Edinburgh Schools Partnership Limited

Directors' report and accounts for the year ended 31 December 2003

Registered number: SC206930

Directors' Report and Accounts

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Directors' report

The Directors present their report and audited accounts for the year ended 31 December 2003.

Principal activity

The Company was formed to design, construct, and to provide lifecycle maintenance and facilities management services to schools within the Edinburgh area over a 32-year period. The partnership with the City of Edinburgh Council has been procured under the government's Public Private Partnership initiative.

Review of business and future developments

Over the year, construction of 8 schools has been completed, which means that 13 of the 16 contracted schools have been completed, and Edinburgh Schools Partnership now provides facilities management services and lifecycle maintenance to these schools. City of Edinburgh Council has issued change orders to remove the 3 remaining schools from the scope of the project (Stage 1 Change).

Edinburgh Schools Partnership and City of Edinburgh Council have agreed to add 4 schools to the scope of the project through change orders (Stage 2 Change). Of the 4 schools that are being added, Firrhill Secondary School is being re-introduced, having being removed through Stage 1, and will be part of a campus which will also contain Oxgangs Primary School and Graysmill Special School, the 2nd and 3rd schools to be added to the project. St Peter's Primary School is the last addition, having being removed from the Project through Stage 1, as planning consent had not been obtained in line with the Project Agreement Planning Longstop Date. North Merchiston Special School, the other school to be removed via Stage 1, was destroyed by a fire and is not currently due to be re-introduced to the project.

Edinburgh Schools Partnership Limited is a wholly owned subsidiary of ESP (Holdings) Limited. As at 31 December 2003, the shareholders in ESP (Holdings) Limited were Argon Ventures Limited, Miller Construction (UK) Limited, Quayle Munro PFI Fund Limited Partnership and Uberior Infrastructure Investments Limited.

Results and dividends

The company's loss for the financial year was £6,725,036 (2002 loss of £1,587,844). The directors do not recommend the payment of a dividend (2002 – nil).

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Directors and their interests

The directors who held office during the year are given below:

DI Sutherland (resigned 21 March 2003)
JJ McCormack (resigned 21 March 2003)
GD Blood (appointed 28 March 2003, resigned 29 May 2003)
R Weston (appointed 29 May 2003)
N Smith (appointed 28 March 2003)
RS Mackie
AG Bremner
PR Grant (resigned 30 January 2004)
AD Darling (resigned 30 January 2004)
MT Smith (appointed 30 January 2004)
AL Tennant (appointed 30 January 2004)

None of the directors had any interest in the company or the group.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, which 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 1985. 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.

Small company exemptions.

This report has been prepared in accordance with the special provision of Part VII of the Companies Act 1985, applicable to small companies.

On behalf of the board

Director

Independent auditors report to the members of Edinburgh Schools Partnership Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the director's report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors,
Edinburgh
2004

1 October 2004.

Profit and Loss Account
for the year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	2	**5,777,031**	326,627
Cost of Sales		**(4,331,761)**	(1,270,647)
Gross profit / (loss)		**1,445,270**	(944,020)
Administrative expenses		**(5,298,844)**	(932,936)
Operating loss	3	**(3,853,574)**	(1,876,956)
Interest receivable	5	**204,149**	53,463
Interest payable	6	**(2,911,623)**	(1,081,574)
Loss on ordinary activities before tax		**(6,561,048)**	(2,905,067)
Tax on ordinary activities	7	**-**	-
Income from surrender of tax losses		**(163,988)**	1,317,223
Loss for the financial year	16	**(6,725,036)**	(1,587,844)

The activities of the company relate entirely to continuing operations.

There are no recognised gains or losses other than the loss for the period of £6,725,036.

There is no difference between the loss on ordinary activities before taxation and the result for the year as stated above, and their historical cost equivalents.

Balance sheet
at 31 December 2003

	Note	2003 £	2002 £
Tangible fixed assets	8	**72,449,219**	58,061,454
Current assets			
Debtors	9	**4,556,357**	2,494,369
Cash at bank and in hand		**5,787,600**	8,499,358
		10,343,957	10,993,727
Creditors: amounts falling due within one year	10	**(7,599,391)**	(18,663,930)
Net current assets / (liabilities)		**2,744,566**	(7,670,203)
Total assets less current liabilities		**75,193,785**	50,391,251
Creditors: amounts falling due after more than one year	11	**(70,257,435)**	(55,448,606)
Deferred Income	13	**(24,848,779)**	(8,130,038)
Net liabilities		**(19,912,429)**	(13,187,393)
Capital and reserves			
Called up share capital	14	**83,395**	83,395
Profit and loss account	16	**(19,995,824)**	(13,270,788)
Deficiency in equity shareholders' funds	16	**(19,912,429)**	(13,187,393)

The directors have taken advantage in the preparation of these accounts of special provisions of Part VII of the Companies Act 1985 applicable to small companies. The financial statements on pages 4 to 13 were approved by the board of directors on 30 / 09 / 2004 and were signed on its behalf by:

Director

Director

Notes – 31 December 2003

(forming part of the accounts)

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

The following accounting policies have been applied consistently in dealing with items, which are considered material to the company's accounts.

Basis of preparation

The accounts have been prepared under the historical cost accounting rules. The accounts have been prepared on the going concern basis as the financial projections indicate that sufficient funds will be generated to allow ongoing obligations to be met as they fall due.

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard 1 to prepare a cash flow statement as it qualifies as a small company under sections 246 to 249 of the Companies Act 1985.

Deferred taxation

Deferred taxation is provided at current rates of corporation tax on all timing differences, which have originated, but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that it is more likely than not that there will be taxable profits from which the underlying timing differences can be deducted. The company, as permitted by FRS 19, has not adopted a policy of discounting deferred tax assets and liabilities.

Fixed assets

In accordance with FRS15, tangible fixed assets are stated at cost and include interest charged in respect of loans for the purpose of constructing assets up until practical completion.

Depreciation

Depreciation is provided on all tangible fixed assets to write off the cost, less estimated residual value of tangible fixed assets by equal instalments over their expected useful lives as follows:

Buildings	27-30 years
Plant and machinery	3-5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation charged in the year was in respect of completed assets.

Capital instruments

Shares are included in shareholders' funds. Other debt instruments, which contain an obligation to repay, are classified as liabilities. The finance cost recognised in the profit and loss account in respect of capital instruments other than shares is allocated to periods over the operating life of the instrument to which they relate at a constant rate on the carrying amount.

Council contributions

Council contributions are credited to deferred income and are released to the profit and loss account in equal instalments over the life of the contract.

Notes – 31 December 2003

(forming part of the accounts)

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to one continuing activity, being the provision of construction, refurbishment and facilities management services to schools.

3. Operating loss

	2003	2002
Operating loss is stated after charging :	£	£
Audit fees	**7,500**	5,000
Non-audit fees	**90,000**	10,000
Depreciation	**4,055,322**	253,395

During the period, the company did not employ any staff.

4. Directors' emoluments

The directors did not receive any remuneration from the company during the year.

5. Interest receivable

	2003	2002
	£	£
Bank interest receivable	**130,368**	53,463
Other interest receivable	**73,781**	-
Total	**204,149**	53,463

6. Interest payable and similar charges

	2003	2002
	£	£
On bank loans	**4,597,204**	2,516,726
Interest capitalised in tangible fixed assets	**(1,728,981)**	(1,671,531)
	2,868,223	845,195
Commitment fees on funds not utilised	**43,400**	236,379
Total	**2,911,623**	1,081,574

Notes – 31 December 2002
(forming part of the accounts)

7. Taxation for the year

	2003 £	2002 £
Current Tax		
UK corporation tax on profits of the period	-	-
Adjustments in respect of previous periods	-	-
Total current tax charge	-	-
Factors affecting the charge for the period		
Loss on ordinary activities before tax	**(6,561,048)**	(2,905,067)
Loss on ordinary activities at the UK rate of 30% (2002: 30%)	**(1,968,314)**	*(871,520)*
Effects of:		
Unrecognised movement in the deferred tax asset	**1,220,086**	846,039
Expenses not deductible for tax purposes	**748,228**	25,481
Current tax charge for the period	-	-

Notes – 31 December 2003
(forming part of the accounts)

8. Fixed assets

	2003 Buildings	2003 Plant & machinery	2003 Assets in the course of construction	2003 Total
Cost	£	£	£	£
At 1 January 2003	16,495,299	5,123,703	36,695,847	58,314,849
Additions	-	-	18,443,087	18,443,087
Transfer	34,643,098	19,908,836	(54,551,934)	-
At 31 December 2003	51,138,397	25,032,539	587,000	76,757,936
Depreciation				
At 1 January 2003	88,475	164,920	-	253,395
Charge for the year	978,880	3,076,442	-	4,055,322
At 31 December 2003	1,067,355	3,241,362	-	4,308,717
Net Book Value				
At 31 December 2003	50,071,042	21,791,177	587,000	72,449,219
At 31 December 2002	16,406,824	4,958,783	36,695,847	58,061,454

Included within fixed assets at cost is £3,483,330 (2002 - £1,754,349) of capitalised interest.

9. Debtors

	2003	2002
	£	£
Trade debtors	2,927,159	216,660
Prepayments	445,636	-
Other debtors	306,154	813,738
Income from surrender of tax losses	-	1,317,223
VAT recoverable	877,408	146,748
	4,556,357	2,494,369

Notes – 31 December 2003
(forming part of the accounts)

10. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	**3,524,991**	4,288,043
Other creditors	**163,988**	-
Accruals	**550,424**	-
£8,092,310 bank loan at fixed rate, repayable August 2003	**-**	7,671,077
£8,092,310 subordinated loan at fixed rate, repayable in instalments commencing September 2004	**1,831,841**	-
Other creditors repayable no later than August 2003		3,514,495
£33,937,101 bank loan at fixed rate, repayable in instalments commencing August 2003	**824,487**	1,520,251
£36,510,000 bank loan at fixed rate, repayable in instalments commencing August 2003	**703,660**	1,670,064
	7,599,391	18,663,930

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

	2003 £	2002 £
Not wholly repayable within five years:		
£8,092,310 subordinated loan at fixed rate, repayable in instalments commencing September 2004	**6,260,469**	-
£33,937,101 bank loan at fixed rate, repayable in instalments commencing August 2003	**30,332,340**	26,580,501
£36,510,000 bank loan at fixed rate, repayable in instalments commencing August 2003	**33,664,626**	28,868,105
	70,257,435	55,448,606

12. Creditors: bank loans

The maturity of debt is as follows:	2003 £	2002 £
Less than one year	**3,359,988**	14,375,887
Between one and two years	**2,526,821**	1,116,533
Between two and five years	**8,759,263**	5,729,810
In five years or more	**58,971,351**	48,602,263
Total net debt	**73,617,423**	69,824,493

Notes – 31 December 2003
(forming part of the accounts)

12. Creditors: bank loans (continued)

Bank Loans have been hedged via swaps entered into at the date of financial closure. Swaps resulted in *100% of outstanding Senior Debt being fixed at 5.215% plus 1% margin.*

Subordinated loan interest is fixed at 11.7%.

At the year end, bank loans of £31,933,283 (2002 - £45,156,241) and £34,513,350 (2002 - £36,510,000) are held with the Governor and Company of the Bank of Scotland and the European Investment Bank respectively. The Governor and Company of the Bank of Scotland and the European Investment Bank holds fixed and floating charges with ESP (Holdings) Limited (the holding company) and Edinburgh Schools Partnership Limited (the company) over the assets of the company, assignation securities from the holding company and the company over the company's right, title and interests in the Edinburgh Schools Project and a deed of pledge from the holding company in respect of shares in Edinburgh Schools Partnership Limited.

13. Deferred Income

	2003	2002
	£	£
At 1 January	**8,130,038**	-
Amounts received in the year	**17,215,118**	8,140,771
Amortised during the year	**(496,377)**	(10,733)
At 31 December	**24,848,779**	8,130,038

14. Share capital

	2003	2002
	£	£
Authorised		
Ordinary shares of £1 each	**100,000**	100,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**83,395**	83,395

Notes – 31 December 2003
(forming part of the accounts

15. Provision for deferred taxation

Deferred taxation comprises:

	2003	2002
	£	£
Accelerated capital allowances	**2,121,238**	1,481,130
Carried forward tax losses	**(2,121,238)**	(1,481,130)
Provision for deferred tax	**-**	-

The total amount of the deferred tax asset not recognised is £3,323,221 (2002 - £2,103,135). This is wholly in respect of carried forward tax losses.

16. Reconciliation of shareholders funds and movement on reserves

	Share capital	Profit & loss account	Total shareholders' funds
	£	£	£
At 1 January 2003	**83,395**	**(13,270,788)**	**(13,187,393)**
Loss for the year	**-**	**(6,725,036)**	**(6,725,036)**
At 31 December 2003	**83,395**	**(19,995,824)**	**(19,912,429)**

17. Capital commitments

There is a capital commitment at balance sheet date of £1,190,000 (2002 £26,600,000) to build schools not provided in the accounts. This amount is contracted for, and will be paid out over the length of the construction period.

18. Other financial commitments

There were no other financial commitments as at 31 December 2003.

19. Transactions with related parties

During the year, the company purchased services in the normal course of business from shareholders of ESP (Holdings) Limited, the ultimate holding company (see note 20) or their groups, in the following amounts:

	2003	2002
	£	£
Amey Ventures Limited	-	138,758
Amey BPO Services Limited	*2,047,986*	*315,894*
Miller Construction (UK) Limited	57,730	-
Equion plc	156,762	-
Bank of Scotland (net of issue costs)	2,132,831	2,375,011
Amey Miller Construction Joint Venture	18,296,386	44,895,689

Notes – 31 December 2003
(forming part of the accounts)

19. Transactions with related parties (continued)

Balances due as at 31st December 2003 to / (from) shareholders of ESP (Holdings) Limited or their groups were:

	2003	2002
	£	£
Amey Ventures Limited	542	3,514,495
Amey BPO Services Limited	798,526	104,581
Bank of Scotland (net of issue costs)	31,244,054	35,7113,273
Miller Construction (UK) Limited	2,640,363	(658,612)
Equion plc	2,427,693	-
Quayle Munro PFI Fund Limited Partnership	809,231	-
Amey Miller Construction Joint Venture	511,604	3,604,229

Services purchased from Amey Ventures Limited constituted interest earned on the Amey Cash Collateral account. This amount was repaid to Amey Ventures Limited once certain land sale transactions realised agreed underwritten values, and any interest earned on the balance was also due to be repaid to Amey Ventures Limited.

Amey BPO Services Limited is the Facilities Management provider for the schools.

Services purchased from Bank of Scotland are loan interest and fees. In addition, interest of £130,368 (2002 – £53,463) was received from Bank of Scotland. There were also subordinated debt loan notes provided by Bank of Scotland for the value of £2,427,693.

Miller Construction (UK) Limited provided seconded staff and they also provided subordinated debt loan notes for the value of £2,427,693.

Equion plc replaced Amey Ventures Limited as a shareholder in ESP (Holdings) Limited and provided seconded staff. There were also subordinated debt loan notes provided by Equion plc for the value of £2,427,693.

Quayle Munro PFI Fund Limited Partnership provided subordinated debt loan notes for the value of £809,231.

Amey Miller Construction Joint Venture is a joint venture between Amey Asset Services Limited and Miller Construction (UK) Limited. Services purchased are for design and build work related to the construction of schools.

20. Parent undertaking and ultimate controlling party

The company is a wholly owned subsidiary of ESP (Holdings) Limited, company number SC206929. The accounts of ESP (Holdings) Limited can be obtained from the Registrar of Companies, Companies House, 37 Castle Terrace, Edinburgh EH1 2EB.

There were no transactions between Edinburgh Schools Partnership Limited and ESP (Holdings) Limited and there were no outstanding balances at the year-end.

The Directors consider there to be no ultimate controlling party.