Focus Education (Lambeth) Limited

Directors' report and financial statements

Registered number 04257230

Year ended 31 December 2012

Contents

Company information

Non-Executive Directors

M A Donn
K W Gillespie
B Millsom
H Murphy
P P Ashbrook (appointed 9 January 2013)
M Turnbull Fox (resigned 24 December 2012)

Registered Office

3rd Floor, the Venus
1 Old Park Lane
Trafford
Manchester
M41 7HG

Registered Auditors

KPMG Audit Plc
St James' Square
Manchester
M2 6DS

Solicitors

Pinsent Curtis Biddle
Dashwood House
69 Old Broad Street
London
EC2M 1NR

Bankers

Bank of Scotland
Client Banking England
11 Earl Grey Street
Edinburgh
EH3 9BN

Company Secretary

Ailison Mitchell LLB ACIS
3rd Floor, The Venus
1 Old Park lane
Trafford M41 7HG

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

Principal activities

The principal activities of the company are to design, finance, construct and operate certain facilities and provide non educational services at the Lilian Baylis School in Lambeth for the period until 28 February 2030 under a concession agreement with The Mayor and Burgesses of the London Borough of Lambeth The agreement to provide the new school and associated facilities management was signed on 25 March 2003 Construction commenced in April 2003 and the school became operational on 4 January 2005

Business review

The results for the year are set out in the profit and loss account on page 8

Development and performance of the business

The project has now completed its seventh year of operations since the construction phase was completed Full operational services are now being provided and these are generally progressing well, with minimal performance deductions Construction of the new Sixth Form Extension was completed three weeks ahead of schedule and handed over to the council in August 2012

Principal risks and uncertainties

The availability fee and the majority of the costs are contractually linked to the RPI index A relatively small proportion of total costs are not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios The most significant of these costs is insurance, though claims history so far is good and current premium renewals have not been excessive

A small proportion of cash flow is derived from bank interest on cash balances The reduction in credit interest rates is therefore a risk to the business and its compliance with debt covenants

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator These are reported quarterly to the Board and have been small in relation to total unitary payments

Another key indicator is the ratio of operating cash flow to the senior debt service amount This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider

Proposed dividend and transfer to reserves

The company made a dividend payment in the year of £nil *(2011 £nil)* The profit for the year is £13,000 (*2011 £29,000 loss*)

Payments to creditors' policy

It is Company policy that payments to suppliers are made in accordance with agreed terms The average payment period to creditors amounted to 30 days *(2011 39 days)*

Directors and directors' interests

The directors who held office during the year are set out on page 1

Political and charitable contributions

There were no donations of a political or charitable nature made during the year *(2011 £nil)*

Financial instruments

The company's principal financial instruments comprise of a term loan and unsecured loan stock The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues arising from the concession

Directors' report *(continued)*

Financial instruments (continued)

The company does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities

Interest rate risk

The term loan is exposed to interest rate risk

The company has entered into a fixed interest rate swap to avoid volatility on debt service costs on its floating rate debt

The unsecured loan stock is not exposed to interest rate risk

Going concern

The directors have reviewed the net liabilities position at 31 December 2012 and believe that it will not impact on the ability of the company to continue trading for the foreseeable future and have therefore prepared the accounts on a going concern basis

Corporate Governance

The Company is committed to high standards of corporate governance, as are appropriate for the longer term obligations to finance, construct and operate non-educational services for the new school under the Private Finance Initiative programme

Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with the London Borough of Lambeth The Board has taken note of the UK Corporate Governance Code, as this has been introduced to apply to equity quoted plcs with certain reporting requirements, this company, not being an equity quoted plc, is not bound by the code's requirements but has voluntarily adopted those principles considered relevant

This report is a narrative on the principles of the corporate governance, as applied in this company It does not provide a detailed statement to identify those provisions of the new Code from which the company's governance differs

A *The Board*

1 The Board meets quarterly and reviews operating performance against the financial model and detailed management budgets This model incorporates all aspects of the strategic business plan and associated risks, all proposals for contract variations are vetted before approval against the model

The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project

2 The position of Chairman is rotated on a quarterly basis and the nominated chair leads the Board

3 The Board comprises 5 non-executive directors nominated by each participating shareholder

4 The Board receives quarterly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the school project

5 Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision

Directors' report *(continued)*

Corporate Governance *(continued)*

6 For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation

B *Remuneration*

No directors received remuneration directly from the subsidiary company The remuneration for the services of the Non-Executive Directors is set out in Note 4

C *Dialogue with Institutions*

The Board maintains regular liaison with Bank of Scotland as the senior funder on this project

D *Financial Reporting*

1 The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the Company and ensures that they are consistently applied

2 The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships

3 The Board has decided to undertake the role of an Audit Committee with all directors except the Executive Director The Audit Committee meets annually to review the Management Letter tabled by the Auditors

4 The Board continue to satisfy themselves that, given the contractual and long-term funding provisions, the Company will continue to trade as a going concern

E *Internal Controls*

1 The Board annually reviews the need for a formal internal audit function

2 The Board maintains a sound system of internal control to safeguard shareholders' investments and the company's assets

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 each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in the office

By order of the board

Alison Mitchell LLB ACIS
Secretary
24 April 2013

3rd Floor, The Venus
1 Old Park Lane
Trafford
Manchester

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)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They 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

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditor's report to the members of Focus Education (Lambeth) Limited

We have audited the financial statements of Focus Education (Lambeth) Limited for the Year ended 31 December 2012 set out on pages 8 to 17 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www frc org uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Focus Education (Lambeth) Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

John Costello (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

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Profit and loss account

for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Turnover	*2*	**4,902**	3,992
Net operating costs	*3*	**(4,878)**	(3,973)
Operating profit		**24**	19
Interest payable and similar charges	*6*	**(946)**	(982)
Other interest receivable and similar income	*7*	**920**	934
Loss on ordinary activities before taxation		**(2)**	(29)
Taxation	*8*	**15**	-
Retained profit/(loss) for the year	*16*	**13**	(29)

All amounts relate to continuing activities

The company has no recognised gains or losses other than the retained profit for the year and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the result as disclosed in the Profit and Loss account and the result on an unmodified historical cost basis

The notes on pages 11 to 17 form part of the financial statements

Balance sheet
at 31 December 2012

	Note	2012 £000	2011 £000
Current assets			
Debtors amounts falling due within one year	*10*	**834**	1,106
amounts falling due after more than one year	*10*	**12,334**	12,751
	9	**13,168**	13,857
Cash at bank and in hand		**1,922**	1,890
		15,090	15,747
Creditors amounts falling due within one year	*11*	**(1,783)**	(1,979)
Net current assets		**13,307**	13,768
Creditors: amounts falling due after more than one year	*12*	**(12,578)**	(13,090)
Provisions for liabilities and charges	*14*	**(892)**	(854)
Net liabilities		**(163)**	(176)
Capital and reserves			
Called up share capital	*15*	**10**	10
Profit and loss account	*16*	**(173)**	(186)
Shareholders' deficit		**(163)**	(176)

The notes on pages 11 to 17 form part of the financial statements

These financial statements were approved by the board of directors on 24 April 2013 and were signed on its behalf by

Director

K W. GILLESPIE

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2012

	2012 £000	2011 £000
Profit / (loss) for the financial year	**13**	(29)
Net increase / (reduction) to shareholders' funds	**13**	(29)
Opening shareholders' deficit	**(176)**	(147)
Closing shareholders' deficit	**(163)**	(176)

Notes
(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

As 100% of the Company's voting rights are controlled within the group headed by Consolidated Investment Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Consolidated Investment Holdings Limited, within which this Company is included, can be obtained from the address given in note 17

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Going concern

The company currently has £13,489,000 of total debt *(2011 £14,012,000)* The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities

The company has considerable financial resources together with long-term contracts with the Local Education authority As a consequence, the directors believe that the company is well placed to manage its business risks successfully

The company is dependent on support from Consolidated Investment Holdings Limited, its parent undertaking, for continued operation as a going concern The directors of Consolidated Investment Holdings Limited have confirmed their intention to support the company for at least the next 12 months and the foreseeable future

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Turnover

Turnover on operational services represents the value of work performed in the period under the concession agreement, together with any additional services provided

In the operational phase, the balance of unitary payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease) is accounted for as turnover This figure is adjusted in each period to ensure that income recognised more accurately reflects the value of economic benefits provided to the public sector client in each period, and is necessary due to the inflationary nature of the unitary payments As a consequence of this adjustment to turnover, which is generally positive in the first half of the concession and negative in the second half (and must net out over the whole concession), a unitary payment control account debtor is recorded on the balance sheet

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks and work in progress / amounts recoverable under contracts

Costs incurred in the construction of the schools have been accounted for under FRS 5 Application Note F Applying the guidance within the Application Note indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to The Mayor and Burgesses of the London Borough of Lambeth As such, all construction costs incurred on the project, including interest on finance up to the date of commission and incidental costs, are recorded as amounts recoverable under contracts during the construction phase of the project Costs are recognised as cost of sales to the extent that they relate to the value of work done in respect of turnover recognised

On the services commencement date, the amounts outstanding under the contract are transferred from amounts recoverable under contracts into a finance debtor

Finance lease debtor

Amounts receivable under the agreement with The Mayor and Burgesses of the London Borough of Lambeth relating to the school facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest Interest receivable is recognised over the period of the contract based on the interest rate implicit in the contract

Capitalisation of interest

Loan interest incurred during the construction of the schools is capitalised into the finance debtor

Amortisation of issue costs

Issue costs are deducted against debt and amortised over the life of the instrument This amortisation is charged to the profit and loss account when incurred

Taxation

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

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

Lifecycle costs

Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) 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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Notes *(continued)*

1 Accounting policies *(continued)*

Interest bearing borrowings

Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount

Impact of new accounting standards

Following the publication of FRS101 and 102 in early 2013, the Company is evaluating the impact that this will have on the financial statements in the future Whilst a detailed impact evaluation has not yet been carried out, the following high-level impacts have been identified

- Accounting for financial instruments will change the way in which the finance debtor and the loan balances are measured and this will affect the amount of interest credited and charged in the profit and loss account,
- Derivatives will be recorded at fair value on the balance sheet with changes in fair value being credited or charged to profit and loss, though hedge accounting may be available to mitigate the profit and loss impact

2 Analysis of turnover and profit on ordinary activities before taxation

	2012		2011	
	Turnover	**Attributable profit**	Turnover	Attributable loss
	£000	**£000**	£000	£000
Operational services	**1,150**	**13**	1,030	(29)
Construction	**3,752**	**-**	2,962	-
	4,902	**13**	3,992	(29)

3 Net operating costs

	2012	2011
	£000	£000
Service costs	**876**	762
Construction costs	**3,752**	2,962
Other charges	**242**	241
	4,870	3,965
Fees charged by auditors and their associates include		
Audit of these financial statements	**8**	8
	4,878	3,973

4 Remuneration of directors

	2012	2011
	£000	£000
Recharges in respect of directors' services	**89**	85

None of the directors received emoluments directly from the company or from the parent company *(2011 none)*

Notes *(continued)*

5 Staff numbers and costs

No staff are directly employed by the company *(2011 none)* Services provided by the contractors include the provision of staff and management to perform contractual responsibilities Costs associated with the staff and management are included within the contractors' service charges

6 Interest payable and similar charges

	2012 **£000**	2011 £000
Interest payable on bank loans	**703**	731
Amounts payable to group undertakings	**182**	184
Amortisation of issue costs	**44**	45
Other charges	**17**	22
	946	982

7 Other interest receivable and similar income

	2012 **£000**	2011 £000
Bank interest receivable	**32**	19
Finance debtor interest receivable	**887**	912
Other interest receivable	**1**	3
	920	934

8 Taxation

Analysis of charge / (credit) in year	**2012** **£000**	2011 £000
UK corporation tax		
Current tax charge on income for the year	**-**	-
Adjustment in respect of prior years	**(15)**	-
	(15)	-

Factors affecting the tax charge for the current year

The current tax charge for the year is lower *(2011 higher)* than the standard rate of corporation tax in the UK, 3 months at 26% and 9 months at 24% *(2011 26 5%)* The differences are explained below

	2012 **£000**	2011 £000
Current tax reconciliation		
Loss on ordinary activities before tax	**(2)**	(29)
Current tax at 24 5% *(2011 26 5%)*	**-**	(8)
Effects of		
Unutilised tax losses	**-**	8
Adjustment in respect of prior years	**(15)**	-
Total current tax (credit) / charge (see above)	**(15)**	-

Notes *(continued)*

8 Taxation *(continued)*

No deferred tax asset has been recognised due to the uncertainty of future profits There are tax losses of £49,500 available for offset against future trading profits (2011 £49,500)

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2011) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively This will reduce the company's future current tax charge accordingly

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge accordingly

9 Debtors

	2012 £000	2011 £000
Finance debtor	**12,751**	13,141
Trade debtors	**389**	694
Other debtors	**28**	22
	13,168	13,857

The ageing profile of the finance debtor is shown in note 10

10 Debtors: amounts falling due after more than one year

	2012 £000	2011 £000
Finance Debtor		
Amounts falling due after more than one year	**12,334**	12,751

	2012 £000	2011 £000
Amounts due within 1 year	**834**	1,106
1-2 years	**446**	417
2-5 years	**1,535**	1,434
Over 5 years	**10,353**	10,900
	13,168	13,857
Less amounts due within 1 year	**(834)**	(1,106)
Amounts falling due after more than one year	**12,334**	12,751

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Amounts owed to group undertakings	**30**	27
Trade creditors	**181**	413
Other taxes and social security	**92**	111
Accruals and deferred income	**338**	409
Senior loan	**526**	496
Other creditors	**616**	523
	1,783	1,979

12 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Senior loan	**11,107**	11,590
Amounts owed to group undertakings	**1,471**	1,500
	12,578	13,090

13 Analysis of debt

	2012 £000	2011 £000
Debt can be analysed as falling due		
In one year or less, or on demand	**556**	523
Between one and two years	**591**	556
Between two and five years	**2,012**	1,890
In five years or more	**10,330**	11,043
	13,489	14,012
Less issue costs	**(355)**	(399)
	13,134	13,613

The company has a term loan facility of £15,170,000 due for expiry 1 September 2027 secured by a fixed and floating charge over the assets of the group Until 31 December 2006, the rate paid was LIBOR plus a 1 05% margin This margin then changed to 0 85% and will remain at this level until 31 December 2019 Thereafter the margin will change to 0 95% The company has entered into a swap transaction resulting in interest being charged on this loan at a fixed rate of 5 08%

The subordinated debt is in respect of unsecured loan notes, which have been issued in respect of the project The loan notes are redeemable by 31 August 2029 and bear interest at 12%

Notes *(continued)*

14 Provisions for liabilities and charges

	Lifecycle maintenance £000
At beginning of year	854
Charge to the profit and loss for the year	165
Utilised during the year	(127)
At end of year	**892**

15 Called up share capital

	2012 £000	2011 £000
Allotted, called up and fully paid		
Equity 10,000 ordinary shares of £1 each	**10**	10

16 Reserves

	Profit and loss account 2012 £000
At beginning of year	(186)
Profit for the financial year	13
At end of year	**(173)**

17 Ultimate holding company

The Company is a subsidiary undertaking of Consolidated Investment Holdings Limited which is the ultimate parent company incorporated in England and Wales

The largest group in which the results of the Company are consolidated is that headed by Consolidated Investment Holdings Limited incorporated in England and Wales No other group financial statements include the results of the Company The consolidated financial statements of this group are available to the public and may be obtained from 3rd Floor, The Venus, 1 Old Park Lane, Trafford, Manchester, M41 7HG