

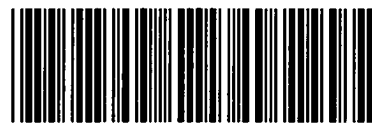
AMENDED

Company Registered No: **04533313**

Kajima North Tyneside Limited

**Annual Report and Financial Statements
for the year ended 31 December 2022**

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Kajima North Tyneside Limited

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Kajima North Tyneside Limited

Officers and professional advisers

Directors

G. Doctor (resigned 18 May 2022)
N. Poupard
D.J. Moss
G. Martina
C.M.D. Gill (resigned 24 May 2023)
A.J. McErlane (appointed 18 May 2022)
K.S. Hawkins (appointed 24 May 2023)

Company Secretary

J Cheadle

Registered office

10 St. Giles Square
London
United Kingdom
WC2H 8AP

Bankers

Nationwide Building Society

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Kajima North Tyneside Limited

Directors' report

The directors of Kajima North Tyneside Limited ("the company") present their annual report and the audited financial statements for the year ended 31 December 2022. This Directors' report has been prepared in accordance with the special provisions relating to small companies under Part 15 of the Companies Act 2006. No strategic report has been prepared, in accordance with the provisions applicable to companies entitled to the small companies exemption.

Business review and principal activities

The company is a wholly-owned subsidiary of Kajima North Tyneside Holdings Limited ("KNTHL").

The principal activity of the company is to develop and operate four schools for the North Tyneside Council under the UK Government's Private Finance Initiative. The schools are all operational.

There have not been any significant changes in the company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

Results

As shown in the company's Income statement on page 10 and Note 3 on page 20, the company's revenue (excluding deemed sales) increased by 95.6%, with the gross profit increasing by 81.5% compared to the previous year and an increase in operating profit from £370,368 to £918,066. Overall, the company made a post-tax profit of £721,847 (2021: £293,095). This primary reason for the increase in profit compared to 2021 is the increase to the lifecycle accrual and the subsequent impact of this on the service income. The Company is in a net asset position of £1,183,146 (2021: net liabilities of £1,831,604) primarily due to the movement in fair value of the derivative swap liability.

Financial risk management

The financial risks to which the company is exposed are credit risk, interest rate risk, cash flow risk, inflation risk and liquidity risk.

Credit risk

The company's credit risk is attributable to its unitary charge income from its sole customer, North Tyneside Council. As this is a quasi-governmental organisation, the credit risk and associated cash flow risk are not considered significant.

Interest rate risk

The company's bank loan bears interest at a rate that fluctuates with the money market. The company mitigates the risk of an increased interest rate by the use of swap agreements to convert the floating interest rate to a fixed rate.

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in interest rates. The company uses interest rate swap contracts to hedge these exposures. Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Inflation risk

The company is exposed to inflation risk due to contractual obligations to its suppliers. The company mitigates this by linking an element of the unitary charge to inflation.

Liquidity risk

The company mitigates its liquidity risk by the use of long-term borrowings and by maintaining reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements. In addition, the company maintains a rolling cash flow forecast based on the bank-approved financial model, which is regularly updated to reflect actual cash movements and any projected changes. This forecast is used to monitor the company's ability to meet its future cash commitments and ensure compliance with the bank covenants.

Kajima North Tyneside Limited

Directors' report (continued)

Going concern

The directors have assessed the liquidity and forecast covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the company to meet all loan and interest repayments and other liabilities as they fall due.

The company meets its day to day working capital requirements principally through unitary charge receipts from the Council of the Borough of North Tyneside (the Council). The directors do not consider the ability of government authorities to pay unitary fees to be a material risk.

The directors consider the ability of key sub-contractors to continue to meet their contractual commitments a potential risk to the company. The directors have assessed the ability of key sub-contractors to continue to meet their contractual commitments including the unlikely event of a sub-contractor failure. To date, the current economic environment has not resulted in any adverse impact on the services provided by the sub-contractor. In making their assessment, the directors have tested various stress scenarios which show that, even in the unlikely event of a sub-contractor failure, the company can continue to meet loan covenants and other liabilities as they fall due (including covenant compliance and the funding of reserves) in the next twelve months. The principal loan covenants are historic and forecast financial ratios.

The company's forecasts and projections, taking into account the above risks and current economic conditions, show that the company expects to be able to operate within the level of current facilities and continue to meet loan covenants. As explained in the Financial Risk Management (page 2), the company mitigates interest rate risk by use of an interest rate swap to effectively fix the interest rate, and mitigates inflation risk by linking an element of the unitary charge to inflation.

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.

Share capital

Issued share capital at the year end was £305,000 (2021: £305,000).

Directors

The current directors of the company are shown on page 1. On 18 May 2022, G Doctor resigned and A.J. McErlane was appointed as director of the company, and on 24 May 2023, C.M.D Gill resigned, and K.S. Hawkins was appointed as director of the company.

Qualifying third party indemnity provisions are currently in force for the benefit of certain directors.

Disclosure of information to auditor

Each of the directors at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the 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 is aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Kajima North Tyneside Limited

Directors' report (continued)

Auditor

Deloitte LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 and, unless the company receives notice under Section 488(1) of the Act, offer themselves for reappointment as auditor in accordance with the Companies Act.

The directors' report was approved by the Board on 28 June 2023 and signed on its behalf by:



J Cheadle
Company Secretary

Kajima North Tyneside Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 law), including the FRS 101 "Reduced Disclosure Framework". 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 accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Kajima North Tyneside Limited

Independent auditor's report to the members of Kajima North Tyneside Limited

For the year ended 31 December 2022

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Kajima North Tyneside Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Kajima North Tyneside Limited

Independent auditor's report to the members of Kajima North Tyneside Limited

For the year ended 31 December 2022

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Kajima North Tyneside Limited

Independent auditor's report to the members of Kajima North Tyneside Limited

For the year ended 31 December 2022

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Revenue recognition is based upon the allocated proportion of the unitary charge received in line with the PFI model. The PFI model is updated every six months and there is judgement over how the unitary charge is split across the constituent parts. In response to this we have challenged the model and the updates to it, understood the rationale for the movements, considered the banks approval for those amendments and assessed the allocation and accuracy of the revenue recognised.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC;

Kajima North Tyneside Limited

Independent auditor's report to the members of Kajima North Tyneside Limited

For the year ended 31 December 2022

Report on other legal and regulatory requirements

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

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 any material misstatements in the directors' report.

Matters on which we are required to report by exception

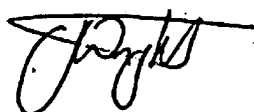
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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 prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

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.



James Wright FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 June 2023

Kajima North Tyneside Limited

Income statement

For the year ended 31 December 2022

	Note	2022 £	2021 £
Revenue	3	6,480,222	3,313,402
Cost of sales		(5,314,594)	(2,645,346)
Gross profit		<u>1,165,628</u>	<u>668,056</u>
Administrative expenses		(247,562)	(297,688)
Operating profit	6	<u>918,066</u>	<u>370,368</u>
Finance income	4	1,164,386	1,212,927
Finance costs	5	(1,193,721)	(1,221,874)
Profit before taxation		<u>888,731</u>	<u>361,421</u>
Tax on profit	7	(166,884)	(68,326)
Profit for the financial year		<u><u>721,847</u></u>	<u><u>293,095</u></u>

All results are derived from continuing operations.

The notes on pages 14 to 26 form part of these financial statements.

Kajima North Tyneside Limited

Statement of other comprehensive income For the year ended 31 December 2022

	Note	2022 £	2021 £
Profit for the year		721,847	293,095
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
Gains rising during the year	16	3,057,203	1,686,265
Deferred tax in relation to cash flow hedges	7	(764,300)	(95,485)
Total comprehensive income for the year		3,014,750	1,883,875

The notes on pages 14 to 26 form part of these financial statements.

Kajima North Tyneside Limited

Statement of financial position

As at 31 December 2022

	Note	2022 £	2021 £
Non-current assets			
Financial asset	8	17,295,900	15,178,568
Deferred tax	9	176,177	941,758
Current assets			
Trade and other receivables	10	495,795	530,336
Cash and cash equivalents		4,844,240	4,495,495
Total assets		22,812,112	21,146,157
Current liabilities			
Trade and other payables	11	(2,895,666)	(449,666)
Current tax liabilities		(151,044)	(131,795)
Borrowings	13	(713,114)	(770,388)
Net current assets		1,580,211	3,673,982
Total assets less current liabilities		19,052,288	19,794,308
Non-current liabilities			
Derivative financial instruments	14	(691,219)	(3,748,422)
Borrowings	12/13	(17,177,923)	(17,877,490)
Net liabilities		1,183,146	(1,831,604)
Equity			
Called up share capital	15	305,000	305,000
Hedging reserve	16	(518,414)	(2,811,317)
Retained earnings	17	1,396,560	674,713
Equity		1,183,146	(1,831,604)

The financial statements of Kajima North Tyneside Limited, registered number 04533313, were approved by the Board of Directors on 28 June 2023 and signed on its behalf by

Giorgia Martina

G Martina
Director

The notes on pages 14 to 26 form part of these financial statements.

Kajima North Tyneside Limited

Statement of changes in equity For the year ended 31 December 2022

	Note	Called up share capital £	Hedging reserve £	Retained earnings £	Total £
Balance at 1 January 2021		305,000	(4,402,097)	556,618	(3,540,479)
Profit for the year		-	-	293,095	293,095
Other comprehensive income for the year	16	-	1,590,780	-	1,590,780
Total comprehensive income for the year		-	1,590,780	293,095	1,883,875
Dividends	17	-	-	(175,000)	(175,000)
Balance at 31 December 2021		305,000	(2,811,317)	674,713	(1,831,604)
Profit for the year		-	-	721,847	721,847
Other comprehensive income for the year	16	-	2,292,903	-	2,292,903
Total comprehensive income for the year		-	2,292,903	721,847	3,014,750
Balance at 31 December 2022		<u>305,000</u>	<u>(518,414)</u>	<u>1,396,560</u>	<u>1,183,146</u>

The notes on pages 14 to 26 form part of these financial statements.

Kajima North Tyneside Limited

Notes to the financial statements **For the year ended 31 December 2022**

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

Kajima North Tyneside Limited is a company incorporated in the United Kingdom under the Companies Act 2006, registered in England and is a private company limited by shares. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the business review on page 2. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2022 the company continued to adopt accounting framework FRS 101 as issued by the Financial Reporting Council. Therefore these financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101 "Reduced Disclosure Framework"). The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

These financial statements are prepared in pounds sterling because that is the currency of the primary economic activity in which the company operates.

As permitted by FRS 101, as a qualifying entity the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Redwood Partnership Ventures Limited. The group accounts of Redwood Partnership Ventures Limited are available to the public and can be obtained as set out in note 22.

Going concern

The Directors have assessed the liquidity and forecast covenant compliance for a period of at least twelve months from date of approval of the financial statements. These forecasts include the ability of the Company to meet all loan and interest repayments and other liabilities as they fall due.

The company meets its day to day working capital requirements principally through unitary charge receipts from the Council of the Borough of North Tyneside (the Council). The Directors do not consider the ability of government authorities to pay unitary fees to be a material risk.

The Directors consider the ability of key sub-contractors to continue to meet their contractual commitments a potential risk to the company. The Directors have assessed the ability of key sub-contractors to continue to meet their contractual commitments including the unlikely event of a sub-contractor failure. To date, the current economic environment has not resulted in any adverse impact on the services provided by the sub-contractor. In making their assessment, the Directors have tested various stress scenarios which show that, even in the unlikely event of a sub-contractor failure, the Company can continue to meet loan covenants and other liabilities as they fall due (including covenant compliance and the funding of reserves) in the next twelve months. The principal loan covenants are historic and forecast financial ratios.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Going concern (continued)

The company's forecasts and projections, taking into account the above risks and current economic conditions, show that the company expects to be able to operate within the level of current facilities and continue to meet loan covenants. As explained in the Financial Risk Management (page 2), the company mitigates the risk of movements in interest rates by use of an interest rate swap to effectively fix the interest rate, and mitigates inflation risk by linking an element of the unitary charge to inflation.

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.

New and amended IFRS Standards that are effective for the current year

All new and amended standards effective in the year were assessed to not have a material impact on the financial statements.

Interest Rate Benchmark Reform: Phase 2 Amendments to IFRS 9

The entity, due to the interest rate swap held, is affected by the interest rate benchmark (IBOR) reform. The relevant disclosures fall under IFRS 9 Financial Instruments and the exemption from the disclosure requirements allowed by IFRS 101 has been taken; these disclosures have been included within the financial statements of Redwood Partnership Ventures Limited, the ultimate parent and controlling company into which the company is consolidated.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit may differ from net profit as reported in the income statement because it may exclude items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue

Revenue, which is stated net of value added tax, represents amounts invoiced for services provided in the year after allowing for the repayment of, and interest imputed on, the finance asset (see below).

Operating profit

Operating profit is stated after charging professional fees but before investment income and finance costs.

Cash and cash equivalents

In the balance sheet, cash and cash equivalents comprise current and call accounts. Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The company has adopted IFRIC 12 - Service Concession Arrangements whereby the client, North Tyneside Council, has contracted with the company to operate four schools for 27 years. IFRIC 12 draws a distinction between two types of concession arrangement; financial asset and intangible asset. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Financial assets (continued)

In accordance with IFRIC 12 the company has an unconditional right to receive specified or determinable amounts of cash from the client in return for constructing and then operating and maintaining the schools. In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on these costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method giving rise to interest income. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty. Investment income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, the rate that exactly discounts estimated future cash receipts through the expected life of the PPP financial asset to that asset's net carrying amount on initial recognition.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit and loss ("FVTPL").

Impairment of financial assets

The company recognises a loss allowance for expected credit losses on financial assets measured at Fair Value Through Other Comprehensive Income ("FVTOCI"), trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The company recognises a lifetime expected credit loss for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability recognised and the consideration paid and payable is recognised as profit or loss.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to interest rate, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 14.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Hedge accounting

The company designates certain derivatives as hedging instruments in cash flow hedges. At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 16.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The directors have made the following critical judgment in the process of applying the company's accounting policies.

Service concession arrangement

As disclosed in Note 1, the company accounts for the project as a service concession arrangement. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key Sources of estimation uncertainty

Derivative financial instruments

The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

The company uses derivative financial instruments which are principally swaps to manage the interest rate risks to which the company is exposed by its long term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each reporting date at their fair value. The fair value of the derivatives changes in response to prevailing market conditions. A gain of £3,057,203 (2021 gain: £1,686,265) was taken to equity in the year to 31 December 2022.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

3. Revenue

	2022 £	2021 £
Unitary charge and other income	<u>6,480,222</u>	<u>3,313,402</u>

All revenue arose in the United Kingdom and from one operation.

4. Finance income

	2022 £	2021 £
Bank interest receivable	7,646	5,397
Finance income on financial asset	<u>1,156,740</u>	<u>1,207,530</u>
	<u>1,164,386</u>	<u>1,212,927</u>

5. Finance costs

	2022 £	2021 £
Bank loan interest	885,855	913,730
Subordinated loan interest	281,929	281,904
Bank and agency fees	<u>25,937</u>	<u>26,240</u>
	<u>1,193,721</u>	<u>1,221,874</u>

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

6. Operating profit

Operating profit is stated after charging:

	2022 £	2021 £
Fees payable to the company's auditor:		
For the audit of the annual accounts:		
Company	11,197	7,789
Parent (borne by the company)	1,000	1,000
Total audit fees	12,197	8,789
Non-audit services:		
Taxation compliance services	875	1,400
Total fees	13,072	10,189

7. Taxation

(a) Tax on profit

The tax charge comprises:

	2022 £	2021 £
Current tax:		
UK Corporation tax on profits in the year	168,655	67,854
Adjustments in respect of prior year	(3,052)	(809)
Deferred tax:	165,603	67,045
Movement in temporary differences	1,281	1,281
Total tax on profit	166,884	68,326

(b) Factors affecting tax charge for the year

The total tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the UK. The differences are explained below:

	2022 £	2021 £
Profit before tax	888,731	361,421
Profit multiplied by effective rate of UK corporation tax of 19% (2021: 19%)	168,859	68,670
Effect of:		
Income not taxable	(204)	(816)
Prior year adjustment	(3,052)	-
Adjustment in recognition of deferred tax asset due to rate change	-	(809)
Movement in deferred tax	1,281	1,281
Total tax charge for the year	166,884	68,326

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

7. Taxation (continued)

(c) Deferred taxation

	2022 £	2021 £
Deferred tax relating to other temporary differences	3,372	4,653

Deferred tax is calculated at the tax rate that has been enacted or substantively enacted at the Statement of financial position date. In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. The impact of this changes has been accounted for in the current period's deferred tax asset.

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

The following amounts relating to tax have been recognised in other comprehensive income:

	2022 £	2021 £
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
Deferred tax asset brought forward	937,105	1,032,590
Deferred tax on derivative financial instruments at 25% (2021: 25%)	(764,300)	(95,485)
Total deferred tax on derivative financial instruments	172,805	937,105

8. Financial assets

	2022 £	2021 £
Finance asset	17,295,900	15,178,568

9. Deferred tax

	2022 £	2021 £
Deferred tax asset on fair value of derivative financial instruments	172,805	937,105
Deferred tax relating to other temporary differences	3,372	4,653
	176,177	941,758

The movements in deferred tax arising from temporary differences have been charged to profit or loss and those arising from derivative valuations have been charged to other comprehensive income.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. Trade and other receivables

	2022 £	2021 £
Trade and other receivables	-	75,362
Prepayments and accrued income	480,615	454,974
Other taxes	15,180	-
	<u>495,795</u>	<u>530,336</u>

11. Trade and other payables

	2022 £	2021 £
Trade payables	205,652	-
Accruals and deferred income	2,618,952	246,157
Due to group entities	71,062	70,289
Other taxes	-	133,220
	<u>2,895,666</u>	<u>449,666</u>

Amounts due to group companies are repayable on demand. Included in these amounts are interest charged on the subordinated loan (see note 13) at a rate of 12.5%. 2022: £71,062 (2021: £70,289). Accruals and deferred income include an accrual for lifecycle costs of £2,379,217 on 31 December 2022 (2021: nil).

12. Non-current liabilities

	2022 £	2021 £
Bank loan (secured)	14,828,512	15,527,306
Subordinated loan (unsecured)	<u>2,349,411</u>	<u>2,350,184</u>
	<u>17,177,923</u>	<u>17,877,490</u>

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

13. Borrowings

	2022 £	2021 £
Borrowings are as follows:		
Bank loans (secured)	15,541,626	16,297,694
Subordinated loans (unsecured)	<u>2,349,411</u>	<u>2,350,184</u>
	<u>17,891,037</u>	<u>18,647,878</u>
Bank loans are repayable as follows:		
Within one year	713,114	770,388
Between one and five years	4,429,892	3,852,362
Over five years	<u>10,398,620</u>	<u>11,674,944</u>
	<u>15,541,626</u>	<u>16,297,694</u>

The bank loan, secured by a charge on the company's shares, is under a facility agreement with a consortium of banks and is subject to a swap contract to fix the interest rate and minimise the interest rate exposure. The bank loan bears interest at a margin over SONIA. The loan is repayable in instalments to 2032. As a result of this contract, the effective rate for the loan is 5.75%.

There have been no borrowing costs capitalised in the current year (2021: £nil).

The unsecured subordinated loan, which is repayable in instalments to 2034, has an interest rate of 12.5% and has been provided by Infrastructure Investments General Partner and Kajima Partnerships Limited.

14. Derivative financial instruments

	2022 £	2021 £
Interest rate swap	<u>691,219</u>	<u>3,748,422</u>

The company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps.

Under interest rate swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

15. Called up share capital

	2022 £	2021 £
Allotted, authorised, called up and fully paid		
305,000 ordinary shares of £1 each	<u>305,000</u>	<u>305,000</u>

16. Hedging reserve

	Hedging reserve £
Balance at 1 January 2021	<u>(4,402,097)</u>
Losses recognised on cash flow hedges:	
Interest rate swaps	1,686,265
Tax related to gain recognised in other comprehensive income	<u>(95,485)</u>
Balance at 31 December 2021	<u>(2,811,317)</u>
Gains recognised on cash flow hedges:	
Interest rate swaps	3,057,203
Tax related to gain recognised in other comprehensive income	<u>(764,300)</u>
Balance at 31 December 2022	<u><u>(518,414)</u></u>

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

17. Retained earnings

	Retained earnings £
At 1 January 2021	556,618
Profit for the year	293,095
Dividends paid	<u>(175,000)</u>
At 31 December 2021	674,713
Profit for the year	721,847
Dividends paid	<u>-</u>
At 31 December 2022	<u><u>1,396,560</u></u>

Kajima North Tyneside Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

18. Dividends on equity shares

Dividend per share nil (2021: 57p).

19. Directors remuneration

No director received any remuneration for services provided to the company during the year (2021: £nil).

20. Employees

The company had no employees in the year (2021: nil).

21. Transactions with directors and other related parties

There are no transactions with the directors to be disclosed.

The company has taken advantage of the exemption conferred by FRS 101 paragraph 101.8(k) that allows it not to disclose transactions with group companies.

During the year, the company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties and the total value of transactions are shown below:

	2022		2021	
	Value of transactions £	Payable at year-end £	Value of transactions £	Payable at year-end £
Kajima Partnerships Limited ("KPL"):				
Management services	112,074	-	105,065	-

KPL holds a 50% interest in the company's ultimate parent, Redwood Partnership Ventures Limited. KPL is a member of the Kajima group of companies.

22. Ultimate and immediate parent company

The company's immediate parent company is Kajima North Tyneside Holding Limited, a company incorporated in the United Kingdom. Its ultimate parent company, and the smallest and largest group into which the company is consolidated is Redwood Partnership Ventures Limited, a company also incorporated in the United Kingdom. Copies of its financial statements are available at this company's registered office at 10 St. Giles Square, London, United Kingdom, WC2H 8AP.