The Edinburgh Schools Partnership Limited

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 March 2009

Registered Number: SC206930

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

CONTENTS

DIRECTORS AND ADVISORS

Directors

M T Smith	
J C Elliot	(resigned 6 May 2009)
D B Marshall	
J M Linney	
I R Gethin	
M A Donn	
C Easton	(resigned 6 May 2009)
K A McLellan	
A Ritchie	(appointed 6 May 2009)
Z Munshi	(appointed 15 May 2009)

Company secretary and registered office
R Miller
Lochside House
3 Lochside Way
Edinburgh
EH12 9DT

Auditors
Ernst & Young
George House
50 George Square
Glasgow
G2 1RR

Principal bankers
Halifax Bank of Scotland
Edinburgh Branch
New Uberior House
Edinburgh
EH3 9BN

Directors' Report

The Directors present their report and audited accounts for the year ended 31 March 2009.

The company was formed to design, construct , refurbish and provide lifecycle maintenance, facilities management, cleaning and catering to schools within the Edinburgh area over a 30 year period. Included within the project are 10 primary, 5 secondary, 3 special and 1 community centre.

The project has settled into its operational stage, with all construction works now complete.

Many of the commercial and contractual issues which existed during the implementation stage of the project have been resolved and concluded and the company is now operating in a good working partnership.

ESP, with its service providers, continually strives to improve the education support service which it provides to the City of Edinburgh Council.

As at 31 March 2009 the ESP consortium is comprised of John Laing Social Infrastructure Limited, Semperian PPP Investment Partners No. 2 Limited, Uberior Infrastructure Investments (No. 3) Limited, PFI Infrastructure Finance Limited.

Results for the Period

The results for the period are set out in the attached profit and loss account. The profit for the period of £1,467,000 (2008 – profit of £2,162,000) has been transferred to reserves.

The company's principal financial instruments comprise of cash and cash equivalents, bank and shareholder loans. Other financial assets such as trade creditors and debtors arise directly from the operating activities.

Interest Rate Risk
Bank loans have been hedged via swaps entered into at the date of financial closure. Swaps result in 90% of outstanding Senior Debt being fixed, with the remaining 10% at a variable rate. Subordinated debt is at a fixed rate of 13.07%.

Credit Risk
All creditors and debtors are monitored on a monthly basis.

Liquidity Risk
The common terms agreement states that certain debt cover ratios must be covered and reviewed every six months via a model update. If these ratios are not met for the following eight six month periods the subordinated debt remains unpaid until the bank release the company from 'lock up'.

Key Performance Indicators
The FM contractor is subject to deductions based on performance this is then passed through as a credit to the council on a monthly basis. There have been minimal deductions during the financial year 2008/09. All deductions have been passing though from customer to supplier.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquires of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

Mark Smith

Director
4 August 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.
Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and, of the profit or loss for that period.

In preparing those 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 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the Companies Act 1985.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE EDINBURGH SCHOOLS PARTNERSHIP LIMITED

We have audited the company's financial statements for the year ended 31 March 2009 which comprise Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP.

Ernst & Young LLP
Registered auditor
Glasgow
6 August 2009.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 £'000	2008 £'000
Turnover	1, 2	**7,803**	7,869
Cost of sales		**(6,330)**	(6,896)
Gross Profit		**1,473**	973
Administrative expenses		**(1,480)**	(710)
Operating (loss)/profit	3	**(7)**	263
Interest receivable	6	**7,042**	7,509
Interest payable	7	**(5,067)**	(6,150)
Profit on ordinary activities before taxation		**1,968**	1,622
Tax on profit on ordinary activities	8	**(501)**	540
Retained profit for the year transferred to reserves	17	**1,467**	2,162

A reconciliation of movements in equity shareholders' funds is given in note 18.

Statement of total recognised gains and losses

There are no recognised gains and losses other than the profit for the year of £1,467,000 (2008 profit of £2,162,000).

BALANCE SHEET AS AT 31 MARCH 2009

	Notes	2009 £'000	2008 £'000
Current assets			
Amounts falling due within one year	9	**120**	525
Amounts falling due after one year	9	**86,251**	89,121
Cash at bank and in hand		**8,615**	10,144
		94,986	99,790
Current liabilities			
Creditors: amounts falling due within one year	10	**(5,826)**	(6,977)
Net current assets		**89,160**	92,813
Total assets less current liabilities		**89,160**	92,813
Creditors: amounts falling due after more than one year	11	**(78,873)**	(82,351)
Deferred Tax	13	**(7,450)**	(6,965)
Provisions for liabilities	13	**(470)**	(297)
Net assets		**2,367**	3,200
Capital and reserves			
Called up share capital	16	**83**	83
Profit and loss account	17	**2,284**	3,117
Equity shareholders' funds	18	**2,367**	3,200

The financial statements were approved by the Board of Directors on 4 August 2009 and were signed on its behalf by:

Martin Smith

Director
4 August 2009

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 £'000	2008 £'000
Net cash inflow from operating activities	21	**4,251**	2,936
Capital expenditure and financial Investment			
Purchase of assets for use in finance lease		-	11
Returns on investments and servicing of finance			
Interest received		**405**	885
Swap interest received		**482**	-
Finance debtor interest received		**6,155**	6,624
Interest and other financing costs paid		**(5,943)**	(5,190)
Dividends paid		**(2,300)**	-
Net cash outflow from returns on investments and servicing of finance		**(1,201)**	2,319
Taxation			
Sale of tax loses		-	733
Corporation Tax		-	(77)
Net cash inflow before use of liquid resources and financing		**3,050**	5,922
Financing			
Increase in bank borrowings		-	-
Loan repayments		**(4,580)**	(3,067)
Net cash outflow from financing		**(4,580)**	(3,067)
(Decrease)/increase in cash in the year	22	**(1,530)**	2,855

Reconciliation to net debt			
Net debt at 1 April		**(76,702)**	(82,624)
(Decrease)/Increase in cash in the year		**(1,530)**	2,855
Movement in borrowings		**4,580**	3,067
Net debt at 31 March	22	**(73,652)**	(76,702)

Notes to the financial statements at 31 March 2009

1 ACCOUNTING POLICIES

a) Basis of preparation of accounts

The accounts have been prepared under the historical cost accounting rules and in accordance with applicable Accounting Standards. 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.

b) Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes. All turnover originates in the United Kingdom.

The company recognises income when it has fully fulfilled its contractual obligations. In accordance with Financial Reporting Standard 5 - Application Note G, the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

c) Finance debtor

In accordance with Financial Reporting Standard (FRS) 5 Application Note F the costs incurred in building the Edinburgh Schools have been treated as a finance debtor. This treatment arose from applying guidance with the Application Note which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer.

Refer to note 1b. The costs of bringing the assets into use have been capitalised and reclassified as a finance debtor. A constant proportion of the planned net revenue arising from the project is being allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term the finance debtor is expected to be fully repaid.

d) Finance debtor and income recognition

Upon the asset becoming operational, the costs are transferred to the finance debtor. During the operational phase, income is allocated between interest receivable and turnover using a constant operating margin on costs. The remainder of the PFI income will be allocated to the finance debtor.

e) Deferred Tax

Deferred tax is recognised in respect of all timings 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 a right to pay less or to receive more tax

Deferred tax is measured on 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 substantially enacted at the balance sheet date.

f) Corporation Tax

A number of changes to the UK Corporation Tax system were announced as part of the March 2007 budget statement. Certain of these changes were substantively enacted in the 2007 Finance Act on 26 June 2007. The impact of the changes has been recognised in these financial statements.

Certain other changes are expected to be enacted in the Finance Act 2008. The impact of these changes will be recognised in the period in which the Finance Act 2008 is substantively enacted, which is expected to be in the year to 31 March 2009.

g) Operating Leases

Rentals applicable to operating lease where substantially all of the benefits and risks of ownership remain with the lessor are charged against the profits on a straight line basis over the term of the lease.

Notes to the financial statements at 31 March 2009 (continued)

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, facilities management and catering.

3 OPERATING PROFIT

	2009	2008
	£'000	£'000
Operating profit is stated after charging:		
Auditors' remuneration	**19**	19
Operating leases land and buildings	**17**	24

4 DIRECTORS' REMUNERATION

No Directors received any remuneration for services to the Company during the current or prior year. The Company is managed by seconded employees from the shareholder John Laing Social Infrastructure.

5 STAFF NUMBERS

The Company had no employees during the year (2008 - nil)

6 INTEREST RECEIVABLE

	2009	2008
	£'000	£'000
Interest receivable and similar income		
Interest receivable on finance debtor	**6,155**	6,624
Interest receivable on bank deposits	**405**	885
Interest receivable on swaps	**482**	-
	7,042	7,509

7 INTEREST PAYABLE

	2009	2008
	£'000	£'000
Interest payable and similar charges		
Sub Debt Interest	**710**	811
Loan Interest	**4,315**	5,276
Other Interest	**-**	22
Amortised Debt Issue Costs	**42**	41
Interest payable on bank loans	**5,067**	6,150

Notes to the financial statements at 31 March 2009 (continued)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge for the year	2009 £000	2008 £000
Current tax		
UK corporation tax	(27)	-
Adjustments in respect of previous periods		
- UK corporation tax	-	-
- Group relief - amounts received for the sale of tax losses	11	563
Total current tax	(16)	563
Deferred tax		
Origination and reversal of timing differences	(515)	(23)
Prior year adjustments	30	-
Total deferred tax	(485)	(23)
Total tax credit/(charge) on profit on ordinary activities	(501)	540

Factors affecting the tax charge for the current year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	1,968	1,622
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21% (2008 - 30%)	(413)	(487)
Effects of:		
Items disallowed for tax purposes	-	(32)
Capital allowances in excess of amortisation	-	55
Other short term timing differences	386	464
Other timing differences		
Group relief	-	-
Adjustments to tax charge in respect of previous periods	11	563
Total current tax credit/(charge) for the year	(16)	563

9 DEBTORS

Due within one year:	2009 £'000	2008 £'000
Trade debtors	49	121
Other debtors	20	-
Prepayments and accrued income	51	404
	120	525
Due after more than one year:		
Finance debtor	86,251	89,121

Notes to the financial statements at 31 March 2009 (continued)

10 CREDITORS

	2009 £'000	2008 £'000
Amounts falling due within one year		
Trade creditors	**231**	529
Corporation tax	**16**	-
Other taxes	**125**	300
Other creditors	**1,474**	341
Accruals	**503**	1,269
Current instalments due on bank loans:		
£10,777,683 subordinated loan at fixed rate repayable in instalments commencing September 2004	**550**	550
£36,510,000, repayable in instalments commencing August 2003	**1,363**	1,470
£33,540,379, repayable in instalments commencing August 2003	**942**	1,529
£33,252,521, repayable in instalments commencing August 2003	**658**	1,031
Less: Amortised Debt Issue Costs	**(37)**	(42)
	5,826	6,977

11 CREDITORS: amounts falling due after one year

	2009 £'000	2008 £'000
Wholly repayable within five years:		
None	-	-
Not wholly repayable within five years:		
£10,777,683 subordinated loan at fixed rate repayable in instalments commencing September 2004	5,043	5,593
£36,510,00 bank loan at fixed rate, repayable in instalments commencing August 2003	27,922	29,392
£33,540,379 bank loan at fixed rate, repayable in instalments commencing August 2003	26,527	28,057
£33,252,521 bank loan at fixed rate, repayable in instalments commencing August 2003	23,988	25,019
	83,480	88,061
Less: included in creditors, amounts falling due within one year	(3,477)	(4,538)
Less: Amortised Debt Issue Costs	(1,130)	(1,172)
	78,873	82,351

	2009 £'000	2008 £'000
The maturity of debt is as follows:		
In one year or less or on demand	3,514	4,581
Between one and two years	3,558	3,514
Between two and five years	11,794	11,173
In five years or more	64,614	68,793
	83,480	88,061
Less: Amortised Debt Issue Costs	(1,166)	(1,214)
	82,313	86,847

Notes to the financial statements at 31 March 2009 (continued)

12 LOANS

Bank loans have been hedged via swaps entered into at the date of financial close. Swaps resulted in 100% of outstanding Senior Debt tranche A being fixed at 5.215% and 100% of the outstanding Senior Debt tranche B being fixed at 5.26%.

Subordinated Loan interest is fixed at 13.07%.

13 PROVISIONS FOR LIABILITIES

	Lifecycle	Deferred Tax
	£'000	£'000
At 1 April 2008	297	6,965
Increase during the year	173	485
At 31 March 2009	470	7,450

The lifecycle provision relates to maintaining the schools to their contractual specification. This work is subcontracted out over a 30 year period and represents the maximum amount that can be claimed at the balance sheet date for all maintenance work to date

During the year, as a result of the change in the UK corporation tax rates, deferred tax has been remeasured. Deferred tax balances relating to temporary differences which will reverse after 1 April 2009 are calculated at 28% being the rate of tax that is expected to apply on the reversal.

14 OBLIGATIONS UNDER OPERATING LEASES

At 31 March 2009 the company had annual commitments under non-cancellable operating leases, relating to land and buildings, as follows:

	2009	2008
	£'000	£'000
Operating Leases which expire:		
Within one year	5	22

15 CAPITAL COMMITMENTS

There are no capital commitments at the year end (2008 - £nil)

The Company has entered into the following other financial commitments:

- With Amey Business Services Limited to provide facilities management, lifecycle, maintenance, cleaning and catering services to the project for the duration of the contract. Payments due in the next financial year amounts to £3,935,330. This amount is indexed annually until 1 April 2030.

Notes to the financial statements for the year ended 31 March 2009 (continued)

16 CALLED UP SHARE CAPITAL

	2009	2008
	£000	£000
Authorised:		
100,000 Ordinary Shares of £1 each	**100**	100
	£'000	£'000
Allotted, called up and partly paid:		
83,000 Ordinary Shares of £1 each	**83**	83

17 MOVEMENT IN RESERVES

	Profit and loss account £'000
At 1 April 2008	**3,117**
Retained profit for the year	**1,467**
Dividends declared and paid (note 20)	**(2,300)**
At 31 March 2008	**2,284**

18 RECONCILIATION TO SHAREHOLDERS' FUNDS

	2009	2008
	£'000	£'000
Opening equity shareholders'	**3,200**	1,038
Profit for the financial year	**1,467**	2,162
Dividends declared and paid (note 20)	**(2,300)**	-
Closing equity shareholders' funds	**2,367**	3,200

19 TRANSACTIONS WITH RELATED PARTIES

During the year, the company purchased services in the normal course of business from the shareholders of ESP Holdings Limited, the ultimate holding company (see note 23), in the following amounts:

	2009	2008
	£000	£000
John Laing Social Infrastructure Limited	**625**	593
Halifax Bank of Scotland	**4,926**	4,674
Quayle Munro PFI Fund Limited Partnership	**218**	292
Semperian PPP UK Limited	**443**	535

John Laing Social Infrastructure Limited provides seconded staff and the services of 2 directors. Subordinated loan notes outstanding as at 31 March 2009 £1,008,537.

Services purchased from the Halifax Bank of Scotland - the ultimate parent company of Uberior Infrastructure Investments (No. 3) Limited - are loan interest, fees and the services of 2 directors. Subordinated loan notes outstanding as at 31 March 2009 £1,512,775. Interest received as at 31st March 2009 £887,586.

PFI Infrastructure Finance Limited provided the service of 2 directors. Subordinated loan notes outstanding as at 31 March 2009 £864,502.

Semperian PPP Investment Partners No. 2 Limited provided the services of 2 directors. Subordinated loan notes outstanding as at 31 March 2009 £1,656,869.

Notes to the financial statements at 31 March 2009 (continued)

20 DIVIDENDS

	2009 £'000	2008 £'000
Declared and paid during the year		
Equity dividends on ordinary shares:	**2,300**	-

21 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2009 £'000	2008 £'000
Operating (loss)/profit	**(7)**	263
Allocation of unitary charge to finance debtor less interest	**(6,881)**	(7,280)
Amortisation	**37**	42
Received from unitary charge less finance debtor interest	**9,745**	9,899
Decrease/(increase) in debtors	**406**	(69)
Increase in creditors	**951**	81
	4,251	2,936

22 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 31 March 2008 £'000	Cash Flow £'000	Debt Amortisation costs £'000	At 31 March 2009 £'000
Cash at Bank and in hand	10,144	(1,529)	-	**8,615**
Loans	(86,847)	4,580	(47)	**(82,313)**
	(76,703)	3,052	**(76,703)**	**(73,651)**

23 ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary of ESP (Holdings) Limited, company number SC206929. The accounts of ESP (Holdings) Limited registered at Lochside House, 3 Lochside Way, Edinburgh Park, Edinburgh, EH12 9DT can be obtained from the Registrar of Companies.