ByEducation (Lewisham) Limited

Strategic Report, Directors' Report and Financial Statements

Registered number: 05785531

31 December 2013

Strategic Report

The directors present their strategic report for ByEducation (Lewisham) Limited (the 'Company') for the year ended 31 December 2013.

Principal activities

The principal activity of the Company is the finance, design and construction, refurbishment and operation of the educational facilities under the Government's Private Finance Initiative ("PFI"). The Company continued with these activities throughout the year and will continue in this activity for the foreseeable future.

Review and analysis of the business during the current year

The Company has a project agreement with the Mayor and Burgesses of the London Borough of Lewisham (the 'Authority'), together with an associated construction contract, funding agreements and hard and soft services contracts ('the Project Agreement'). The Project Agreement requires the Company to finance, design, develop, construct, maintain and deliver three educational facilities within the London Borough of Lewisham for a primary term of 29 years and 9 months from the date of signing of the Project Agreement to 15 May 2036.

The results of the company are set out in the attached financial statements.

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. In the year ended 31 December 2013, deductions of £5,020 (2012: £7,492) had been levied which represents 0.2% (2012: 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 Project across its full term. The directors monitor actual financial performance against this anticipated performance. As at 31 December 2013, the Company's performance against this measure was satisfactory.

Position of the Company at the year end

The Company completed the construction phase of the contract on 27 February 2009. In the opinion of the directors the operating phase of the Project is performing satisfactorily.

Development and financial performance during the year

As reported in the Company's profit and loss account, revenue has decreased from £4,084,000 in 2012 to £3,071,000 in 2013 in line with expectations.

The loss for the year after taxation was £983,000 (2012: £75,000). Operations were in line with expectation for the period, compensation for the early redemption of subordinated debt was paid which has contributed to the loss of the year. The directors consider the results for the year satisfactory.

The balance sheet shows that the net carrying value of the Company's net liabilities at year end was £2,956,000 (2012: £1,973,000). The directors consider it reasonable to assume that the company has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements.

Principal risks and uncertainties

The Authority is the sole client of the Company but 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.

Strategic Report *(continued)*

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 issued 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 most important components of financial risk are credit risk and liquidity risk.

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.

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.

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. The subordinated debt is subject to bi-annual indexation calculated from an agreed formula based on the change in the Retail Prices Index (excluding mortgages). The indexation risk is offset by turnover being subject to similar indexation terms.

Approval

This report was approved by the board on 5/ 6/ 2014 and signed on its behalf by:

R Newton
Director
5/6/2014

46 Charles Street
Cardiff
CF10 2GE

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013.

Going Concern

Having made appropriate enquires the directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements. See Going Concern accounting policy on page 11 for further information.

Dividend

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2013 (2012: £Nil).

Future prospects

The Company will continue to provide and support the Authority in its expansion of the educational facilities under the PFI scheme.

Directors

The directors who served during the year were as follows:

G A Quaife
R Newton

Directors' indemnity

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Financial risk management policies and objectives

The Company's principal financial instruments comprise short term bank deposits, bank debt at LIBOR plus a bank margin with a swap contract in place to hedge interest rates and subordinated loan stock.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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)*

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.

Approved by the Board of Directors and signed on behalf of the Board

R Newton
Director
5/6/2014

46 Charles Street
Cardiff
CF10 2GE

Statement of Directors' Responsibilities in Respect of the Strategic Report, Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, 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).

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.

KPMG

Independent Auditor's Report to the Members of ByEducation (Lewisham) Limited

We have audited the financial statements of ByEducation (Lewisham) Limited for the year ended 31 December 2013 set out on pages 8 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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.

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 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 ByEducation (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 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.

Amanda Moses (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

10 June 2014

Profit and Loss Account
for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Turnover	2	3,071	4,084
Cost of sales		(2,764)	(3,302)
Gross profit		307	782
Administrative expenses		(392)	(591)
Operating (loss)/profit		(85)	191
Interest receivable and similar income	6	2,642	2,715
Interest payable and similar charges	7	(3,684)	(2,933)
Loss on ordinary activities before taxation	3	(1,127)	(27)
Tax on loss on ordinary activities	8	144	(48)
Loss for the financial year	13	(983)	(75)

The results above are all derived from continuing operations. There are no recognised gains or losses other than the loss for the financial year.

Movements in reserves are shown in note 13.

The notes on pages 11 to 16 form part of these financial statements.

Balance Sheet
as at 31 December 2013

	Note	2013 £000	2012 £000
Current assets			
Debtors (including £42,384,000 *(2012: £43,304,000)* due after more than one year)	*9*	44,316	45,525
Cash at bank and in hand		2,731	4,571
		47,047	50,096
Creditors: amounts falling due within one year	*10*	(8,859)	(9,065)
Net current assets		38,188	41,031
Creditors: amounts falling due after more than one year	*11*	(41,144)	(43,004)
Net liabilities		(2,956)	(1,973)
Capital and reserves			
Called up share capital	*12*	1	1
Profit and loss account	*13*	(2,957)	(1,974)
Shareholders' deficit		(2,956)	(1,973)

The notes on pages 11 to 16 form part of these financial statements.

These financial statements were approved by the board of directors on 5/6/ 2014 and were signed on its behalf by:

R Newton
Director

Reconciliation of Movements in Shareholders' Deficit
for the year ended 31 December 2013

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Loss for the financial year	(983)	(75)
Net increase in shareholders' deficit	(983)	(75)
Opening shareholders' deficit	(1,973)	(1,898)
Closing shareholders' deficit	(2,956)	(1,973)

The notes on pages 11 to 16 form part of these financial statements.

Notes to the Financial Statements

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Company and the fact the obligations of the Company's sole customer are underwritten by the Secretary of State for Education they believe that the Company will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

Finance debtor and services income

The Company is an operator of a PFI contract. The underlying asset is not deemed to be a tangible asset of the Company under FRS 5 Application Note F 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 finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G.

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

Taxation

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

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

Turnover

All turnover and profit on ordinary activities before taxation originates in the United Kingdom. Turnover is recognised in accordance with the finance debtor and services income accounting policy above and excludes VAT.

Notes to the Financial Statements *(continued)*

2 Analysis of turnover

	2013 £000	2012 £000
Services income	3,071	4,084

Services income relates to the facilities management at Greenvale School, Forest Hill Secondary School and Prendergast Ladywell Fields College.

3 Loss on ordinary activities before taxation

	2013 £000	2012 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Audit of these financial statements	7	7

4 Remuneration of directors

None of the directors received any emoluments from the company (2012: £Nil). However, a total payment of £132,000 (2012: 34,000) was made for the services of directors. See note 14 for details.

5 Staff numbers and costs

The Company had no employees during the year under review (2012: Nil).

6 Interest receivable and similar income

	2013 £000	2012 £000
Finance debtor interest	2,627	2,677
Bank interest	15	38
	2,642	2,715

7 Interest payable and similar charges

	2013 £000	2012 £000
Interest on bank loans	2,317	2,370
Interest on subordinated debt	1,207	418
Indexation on subordinated debt	123	108
Amortisation of debt issue costs	18	18
Other similar charges	19	19
	3,684	2,933

Notes to the Financial Statements *(continued)*

8 Taxation

	2013 £000	2012 £000
UK corporation tax		
Current tax on income for the year	-	-
Total current tax	-	-
Deferred tax		
Effect of change in future tax rate	81	55
Origination/reversal of timing differences	(225)	(7)
Tax on loss on ordinary activities	(144)	48

Factors affecting the tax charge for the current period

The current tax credit for the period is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%).

	2013 £000	2012 £000
Loss on ordinary activities before taxation	(1,127)	(27)
Current tax at 23.25% (2012: 24.5%)	(262)	(7)
Effect of:		
Tax losses carried forward	262	7
Total current tax charge (see above)	-	-

Deferred tax

The Company has accumulated losses of £3,850,000 (2012: £2,723,000) 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 provided at 20% (2012: 23%) in the financial statements as follows:

	2013 £000	2012 £000
Tax losses	770	626

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)*

8 Taxation *(continued)*

Factors that may affect future current and total tax charges

On 20 March 2013 the Chancellor proposed changes to further reduce the main rate of corporation tax by two per cent to 21 per cent on 1 April 2014 and by a further one percent to 20 per cent on 1 April 2015. This tax change became substantively enacted on 2 July 2013.

This will reduce the company's future tax charge accordingly and has reduced the deferred tax asset at the balance sheet date.

9 Debtors

	2013 £000	2012 £000
Finance debtor	43,304	44,171
Trade debtors	55	466
Prepayments and accrued income	187	262
Deferred taxation (see note 8)	770	626
	44,316	45,525

Debtors include finance debtor of £42,384,000 (2012: £43,304,000) due after more than one year.

10 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Bank loans	1,234	1,217
Subordinated debt	102	165
Trade creditors	154	661
Accruals and deferred income	1,078	1,179
Unitary charge control account	6,208	5,685
Other creditors	83	158
	8,859	9,065

11 Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Bank loans	38,342	39,576
Subordinated debt	3,191	3,835
Less: Unamortised issue costs	(389)	(407)
	41,144	43,004

Notes to the Financial Statements *(continued)*

11 Creditors: amounts falling due after more than one year *(continued)*

Analysis of debt:

	2013 £000	2012 £000
Debt can be analysed as falling due:		
- In one year or less, or on demand	1,336	1,382
- Between one and two years	1,318	1,392
- Between two and five years	3,843	4,012
- In five years or more	36,372	38,007
	42,869	44,793

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 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 4.945%.

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 commenced on 31 March 2009. During the year an additional principal repayment was made at the request of the loan note holder. Both principal repayments and interest are subject to indexation based upon RPI.

12 Called up share capital

	2013 £000	2012 £000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1	1

13 Profit and loss account

	2013 £000	2012 £000
At beginning of year	(1,974)	(1,899)
Loss for the financial year	(983)	(75)
At end of year	(2,957)	(1,974)

2

Notes to the Financial Statements *(continued)*

14 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.

In 2012 Bouygues Construction Investments (UK) Limited held a 15% shareholding and InfraRed (Infrastructure) Capital Partners Limited held 85% up until 18 December 2012 when InfraRed (Infrastructure) Capital Partners Limited became the sole shareholder and transferred the investment to InfraRed Infrastructure Yield Holdings Limited.

	Transactions		Balance owed to/(from) at year end	
	2013 £000	2012 £000	2013 £000	2012 £000
Management services				
- InfraRed (Infrastructure) Capital Partners Ltd	-	104	-	-
- InfraRed Infrastructure Yield Holdings Ltd	-	-	-	-
Directors' fees				
- InfraRed (Infrastructure) Capital Partners Ltd		34	-	91
- InfraRed Infrastructure Yield Holdings Ltd	132	-	-	-
Subordinated debt, interest and redemptions				
- Bouygues Construction Investments (UK) Ltd	-	79	-	-
- InfraRed (Infrastructure) Capital Partners Ltd	-	447	-	-
- InfraRed Infrastructure Yield Holdings Ltd	2,052	-	3,382	4,000
	2,184	664	3,382	4,091

15 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of ByEducation (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 ByEducation (Lewisham) Holdings Limited. The consolidated accounts of this group are available to the public and may be obtained from 21 St Thomas Street, Bristol, BS1 6JS.