

BY Education (Barking) Limited

**Directors' report and financial
statements**

Registered number 04949258

31 December 2012



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Directors' report

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

Business Review and Principal Activities

The Company's principal activity is the design, build, finance, operation and maintenance of new educational facilities for the Mayor and Burgesses of the London Borough of Barking and Dagenham over 26 years and 5 months under HM Government's Private Finance Initiative. 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.

The Company has entered into a Project Agreement with the London Borough of Barking and Dagenham, together with an associated construction and services contract, funding agreements and ancillary project agreements. The Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain non-educational services within the Eastbury and Jo Richardson Community Schools for a term of 26 years and 5 months from the date of signing of the Project Agreement.

Key performance indicators (KPIs)

1 Performance deductions under the service contract

Financial penalties are levied by the London Borough of Barking and Dagenham in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service provider but the quantum is an indication of unsatisfactory performance. In the year ended 31 December 2012, deductions of £506 had been levied (2011: £nil).

2 Financial Performance

The company has modelled the anticipated financial outcome of the Project across its full term. The company monitors actual financial performance against this anticipated performance. As at 31 December 2012, the Company's performance against this measure was satisfactory.

The results for the year are set out in the profit and loss account on page 6.

Position of the Company at the year end

The Company completed the construction phase on 31 August 2005 and began a 25 years concession period thereafter. In the opinion of the directors the operating phase of the Project is performing satisfactorily to the standards of the contract.

Principal risks and uncertainties

The London Borough of Barking and Dagenham is the sole client of the company but the directors consider that no risk arises from such a small client base since the Secretary of State for Education has underwritten the Borough's obligations.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

Financial risk management policies and objectives

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

Dividends

Ordinary interim dividends totalling £nil were declared during the year and paid to shareholders (2011: £200,000). The directors do not recommend the payment of a final dividend.

Directors' report (Continued)

Directors and directors' interests

The directors who held office during the period were as follows

P Cadman (resigned 16 January 2012)

D J Carr

G Newby (appointed 16 January 2012)

J Howard

S Phipps

J Whittington (appointed 16 January 2012)

A Mills (appointed 16 January 2012)

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company. Since the year end S Phipps had resigned on 31 January 2013 and J Wood was appointed as alternate to J Howard on 31 January 2013.

Political and charitable contributions

The company made no political contributions during the year (2011 £nil)

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP has expressed its willingness to continue in office and a resolution to reappoint them as the Company's auditors will be proposed at the Annual General Meeting.

By order of the board



Director John Howard

Date 29th April '13

Directors' responsibilities

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 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). 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,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report to the members of BY Education (Barking) Limited

We have audited the financial statements of BY Education (Barking) Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditors

As explained more fully in the statement of directors' responsibilities, 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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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 auditors' report to the members of BY Education (Barking) 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

BDO LLP

*Douglas Lowson (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

30 April 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Profit and loss account
for the year ended 31 December 2012

| | <i>Note</i> | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|--|-------------|---|---|
| Turnover | 2 | 2,006 | 2,058 |
| Cost of sales | | (1,486) | (1,610) |
| Gross profit | | 520 | 448 |
| Administrative expenses | | (340) | (270) |
| Operating profit | | 180 | 178 |
| Other interest receivable and similar income | 6 | 3,199 | 3,243 |
| Interest payable and similar charges | 7 | (2,680) | (2,760) |
| Profit on ordinary activities before taxation | 3 | 699 | 661 |
| Tax charge on profit on ordinary activities | 8 | (176) | (162) |
| Profit on ordinary activities after taxation | | 523 | 499 |

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

The notes on pages 8-15 form part of these financial statements.

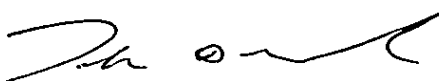
Balance sheet

as at 31 December 2012

Registered number 04949258

| | Note | 2012 £000 | 2011 £000 |
|---|------|---------------|---------------|
| Current assets | | | |
| Debtors | 9 | 38,856 | 40,025 |
| (Debtors due after more than one year) | | 37,683 | 38,723 |
| Cash at bank and in hand | | 4,582 | 3,693 |
| | | <u>43,438</u> | <u>43,718</u> |
| Creditors amounts falling due within one year | 10 | (3,856) | (3,839) |
| | | <u>39,582</u> | <u>39,879</u> |
| Net current assets | | | |
| Creditors amounts falling due after more than one year | 11 | (37,488) | (38,308) |
| | | <u>2,094</u> | <u>1,571</u> |
| Net Assets | | | |
| Capital and reserves | | | |
| Called up share capital | 12 | 1 | 1 |
| Profit and loss account | 13 | 2,093 | 1,570 |
| | | <u>2,094</u> | <u>1,571</u> |
| Shareholders' funds | 15 | | |
| | | <u>2,094</u> | <u>1,571</u> |

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


Director John Howard

The notes on pages 8-15 form part of these financial statements

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

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

As the company is a wholly owned subsidiary of BY Education (Barking) 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 BY Education (Barking) Holdings Limited, within which this company is included, can be obtained from the address given in note 18

Finance debtor and revenue recognition

The Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be an asset of the Company under Financial Reporting Standard 5 Application Note F

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts and turnover Upon becoming operational, the costs are transferred to the finance debtor During the operational phase income is allocated between interest receivable and repayments of the finance debtor using a project specific interest rate The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G

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

Interest payable and similar charges

Interest costs are capitalised during construction and amortised over the period of the concession Interest costs incurred during operations are expensed to profit and loss in the period they are incurred

Commitments fees are expensed to profit and loss

Loan issue costs

Costs associated with the issue of loans are capitalised and netted off against the loan amount in the balance sheet

Dividends

Equity dividends are recognised when they become legally payable

Notes (continued)

1 Accounting policies (continued)

Taxation

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

2 Analysis of turnover

| | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|------------------------------|---|---|
| Facilities management income | 2,006 | 2,058 |
| | <hr/> | <hr/> |
| | 2,006 | 2,058 |
| | <hr/> | <hr/> |

All turnover and profit on ordinary activities before taxation originates in the United Kingdom

Turnover is recognised in accordance with the finance debtor and revenue recognition policies as above and excludes VAT

3 Profit on ordinary activities before taxation

| | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|---|---|---|
| <i>Profit on ordinary activities before taxation is stated after charging</i> | | |
| Fees for the audit of the company | 7 | 9 |
| Fees payable to the company's auditor for other services | 3 | 4 |
| Tax services | | |
| | <hr/> | <hr/> |
| | 10 | 13 |
| | <hr/> | <hr/> |

Notes (continued)

4 Remuneration of directors

No Directors' emoluments were paid in either the current or prior year. However, a total payment of £8,047 (2011 £9,524) was due to Infrastructure Investments General Partner Limited and Barking and Dagenham Schools Project Limited for directors fees.

5 Staff numbers and costs

The company had no employees during the year under review.

6 Other interest receivable and similar income

| | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|------------------------------------|---|---|
| Finance debtor interest receivable | 3,140 | 3,214 |
| Bank interest receivable | 59 | 29 |
| | <u>3,199</u> | <u>3,243</u> |

7 Interest payable and similar charges

| | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|----------------------------------|---|---|
| On bank loans and overdrafts | 2,158 | 2,223 |
| On all subordinated loan stock | 504 | 519 |
| Amortisation of debt issue costs | 17 | 17 |
| Bank charges | 1 | 1 |
| | <u>2,680</u> | <u>2,760</u> |

Notes (continued)

8 Tax on profit on ordinary activities

| | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|---|---|---|
| <i>UK corporation tax</i> | | |
| Current tax on income for the year | 176 | 175 |
| Small companies marginal relief | - | (13) |
| Total current tax | 176 | 162 |
| Tax charge on profit on ordinary activities | 176 | 162 |

Factors affecting the tax charge for the current year

| | Year ended 31 December 2012 £000 | Year ended 31 December 2011 £000 |
|--|---|---|
| <i>Profit on ordinary activities before taxation</i> | 699 | 661 |
| Profit on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 24.5% (2011: 26.5%) | 171 | 175 |
| Tax on disallowed expenses | 5 | - |
| Effect of Small companies marginal relief | - | (13) |
| Current Tax charge | 176 | 162 |

Changes in tax rates and factors affecting the future tax charge

Finance Act 2012 includes provision for the main rate of corporation tax to reduce from 26% to 24% on 1 April 2012, and to 23% on 1 April 2013. It has also been announced that there will be a further 1% reduction to bring the main rate to 22% from 1 April 2014. This will reduce the Company's future tax charge accordingly. The rate of 24% was substantially enacted on the 26 March 2012 and the rate of 23% substantially enacted on 6 July 2012. Accordingly, deferred tax balances have been recognised at 23%, the rate of corporation tax enacted in Finance Act 2012 to apply from 1 April 2013.

Notes (continued)

9 Debtors

| | 2012 £000 | 2011 £000 |
|--|---------------|---------------|
| Trade debtors | 76 | 291 |
| Other debtors (prepayments and accrued income) | 57 | 51 |
| Finance debtor | 38,723 | 39,683 |
| | <u>38,856</u> | <u>40,025</u> |

Debtors include an element of the finance debtor of £37,682,666 (2011 £38,722,648) which is due after more than one year

10 Creditors, amounts falling due within one year

| | 2012 £000 | 2011 £000 |
|-------------------------------|--------------|--------------|
| Bank loans and overdrafts | 836 | 940 |
| Trade creditors | 163 | 292 |
| Accruals and deferred income | 2,623 | 2,378 |
| Corporation tax | 176 | 162 |
| Other tax and social security | 58 | 67 |
| | <u>3,856</u> | <u>3,839</u> |

11 Creditors: amounts falling due after more than one year

| | 2012 £000 | 2011 £000 |
|----------------------------------|---------------|---------------|
| Bank loans and overdrafts | 33,676 | 34,512 |
| Amount due to parent undertaking | 4,109 | 4,109 |
| Less Unamortised issue costs | (297) | (313) |
| | <u>37,488</u> | <u>38,308</u> |

Notes (continued)

Analysis of debt.

| | 2012 £000 | 2011 £000 |
|---|---------------|---------------|
| Debt can be analysed as falling due | | |
| In one year or less or on demand | 836 | 940 |
| In more than one year but not more than two years | 1,209 | 836 |
| In more than two years but not more than five years | 5,373 | 4,721 |
| In more than five years | 31,203 | 33,064 |
| | <u>38,621</u> | <u>39,561</u> |

Bank loans are secured by fixed and floating charges over the assets of the company

Bank loans bear interest based on LIBOR. The company has entered into swap contracts, covering all of the debt projected to be drawn down, which hedges the company's interest rate exposure on senior debt. The bank loan bears interest based on LIBOR plus a SWAP spread of 5.2600%

The bank loans are repayable in six-monthly instalments commencing on the 31 March 2006 and ending on 31 March 2029.

The fair value of the interest hedge at 31 December 2012 is a liability of £10,197,995 (2011 - liability of £9,597,727).

12 Called up share capital

| | 2012 £000 | 2011 £000 |
|---|--------------|--------------|
| <i>Authorised</i> | | |
| Equity 1,000 ordinary shares of £1 each | <u>1</u> | <u>1</u> |
| <i>Allotted, called up and fully paid</i> | | |
| Equity 1,000 ordinary shares of £1 each | <u>1</u> | <u>1</u> |

13 Profit and loss account

| | 2012 £000 | 2011 £000 |
|-------------------------------|--------------|--------------|
| At beginning of year | 1,570 | 1,271 |
| Profit for the financial year | 523 | 499 |
| Dividends paid (note 16) | - | (200) |
| | <u>2,093</u> | <u>1,570</u> |
| At end of year | | |

14 Commitments

The company had no capital commitments at 31 December 2012 (31 December 2011: £nil).

Notes (continued)

15 Reconciliation of movements in shareholders' funds

| | 2012 £000 | 2011 £000 |
|---------------------------------------|--------------|--------------|
| Profit for the financial year | 523 | 499 |
| Dividends paid | - | (200) |
| Net adjustment to shareholders' funds | 523 | 299 |
| Opening shareholders' funds | 1,571 | 1,272 |
| Closing shareholders' funds | 2,094 | 1,571 |

16 Dividends

| | 2012 £000 | 2011 £000 |
|------------------------|--------------|--------------|
| Interim dividends paid | - | 200 |

17 Related party disclosures

The company is controlled by BY Education (Barking) Holdings Limited, the company's immediate parent undertaking. The ultimate controlling party is Infrastructure Investments General Partner Limited (as General Partner of Infrastructure Investment Limited Partnership).

During the year payments for facilities management and administration totalling £2,092,746 (2011 £1,849,522) were made by the group to Barking and Dagenham Schools Project Limited (a 15% shareholder in the company). Creditors include an amount due to Barking and Dagenham Schools Project Limited of £162,939 (2011 £219,583).

During the year payments for directors and letter of credit fees totalling £150,216 (2011 £146,627) were made to Infrastructure Investments General Partner Limited and Barking and Dagenham Schools Project Limited.

During the year payments for directors fees totalling £8,047 (2011 £9,524) were due to Infrastructure Investments General Partner Limited and Barking and Dagenham Schools Project Limited.

During the year payments of subordinated debt principal of £46,508 (2011 £166,711) and subordinated debt interest of £505,886 (2011 £523,598) were paid to Infrastructure Investments General Partner Limited Company Limited, in its capacity as General Partner of Infrastructure Investment Limited Partnership.

Notes *(continued)*

18 Ultimate parent company and parent undertaking of larger Group of which the company is a member

The company is a subsidiary undertaking of BY Education (Barking) Holdings Limited incorporated in the United Kingdom

The largest and smallest Group in which the results of the company are consolidated is that headed by BY Education (Barking) Holdings Limited. The consolidated accounts of these Groups are available to the public and may be obtained from the Company Secretary at 21 St Thomas Street, Bristol, BS1 6JS