

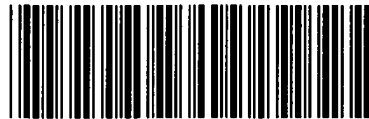
Company Registration No. 05884160

**Partners For Improvement in Islington 2
Limited**

Report and Financial Statements

Year ended 31 March 2019

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Partners For Improvement in Islington 2 Limited
REPORT AND FINANCIAL STATEMENTS 2019

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Partners For Improvement in Islington 2 Limited

REPORT AND FINANCIAL STATEMENTS 2019

OFFICERS AND PROFESSIONAL ADVISERS

Directors

Martin T. Smith
Karen M. Hill
Vikki L. Everett
Simon W. Vevers
Charlotte S. Douglass

Secretary

Vistra Company Secretaries Limited

Registered Office

4-6 Colebrooke Place
London
N1 8HZ

Bankers

Bank of Scotland Plc
New Ueberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

Solicitors

Squire Patton Boggs (UK) LLP
7 Devonshire Square
London
EC2M 4YH

Auditor

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Victoria House
199 Avebury Boulevard
Milton Keynes
MK9 1AU

Partners For Improvement in Islington 2 Limited

STRATEGIC REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 2019. Partners For Improvement in Islington 2 Limited ('Partners 2') was incorporated on 24 July 2006.

Business review

Partners 2 is a wholly owned subsidiary of PFI Islington 2 (Holdings) Limited. It was set up in July 2006 in order to deliver the contract entered into with Islington Council (the 'Council') on 15 September 2006 to improve, manage and maintain 4,043 council owned street properties for a period of 16 years through a social housing Private Finance Initiative (PFI). This PFI is a government programme aimed at bringing investment into Council-owned properties. It is an alternative to stock transfer such that all of the properties stay under the Council's ownership.

Partners 2's principal activities are to carry out refurbishment works, repairs and housing management services to the properties it manages.

The refurbishment works were completed in March 2012, and since then Partners 2's focus has been on providing an ongoing repairs service (including major works and cyclical works as required), lifecycle and housing management service.

In 2018/19, turnover recognised was £26.0m (2017/18: £25.1m), with a profit after tax of £3.7m (2017/18: £3.4m). This is consistent with specific PFI accounting treatments and is in line with the contractual Financial Model which assures the financial viability of the project over the term of the contract.

Dividends of £1.4m (2017/18: £1.7m) have been paid or approved by the shareholders at the Board meeting during the period.

In 2018/19, Partners 2 continued to perform well and deliver a good service against our contractual service targets, with all of KPI targets exceeded for the year. Of particular note was the achievement of the following: completion of 99.85% of responsive repairs within target timescales; customer satisfaction with repairs of 96.39%; average relet times of 25 days; compliance with anti social behaviour and harassment requirements 100%; compliance with tenancy audit requirements 99.64%.

Various actions have been undertaken to ensure the service continues to evolve and improve. Our Housing Management team was redesigned to increase the volume of customer queries resolved at the first point of contact. Our Repairs team introduced automated replenishment of van stock for repairs operatives to increase the proportion of repairs which are completed at the first visit. Customer satisfaction surveys and a range of internal quality audits were completed to manage service quality.

We continued to prioritise management of health and safety. Our health and safety management policy was reviewed, our regular health and safety reporting was enhanced, and we accelerated our programme of work to complete the acquisition of keys for all internal communal areas.

We carried out further work to improve and maintain our properties and deliver major cyclical works to our properties in 2018/19. This programme will continue in a planned approach in 2019/20 and the following years.

Future development

In 2019/20, we will continue to work closely with our residents and subcontractors to consider further ways to improve services to residents. The aim is to ensure that the excellent performance already being delivered in many areas of our business is maintained, and to ensure that all teams work effectively together delivering a joined-up service to our tenants and leaseholders. We will also continue to work closely with the Council and other stakeholders to plan for the successful completion of the project in 2022.

Partners For Improvement in Islington 2 Limited

STRATEGIC REPORT (continued)

Principal risks and uncertainties

Since Partners 2 is set up to deliver a fixed contract, risk is limited to areas not adequately covered in the contract and non-delivery of the contract by Partners 2 and its sub-contractors. Partners 2 manages these risks by monitoring performance outcomes and indicators on a regular basis, by liaising with and monitoring of sub-contractors, and by ongoing reference to the contract documents.

The key risks currently identified by the Board are: risks associated with fire safety which are to be addressed by Council's planned fire safety improvement works; potential changes in law requiring capital expenditure such as changes to Building Regulations which may lead to additional costs; and risks of subcontractors being affected by external factors in a way which impacts their performance on the contract. The Board have put in place mechanisms to manage these risks communicating closely with the Council about its plans; modelling and monitoring the impact of legislative changes and regular liaison with the Council; ensuring that the performance achievements in the delivery of our services are closely monitored and managed; programmes of internal quality audits; and continuing to improve wider communications to ensure that stakeholders are fully informed of improvements that are being made.

Partners 2 is financed by loans, on which interest payable has mainly been fixed through interest rate swaps, and contracted income. It therefore has limited interest rate exposure and no risk of fluctuating demand for its services.

Other risks are identified and managed by reference to Partners 2's Risk Management Strategy.

Key performance indicators (KPIs)

Partners 2 reports its performance against 15 contractual KPIs on a regular basis. For the year, all targets were exceeded, with average performance as follows:

	Performance 18/19	Target
% of individual repairs completed within timescales	99.85%	95.00%
% of communal repairs completed within timescales	100%	95.00%
Tenant satisfaction with repairs	96.39%	75.00%
Average relet times (days)	25.56	27.00
% of gross annual rent roll collected	99.21%	96.00%
Compliance with nuisance and harassment requirements	100.00%	100.00%
Compliance with Tenancy changes requirements	96.61%	95.00%
Compliance with Tenancy audit requirements	99.64%	95.00%
Compliance with compensation requirements	97.47%	95.00%
Compliance with OOH telephony requirements	87.40%	80.00%
Compliance with electronic access services requirements	98.75%	90.00%
Correspondence answered <10 working days	96.92%	96.00%
Complaints answered <15 working days	97.56%	96.00%
Members enquiries answered <10 working days	100.00%	96.00%
Compliance with service & performance information	100.00%	95.00%

Partners For Improvement in Islington 2 Limited

STRATEGIC REPORT (continued)

Key performance indicators (continued)

Obligations for service delivery are passed on to, and effectively managed by, Partners 2's sub-contractors. Any performance deductions relating to failure to meet KPI targets are similarly passed on to Partners 2's sub-contractors to the extent they fall under their area of service.

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

A handwritten signature in black ink, appearing to read 'K Hill', written over a horizontal line.

Karen Hill
Director

Date: 26 September 2019

Partners For Improvement In Islington 2 Limited

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2019.

The Board

The Board consists of five directors and is responsible for the effective control and proper management of the organisation. The Board delegates some of its responsibilities to executive managers who report to the Board at each meeting where their recommendations are fully considered and approved where appropriate. Quarterly Board meetings have been held throughout the financial year.

Corporate governance

The Board is committed to ensuring that high standards of corporate governance operate throughout Partners 2.

Internal control

The Board is ultimately responsible for ensuring that Partners 2 establishes and maintains an effective system of internal controls:

- The Board has identified and evaluated all key risks. These risks are assessed on a continual basis and the evaluation focuses on a variety of different risks that the organisation faces.
- Written policies and procedures have been approved in line with contractual and statutory obligations.
- Budgets are prepared on an annual basis and compared with actual and forecast expenditure monthly, allowing the Board and managers to monitor key business and financial risks.

Financial risk management objectives and policies

- Partners 2 uses various financial instruments including loans, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise funds for Partners 2's operations. All of Partners 2's financial instruments are of sterling denomination and Partners 2 does not trade in financial instruments or derivatives.
- The existence of these financial instruments exposes Partners 2's to a number of financial risks, which are described in more detail below. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from the previous year.

Interest rate risk

Partners 2 finances its operations through a mixture of retained profits, related party borrowings and bank borrowings. Its exposure to interest rate fluctuations on its bank borrowings is managed by the use of interest swaps which fix variable interest rates for a period of time.

Partners For Improvement in Islington 2 Limited

DIRECTORS'REPORT (continued)

Liquidity risk

Partners 2 seek to manage financial risk by ensuring sufficient liquidity are available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably. The maturity of borrowings is set out in note 13 to the financial statements.

Future development

Partners 2 will continue delivering services to residents of the Council-owned properties via the 16-year PFI contract ending in 2022. Please refer to Strategic report on page 2 for further information of future development.

Directors and their interests

The directors of Partners 2 during the year and subsequently appointed were:

Martin T. Smith
Karen M. Hill
Vikki L. Everett
Simon W. Vevers
Charlotte S. Douglass (appointed 01 May 2019)
David K. Gannicott (resigned 31 March 2019)
Matthew J. McIntock (resigned 30 April 2019)

None of the directors had any beneficial interest in the shares of Partners 2, which is required to be disclosed under Companies Act 2006.

Auditor

Following a tender for audit services, Grant Thornton UK LLP was appointed auditors on 5 October 2017 for a period of three years.

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



Karen Hill
Director

Date: 26 September 2019

Partners For Improvement in Islington 2 Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) 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 and profit or loss of Partners 2 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 accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Partners 2 will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain Partners 2's transactions and disclose with reasonable accuracy at any time the financial position of Partners 2 and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of Partners 2 and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that so far as each of the directors is aware:

- there is no relevant audit information of which Partners 2's auditors are unaware;
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that Partners 2's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on Partners 2's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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



Karen Hill
Director

Date: 26 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARTNERS FOR IMPROVEMENT IN ISLINGTON 2 LIMITED

Opinion

We have audited the financial statements of Partners For Improvement In Islington 2 Limited (the 'company') for the year ended 31 March 2019 which comprise statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and strategic report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARTNERS FOR IMPROVEMENT IN ISLINGTON 2 LIMITED (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARTNERS FOR IMPROVEMENT IN ISLINGTON 2 LIMITED (continued)

Use of our report

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.



Christopher Frostwick
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Milton Keynes

Date: 27 September 2019

Partners For Improvement in Islington 2 Limited

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 March 2019

	Note	2019 £	2018 £
Turnover	3	26,025,964	25,085,845
Cost Of Sales		(18,171,646)	(17,772,614)
Gross Profit		<u>7,854,318</u>	<u>7,313,231</u>
Administrative Expenses		(2,260,437)	(2,016,065)
Operating Profit	4	<u>5,593,881</u>	<u>5,297,166</u>
Interest Receivable And Similar Income	6	1,740,295	2,043,137
Interest Payable And Similar Charges	7	(2,820,087)	(3,108,529)
Profit On Ordinary Activities Before Taxation		<u>4,514,089</u>	<u>4,231,774</u>
Tax On Profit On Ordinary Activities	9	(858,033)	(800,968)
Profit On Ordinary Activities For The Financial Year		<u>3,656,056</u>	<u>3,430,806</u>
Other Comprehensive Income			
Fair value gains on hedging instrument	14	646,538	1,042,277
Total Comprehensive Income For The Financial Year		<u>4,302,594</u>	<u>4,473,083</u>
 Profit For The Financial Year attributable to: Owners of the parent		 <u>3,656,056</u>	 <u>3,430,806</u>
 Total Comprehensive Income For The Financial Year attributable to: Owners of the parent		 <u>4,302,594</u>	 <u>4,473,083</u>

All turnover and costs in the current period are derived from continuing activities.

The accompanying notes on pages 15 to 25 form an integral part of these financial statements.

Partners For Improvement in Islington 2 Limited
Company Registration No. 05884160

STATEMENT OF FINANCIAL POSITION
31 March 2019

	Note	2019 £	2018 £
Current assets			
Debtors: due within one year	10	14,304,728	14,451,604
Debtors: due after one year	11	31,114,117	44,408,205
Cash at bank and in hand		35,228,174	31,992,920
		<u>80,647,019</u>	<u>90,852,729</u>
Creditors: amounts falling due within one year	12	(45,353,368)	(46,242,913)
Net Current Assets		<u>35,293,651</u>	<u>44,609,816</u>
Creditors: amounts falling due after one year	13	(30,831,016)	(43,049,775)
Net assets		<u><u>4,462,635</u></u>	<u><u>1,560,041</u></u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Profit and loss account		5,158,097	2,902,041
Cash flow hedging reserve		(696,462)	(1,343,000)
Total shareholders'surplus		<u><u>4,462,635</u></u>	<u><u>1,560,041</u></u>

These financial statements were authorised and approved by the Board of Directors on 26 September 2019.

Signed on behalf of the Board of Directors



Karen Hill
Director

The accompanying notes on pages 15 to 25 form an integral part of these financial statements.

Partners For Improvement in Islington 2 Limited

STATEMENT OF CASHFLOWS 31 March 2019

	2019 £	2018 £
Cash flows from operating activities		
Profit for the financial year	3,656,056	3,430,806
Adjustments for:		
Interest paid	2,820,087	3,108,529
Interest received	(1,740,295)	(2,043,137)
Taxation	858,033	800,968
Decrease in debtors	13,224,919	12,245,441
Decrease in creditors	(5,533,780)	(4,879,323)
Cash from operations	9,628,964	9,232,478
Tax paid	(798,291)	(789,436)
Net cash generated from operating activities	12,486,729	11,873,848
Cash flows from investing activities		
Interest received	133,651	51,225
Net cash from investing activities	133,651	51,225
Cash flows from financing activities		
Repayment of Bank Loans	(5,132,229)	(4,384,123)
Interest paid	(2,852,897)	(3,118,007)
Dividends paid	(1,400,000)	(1,700,000)
Net cash used in financing activities	(9,385,126)	(9,202,130)
Net increase in cash at bank and in hand	3,235,254	2,722,943
Cash at bank and in hand at the beginning of year	31,992,920	29,269,977
Cash at bank and in hand at the end of year	35,228,174	31,992,920

The accompanying notes on pages 15 to 25 form an integral part of these financial statements.

Partners For Improvement in Islington 2 Limited

STATEMENT OF CHANGES IN EQUITY
31 March 2019

	Called-up share capital	Profit and loss account	Cash flow hedging reserve	Total
	£	£	£	£
At 1 April 2017	1,000	1,171,235	(2,385,277)	(1,213,042)
Profit for the year	-	3,430,806	-	3,430,806
Other comprehensive income	-	-	1,042,277	1,042,277
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	1,000	4,602,041	(1,343,000)	3,260,041
Dividends paid	-	(1,700,000)	-	(1,700,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2018	1,000	2,902,041	(1,343,000)	1,560,041
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2018	1,000	2,902,041	(1,343,000)	1,560,041
Profit for the year	-	3,656,056	-	3,656,056
Other comprehensive income	-	-	646,538	646,538
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	1,000	6,558,097	(696,462)	5,862,635
Dividends paid	-	(1,400,000)	-	(1,400,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2019	1,000	5,158,097	(696,462)	4,462,635
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 15 to 25 form an integral part of these financial statements.

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS

Year ended 31 March 2019

1. Accounting policies

Company Information

Partners 2 is a private company limited by shares and was incorporated in the United Kingdom. The registered office is 4-6 Colebrooke Place, London, N1 8HZ. Partners 2 is a subsidiary of PFI Islington 2 (Holdings) Limited.

Basis of preparation

These financial statements have been prepared, in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The financial statements are presented in Sterling (£).

Partners 2 has taken advantage of the exemption contained in section 33 of FRS 102 and have not disclosed transactions or balances with entities which form part of the Group.

Going concern

The directors have reviewed Partners 2's projected profits and cash flows which they have prepared on the basis of a detailed analysis of Partners 2's finances, contracts and likely future demand trends. After consideration of these projections, the directors consider that Partners 2 will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts derived from the provision of services which fall within Partners 2' ordinary activities, net of value of added taxes (VAT).

Income received from the Council in respect of service concession is allocated between revenue and capital repayment of, and interest income on, the Finance Debtor. Service revenue is recognised using percentage of completion method where total contract revenue and costs are estimated using financial model. Income received in advance from the Council is included within deferred income.

Capital contributions amounts received in advance have been included within deferred income and recognised over the life of the contract using a property specific rate.

Pass through income represents the direct pass through of recoverable costs, as specified in the Project Agreement.

Cost of sales

Cost of sales is measured as the amount of costs incurred in providing the services and management of properties.

Taxation

Current tax, UK corporation tax, is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2019

1. Accounting policies (continued)

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing differences.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax liabilities are presented within creditors and deferred tax assets within debtors.

The tax expense (income) is presented either in the statement of comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Leases

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Finance Debtor

The amounts spent on refurbishment of properties and the purchase of operating premises, under social housing Private Finance Initiative (PFI) agreement- with the Council, are capitalised during the initial refurbishment period as a finance debtor. Income received from the Council that relates to the finance debtor is split between interest and capital repayment and is allocated to accounting periods so as to give a constant periodic rate of return on the net cash investment in the finance debtor.

The finance debtor is classified as a service concession. As the private finance initiative (PFI) was entered into prior to FRS 102 coming into effect, Partners 2 has applied the transitional relief to continue using the provision of FRS 5 Application Note F. Under this application note, a financial asset is recognised at the outset and reduced in subsequent years as payments are received from the Council. In addition, finance income on this financial asset is recognised using the property specific rate of return. No adjustments are required to the stated financial statements.

Creditors

Trade and other short term creditors are measured at transaction price. Bank loans are measured initially at fair value, and are measured subsequently at amortised cost using the effective interest rate method.

Financial instruments

Other than interest rate swaps, Partners 2 only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued) **Year ended 31 March 2019**

1. Accounting policies (continued)

Derivative instruments

Partners 2 has entered into interest rate swaps with external parties to manage its exposure to changes in LIBOR rates. All derivative instruments are initially measured at fair value on the date the contract is entered into and subsequently re-measured to fair value at each reporting date. The gain or loss on re-measurement is taken to the statement of comprehensive income in finance cost or finance income as appropriate, unless they are included in a hedging arrangement.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of interest rate swap contracts are determined by calculating the present value of the estimated future cash flows using observable yield curves.

Hedging arrangements

Partners 2 applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. The Group designates all its derivative financial instruments, which meet the qualifying conditions for hedge accounting, as cash flow hedges.

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

Cash at bank and in hand

Cash at bank and in hand include cash in hand, deposits held at call with banks, other short term deposits with original maturities of three months or less and bank overdrafts.

Interest bearing loans and borrowings

Bank loans, and subordinated loan notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash flows through the effective life of the financial liability, or (where appropriate) a shorter year, to the net carrying amount on initial recognition.

Finance costs

Financing costs, comprising interest payable on bank loans and subordinated loan notes and the costs incurred in connection with the arrangement of borrowings are recognised in the statement of comprehensive income using the effective interest method.

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

Debt issue costs

The debt issue costs incurred have been offset against the related debt and will be charged to finance costs at a constant rate on the carrying value of the debt. If it becomes clear that the related debt will be redeemed early then the charge to finance costs will be accelerated.

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2019

2. Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying Partners 2's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are as follows.

Valuation of interest rate swaps

Partners 2 has entered into interest rate swaps to manage its exposure to variable interest rates.

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values of the swaps are based on mark to market valuations and are therefore sensitive to estimates of future yield curves.

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

Recognition of service concession contract revenues

Partners 2 uses percentage of completion method to recognise revenue as required by FRS 102. The method requires forecast of total contract revenue, costs and therefore mark up on costs that allows allocation of total contract unitary charge income from the Council to cover operating costs and capital costs. Partners 2 uses judgement in assessing the appropriateness of the future operating and capital costs that are included in Partners 2's forecasts assumptions over the remainder of the contract and will continue to undertake a regular review of these cost assumptions.

Recognition of deferred tax assets

Partners 2 uses judgement when it determines the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

3. Turnover

The turnover, all of which arises in the United Kingdom, is attributable to the provision of housing management services, responsive repairs, cyclical and lifecycle works provided under the contract.

4. Operating Profit

Operating profit is stated after charging:

	2019	2018
	£	£
Operating lease rentals – other	213,309	221,979
Auditors' remuneration – audit fees	15,680	15,680
– other services	5,120	5,120

The other services provided relate to tax compliance and iXBRL tagging services.

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2019

5. Staff numbers and costs

Partners 2 has no employees. Employees services are outsourced under project services contract with Hyde Housing Association Limited (refer to related parties note). The directors received no emoluments for their services (2017/18: Nil).

6. Interest receivable and similar income

	2019 £	2018 £
Bank interest	133,651	51,225
Gains on movement on derivatives (note 14)	128,840	150,469
Finance interest	1,477,804	1,841,443
	<u>1,740,295</u>	<u>2,043,137</u>

7. Interest payable and similar charges

	2019 £	2018 £
Bank loans, overdrafts and other loans	1,351,511	1,639,953
Amounts owed to Group undertakings	1,468,576	1,468,576
	<u>2,820,087</u>	<u>3,108,529</u>

8. Dividends

	2019 £	2018 £
Dividend paid to shareholders	<u>1,400,000</u>	<u>1,700,000</u>

9. Tax on profit on ordinary activities

The tax charge is based on the profit for the year and represents:

	2019 £	2018 £
U.K. corporation tax at 19% (2017/18: 19%)	832,333	774,891
Adjustments in respect of prior years	3,388	-
Total current tax	<u>835,721</u>	<u>774,891</u>
Deferred tax		
Timing differences, origination and reversal	22,312	26,077
Effect of tax rate change on opening balance	-	-
Tax on results on ordinary activities	<u>858,033</u>	<u>800,968</u>

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2019

9. Tax on profit on ordinary activities (continued)

Factors affecting tax charge for the current year

The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	4,514,089	4,231,774
Tax at 19% (2017/18: 19%) thereon	857,677	804,037
Effects of:		
- income not taxable for tax purposes	(24,887)	(28,589)
- fixed asset timing differences	(457)	(557)
- prior year adjustment	3,388	-
- deferred tax adjustment	22,312	26,077
Current tax charge for the year	858,033	800,968

Deferred tax

	2019 £	2018 £
Movement on deferred taxation balance in period		
Opening balance	340,552	580,108
Credit to profit and loss account	(22,312)	(26,077)
Credit to other comprehensive income	(132,423)	(213,479)
Closing balance	185,817	340,552

Analysis of Deferred Tax Balance

Capital allowances in excess of depreciation	1,860	2,268
Short term timing differences	183,957	338,284
Deferred tax asset	185,817	340,552

The aggregate deferred tax relating to items that are recognised as items of other comprehensive income is £142,649 (2017/18: £275,072).

10. Debtors due within one year

	2019 £	2018 £
Trade debtors	421,711	177,769
Finance debtor	13,144,845	12,770,548
Other debtors	233,298	584,623
Prepayments and accrued income	431,400	839,698
Deferred tax asset	73,474	78,966
	14,304,728	14,451,604

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued) Year ended 31 March 2019

11. Debtors due after one year

	2019 £	2018 £
Finance debtor	31,001,773	44,146,618
Deferred tax asset	112,344	261,587
	<u>31,114,117</u>	<u>44,408,205</u>

The Finance debtor and the movement of this balance can be considered as follows:

	2019 £	2018 £
Opening debtor	56,917,166	69,324,074
Capital element of payments received in the period	(12,770,548)	(12,406,908)
Closing finance debtor	44,146,618	56,917,166
Amount due within one year	(13,144,845)	(12,770,548)
Amount due after one year	<u>31,001,773</u>	<u>44,146,618</u>

In accordance with FRS 5 Application Note F, the finance debtor represents the refurbishment works-related expenditure incurred. The asset is reduced using a property-specific rate of return which the directors consider appropriate for the asset, as payments are received in the form of a unitary charge from the Council. The gross earnings in respect of the finance debtor are allocated to give a constant periodic rate of return on Partners 2's net cash investment.

12. Creditors: amounts falling due within one year

	2019 £	2018 £
Bank loans	7,316,372	5,494,231
Trade creditors	1,758,952	2,093,253
Other creditors	30,155,198	33,418,103
Accruals and deferred income	4,000,290	3,696,319
Amounts owed to the parent company	1,266,795	362,115
Corporation tax creditor	423,559	386,129
Financial Derivative Liability (note 14)	432,202	792,763
	<u>45,353,368</u>	<u>46,242,913</u>

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued)

Year ended 31 March 2019

12. Creditors: amounts falling due within one year (continued)

Other creditors include £19.4m (2017/18: £25.1m) which is related to the deferred unitary receipts which are recognised over the remaining term of the contract and £9.9m (2017/18: £7.7m) which is related to provision for lifecycle works.

13. Creditors: amounts falling due after more than one year

	2019 £	2018 £
Bank loans	11,001,564	18,042,565
Accruals and deferred income	8,787,497	12,513,333
Financial Derivative Liability (note 14)	649,898	1,197,139
Amounts owed to the parent company	10,392,057	11,296,738
	<u>30,831,016</u>	<u>43,049,775</u>

	2019 £	2018 £
Bank loans		
Due between two and five years	<u>11,001,564</u>	<u>18,042,565</u>

The Bank loan amount represents a senior debt facility from Bank of Scotland PLC in order to finance the improvement and refurbishment of the properties under the contract with the Council. The loan is secured by a fixed and floating charge over all the assets of Partners 2 and a charge over the shares of Partners 2. The loan is repayable in instalments based on an agreed repayment schedule bi-annually through to 2020.

Interest on the facility is charged at rates linked to LIBOR. Partners 2 has entered into fixed interest rate swap agreement with Bank of Scotland Treasury to mitigate its interest rate exposure. The resulting fixed interest rate on the facility, after taking into consideration the swap, is 6.6% per annum payable bi-annually. Accrued interest of £275,370 (2017/18: £362,001) is outstanding at 31 March 2019.

The amounts owed to the parent company represent a subordinated loan from the parent company, PFI Islington 2 (Holdings) Limited. The subordinated loan is unsecured and is subject to interest at 13% repayable bi-annually. The principal amount is repayable in instalments bi-annually through to 2022.

14. Financial Derivative Liability

	2019 £	2018 £
Financial liabilities at fair value	<u>1,082,100</u>	<u>1,989,902</u>

Partners 2 has entered into interest rate swaps with Bank of Scotland Treasury to manage its exposure to changes in LIBOR rates. This has been designated as a cash flow hedge and Partners 2 applies hedge accounting for the recognition of the fair value of the swap and the subsequent movements in

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued) Year ended 31 March 2019

14. Financial Derivative Liability (continued)

its fair value. The hedging relationship is considered as "partially effective". Changes in the fair value of the interest rate swap which are effective are recognised directly in equity. Changes, net of deferred tax, recognised in equity during the year to 31 March 2019 is £646,538 (2017/18: £1,042,277). Any ineffective portion in fair value changes is recognised in the income statement and the amount recognised as at 31 March 2019 is a gain of £128,840 (2017/18: £150,469).

15. Called Up Share Capital

	2019 £	2018 £
Authorised, allotted and fully paid:		
1,000 ordinary shares of £1 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>

16. Reserves

Called-up share capital represents the nominal value of shares that have been issued.

Profit and loss account includes all current and prior period retained profits and losses.

Cashflow hedging reserve represents the fair value of the financial derivative net of deferred tax.

17. Operating lease commitments

Total commitments under non-cancellable operating leases of land and buildings are as follows:

	2019 Land & Building £	2018 Land & Building £
Leases which expire:		
Within one year	143,829	179,209
Within two to five years	235,742	379,570
	<u>379,571</u>	<u>558,779</u>

18. Related party disclosures

Partners 2 has sub-contracted to Hyde Housing Association Limited, a 10% shareholder of PFI Islington 2 (Holdings) Limited, the provision of the following services: housing management services of which the amount invoiced for the year ended 31 March 2019 is £3,745,776 (2017/18: £3,565,209); project services of which amount invoiced for the year ended 31 March 2019 is £774,212 (2017/18: £724,777); bought in services (specific contracted services such as provision of IT), of which the amount invoiced for the year ended 31 March 2019 is £411,817 (2017/18: £400,622). Partners 2 leases office space at 65 Roman Way from Hyde Housing Association Limited. The rent and charges paid for the year ended 31 March 2019 is £101,448 (2017/18: £80,581). Partners 2 owes £507,574 (2017/18: £612,488) to Hyde Housing Association Limited and Hyde Housing Association Limited owes £15,256 (2017/18: £20,237) to Partners 2 at the end of March 2019, where these amounts are included in debtors and creditors due within one year respectively.

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued) Year ended 31 March 2019

18. Related party disclosures (continued)

Partners 2 leases office space at 4-6 Colebrooke Place from Partners for Improvement in Islington Limited, a company under common ownership. The rent expenditure for the year ended 31 March 2019 is £66,800 (2017/18: £66,800).

Each shareholder of PFI Islington 2 (Holdings) Limited charges directors' fees. Palio (No 8) Limited directors' fees paid during the year are £27,149 (2017/18: £25,904). Aberdeen Infrastructure (No.3) Limited directors' fees paid during the year are £27,149 (2017/18: £25,904). Hyde Housing Association Limited directors' fees paid during the year are £13,574 (2017/18: £12,953).

Partners 2 is exempt from disclosing any transactions or balances with other members of the group headed by PFI Islington (Holdings) 2 Limited.

19. Ultimate parent company

Partners 2 is a wholly owned subsidiary of PFI Islington 2 (Holdings) Limited, a company incorporated in England. The smallest and largest group in which Partners 2 is included is that headed by PFI Islington 2 (Holdings) Limited. Consolidated accounts have been prepared for the current period. The accounts of PFI Islington 2 (Holdings) Limited are available to the public and may be obtained from 4-6 Colebrooke Place, London N1 8HZ.

Palio (No 8) Limited (previously United House Solutions Limited) and Aberdeen Infrastructure (No.3) Limited each own 45% and Hyde Housing Association Limited owns 10% of the share capital of PFI Islington 2 (Holdings) Limited.

20. Financial assets and liabilities

Financial assets measured at amortised cost

	2019	2018
	£	£
Finance debtor	44,146,618	56,917,166
Trade and other debtors	852,123	1,012,473
Cash at bank and in hand	35,228,174	31,992,920
	<u>80,226,915</u>	<u>89,922,559</u>

Financial liabilities measured at amortised cost

	2019	2018
	£	£
Bank loans	18,317,936	23,536,796
Trade creditors	1,758,952	2,093,253
Other creditors	10,729,794	8,290,120
Accruals	274,448	76,515
Amounts owed to parent company	11,658,852	11,658,852
	<u>42,739,982</u>	<u>45,655,536</u>

Partners For Improvement in Islington 2 Limited

NOTES TO THE ACCOUNTS (continued) Year ended 31 March 2019

20. Financial assets and liabilities (continued)

Financial liabilities measured at fair value through statement of comprehensive income

	2019	2018
	£	£
Derivative financial instruments	1,082,100	1,989,902
	<u>1,082,100</u>	<u>1,989,902</u>

The derivative financial instrument is an interest rate swap contract from Bank of Scotland Treasury, with an effective date 28 February 2007 and maturity date 31 December 2020.

Derivative financial instruments are measured at fair value. The fair value of the derivative financial instruments is determined using the discounted future cash flows methodology. Valuations for derivative financial instruments are based on counterparty valuations.

The movement in the fair value of the interest rate swap of £907,801 (2017/18: £1,406,225) is reported as follows:

The gain from the movement of £778,961 (2017/18: £1,255,756) related to the effectiveness of the hedge is reported directly in other comprehensive income;

The gain from the movement of £128,840 (2017/18: £150,469) related to the ineffectiveness of the hedge is reported in the statement of comprehensive income.