

**By Education (Waltham Forest)
Limited**

**Directors' Report and Financial
Statements**

Registered number 06009302

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

Principal activities

The Company's principal activity is the design, build, financing, operation and maintenance of new educational facilities for the Mayor and Burgesses of the London Borough of Waltham Forest ("the Authority") over 25 years under HM Government's Private Finance Initiative (the "Project") No change in the Company's activities is anticipated

Business review

The results for the year are set out in the profit and loss account on page 5 The construction of Frederick Bremer School was completed and handed over to the Mayor and Burgesses of the London Borough of Waltham Forest on 31st August 2008 The School became fully operational on 1st September 2008 The concession period will continue for the next 21 years ending on 31st August 2033

Principal risks and uncertainties

The Authority is the sole client of the Company but the directors consider that no significant risk arises from such a small client base since the Secretary of State for Education has underwritten the Authority's obligations under the Project Agreement

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor The obligations of these subcontractors are underwritten either by performance guarantees 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 and an interest rate swap to hedge interest rates

Key performance indicators (KPIs)

The Company is paid revenue by the Authority in accordance with the terms of the Project Agreement Financial penalties are levied by the Authority in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement These are passed on to the service provider In the year ended 31 December 2012, deductions of £960 (2011 £600) had been levied which represents 0.08% (2011 0.06%) of revenue The directors believe the performance for the year to be satisfactory

The Company's management regards the level of turnover, net profit before tax and level of its debts as the key indicators of the Company's performance These are monitored on a regular basis to assess whether the Company is achieving the targets set

Proposed dividend

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2012 (2011 £nil)

Directors and directors' interest

The directors who held office during the year were as follows

	Appointed	Resigned
S H McDonald		24 April 2012
G A Quaife		
A Bekaert		14 May 2012
J S Didier		27 January 2012
X Plumley (Alternate to S H McDonald)		24 April 2012
L Christolomme (Alternate to A Bekaert)		14 May 2012
A Loderick		
M Molony (Alternate to A Loderick)		
A Waddington		
N English (Alternate to A Waddington)		1 August 2012

Directors' report *(continued)*

Directors and directors' interest *(continued)*

	Appointed	Resigned
M Gregory (Alternate to A Waddington)		
P Parmar Rea	27 January 2012	
E Chautemps	24 April 2012	19 December 2012
S H McDonald (Alternate to E Chautemps)	24 April 2012	19 December 2012
M Holden	13 July 2012	
D Gill	14 May 2012	19 December 2012
L Christolomme (Alternate to D Gill)	14 May 2012	6 September 2012
A Bekaert (Alternate to D Gill)	6 September 2012	19 December 2012

Subsequent to year end the following changes have taken place

A Waddington		22 April 2013
M Gregory (Alternate to A Waddington)		22 April 2013
D Blanchard	29 May 2013	

Directors' liabilities

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of Section 234 of the Companies Act 2006

Supplier payment policy

The Company does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

The amount due to the Company's trade creditors at 31 December 2012 represented 38 days *(2011 14 days)* average daily purchases of goods and services received from those creditors, calculated in accordance with Part 5 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

Political and charitable contributions

The Company made no political or charitable contributions during the year *(2011 £nil)*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself 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 LLP will therefore continue in office.

By order of the Board


Mark Holden
Director

5 June 2013

21 St Thomas Street
Bristol
BS1 6JS

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 judgements 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, 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BY EDUCATION (WALTHAM FOREST) LIMITED

We have audited the financial statements of BY Education (Waltham Forest) Limited for the year ended 31 December 2012 set out on pages 5 to 14. 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 3, 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 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 website 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.

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.



Amanda Moses, Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading RG7 4SD

12 June 2013

Profit and loss account
For the year ended 31 December 2012

	<i>Note</i>	Year ended 31 December 2012	Year ended 31 December 2011
		£000	£000
Turnover	2	1,235	1,068
Cost of sales		(833)	(688)
Gross profit		402	380
Administrative expenses		(283)	(303)
Operating profit		119	77
Interest receivable and similar income	6	1,334	1,361
Interest payable and similar charges	7	(1,321)	(1,370)
Profit on ordinary activities before taxation	3	132	68
Tax on profit on ordinary activities	8	(50)	(39)
Profit for the financial year	13	82	29

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 to 14 form part of these financial statements.

Balance sheet
at 31 December 2012

	<i>Note</i>	2012 £000	2011 £000
Current assets			
Debtors (including £18,745,000 (2011 £19,178,000) due after more than one year)	9	19,405	19,860
Cash at bank and in hand		1,335	1,038
		<u>20,740</u>	<u>20,898</u>
Creditors amounts falling due within one year	10	(2,852)	(2,357)
Net current assets		<u>17,888</u>	<u>18,541</u>
Creditors: amounts falling due after more than one year	11	(18,529)	(19,264)
Net liabilities		<u>(641)</u>	<u>(723)</u>
Capital and reserves			
Called up share capital	12	50	50
Profit and loss account	13	(691)	(773)
Equity shareholders' deficit		<u>(641)</u>	<u>(723)</u>

The notes on pages 8 to 14 form part of these financial statements

These financial statements were approved by the Board of directors on 5 June 2013 and were signed on its behalf by



Mark Holden :
Director

Company Registered number 06009302

Reconciliation of movements in shareholders' deficit
For the year ended 31 December 2012

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Profit for the financial year	82	29
Net decrease in shareholders' deficit	82	29
Opening shareholders' deficit	(723)	(752)
Closing shareholders' deficit	(641)	(723)

The notes on pages 8 to 14 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 FRS 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 (Waltham Forest) 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 (Waltham Forest) Holdings Limited, within which this Company is included, can be obtained from the address given in note 15

Notwithstanding the deficit on net assets of £641,000 (2011 £723,000) the directors consider it appropriate to prepare the financial statements on a going concern basis for the following reasons They have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Company and the fact the obligations of the Company's sole customer are underwritten by the Secretary of State for Education and therefore believe that the Company will be able to settle its liabilities as they fall due for the foreseeable future

Finance debtor and services income

The Company is an operator of a Private Finance Initiative contract The underlying asset is not deemed to be a tangible asset of the Company under FRS 5 Application Note F because rewards of ownership as set in that standard are deemed to lie principally with the Mayor and Burgesses of the London Borough of Waltham Forest

During construction phase of the Project, all attributable expenditure was included in amounts recoverable on contracts and turnover Upon becoming operational, the costs were transferred to the finance debtor During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services 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

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

Turnover

Turnover is recognised in accordance with the finance debtor and services income accounting policy and excludes VAT

Notes (continued)

2 Analysis of turnover

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Services income	1,235	1,068

Services income relates to the facilities management at Frederick Bremer School

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

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>		
Auditor's remuneration		
Audit of these financial statements	10	10
Other services	8	-
	18	10

4 Remuneration of directors

Directors' emoluments for the year under review amounted to £nil (2011 £nil)

5 Staff numbers and costs

The Company had no employees during the year under review (2011 nil)

6 Interest receivable and similar income

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Finance debtor interest income	1,332	1,359
Bank interest	2	2
	1,334	1,361

Notes (continued)

7 Interest payable and similar charges

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Interest on bank loans	1,097	1,137
Interest on subordinated debt	208	214
Amortisation of debt issue costs	9	9
Other similar charges	7	10
	<u>1,321</u>	<u>1,370</u>

8 Taxation

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
<i>UK corporation tax</i>		
Current tax on income for the year	1	1
Prior year adjustment	-	1
	<u>1</u>	<u>2</u>
Total current tax	1	2
<i>Deferred tax</i>		
Reversal/(origination) of timing differences	31	17
Effect of change in tax rate	18	20
	<u>50</u>	<u>39</u>
Tax on profit on ordinary activities	50	39

Factors affecting the tax charge for the current year

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Profit on ordinary activities before taxation	132	68
	<u>132</u>	<u>68</u>
Current tax at 24.5% (2011: 26.5%)	32	18
Effect of Utilisation of losses brought forward	(31)	(17)
	<u>1</u>	<u>1</u>
Current tax	1	1

Notes (continued)

8 Taxation (continued)

Deferred tax

Deferred tax is provided at 23% (2011 25%) on the following losses (note 9)

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Tax losses	877	1,007

The deferred tax asset has been recognised in the current year on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

Factors affecting future current and total tax charges

On 21 March 2012 the Chancellor announced that the main rate of UK corporation tax would reduce from 24 per cent to 23 per cent with effect from 1 April 2013. This tax change became substantively enacted in July 2012.

On 20 March 2013 the Chancellor also proposed changes to further reduce the main rate of corporation tax by two per cent to 21 per cent on 1 April 2014 and by a further one percent to 20 per cent on 1 April 2015, but these changes have not yet been substantively enacted and therefore are not included in the figures above.

This will reduce the company's future tax charge accordingly and further reduce the deferred tax asset at the balance sheet date.

9 Debtors

	2012 £000	2011 £000
Finance debtor	19,178	19,582
Trade debtors	13	7
Other debtors	11	19
Deferred taxation (see note 8)	203	252
	<u>19,405</u>	<u>19,860</u>

Debtors include finance debtor of £18,745,000 (2011 £19,178,000) which is due after more than one year.

Notes (continued)

10 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Bank loans	685	652
Subordinated debt	60	55
Trade creditors	87	26
Accruals	511	449
Unitary charge control account	1,470	1,137
Corporation tax	1	1
Other creditors	38	37
	<u>2,852</u>	<u>2,357</u>

11 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Bank loans	17,035	17,720
Subordinated debt	1,676	1,735
Less unamortised issue costs	(182)	(191)
	<u>18,529</u>	<u>19,264</u>

Analysis of debt:

	2012 £000	2011 £000
Debt can be analysed as falling due		
In one year or less, or on demand	745	707
Between one and two years	816	745
Between two and five years	2,116	2,377
In five years or more	15,779	16,333
	<u>19,456</u>	<u>20,162</u>

Bank loans are secured by fixed and floating charges over the assets of the Company. Bank loans bear interest based on LIBOR plus a margin.

The Company has entered into swap contracts for the period 30th September 2008 to 31st August 2032 covering all of the debt drawn down which hedges the Company's interest rate exposure on the senior debt. The aggregate fixed interest rate paid by the Company on these swap contracts is 5.497%.

Bank loans are repayable in bi-annual instalments commencing on 31 March 2009 and ending on 31 March 2032. The facility is available up until 31 August 2032 and is subject to certain financial and non-financial covenants.

The subordinated unsecured loan stock issued to the company bears interest at 11.80% and is fully redeemable by 31st March 2032. The subordinated debt is repayable in bi-annual instalments which commenced on 30th September 2009.

Notes (continued)

12 Called up share capital

	2012 £000	2011 £000
<i>Allotted, called up and fully paid</i>		
50,000 ordinary shares of £1 each	50	50

13 Profit and loss account

	£000
At beginning of year	(773)
Profit for the financial year	82
At end of year	(691)

14 Related party disclosures

During the year, the Company incurred costs charged by related parties detailed as follows

	Cash transactions Expense/(receipt)		Balance owed to/(from) at year end	
	2012 £000	2011 £000	2012 £000	2011 £000
Management services				
- Waltham Forest Local Education Partnership Limited	182	209	-	-
Subordinated debt				
- InfraRed (Infrastructure) Capital Partners Limited as General Partner for each of several limited partnerships constituting InfraRed Infrastructure Fund II	131	130	-	1,072
- InfraRed Infrastructure Yield Holdings Limited	-	-	1,250	-
- Bouygues Construction Investments (UK) Ltd	36	36	-	249
- Building Schools for the Future Investments LLP	24	24	156	166
	373	399	1,406	1,487

Notes *(continued)*

15 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 (Waltham Forest) Holdings Limited which is incorporated in the United Kingdom

InfraRed Capital Partners (Management) LLP is the ultimate majority shareholder of By Education (Waltham Forest) Holdings Limited

The largest and smallest group in which the results of the Company are consolidated is that headed by By Education (Waltham Forest) Holdings Limited. The consolidated accounts of this group are available to the public and may be obtained from 21 St Thomas Street Bristol, BS1 6JS