NI 46621.

Belfast Educational Services (Dungannon) Limited

Report and Financial Statements

7 October 2012

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COMPANIES HOUSE

Directors
E O'Hare
C Field
P Duffy
S Mallion

Secretary
P Duffy

Auditors
Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast BT2 7DT

Bankers
Bank of Ireland
Trevor Hill
Newry BT34 1DT

Barclays Bank Plc
Imperial House
Donegall Square East
Belfast BT1 5HL

Bank of Ireland Limited
Corporate and International Banking
Donegall House
Donegall Square North
Belfast BT1 5LR

Registered Office
Carnbane House
Shepherds Way
Newry
Co. Down BT35 6EE

Registered No. NI 46621

Directors' report

The directors present their report and financial statements for the year ended 7 October 2012.

Results and dividends

The profit for the year after taxation amounted to £113,529 (2011 – profit of £174,389). The directors recommend a final dividend of £69,459 (2011 – £nil).

Principal activity and review of the business

The principal activities of the company are to design, build, finance and maintain Dungannon Campus of South West College under the Government's Private Finance Initiative.

The directors consider that the company's key performance indicators relate initially to the company's ability to meet key construction (both timetable and specification) delivery milestones, and subsequently to the achievement of satisfactory service and availability performance in respect of maintenance of the constructed facilities. These KPIs are monitored on an ongoing basis.

The directors are satisfied with the progress of the company to date.

Risk management

The company's strategy is to follow an appropriate risk policy, which effectively manages exposures related to the achievement of business objectives. The key risks which management face are detailed as follows:

Financial and business control

Strong financial and business controls are necessary to ensure integrity and reliability of financial and information on which the company relies for day-to-day operations, external reporting and for longer term planning. The company exercises financial and business control through a combination of: qualified and experienced financial teams, performance analysis; budgeting and cash flow forecasting; and clearly defined approval limits. The external auditors provide advice on specific accounting and tax issues as they arise.

Financial risk management policy

The company's principal financial instruments comprise cash, PFI debtors, creditors and bank and subordinated loans. The main risks include financial covenant compliance, which is formally tested at regular six monthly intervals.

Financial instruments

The company's financial risk management objectives and policies are operated by the Board. Treasury policies include defined controls on the use of financial instruments in managing risk. The principal financial risks faced by the company relate to interest rates and funding. Details of the company's policies are given in note 1.

All activities are in sterling and therefore there is no exposure to foreign currency risk. The company does not trade in financial instruments.

The company entered into a Swap Agreement in order to manage the company's exposure to interest rate risk. Under UK Generally Accepted Accounting Practice, this Swap Agreement is not recognised in the company's financial statements, however details of their fair values are given in note 10 to the financial statements.

Directors' report

Going concern

The directors believe that there are no material uncertainties that cast significant doubt about the company's ability to continue as a going concern and the financial statements have been prepared on that basis.

Directors

The directors who served the company during the year were as follows:

E O'Hare
C Field
P Duffy
S Mallion

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Reappointment of auditors

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

Small company exemptions

This report has been prepared in accordance with the special provisions applicable to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

On behalf of the Board

Eamon O'Hare
Director

Date: 18th March 2013

Statement of 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 estimates that are reasonable and prudent;
- 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 Belfast Educational Services (Dungannon) Limited

We have audited the financial statements of Belfast Educational Services (Dungannon) Limited for the year ended 7 October 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

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 4, 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, including "APB Ethical Standard –Provisions Available for Small Entities (Revised)".

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 7 October 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report

to the members of Belfast Educational Services (Dungannon) Limited

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; 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 exemption in preparing the directors' report.

Ernst & Young LLP

Keith Jess (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Belfast
Date: 26 March 2013

Profit and loss account

for the year ended 7 October 2012

	Notes	2012 £	2011 £
Turnover	1	1,370,908	1,280,700
Cost of sales		(561,992)	(536,619)
Gross Profit		808,916	744,081
Administrative expenses		(581,006)	(439,242)
Operating Profit		227,910	304,839
Interest receivable and similar income	2	1,143,720	1,150,478
Interest payable and similar charges	2	(1,214,509)	(1,209,693)
Profit on ordinary activities before taxation	2	157,121	245,624
Tax	3	(43,592)	(71,235)
Profit for the financial year	9	113,529	174,389

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 7 October 2012

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £113,529 in the year ended 7 October 2012 (2011 – profit of £174,389).

Balance sheet

at 7 October 2012

	Notes	2012 £	2011 £
Current assets			
Debtors: amounts falling due after one year	4	15,571,833	15,851,823
Debtors: amounts falling due within one year	4	876,497	886,088
		16,448,330	16,737,911
Bank and cash		4,850,531	4,193,125
		21,289,861	20,931,036
Creditors: amounts falling due within one year	5	(3,285,663)	(2,619,448)
Total assets less current liabilities		18,013,198	18,311,588
Creditors: amounts falling due after more than one year	6	(17,907,816)	(18,250,276)
Net assets		105,382	61,312
Capital and reserves			
Called up share capital	8	25,000	25,000
Profit and loss account	9	80,382	36,312
Shareholders' funds	9	105,382	61,312

These financial statements have been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities.

Eamon O'Hare

Director

Date: 18th March 2013

Notes to the financial statements

at 7 October 2012

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

Going concern

Under the terms of the bank facility and agreements there are financial covenants which need to be complied with at regular intervals and these are closely monitored by the directors on a quarterly basis. As a result of this review the directors consider that the company will be able to meet its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Statement of cash flows

The company has taken advantage of the exemption available under FRS 1 not to prepare a statement of cash flows.

Turnover

Turnover is the amount derived from the provision of services falling within company's ordinary activities after the deduction of value added tax. The whole of the company's turnover arose from activities performed within the United Kingdom.

Turnover derived from availability of project assets post construction is recognised so as to provide an even return on the expected expenditures over the remaining life of the project agreement. Turnover includes construction costs, recognised in accordance with predetermined project phases, as described below under Accounting for Private Finance Initiative Contracts.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 7 October 2012

1. Accounting policies (continued)

Accounting for Private Finance Initiative Contracts

During the period of construction, costs incurred as a direct consequence of financing, designing and constructing Dungannon Campus of South West College (the facility) are shown as assets in the course of construction. On completion of predetermined construction phases, where agreements transfer substantially all the risks and rewards associated with ownership to the purchaser, amounts receivable are transferred from assets in the course of construction to PFI debtors. These amounts are recognised as turnover in the financial statements. The project agreement with the purchaser provides for capital and interest repayments relating to the facility to commence from the date the building is made available for the use by college students.

Financial instruments

The company uses derivative financial instruments to manage exposure to interest rate risk. The company does not hold or issue derivative financial instruments for speculative purposes. During the period of asset construction, receipts and payments under interest rate swap agreements related to borrowings to finance asset construction, are capitalised as part of the asset cost. Post construction, receipts and payments under interest rate swap agreements are recognised in the profit and loss account on an accruals basis.

2. Profit on ordinary activities before taxation

This is stated after charging/(crediting):

	2012	*2011*
	£	£
Auditors' remuneration	4,400	4,400
Interest receivable on deposit account	(78,075)	(71,052)
Interest receivable on finance debtor	(1,065,645)	(1,079,426)
Bank interest payable and similar charges	1,024,131	1,019,315
Other interest payable and similar charges	190,378	190,378

3. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2012	*2011*
	£	£
Current tax:		
UK corporation tax on the profits for the year	18,125	17,006
Adjustments in respect of previous periods	(176)	(13,931)
Total current tax (note 3(b))	17,949	3,075
Deferred tax:		
Origination and reversal of timing differences	20,251	54,949
Adjustments in respect of previous years	5,391	13,211
Total deferred tax (note 3(c))	25,642	68,160
Tax on profit on ordinary activities	43,591	71,235

Notes to the financial statements

at 7 October 2012

3. Tax (continued)

(b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24.96% (2011 – 27%). The differences are explained below:

	2012 £	*2011* £
Profit on ordinary activities before tax	157,121	245,624
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.96% (2011 – 27%)	39,217	66,318
Effects of:		
Disallowable expenses	2,245	2,426
Utilisation of tax losses	(21,976)	(49,478)
Accelerated capital allowances		–
Adjustment in respect of previous periods	(176)	(14,042)
Marginal rate relief	(1,362)	(2,149)
Current tax for the year (note 3(a))	17,948	3,075

(c) Deferred tax

	£
Deferred tax asset at start of year	(67,397)
Deferred tax charge in profit and loss for the year	25,642
Deferred tax asset at end of year	(41,754)

4. Debtors

	2012 £	*2011* £
Trade debtors		
PFI debtor:		
Amounts falling due within one year	279,994	262,162
Amounts falling due after one year	15,571,833	15,851,823
Trade debtors	*294,911*	*287,349*
Deferred tax (note 3(c))	41,754	67,397
Prepayments and accrued income	203,507	212,446
Accrued income	56,331	56,734
Amounts due from parent undertaking		–
	16,448,330	16,737,911

Notes to the financial statements

at 7 October 2012

4. Debtors (continued)

The company's principal financial assets are bank balances, the PFI debtor and trade and other debtors. Credit risk is primarily attributable to the PFI debtor which has arisen from the construction of the college and associated costs. The company does not actively hedge this counterparty credit risk as it is a Government debtor, a highly rated counterparty.

The construction of the new Dungannon Campus of South West College was undertaken under a Private Finance Initiative programme. The substance of the agreement between the parties provided for Belfast Educational Services (Dungannon) Limited to design, finance, construct and operate the College. On completion of predetermined construction phases, where agreements transfer substantially all the risks and rewards associated with ownership to the purchaser, amounts receivable are transferred from assets in the course of construction to PFI debtors. These amounts are recognised as turnover in the financial statements. The project agreement with the purchaser provides for capital and interest repayments relating to the facility to commence from the date the building is made available for the use of college students.

Repayment of the PFI debtor is provided for in fixed monthly instalments over a 30 year period commencing upon completion of construction of phase 2.

5. Creditors: amounts falling due within one year

	2012	*2011*
	£	£
Bank loans	264,946	241,361
Loan notes	77,505	22,618
Trade creditors	99,866	97,972
VAT	146,429	145,243
Due to group companies	69,459	-
Accruals and deferred income	2,609,964	2,109,804
Corporation tax	17,494	2,450
	3,285,663	2,619,448

Financial liabilities comprise trade and other creditors, and bank borrowings. The company currently finances its operations by bank borrowings. The company considers the benefit of certainty of fixed borrowing costs to be in excess of the potential savings of being exposed to floating interest rates.

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

	2012	*2011*
	£	£
Bank loans (note 7)	16,081,542	16,369,115
Loan notes (note 7)	1,826,274	1,881,161
	17,907,816	18,250,276

The loan notes are subordinated in favour of the senior bank loans (see note 7).

Notes to the financial statements

at 7 October 2012

7. Borrowings

	2012	*2011*
	£	£
Due within one year	342,451	263,978
Due after more than one year	17,907,816	18,250,276
	18,250,267	18,514,254

The bank loans and overdrafts are the subject of fixed and floating charges over the shareholdings in the company and all the company's assets. Interest is charged at variable rate but an interest rate derivative is used to manage the cash flow interest rate exposure arising on the variable rate debt with the net result that fixed interest, at an effective fixed rate of 5.23% is paid.

The loan notes rank ahead of all unsecured obligations of the company. Interest is charged at a fixed rate of 10% pa.

The bank loans due after more than one year are repayable as follows:

The maturity of these amounts is as follows:

	2012	*2011*
	£	£
Due between one and two years	290,271	264,945
Due between two and five years	1,102,169	995,150
Due after five years	14,689,102	15,109,020
	16,081,542	16,369,115

8. Issued share capital

		2012		*2011*
Allotted, called up and fully paid	*No.*	£	*No.*	£
Ordinary shares of £1 each	25,000	25,000	25,000	25,000

9. Reconciliation of shareholders' funds and movements on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	£	£
At 8 October 2010	25,000	(138,077)	(113,077)
Profit for the year	–	174,389	174,389
At 8 October 2011	25,000	36,312	61,312
Profit for the year		113,529	113,529
Dividends	–	(69,459)	(69,459)
At 7 October 2012	25,000	80,382	105,382

Notes to the financial statements

at 7 October 2012

10. Derivatives

The company entered into an interest rate swap agreement in order to manage its cash flow exposure to interest rate risk on its variable rate debt. At 7 October 2012 the entire bank loans of £16,346,488 is under cover of this agreement and the fixed rate is 5.23% per annum in place of LIBOR. As at 7 October 2012 the fair value of this agreement was £5,811,819 adverse to company (2011 – £4,360,557 – adverse to company).

11. Related party transactions

O'Hare & McGovern Limited which owns 50% of the shares in the parent undertaking, was the contractor for the construction of Dungannon Campus of South West College. This company provided project management and related ancillary services to the company amounting to £68,520 (2011 – £65,407). Included within creditors due within one year are trade creditors of £29,140 (2011 – £28,126).

Interservefm Limited is also wholly owned subsidiary of Interserve Plc. This company provided project management and related ancillary services to the company amounting to £691,534 (2011 – £676,943) during the year. Included within creditors due within one year are trade creditors of £70,725 (2011 – £66,171).

Both O'Hare & McGovern Limited and Interserve PFI Holdings Limited have advanced, in equal proportion, subordinated loans to the company. Under the subordination agreement the loan notes can be partially repaid at six monthly intervals to the extent that there are excess cash flows after the senior bank debt has been serviced and all other creditors are paid as they fall due. The amounts owed to the loan note holders, including interest rate terms, are described in notes 6 and 7 to the financial statements.

12. Ultimate parent undertaking and controlling party

The parent undertaking is Belfast Educational Services (Dungannon) Holdings Limited, a company incorporated in Northern Ireland. Copies of the financial statements may be obtained from the Registrar of Companies, Linenhall Street, Belfast.

The parent undertaking is jointly owned by O'Hare & McGovern Limited and Interserve PFI Holdings Limited.