement is disclosed in note 19.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 October 2018	2,000	48,660	(80,145)	(24,522)	(54,007)
Prior year adjustment	-	-	(5,196)	-	(5,196)
At 1 October 2018 (as restated)	2,000	48,660	(85,341)	(24,522)	(59,203)
Profit for the year	-	-	-	1,228	1,228
Transfer from revaluation reserve	-	-	-	414	414
Gain on revaluation of leasehold property	-	1,949	-	-	1,949
Restated fair value movement on swaps	-	-	(27,928)	-	(27,928)
Transfer to profit and loss account	-	(414)	-	-	(414)
At 30 September 2019 (as restated)	2,000	50,195	(113,269)	(22,880)	(83,954)

The notes on pages 15 to 34 form part of these financial statements.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2019 was £414k.

Prior year restatement is disclosed in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. General information

UPP (Lancaster) Limited is private company limited by shares and incorporated in England, with company number 04440009. The registered office is 12 Arthur Street, London, EC4R 9AB.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The Company has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting By Operators, and as a result its tangible fixed assets which meet the definition of service concession arrangements under Section 34 but where the contract was entered into before the date of transition will continue to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.

The financial statements are presented in Sterling (£), which is the Company's functional currency, rounded to the nearest thousand.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The profit and loss figures in the following notes have been shown for the Company unless otherwise specified

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

-the requirements of Section 7 Statement of Cash Flows;
-the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
-the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
-the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
-the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of UPP Group Holdings Limited as at 31 August 2020 and these financial statements may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ, once they have been filed.

2. Accounting policies (continued)

2.3 Going concern

Notwithstanding net liabilities of £74,445k for the year ended 31 August 2020 the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

In preparing these financial statements, the Directors have considered the impacts of the Covid-19 pandemic on the ability of the Company to continue as a going concern by preparing a cash flow forecast through to 31 August 2022, modelling a severe but plausible downside scenario which demonstrates that the Company is expected to have sufficient funds to meet its liabilities as they fall due over the period of 12 months from the date of approval of the financial statements.

A key feature of the Company's contractual arrangements is that university counterparty bears the risk on in-year rental income once students have contracted for the rooms. The effectiveness of this contractual protection was confirmed through the challenging circumstances that arose during the third term when the university counterparty chose to waive rents for students that departed early but continued to meet its payment obligations to the Company.

For the 2020/21 academic year the Company has secured sufficient lettings to remain compliant with funding covenants. The Directors anticipate that the Company's university counterparty will meet its payment obligations as they fall due even in the severe plausible downside and, as a result, revenue risk for the 2020/21 year remains low. The Directors consider that the Company's costs are reasonably controllable and while there are likely to be increased costs arising from changes to the operating practices to respond to Covid-19, these may be offset by cost savings elsewhere and are not sufficient to threaten the viability of the business.

The Directors believe that the fundamentals of the market for student accommodation remain supportive to the long-term success of the business and while Covid-19 and similar risks have the potential to impact upon future years, the Company, universities, the Government and the public are likely to be better prepared for such events such that the impact is less severe than it was in 2020.

The directors have received a letter of support and confirmation from the Group's parent undertaking, UPP Group Limited that financial support will be provided to the Group, such that it is able to meet its liabilities as they fall due, for a period of not less than twelve months from the date of approval of these financial statements.

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

2.4 Turnover

Rent receivable is recognised on a straight line basis of the amount receivable in respect of the rental period. Amounts received in advance are included within deferred income.

2. Accounting policies (continued)

2.5 Derivative financial instruments

Derivatives, which include interest rate swaps and inflation swaps, are not basic financial instruments.

The Company has entered into inflation linked swaps ('RPI swaps') and interest rate swaps ('IR swaps') with external parties to manage its exposure to changes in inflation and LIBOR rates respectively. All derivative instruments are initially measured at fair value on the date the contract is entered into and subsequently re-measured to fair value at each reporting date. The gain or loss on re-measurement is taken to the Profit and Loss account in finance cost or finance income as appropriate, unless they are included in a hedging arrangement.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2.6 Tangible fixed assets

Tangible fixed assets are stated at valuation, net of depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of the tangible fixed assets, less any residual value, over the expected useful economic lives of the assets concerned once construction is complete. The principal rates of depreciation used for this purpose are:

Assets for use in operating leases	-	annuity method over the term of the lease
Computer equipment	-	straight line over 5 years

The economic benefit of the principal assets for use in operating leases is the return on assets invested into the financing arrangement with the relevant university. The annuity method takes into account the cost of capital notionally invested in the principal asset. Notional interest calculated using the relevant group's actual weighted cost of capital and depreciation combined will give an approximately constant charge to revenue.

The Company has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The movement in fair value is recognised in other comprehensive income and accumulated in equity in a revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged to the Profit and Loss account. A deficit which represent a clear consumption of economic benefits is charged to the Profit and Loss account regardless of any such previous surplus.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves.

2. Accounting policies (continued)

2.7 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.8 Taxation

The tax expense for the year compiles current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

2.9 Related party transactions

The company is a wholly owned subsidiary of UPP (Lancaster) Holdings Limited which is a wholly owned subsidiary of the ultimate parent company UPP REIT Holdings Limited and as such the company has taken advantage of the terms of FRS 102.33.1A not to disclose related party transactions which are eliminated on consolidation.

2.10 Debtors

Debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Impairment is determined by making an estimate of the likely recoverable value of debtors by considering factors such as the credit rating, the aging profile and the historic experience of the respective debtor.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2. Accounting policies (continued)

2.12 Interest bearing loans and borrowings

Senior debt and subordinated loan notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial liability, or (where appropriate) a shorter year, to the net carrying amount on initial recognition.

Where the financial liability has variable cash flows, such as LIBOR linked interest payments, the estimated cash flows are revisited at each reporting year and the effective rate is adjusted to reflect any changes in estimated LIBOR rates over the term of the financial instrument.

2.13 Creditors

Creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.14 Hedge accounting

The Company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings and rental income. The company designates all its derivative financial instruments, which meet the qualifying conditions for hedge accounting, as cash flow hedges:

Interest rate swaps are held to manage the LIBOR rate exposures of the senior bank debt by swapping the LIBOR linked interest payments for fixed rate interest payments.

Inflation swaps are held to manage the Company's exposure to changes in RPI. The Company's rental income from student accommodation is linked to RPI and the swap contacts manage the exposure to RPI by swapping RPI annual rate changes with a fixed rate.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income directly in cash flow hedge reserve. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the Profit and Loss when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

The Company has elected to adopt hedge accounting for all its swaps which meet the qualifying criteria for hedge accounting under Section 12 of FRS 102. It is considered that the criteria to apply hedge accounting for the interest rate swap and the RPI swap have been met.

2. Accounting policies (continued)

2.15 Finance costs

Financing costs, comprising interest payable on bank loans and subordinated loan notes and the costs incurred in connection with the arrangement of borrowings are recognised in Profit or Loss using the effective interest method. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument unless the capital instrument is subsequently carried at fair value in which case the initial issue costs are expensed in the profit and loss account.

Financing costs also include losses or gains arising on any ineffective portion of fair value changes of designated for hedge accounting derivative instruments. Any movements in fair value of derivative instruments designated for hedge accounting that are effective are recognised in other comprehensive income as finance gains or losses.

2.16 Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and assumptions are reviewed on an on-going basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below:

Revaluation of the principal assets (Note 9)

The Company has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The Comany engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the principal assets are further explained in note 9.

Valuation of RPI and IR swaps (note 15)

In estimating the fair value of the RPI swaps, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements, which are subjective in nature and require significant judgement. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees'.

Impairment of non-financial assets

The Company assesses at each reporting date whether an asset may be impaired. If any such indication exists the Company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through impairment in profit and loss, unless the asset is carried at a revalued amount where the impairment loss of a re-valued asset is a revaluation decrease.

An impairment loss recognised for all assets is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

There was no impairment noted during the year.

3. *Judgements in applying accounting policies (continued)*

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

Presentation of the principal asset (note 9)

Rent receivable is generated from the Company's interests in university accommodation. These interests fall within the scope of Section 34 of FRS 102, however, due to the transitional relief adopted in relation to service concession arrangements, the Company continues to account for all its principal assets applying the policies under the extent UK GAAP, FRS 5 (Application Note F).

Each year the Company applies judgement in assessing the status of these interests, in accordance with the provisions of FRS 5 (Application Note F), assessing the balance of the significant risks and rewards of ownership of the asset. The appropriate balance sheet treatment of these interests is to treat the asset as a finance receivable asset where the Company does not have the majority of significant risks and rewards. Where it does, the asset is treated as a tangible fixed asset.

The directors consider the balance of the risks and rewards lies with the company due to the Company taking the key demand risk and therefore the assets are treated as tangible fixed asset.

Hedge accounting for inflation swaps (note 16)

The Company has chosen to apply hedge accounting for all hedging instruments which are in a qualifying hedging relationship under FRS 102 Section 12. Significant judgement is exercised in concluding that future inflationary increases or decreases in rent receivable from university partners are separately identifiable and reliably measurable components of the rental income which ensures the inflation component of rental income and the related RPI swaps are in a hedging relationship which meets the qualifying criteria for hedge accounting under Section 12.

4. Turnover

Turnover represents income, on the basis of accounting policy 2.4, excluding VAT, attributed to the provision of student accommodation.

	2020	*2019*
	£000	*£000*
Provision of student accommodation	**25,339**	*25,674*
	25,339	*25,674*

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2020 £000	*2019 £000*
Depreciation	**1,929**	*1,949*

6. Auditor's remuneration

	2020 £000	*2019 £000*
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**15**	*15*

7. Employees and Director information

Staff costs were as follows:

	2020 £000	2019 £000
Wages and salaries	573	517
Social security costs	50	49
Cost of defined contribution scheme	25	49
	648	615

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the company are considered to be key management personnel.

The Company paid fees of £24k (2019 - £24k) to UPP Group Limited in respect of services performed in connection with the management of the affairs of the Company for the year ended 30 September 2020.

No other directors of the Company received payment for services performed in relation to management of the Company (2019 - £nil).

The average monthly number of employees, including the directors, during the year was as follows:

	2020 No.	2019 No.
Site managers	3	4
Administration, maintenance and cleaning	16	16
	19	20

8. Interest payable and similar expenses

	2020 £000	2019 £000
Bank interest payable	11,321	10,009
Subordinated loan note interest payable	2,004	2,046
	13,325	12,055

Subordinated loan note interest is payable to UPP (Lancaster) Holdings Limited.

9. Taxation

	2020 **£000**	*2019* *£000*
Total current tax	-	-
Taxation on profit on ordinary activities	-	-

Factors affecting tax charge for the year

The tax assessed for the year is lower than *(2019 - lower than)* the standard rate of corporation tax in the UK of 19.00% *(2019 - 19%)*. The differences are explained below:

	2020 **£000**	*2019* *£000*
Profit on ordinary activities before tax	**725**	*1,228*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2019 - 19%)	**138**	*233*
Effects of:		
Exempt property rental (profits)/losses in the year	**(138)**	*(233)*
Total tax charge for the year	-	-

A deferred tax asset of £8,006k (2019: £7,166k) in respect of available tax losses has not been recognised at 30 September 2019.

UPP REIT Holdings Limited is a Real Estate Investment Trust ("REIT"). As a result, the Company no longer pay UK corporation tax on profits and gains from qualifying property rental business providing it meets certain conditions. Non-qualifying profits and gains continue to be subject to UK corporation tax as normal.

10. Tangible fixed assets

	Long-term leasehold property £000	Computer equipment £000	Total £000
Cost or valuation			
At 1 October 2019	203,500	759	204,259
Revaluations	(7,800)	-	(7,800)
At 30 September 2020	195,700	759	196,459
Depreciation			
At 1 October 2019	-	759	759
Charge for the year on owned assets	1,929	-	1,929
On revalued assets	(1,929)	-	(1,929)
At 30 September 2020	-	759	759
Net book value			
At 30 September 2020	195,700	-	195,700
At 30 September 2019	*203,500*	-	*203,500*

Fixed assets include borrowing costs of £6,773k (2019: £6,773k). These have been capitalised at 100%.

The senior debt is secured by way of a first fixed charge over the fixed asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the company in any other form. The company is not obliged to support any losses, nor does it intend to do so.

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 30 September 2020. JLL have confirmed that the value as at that date was £195,700k.

In 2019, following an internal review of the assets used in operating leases, the directors concluded there was no impairment to the value as determined by JLL in 2018.

The critical assumptions made in relation to the valuation are set out below:

	2020
Discount rates	8.5%
Occupancy rates	99%
Long term annual rental growth	3%

Cost or valuation at 30 September 2020 is as follows:

	Assets for use in operating leases £000
At cost	**165,881**
At valuation:	
Revaluation as at 30th September 2020	**29,819**
	195,700

If the assets used in operating leases had not been included at valuation they would have been included under the historical cost convention as follows:

	2020 £000	*2019 £000*
Cost	**165,881**	*165,881*
Accumulated depreciation	**(12,809)**	*(10,780)*
Net book value	**153,072**	*155,101*

11. Debtors

	2020 £000	2019 £000
Amounts owed by group undertakings	21	14
Prepayments and accrued income	27	26
	48	40

The other amounts owed by group undertakings are repayable on demand and not subject to interest.

12. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	16,110	20,126
	16,110	20,126

13. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Secured senior bank debt	2,037	1,642
Trade creditors	43	29
Amounts owed to group undertakings	605	1,611
Other taxation and social security	18	6
Accruals and deferred income	830	5,400
	3,533	8,688

The amounts owed to group undertakings are repayable on demand and not subject to interest.

14. Creditors: Amounts falling due after more than one year

	2020 £000	*As restated* *2019* *£000*
Secured senior bank debt	**168,939**	*170,535*
Secured subordinated loan notes	**15,216**	*15,128*
Derivative financial instruments	**98,615**	*113,270*
	282,770	*298,933*

Prior year restatement is disclosed in note 19.

15. Loans

Secured senior bank debt

The senior debt is payable by March 2042 with principal repayments having commenced in March 2009. The interest rate is fixed via a swap at a rate of 5.67% plus a variable margin.

The senior debt is secured by way of a first fixed charge over the fixed asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the company in any other form. The company is not obliged to support any losses, nor does it intend to do so.

Secured subordinated loan notes

The subordinated loan notes have ultimately been provided by UPP (Lancaster) Holdings Limited. The loan notes are subject to the same security as the senior debt facilities but are subordinated to the right of payment of senior debt providers.

The loan notes will be repaid by 2042 and have an effective interest rate of 14.8%.

15. Loans (continued)

	2020 £000	*2019 £000*
Amounts falling due within one year		
Secured senior bank debt	**2,037**	*1,642*
Secured subordinated loan notes	**-**	*124*
	2,037	*1,766*
Amounts falling due 1-2 years		
Secured senior bank debt	**2,441**	*2,037*
	2,441	*2,037*
Amounts falling due 2-5 years		
Secured senior bank debt	**10,748**	*8,700*
	10,748	*8,700*
Amounts falling due after more than 5 years		
Secured subordinated loan notes	**15,216**	*15,128*
Secured senior bank debt	**155,751**	*159,798*
	170,967	*174,926*
	186,193	*187,429*

16. Financial instruments

	2020 £000	*As restated* *2019* *£000*
Financial assets		
Financial assets measured at amortised cost	**16,131**	*20,140*
Financial liabilities		
Derivative financial instruments measured at fair value through profit or loss	**(98,615)**	*(113,269)*
Financial liabilities measured at amortised cost	**(186,841)**	*(189,069)*
	(285,456)	*(302,338)*

Financial assets measured at amortised cost comprise cash and amounts owed by group undertakings which is repayable on demand.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to Group undertakings, senior debt and secured subordinated loan notes.

16. Financial instruments (continued)

Derivative financial instruments measured at fair value through Statement of Comprehensive Income comprise an RPI and an interest rate swap.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of these swaps is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves,spot and forward rates, as well as option volatility.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees

RPI swap

To mitigate the risks of inflation movements on future rental income of the Company impacting on the Company's ability to service the senior bank debt, the Company has entered into an RPI swap with the senior bank debt provider. The notional amounts swapped for each year has been determined with reference to a percentage of the net rental income.

At the balance sheet date the fair value of this swap was £1,683k liability (2019: £3,672k liability)

The Company entered into the RPI swap on 5 June 2007, fixing a portion of the underlying rental income stream to 3.01%. The RPI swap is for a period of 34 years from March 2013, commencing in March 2008 and maturing in March 2042.

The Company applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A net hedging gain of £1,990k arose during the year (2019: £832k loss) and was recognised in the Statement of Comprehensive Income, reflecting the change in fair value of this RPI swap.

Interest Rate Swap

The Company's exposure to interest rate fluctuations on its bank borrowings is managed by the use of an interest rate swap which fixes variable LIBOR interest rates for the duration of the associated bank debt.

The Company entered into an interest rate swap with the senior debt provider on 5 June 2007 to fix interest at 5.135%. from October 2014, maturing in March 2042. The swap is based on the principal amount of the underlying senior debt outstanding as at 30 September and 31 March each year.

At the balance sheet date the fair value of this swap was £96,933k liability (2019: £107,351k liability).

The Company applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A net hedging gain of £6,746k arose during the year (2019: £26,374k loss) and was recognised in the Statement of Comprehensive Income, reflecting the change in fair value of this interest rate swap.

Prior year restatement is disclosed in note 19.

17. Share capital

	2020 £000	2019 £000
Authorised		
2,159,800 *(2019 - 2,159,800)* Ordinary shares of £1.00 each	**2,160**	*2,160*
Allotted, called up and fully paid		
1,999,800 *(2019 - 1,999,800)* Ordinary shares of £1.00 each	**2,000**	*2,000*

The Ordinary shares have the rights and restrictions as set out in the amended Articles of Association of the Company.

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

18. Reserves

Revaluation reserve

The reserve is used to record the surplus or deficit arising on valuation of the principal asset of the Comany.

Other reserves

Cashflow Hedge reserve

The cash flow hedge reserves includes the fair value movements on the derivative financial instruments.

Profit and loss account

The reserve consists of accumalated profit and loss.

19. Prior year adjustment

During the financial year the Directors identified that the fair value of derivatives in prior periods had not been adjusted for the effect of the entity's own non-performance risk and that of the respective counterparty's non-performance risk.

In prior periods the Company performed the calibration of standard valuation models on inception for each derivative to determine an initial spread that calibrated the model to zero on the trade date. The initial spread was held constant and added to market interest and inflation curves at each year end. This resulted in no changes since inception in the credit spread of the derivative counterparties or the entity's own credit spread being taken into account in the value of the derivatives.

In the current year the Company incorporates credit and debit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

The impact of restating the fair value of derivatives on amounts reported in the prior-year statement of comprehensive income, balance sheet and statement of changes in equity is set out below.

As at 1 October 2018
• Decrease of £5,196k in the opening cash flow hedge reserves from £80,145k (negative) to £85,341k (negative).

As at 31 September 2019
• Decrease of £5,918k in the cash flow hedge reserves from £107,351k (negative) to £113,269k (negative) in year
• Decrease of £723k in other comprehensive loss for the year ended 30 September 2019 from £24,029k to £24,752k due to the fair value movement of interest rate swaps changing from £26,3744k loss to £25,165k loss and the fair value movement of RPI swaps changing from £832k loss to £2,764k loss.
• Increase in creditors: amounts falling due after more than one year of £5,918k from £293,014k to £298,932k.

20. Controlling party

The parent undertaking of the largest group of which the company is a member and of which group accounts are prepared is UPP REIT Holdings Limited.

UPP REIT Holdings Limited is controlled by a 60% stake held by PGGM Infrastructure Fund ("PGGM"), incorporated in The Netherlands.

It is the directors' opinion that PGGM is the ultimate controlling party.

The smallest group of which the Company is a member and for which group accounts are prepared is UPP Lancaster Holdings Limited.

Copies of the UPP (Lancaster) Holdings Limited accounts can be obtained from Companies House, Crown Way, Cardiff CF14 3UZ, once they have been filed.

Copies of the UPP REIT Holdings Limited accounts can be obtained from www.upp-ltd.com, once they have been published.