

**By Education (Lewisham) Limited**

**Annual Report and Financial Statements**  
**Registered No: 05785531**

**31 December 2015**

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## **Directors' report for the year ended 31 December 2015**

The Directors present their annual report for By Education (Lewisham) Limited (the "Company") for the year ended 31 December 2015.

### **Principal activities**

The principal activity of the Company is the finance, design and construction, refurbishment and operation of education facilities under the Government's Private Finance Initiative ("PFI"). The construction phase ended in 2008 whereupon the Company commenced the operational phase. Operational activities have continued throughout the year and the Company will continue in this activity for the foreseeable future.

### **Key performance indicators (KPIs)**

#### **1. Performance deductions under the service contract**

Financial penalties are levied by the Authority in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. These deductions are passed on to the service provider but the quantum is an indication of unsatisfactory performance. In the year ended 31 December 2015, deductions of £7,691 (2014: £5,054) had been levied which represents 0.2% (2014:0.2%) of revenue. The directors believe the performance for the year to be satisfactory.

#### **2. Financial performance**

The directors have modelled the anticipated financial outcome of the concession across its full term. The Directors monitor actual financial performance against this anticipated performance. As at 31 December 2015, the Company's performance against this measure was satisfactory.

### **Principal risks and uncertainties**

The Authority is the sole client of the Company. The directors consider that no strategic risk arises from such a small client base since the Secretary of State for Education has underwritten the Authority's obligations under the Project Agreement.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees caused by banks or by parent Company guarantees.

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The financial risks and the measures taken to mitigate them are detailed in the following section.

### **Financial Risk Management**

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

#### **Interest rate risk**

The Company aims to manage exposure to interest rate fluctuations through a balance of fixed rate borrowings along with floating rate borrowings. The Company has also entered into swap contracts covering all of the debt projected to be drawn down which hedges the Company's interest rate exposure on bank loans.

**Directors' Report** *(continued)*  
for the year ended 31 December 2015

**Principle risks and uncertainties** *(continued)*

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's financial obligations, including the repayment of its borrowings which are provided on a long-term basis, have been structured to be met from the income which, under normal operating conditions, will be earned from its long-term concession contract with the Authority.

**Credit Risk**

Although the Authority is the sole client of the Company, the directors are satisfied that the Authority will be able to fulfil its obligations under the Project Agreement as it is underwritten by the Secretary of State for Education.

**Results and dividends**

The results for the year are shown in the profit and loss account on page 7.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2015 (2014: nil).

**Directors**

The Directors of the Company who held office during the year and to the date of signing these financial statements are listed below:

G A Quaife  
R Newton

**Strategic Report exemption**

The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small company exemption. Accordingly, no Strategic Report has to be prepared.

**Employees**

The Company has no employees (2014: £Nil)

**Political and charitable contributions**

The Company made no political or charitable contributions during the year (2014 £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 auditor is unaware; and
- The directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information

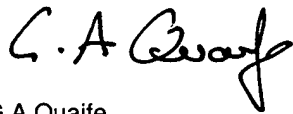
**Directors' Report** *(continued)*  
for the year ended 31 December 2015

**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.

**Approval**

This report was approved by the board on 29 June 2016 and signed on its behalf by:



G A Quaife  
Director

46 Charles Street  
Cardiff  
CF10 2GE

## **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 United Kingdom Accounting Standards and applicable law (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 judgements 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 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.

## **Independent Auditor's Report to the Members of By Education (Lewisham) Limited**

We have audited the financial statements of By Education (Lewisham) Limited for the year ended 31 December 2015 set out on pages 7 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 explained more fully in the Directors Responsibilities 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. 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 [www.frc.org.uk/auditscopeukprivate](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 31 December 2015 and of its profit 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**

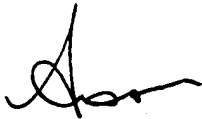
In our opinion, the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent Auditor's Report to the Members of By Education (Lewisham) 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 disclosure 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

30 June.....2016



## Profit and Loss Account and Statement of Other Comprehensive Income

For the year ended 31 December 2015

	Note	Year Ended 31 December 2015 £000	Year Ended 31 December 2014 £000
<b>Turnover</b>	2	3,873	4,961
Cost of sales		(3,140)	(4,153)
<b>Gross profit</b>		733	808
Administrative expenses		(378)	(460)
<b>Operating profit</b>		355	348
Interest receivable and similar income	6	2,520	2,579
Interest payable and similar charges	7	(2,626)	(2,742)
<b>Profit on ordinary activities before taxation</b>	3	249	185
Tax on profit on ordinary activities	8	(115)	(40)
<b>Profit for the financial year</b>		134	145
<b>Other comprehensive income</b>			
Items that will or may be reclassified to profit or loss			
Effective portion of fair value changes in cash flow hedges	15	1,280	(4,639)
Tax recognised in relation to change in fair value cash flow hedges	8	(485)	928
Other comprehensive income for the year		795	(3,711)
<b>Total comprehensive income for the year</b>		929	(3,566)

The notes on pages 10 to 24 form an integral part of these financial statements.

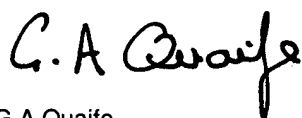
## Balance Sheet

As at 31 December 2015

	Note	2015 £000	2014 £000
<b>Current assets</b>			
Debtors (including £40,369,000 (2014: £41,407,000) due after more than one year)	9	44,749	47,489
Cash at bank and in hand		3,521	4,050
		<hr/>	<hr/>
		48,270	51,539
<b>Creditors:</b> amounts falling due within one year	10	(10,125)	(11,867)
		<hr/>	<hr/>
<b>Net current assets</b>		38,145	39,672
<b>Creditors:</b> amounts falling due after more than one year	11	(50,202)	(52,658)
		<hr/>	<hr/>
<b>Net liabilities</b>		(12,057)	(12,986)
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	14	1	1
Profit and loss account		(2,678)	(2,812)
Cash flow hedge reserve		(9,380)	(10,175)
		<hr/>	<hr/>
Total shareholders' deficit		(12,057)	(12,986)
		<hr/>	<hr/>

The notes on pages 10 to 24 form part of these financial statements.

These financial statements were approved by the board of directors on 29 JUNE 2016 and were signed on its behalf by:



G A Quaife  
Director

46 Charles Street  
Cardiff  
CF10 2GE

## Statement of Changes in Equity

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 January 2014	1	(6,464)	(2,957)	(9,420)
<b>Total comprehensive income for the period</b>				
Profit	-	-	145	145
Other comprehensive income	-	(3,711)	-	(3,711)
	<u>-</u>	<u>(3,711)</u>	<u>-</u>	<u>(3,711)</u>
Total comprehensive income for the period	-	(3,711)	145	(3,566)
	<u>-</u>	<u>(3,711)</u>	<u>145</u>	<u>(3,566)</u>
<b>Balance at 31 December 2014</b>	<u>1</u>	<u>(10,175)</u>	<u>(2,812)</u>	<u>(12,986)</u>

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 January 2015	1	(10,175)	(2,812)	(12,986)
<b>Total comprehensive income for the period</b>				
Profit	-	-	134	134
Other comprehensive income	-	795	-	795
	<u>-</u>	<u>795</u>	<u>-</u>	<u>795</u>
Total comprehensive income for the period	-	795	134	929
	<u>-</u>	<u>795</u>	<u>134</u>	<u>929</u>
<b>Balance at 31 December 2015</b>	<u>1</u>	<u>(9,380)</u>	<u>(2,678)</u>	<u>(12,057)</u>

## Notes to the Financial Statements

(forming part of the financial statements)

### 1 Accounting policies

By Education (Lewisham) Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")* as issued in August 2014. The amendments to FRS102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Company has made two measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 18.

FRS 102 grants certain first time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements.

- Service concession arrangements – The Company entered into its Service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.
- Hedge accounting documentation – The Company has taken advantage of the exemption in respect of having prepared hedge accounting documentation for the hedging relationships which existed previously before the date of transition.

The Company's parent undertaking, By Education (Lewisham) Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of By Education (Lewisham) Holdings Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. In these financial statements, the company is considered to be a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period; and
- Cash Flow Statements and related notes.

As the consolidated financial statements of By Education (Lewisham) Holdings Limited include the equivalent disclosures, the Company has also taken the exemption under FRS 102 available in respect of the following disclosures;

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

## Notes to the Financial Statements *(continued)*

### **1 Accounting policies *(continued)***

#### **1.2 Going concern**

The Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to September 2035. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

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

#### **1.3 Basic financial instruments**

##### *Trade and other debtors / creditors*

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

##### *Interest-bearing borrowings classified as basic financial instruments.*

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

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

##### *Restricted cash*

The Company is obliged to keep a separate cash reserve in respect of future major maintenance costs and financing cost. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance amounts to £1,554,000 at the year end (2014: £1,375,000).

#### **1.4 Other financial instruments.**

##### *Financial Instruments not considered to be Basic financial instruments (Other financial instruments)*

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below,

##### *Derivative financial instruments and hedging*

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

## Notes to the Financial Statements *(continued)*

### **1 Accounting policies *(continued)***

#### *Cash flow hedges*

The Company has entered into an Interest rate swap and designated this hedge as a highly probable forecast transaction. The effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

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

#### **1.5 Impairment excluding deferred tax assets**

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying value and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

#### **1.6 Impairment excluding deferred tax assets**

Interest on the impaired asset continued to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through the profit or loss.

#### **1.7 Finance debtor and services income**

The Company is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company under old UK GAAP, because the risks with rewards of ownership as set out in the standard are deemed to lie principally with the Mayor and Burgesses of the London Borough of Lewisham.

During the construction phase of the project, all attributable expenditure, excluding interest, was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the financial 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 102 section 23. The Company recognises income in respect of 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 in respect of 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.

#### **1.8 Expenses**

##### *Interest receivable and Interest payable*

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

## Notes to the Financial Statements *(continued)*

### 1 Accounting policies *(continued)*

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

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

#### 1.9 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences, which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

**Notes to the Financial Statements (continued)**

**2 Analysis of turnover**

	<b>2015 £000</b>	<b>2014 £000</b>
Services income	3,873	4,961
	<u>          </u>	<u>          </u>

**3 Auditor's remuneration**

	<b>2015 £000</b>	<b>2014 £000</b>
Audit of these financial statements	13	7
	<u>          </u>	<u>          </u>

**4 Remuneration of directors**

None of the directors received any emoluments from the Company (2014: £NIL). However, a total payment of £42,251 (2014: £20,622) was made for the services of directors. See note 16 for details.

**5 Staff numbers and costs**

The Company had no employees during the year under review (2014: none).

**6 Other Interest receivable and similar income**

	<b>2015 £000</b>	<b>2014 £000</b>
Finance debtor interest	2,516	2,573
Bank interest	4	6
	<u>          </u>	<u>          </u>
	2,520	2,579
	<u>          </u>	<u>          </u>



## Notes to the Financial Statements *(continued)*

### 7 Interest payable and similar charges

	2015 £000	2014 £000
Interest on bank loans	2,187	2,261
Interest on subordinated debt	360	354
Indexation on subordinated debt	56	108
Other similar charges	23	19
	<hr/>	<hr/>
	2,626	2,742
	<hr/>	<hr/>

Of the above £416,000(2014: £462,000) was payable to group undertakings

### 8 Taxation

	2015 £000	2014 £000
<i>Total tax expense recognised in the profit and loss account, other comprehensive income and equity</i>		
Current tax	-	-
	<hr/>	<hr/>
Total current tax	-	-
<i>Deferred tax (See Note 13)</i>		
Effect of change in future tax rate	65	3
Origination/reversal of timing differences	535	(891)
	<hr/>	<hr/>
Total deferred tax	600	(888)
	<hr/>	<hr/>
Total tax	600	(888)
	<hr/>	<hr/>
<i>Reconciliation of effective tax rate</i>		
	2015 £000	2014 £000
Profit on ordinary activities	134	145
Total tax (expense)	115	40
	<hr/>	<hr/>
Profit excluding taxation	249	185
Tax using the UK corporation tax rate of 20.25% (2014: 21.50%)	50	40
Effect of change in future tax rate	65	-
	<hr/>	<hr/>
Total tax expense included in profit or loss	115	40
	<hr/>	<hr/>

## Notes to the Financial Statements (continued)

### 8 Taxation (continued)

	2015			2014		
	Current Tax £'000	Deferred Tax £'000	Total Tax £'000	Current Tax £'000	Deferred Tax £'000	Total Tax £'000
Recognised in Profit and loss account	-	115	115	-	40	40
Recognised directly in equity	-	485	485	-	(928)	(928)
Total Tax	-	600	600	-	(888)	(888)

#### Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. In the budget on 16 March 2016 the Chancellor announced additional planned reductions to 17% by April 2020.

### 9 Debtors

	2015 £000	2014 £000
Finance debtor	41,407	42,384
Trade debtors	455	1,642
Prepayments and accrued income	213	189
Deferred tax asset	2,674	3,274
	44,749	47,489

Debtors include financial debtor of £40,369,000 (2014: £41,407,000) due after more than one year.

### 10 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Bank Loans	1,182	1,189
Subordinated debt	68	203
Trade creditors	636	2,525
Accruals and deferred income	1,196	1,217
Unitary charge control account	6,979	6,691
Other creditors	64	42
	10,125	11,867

## Notes to the Financial Statements (continued)

### 11 Creditors: amounts falling due after more than one year

	2015 £000	2014 £000
Bank Loans	35,618	36,782
Subordinated debt	3,145	3,157
Other financial instruments (note 15)	11,439	12,719
	<hr/>	<hr/>
	50,202	52,658
	<hr/>	<hr/>
Analysis of debt:	2015 £000	2014 £000
Debt can be analysed as falling due:		
- In one year or less, or on demand	1,250	1,392
- Between one and two years	1,262	1,300
- Between two and five years	3,852	3,858
- In five years or more	33,649	34,781
	<hr/>	<hr/>
	40,013	41,331
	<hr/>	<hr/>

### 12 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2015 £000	2014 £000
Creditors falling due more than one year		
Bank loan	35,618	36,782
Subordinated debt	3,145	3,157
	<hr/>	<hr/>
Creditors falling due within less than one year		
Bank loan	1,182	1,189
Subordinated debt	69	203
	<hr/>	<hr/>

Included within Bank loan is an amount repayable after five years of £31,248,000 (2014: £32,427,000) and included within subordinated debt are amounts repayable after five years of £2,754,000 (2014: £2,724,000) respectively.

## Notes to the Financial Statements *(continued)*

### 12 Interest-bearing loans and borrowings *(continued)*

#### Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of Maturity	Repayment	2015	2014
<b>Bank Loan</b>	GBP	Libor + 4.945%	2035	Semi annual	37,153	38,341
<b>Subordinated Debt</b>	GBP	10.30%	2035	Semi annual	3,213	3,360

Bank loans are secured by fixed and floating charges over the assets of the Company. The Company has entered into swap contracts for the period 3 August 2006 to 30 April 2035 covering all of the debt projected to be drawn down which hedges the Company's interest rate exposure on bank loans. The bank loans are repayable in six monthly instalments commencing on 31<sup>st</sup> March 2009 and end on 15 May 2035. The facility is subject to certain financial and non-financial covenants.

Bank loans bear interest based on LIBOR plus a SWAP spread of 4.95%

The index-linked subordinated unsecured loan stock issued to the Company bears interest at 10.30% and is redeemable on 31 March 2036. The subordinated debt is repayable in six monthly instalments which commence on 31 March 2009. The principal repayments are subject to indexation based upon RPI.

### 13 Deferred tax

The Company has accumulated losses of £3,416,000 (2013: £3,665,000) which have been carried forward and will be offset against future taxable profits. A deferred tax asset has been recognised for the tax losses.

Deferred tax is recognised on the revaluation of the interest rate swap held by the company. These are accounted for under cash flow hedges (see note 15).

Deferred tax is provided at 18% (2014: 20%) in the financial statements as follows:

	2015 £000	2014 £000
Tax losses	615	730
Deferred tax on revaluation of fair value of derivatives	2,059	2,544
	<hr/>	<hr/>
	2,674	3,274
	<hr/>	<hr/>

The deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

**Notes to the Financial Statements (continued)**

**14 Capital and reserves**

**Share capital**

	Ordinary Share 2015 No.	
On issue at 1 January	1	
Issued for cash	-	
On issue at 31 December – Unpaid	1	
	<hr/>	
	2015	2014
	£	£
<b><i>Allotted, called up and unpaid</i></b>		
1 ordinary shares at £1 each	1	1
	<hr/>	<hr/>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

***Cash flow hedging reserve***

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

## Notes to the Financial Statements *(continued)*

### 15 Financial instruments

#### *(a) Carrying amount of financial instruments*

The carrying amounts of the financial assets and liabilities include:

	2015 £000	2014 £000
Assets measured at amortised cost		
- Finance debtor	41,407	42,384
- Trade and other debtors	455	1,642
	<hr/> 41,862	<hr/> 44,026
Assets measured at cost less impairment		
- Cash and cash equivalents	3,521	4,050
	<hr/> 3,521	<hr/> 4,050
Liabilities measured at amortised cost		
- Trade and other payables	(636)	(2,525)
- Bank loan	(36,800)	(37,971)
- Subordinated debt	(3,213)	(3,360)
	<hr/> (40,649)	<hr/> (43,856)
Liabilities measured at fair value through profit and loss		
- Interest rate swap	(11,439)	(12,719)
	<hr/> (11,439)	<hr/> (12,719)

#### *(b) Financial instruments measured at fair value*

##### *Derivative financial instruments*

The fair value of the interest rate swap is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

## Notes to the Financial Statements *(continued)*

### 15 Financial instruments *(continued)*

#### *(c) Hedge accounting*

The following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS 102 29(a) for the cash flow hedge accounting models and also the associated cash flow hedging instruments are expected to affect profit and loss.

2015					
	Carrying Amount	Within 1 year	Between 1-2 years	Between 2-5 years	5 years and over
Interest Rate Swap	11,439	1,174	1,160	5,508	3,597
	<u>11,439</u>	<u>1,174</u>	<u>1,160</u>	<u>5,508</u>	<u>3,597</u>
	<u>11,439</u>	<u>1,174</u>	<u>1,160</u>	<u>5,508</u>	<u>3,597</u>
2014					
	Carrying Amount	Within 1 year	Between 1-2 years	Between 2-5 years	5 years and over
Interest Rate Swap	12,719	1,182	1,174	5,964	4,399
	<u>12,719</u>	<u>1,182</u>	<u>1,174</u>	<u>5,964</u>	<u>4,399</u>
	<u>12,719</u>	<u>1,182</u>	<u>1,174</u>	<u>5,964</u>	<u>4,399</u>

The Company has entered into an interest rate swap agreement under the bank loan which expires in April 2035. A fixed rate of 4.95% applies to all amounts drawn under the facilities plus the margins shown above. The interest rate swap converts the borrowings from the rates linked to LIBOR to the fixed rate above.

#### *(d) Fair values*

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2015 £000	2014 £000
Interest rate swap contract	<u>11,439</u>	<u>12,719</u>

## Notes to the Financial Statements *(continued)*

### 16 Related party disclosures

During the year payments were made by the Company to InfraRed Infrastructure Yield Holdings Limited, a 100% shareholder in the Company's immediate parent undertaking detailed below.

	Transactions		Balance owed to/(from) at year end	
	2015 £000	2014 £000	2015 £000	2014 £000
<b>Management services</b>				
- InfraRed Infrastructure Yield Holdings Ltd	-	21	-	-
<b>Directors' fees</b>				
- InfraRed Infrastructure Yield Holdings Ltd	42	21	-	-
<b>Subordinated debt, interest and redemptions</b>				
- InfraRed Infrastructure Yield Holdings Ltd	620	503	3,298	3,626
	<u>662</u>	<u>545</u>	<u>3,298</u>	<u>3,626</u>

### 17 Ultimate parent Company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of By Education (Lewisham) Holdings Limited which is incorporated in the United Kingdom.

The ultimate parent Company is InfraRed Capital Partners (Management) LLP incorporated in the United Kingdom.

The smallest and largest group in which the results of the Company are consolidated is that headed by By Education (Lewisham) Holdings Limited. The consolidated accounts of this group are available to the public and may be obtained from 46 Charles Street, Cardiff, CF10 2GE.



## Notes to the Financial Statements (continued)

### 18 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31<sup>st</sup> December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing the FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following tables.

#### Reconciliation of equity

	Note	1 January 2014		31 December 2014		FRS 102	FRS 102
		UK GAAP	Effect of transition to FRS 102	UK GAAP	Effect of transition to FRS 102		
		£000	£000	£000	£000	£000	£000
<b>Current Assets</b>							
Debtors (due within one year)		1,932	1,616	3,548	3,538	2,544	6,082
Debtors (due after more than one year)		42,354	-	42,384	41,407	-	41,407
Cash at bank and in hand		2,731	-	2,731	4,050	-	4,050
		47,047	1,616	48,663	48,995	2,544	51,539
<b>Creditors: amounts due within one year</b>		(8,859)	-	(8,859)	(11,867)	-	(11,867)
<b>Net current assets</b>		38,188	1,616	59,804	37,128	2,544	39,672
<b>Creditors: amounts falling due after more than one year</b>		(41,144)	(8,080)	(49,224)	(39,939)	(12,719)	(52,658)
<b>Net assets</b>		(2,956)	(6,464)	(9,420)	(2,811)	(10,175)	(12,986)
<b>Capital and reserves</b>							
Called up share capital	1	-	-	1	1	-	1
Cash flow hedge reserve	-	(6,464)	(6,464)	-	(10,175)	(10,175)	(10,175)
Profit and loss account	(2,957)	-	(2,957)	(2,812)	-	(2,812)	(2,812)
<b>Shareholders' deficit</b>		(2,956)	(6,464)	(9,420)	(2,811)	(10,175)	(12,986)

## Notes to the Financial Statements (continued)

### 18 Explanation of transition to FRS 102 from old UK GAAP (continued)

#### Notes to the reconciliation of equity

(a) The derivative held by the entity, being an interest rate SWAP contract has now been recognised in the balance sheet at its fair value under FRS102. These have been accounted for as a cash flow hedge and therefore been recognised in a separate cash flow hedge reserve.

(b) A deferred tax asset has been recognised on the fair value of the SWAP arrangements. This has been recognised within current assets and movements on the deferred tax is taken to the cash flow hedge reserve.

		2014	
	UK GAAP £000	Effect of transition to FRS102 £000	FRS 102 £000
<b>Turnover</b>	4,961	-	4,961
Cost of sales	(4,153)	-	(4,153)
<b>Gross profit</b>	808	-	808
Administrative expenses	(460)	-	(460)
<b>Operating profit</b>	348	-	348
Interest receivable and similar income	2,579	-	2,579
Interest payable and similar charges	(2,742)	-	(2,742)
<b>Profit on ordinary activities before taxation</b>	185	-	185
Tax on profit on ordinary activities	(40)	-	(40)
<b>Profit for the financial year</b>	145	-	145

#### Notes to the reconciliation of profit

No changes have been required to the profit and loss account through the transition to FRS 102.

### 19 Accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires management to make judgements estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis on making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

- Accounting for the service concession contract and finance debtors requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.