By Education (Lewisham) Limited

Annual Report and Financial Statements
Registered No: 05785531

31 December 2020

Contents

Directors' Report
for the year ended 31 December 2020

The Directors present their annual report for By Education (Lewisham) Limited (the "Company") for the year ended 31 December 2020.

Principal activities and future developments

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 2020, deductions of £1,726 (2019: £1,356) had been levied which represents 0.03% (2019: 0.03%) 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 2020, the Company's performance against this measure was satisfactory and showed a marginal increase in profit and turnover.

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 2020

Principle risks and uncertainties (*continued)*

Brexit risk

The Company is exposed to Brexit risk as a result of the impact of the trade deal between the UK and the European Union. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. 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. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Covid 19 risk

The Company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Company itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The Company is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, 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. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

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.

Climate Change Risk

The Company is in the early stages of assessing the impact of climate change on the business. Initial assessments have not identified any climate change impact that would affect the going concern assumption.

Results and dividends

The results for the year are shown in the profit and loss account on page 9.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020 (2019: 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:

E J Beswetherick
R W Driver (resigned 15th June 2021)

Directors' Report *(continued)*
for the year ended 31 December 2020

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 international accounting standards in conformity with the requirements of the Companies Act 2006. Indemnity provision of this nature have been in place during the financial year but have not been utilised by the directors.

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 been prepared.

Employees

The Company has no employees (2019: Nil).

Political and charitable contributions

The Company made no political or charitable contributions during the year (2019:nil).

Disclosure of information to auditor

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

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

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 2021 and signed on its behalf by:

Elizabeth Jo Beswetherick

Jo Beswetherick (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 UK accounting standards and applicable law (UK 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;
- 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of By Education (Lewisham) Limited ("the company") for the year ended 31 December 2020, which comprise the Profit and Loss Account and Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 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 the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent turnover recognition, in particular profit is inappropriately recognised on costs unrelated to the service concession contract and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Recalculating service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for

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

preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Directors' report

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

Our responsibility is to read 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. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

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 By Education (Lewisham) Limited *(continued)*

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.

Andrew Gordon

Andrew Gordon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Regus, 4th Floor
Salt Quay House
6 North East Quay
Plymouth, PL4 0HP
United Kingdom
30 June 2021

Profit and Loss Account and Statement of Other Comprehensive Income

For the year ended 31 December 2020

	Note	Year Ended 31 December 2020 £000	Year Ended 31 December 2019 £000
Turnover	2	5,274	4,890
Cost of sales		(4,216)	(3,938)
Gross profit		1,058	952
Administrative expenses		(506)	(440)
Operating profit		552	512
Interest receivable and similar income	6	2,180	2,265
Interest payable and similar expenses	7	(2,507)	(2,322)
Profit before taxation	3	225	455
Tax on profit	8	(41)	(86)
Profit for the financial year		184	369
Other comprehensive income			
Items that will or may be reclassified to profit or loss			
Effective portion of fair value changes in cash flow hedges	15	(1,043)	(440)
Tax recognised in relation to cash flow hedges	8	430	75
Other comprehensive income for the year		(613)	(365)
Total comprehensive income for the year		(429)	4

The notes on pages 12 to 25 form part of these financial statements.

Balance Sheet
As at 31 December 2020

	Note	2020 £000	2019 £000
Current assets			
Debtors (including £34,141,000 (2019: £35,540,000) due after more than one year)	9	38,690	39,544
Cash at bank and in hand		3,095	4,116
		41,785	43,660
Creditors: amounts falling due within one year	10	(8,974)	(9,601)
Net current assets		32,811	34,059
Creditors: amounts falling due after more than one year	11	(44,521)	(45,340)
Net liabilities		(11,710)	(11,281)
Capital and reserves			
Called up share capital	14	1	1
Profit and loss account		(1,467)	(1,651)
Cash flow hedge reserve		(10,244)	(9,631)
Total shareholders' deficit		(11,710)	(11,281)

The notes on pages 12 to 25 form part of these financial statements.

These financial statements were approved by the board of directors on 29 June 2021 and were signed on its behalf by:

Elizabeth Jo Beswetherick

Jo Beswetherick
Director

46 Charles Street
Cardiff
CF10 2GE

Co Reg 05785531

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 2019	1	(9,266)	(2,020)	(11,285)
Total comprehensive income for the period				
Profit for the year	-	-	369	369
Other comprehensive income	-	(365)	-	(365)
Total comprehensive income for the period	-	(365)	369	4
Balance at 31 December 2019	1	(9,631)	(1,651)	(11,281)

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 January 2020	1	(9,631)	(1,651)	(11,281)
Total comprehensive income for the period				
Profit for the year	-	-	184	184
Other comprehensive income	-	(613)	-	(613)
Total comprehensive income for the period	-	(613)	184	(429)
Balance at 31 December 2020	1	(10,244)	(1,467)	(11,710)

The notes on pages 12 to 25 form part of these financial statements.

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, domiciled and registered in England and Wales 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 have been applied. The presentation currency of these financial statements is in sterling and rounded to the nearest thousand.

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.

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 18.

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)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

1.2 Going concern

The Company has net liabilities of £11,710,000 as at the 31st December 2020 and generated a profit for the year ended of £184,000. Net Liabilities are partly due to the cashflow hedge reserve which is expected to unwind over the life of the concession, and due to the early redemption of sub debt principal and accompanying interest. This payment was made after reviewing the financial model and agreeing with the Royal Bank of Scotland (the 'bank') that the repayments would not affect the company's ability to settle future liabilities. 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.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides including the impact of COVID-19, the Company will have sufficient funds to meet its liabilities as they fall due for that period and to operate within the covenants on its borrowings.

Specifically, the directors have considered if, in modelled severe but plausible downside scenarios, the level of operational performance of the Company would lead to service failure points being awarded against the Company in accordance with the terms of the Company's contract with London Borough of Lewisham Council sufficient to cause an event of default under the terms of the terms of the Company's external borrowings. To date, taking into account the effect of COVID-19 there has been no material adverse impact on the Company's cashflows, or the service levels provided and no indication of heightened risk of subcontractor failure. As a result, the cashflow forecasts indicate that, even in downside scenarios, the Company will be able to meet its liabilities as they fall due.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements 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 Classification of financial instruments issued by the Company

In accordance with FRS 102.22 financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

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

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

Notes to the Financial Statements *(continued)*
(forming part of the financial statements)

1. Accounting policies (*continued*)

1.3 ***Classification of financial instruments issued by the Company*** (continued)

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amount presented in these financial statements for called up share capital and share premium account exclude amount in relation to those shares.

1.4 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 interest 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 under the terms of its Accounts Agreement to keep a separate cash reserve in respect of future major maintenance costs and financing costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance amounts to £1,953,000 at the year end (2019: £1,832,000) and are classed as callable on demand.

1.5 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)*
(forming part of the financial statements)

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.

1.6 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.

1.7 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. On transition to FRS102, the Company took the opportunity to grandfather the accounting treatment adopted under old UK GAAP.

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.

Notes to the Financial Statements (continued)

1 Accounting policies *(continued)*

1.8 Interest receivable and Interest payable

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

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.

1.10 Service Concession

The company is an operator of a Public Finance Initiative ("PFI") contract. The company entered into a project agreement (the "contract") with London Borough of Lewisham Authority (the "Authority") to Design, construct and provide Hard FM operations of the Lewisham schools (Forest Hill, Greenvale and PLFC). The contract negotiations were successfully completed on 3rd August 2006 and construction commenced immediately., The project has been fully operational since 3rd February 2009. The concession period is for 26 years 6 1/2 months, during this period the company has contracted Bouygues to provide hard FM, soft FM services and lifecycle services to the Authority. Lifecycle risk is taken by Bouygues and invoiced monthly in accordance with a schedule of monthly lifecycle costs. The accounting treatment adopted is to recognise lifecycle costs as invoiced and recognise revenue accordingly.

The Contract entitles the Authority to a share in any savings made by the company on the actual insurance premiums incurred versus those assumed during the contract negotiations. Any savings are shared with the Authority on a biennial basis.

The Authority are entitled to terminate the Contract at any time by giving 6 months written notice. If the Authority exercise this right they are liable to pay the company compensation as set out in the Contract, which would include the senior debt, redundancy costs and other Facilities Management provider losses and the market value of the subordinated debt and shareholder equity.

As the company entered into the contract prior to the date of transition to FRS102, the company has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, he underlying asset is not deemed to be an asset of the company under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

Notes to the Financial Statements *(continued)*

2 Analysis of turnover

	2020 £000	2019 £000
Service Charge	5,045	4,610
Pass Through	229	280
Services income	5,274	4,890

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom.

3 Auditor's remuneration

	2020 £000	2019 £000
Audit of these financial statements	18	17

4 Remuneration of directors

None of the directors received any emoluments from the Company (2019: £NIL). However, a total payment of £48,231 (2019: £47,044) was made to a related undertaking for the services of the directors. See note 16 for details.

5 Staff numbers and costs

The Company had no employees during the year under review (2019: none).

6 Other Interest receivable and similar income

	2020 £000	2019 £000
Finance debtor interest	2,176	2,252
Bank interest	4	13
	2,180	2,265

Notes to the Financial Statements *(continued)*

7 Interest payable and similar expenses

	2020 £000	2019 £000
Interest on bank loans	1,864	1,943
Interest and Indexation on subordinated debt	621	356
Other similar expenses	22	23
	2,507	2,322

Of the above £621,000 (2019: £356,000) was payable to group undertakings.

8 Taxation

	2020 £000	2019 £000
Total tax expense recognised in the profit and loss account, other comprehensive income and equity		
Current tax	-	-
Total current tax	-	-
Deferred tax (See Note 13)		
Effect of change in future tax rate	(2)	-
Origination/reversal of timing differences	(514)	(31)
Total deferred tax	(516)	(31)
Total tax	(516)	(31)

Reconciliation of effective tax rate

	2020 £000	2019 £000
Profit	184	369
Total tax expense	41	86
Profit excluding taxation	225	455
Tax using the UK corporation tax rate of 19% (2019: 19%)	43	86
Effect of change in future tax rate	(2)	-
Total tax expense included in profit or loss	41	86

Notes to the Financial Statements *(continued)*

8 Taxation (*continued)*

	2020			2019		
	Current Tax £'000	Deferred Tax £'000	Total Tax £'000	Current Tax £'000	Deferred Tax £'000	Total Tax £'000
Recognised in Profit and loss account	-	41	41	-	86	86
Recognised directly in equity	-	(429)	(429)	-	(75)	(75)
Release	-	(128)	(128)	-	(42)	(42)
Total Tax	-	(516)	(516)	-	(31)	(31)

Factors that may affect future current and total tax charges

The March 2020 Budget announced that a rate of 19% would continue to apply with effective from 1 April 2020, and this change was substantively enacted on 17 March 2020. The March 2021 Budget announced that a rate of 25% would apply from 1 April 2023, and this change was substantively enacted on 3 March 2021. This will increase the group's future current tax charge accordingly.

9 Debtors

	2020 £000	2019 £000
Finance debtor	35,540	36,858
Trade debtors	266	243
Prepayments and accrued income	13	88
Deferred tax asset	2,871	2,355
	38,690	39,544

Debtors include financial debtor of £34,141,000 (2019: £35,540,000) due after more than one year.

10 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Bank Loans	1,215	1,163
Subordinated debt	51	67
Trade creditors	377	462
Accruals and deferred income	970	1,078
Unitary charge control account	6,291	6,763
Other creditors	70	68
	8,974	9,601

The Bank loan falling due within one year includes a reduction for Unamortised issue costs £18,000 (2019: £17,000).

Notes to the Financial Statements *(continued)*

11 Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Bank Loans	29,769	30,983
Subordinated debt	2,105	2,753
Other financial instruments (note 15)	12,647	11,604
	44,521	45,340

The Bank loan falling due after more than one year includes a reduction for Unamortised issue costs £246,000 (2019: £264,000).

12 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings.

	2020 £000	2019 £000
Creditors falling due more than one year		
Bank loan	29,769	30,983
Subordinated debt	2,105	2,753
Creditors falling due within less than one year		
Bank loan	1,215	1,163
Subordinated debt	51	67

Analysis of debt:	2020 £000	2019 £000
Debt can be analysed as falling due:		
- In one year or less, or on demand	1,284	1,264
- Between one and two years	1,294	1,292
- Between two and five years	4,394	4,157
- In five years or more	26,168	28,253
	33,140	34,966

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	2020 £'000	2019 £'000
Bank Loan	GBP	Libor + 4.945%	2035	Semi annual	31,230	32,427
Subordinated Debt	GBP	10.30%	2035	Semi annual	2,156	2,820

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 31st 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%.

Following the FCA's announcement that LIBOR will no longer be published after 31 December 2021, the Company has applied the December 2019 Amendments to FRS 102: Interest rate benchmark reform. The amendments provide relief in applying the requirements of hedge accounting to certain hedges, including allowing the Company to assume that interest rate benchmarks on which hedged cash flows are based (e.g. LIBOR) will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place and no additional ineffective portion of the hedge has been recognised. The Company has taken advantage of these amendments in relation to the LIBOR interest rate noted above. The transition from LIBOR has not yet occurred but is expected to occur prior to 31 December 2021.

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 £2,470,000 (2019: £2,580,000) 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 19% (2019: 17%) in the financial statements as follows:

	2020 £000	**2019 £000**
Tax losses	469	383
Deferred tax on revaluation of fair value of derivatives	2,402	1,972
	2,871	2,355

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 2020 No.
On issue at 1 January	1,000
Issued for cash	-
On issue at 31 December	1,000

	2020 £	2019 £
Allotted, called up and unpaid		
1000 ordinary shares at £1 each	1,000	1,000

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.

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;

	2020 £000	2019 £000
Assets measured at amortised cost		
- Finance debtor	35,540	36,858
- Trade and other debtors	266	242
	35,806	37,100
Assets measured at cost less impairment		
- Cash and cash equivalents	3,095	4,116
	3,095	4,116
Liabilities measured at amortised cost		
- Trade payables	(377)	(462)
- Bank loan	(31,230)	(32,427)
- Subordinated debt	(2,156)	(2,820)
	(33,763)	(35,709)
Liabilities measured at fair value through profit and loss		
- Interest rate swap	(12,647)	(11,604)

(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.

(c) Hedge Accounting

The cashflows on loan and interest rate swaps are paid semi-annually on the 31st March and 30th September each year and expire on the 30th April 2035.

On 3rd August 2006 the Company entered into an interest rate swap arrangement with third parties for the notional amount of the company's variable rate borrowings which has the commercial effect of swapping variable rate interest coupon on the loan for a fixed rate coupon of 4.945%

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.

Notes to the Financial Statements *(continued)*

(d) Fair values

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

	2020 £000	2019 £000
Interest rate swap contract	12,647	11,604

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	
	2020 £000	2019 £000	2020 £000	2019 £000
Directors' fees				
- InfraRed Infrastructure Yield Holdings Ltd	48	47	-	-
Subordinated debt, interest and redemptions				
- InfraRed Infrastructure Yield Holdings Ltd	621	450	2,220	2,893
	669	497	2,220	2,893

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. Registered office 46 Charles Street, Cardiff, CF10 2GE.

By Education (Lewisham) Holdings Limited is a subsidiary of InfraRed Infrastructure Yield Holdings Limited incorporated in England and Wales, registered office 1 Bartholomew Close, Barts Square, London, EC1A 7BL.

InfraRed Capital Partners (Management) LLP incorporated in England and Wales, registered office 1 Bartholomew Close, Barts Square, London, EC1A 7BL, is the ultimate majority shareholder of By Education (Lewisham) Limited.

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 its registered office 46 Charles Street, Cardiff, CF10 2GE.

Notes to the Financial Statements *(continued)*

18 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.

Areas of accounting judgement or estimation uncertainty in applying accounting policies are described below:

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

- Facilities management costs are a significant proportion of future expenditure and are subject to the risk that labour cost inflation exceeds RPI. Given the length of the Company's service concession contract, the forecast of FM costs is subject to significant estimation uncertainty and changes in the amount of expenditure could have material impacts on service margins.