

The Edinburgh Schools Partnership Limited

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 March 2007



Registered Number SC206930

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2007

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DIRECTORS AND ADVISORS

Directors

M T Smith
J C Elliot
D B Marshall
K W Gillespie (resigned 25/05/06)
N Smith
J M Linney
A C Ritchie (resigned 25/05/06)
I R Gethin
B S Williams (resigned 25/05/06)
M A Donn (appointed 25/05/06)
J K Love (appointed 14/08/06)
A P L Walls (appointed 07/06/06, resigned 14/08/06)
K A McLellan (appointed 25/04/06)

Company secretary and registered office

R Miller
16 Bernard Street
Edinburgh
EH6 6PY

Auditors

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

Principal bankers

HBoS
Edinburgh Branch
New Uberior House
Edinburgh
EH3 9BN

Directors' Report

The Directors present their report and audited accounts for the year ended 31 March 2007

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 2007 the ESP consortium is comprised of John Laing Social Infrastructure, Secondary Market Infrastructure Fund UK Limited, Uberior Infrastructure Investments Ltd, PFI Infrastructure Finance Limited.

In the year to March 2007 a decision was reached by the shareholders of The Edinburgh Schools Partnership Limited that given the change in the risk profile of the contract, there should be a change in accounting treatment, to reclassify assets previously treated as fixed assets to finance debtor.

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 £1,108,000 (2006 – profit of £1,417,000) 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 agreements states that certain debt covers 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 2006/07. All deductions have been passing through 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


Director

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 2007 which comprise Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses and the related notes 1 to 22. 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

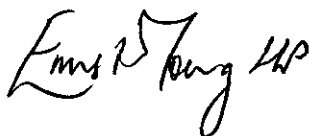
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 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
Registered auditor
Glasgow

25 February 2008

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 March 2007

	Notes	2007 £'000	restated 2006 £'000
Turnover	1, 2	8,815	7,069
Cost of sales		(6,411)	(5,862)
Gross Profit		<u>2,404</u>	<u>1,207</u>
Administrative expenses		(1,067)	(961)
Operating Profit	3	<u>1,337</u>	<u>246</u>
Interest receivable	6	7,329	7,643
Interest payable	7	(5,984)	(6,834)
Profit on ordinary activities before taxation		<u>2,682</u>	<u>1,055</u>
Sale of tax losses			687
Tax on profit on ordinary activities	8	(1,574)	(325)
Retained profit for the year transferred to reserves	17	<u>1,108</u>	<u>1,417</u>

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 March 2007


	Notes	2007 £'000	restated 2006 £'000
Profit for the financial year		1,108	1,417
Total recognised gains and losses relating to the year		<u>1,108</u>	<u>1,417</u>
Prior year adjustment	1	30,332	
Total gains and losses recognised since last annual report		<u>31,440</u>	

The Edinburgh Schools Partnership Limited

BALANCE SHEET AS AT 31 March 2007

	Notes	2007 £'000	restated 2006 £'000
Current assets			
Amounts falling due within one year	9	456	1,357
Amounts falling due after one year		91,684	92,531
Cash at bank and in hand		7,290	8,608
		<u>99,430</u>	<u>102,496</u>
Current liabilities			
Creditors amounts falling due within one year	10	(5,287)	(7,098)
		<u>94,143</u>	<u>95,398</u>
Net current assets			
		94,143	95,398
Total assets less current liabilities			
		94,143	95,398
Creditors amounts falling due after more than one year			
	11	(85,972)	(89,913)
Deferred Tax	13	(6,942)	(5,446)
Provisions for liabilities and charges	13	(191)	(109)
		<u>1,038</u>	<u>(70)</u>
Net assets			
Capital and reserves			
Called up share capital	16	83	83
Profit and loss account	17	955	(153)
		<u>1,038</u>	<u>(70)</u>
Equity shareholders' funds			
	18	<u>1,038</u>	<u>(70)</u>

The financial statements were approved by the Board of Directors on 20th February 2008 and were signed on its behalf by


 Director
 22nd February 2008

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 March 2007

	Notes	2007 £'000	restated 2006 £'000
Net cash inflow from operating activities	20	435	2,966
Capital expenditure and financial investment			
Purchase of assets for use in finance lease		137	(2,663)
Returns on investments and servicing of finance			
Interest received		435	678
Finance Debtor Interest received		7,764	8,322
Interest and other financing costs paid		(5,984)	(6,834)
Net cash outflow from returns on investments and servicing of finance		2,215	2,166
Taxation			
Sale of tax losses			687
Net cash inflow before use of liquid resources and financing		2,787	3,156
Financing			
Increase in bank borrowings			
Loan repayments		(4,105)	(2,777)
Net cash outflow from financing		(4,105)	(2,777)
(Decrease)/increase in cash in the year	21	(1,318)	379
Reconciliation to net debt			
Net debt at 1 April		(85,411)	(96,391)
(Decrease)/Increase in cash in the year		(1,318)	379
Movement in borrowings		4,105	10,601
Net debt at 31 March	21	(82,624)	(85,411)

Notes to the financial statements at 31 March 2007

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) Change in accounting treatment

In the year to March 2007 a decision was reached by the shareholders of The Edinburgh Schools Partnership Limited that given the change in the risk profile of the contract, there should be a change in accounting treatment, to reclassify assets previously treated as fixed assets to finance debtor. This decision was made based on the provisions as set out in FRS 5. As a result of this change in accounting policy, the following balances have been impacted:

Fixed assets are reversed out as to take account of a finance debtor rather than an asset.

A finance debtor replaces the fixed asset in line with FRS5 provisions.

Deferred income is reversed out in line with FRS 5 provisions.

Deferred tax is changed to reflect the restated profit figure to 31 March 2007.

	2006 £000
March 2006 accounts using fixed asset accounting	(30,401)
Removal of Fixed asset	(90,307)
Finance Debtor	92,531
Removal of Deferred Income	33,554
Deferred tax impact	(5,446)
Restated net assets at 31 March 2006	(69)

	2007 £000
March 2007 accounts using fixed asset accounting	(35,119)
Prior year adjustment	30,332
Removal of Fixed asset	9,458
Finance Debtor	(848)
Removal of Deferred Income	(1,212)
Deferred tax impact	(1,497)
Corporation Tax	(77)
Restated net assets at 31 March 2007	1,037

Notes to the financial statements at 31 March 2007 (continued)

c) 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 are risks and excluded from the financial statements.

d) 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.

e) 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.

f) Deferred Tax

Deferred tax 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 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.

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 2007 (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**

	2007 £'000	restated 2006 £'000
Operating profit is stated after charging		
Auditors' remuneration	24	24
Operating leases land and buildings	<u>30</u>	<u>30</u>

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 (2006 nil).

6 **INTEREST RECEIVABLE**

	2007 £'000	restated 2006 £'000
Interest receivable and similar income		
Interest receivable on finance debtor	6,894	678
Interest receivable on bank deposits	<u>435</u>	<u>6,965</u>
	<u>7,329</u>	<u>7,643</u>

7 **INTEREST PAYABLE**

	2007 £'000	restated 2006 £'000
Interest payable and similar charges		
Sub Debt Interest	910	1,162
Loan Interest	5,062	5,672
Other Interest	12	0
Interest payable on bank loans	<u>5,984</u>	<u>6,834</u>

Notes to the financial statements at 31 March 2007 (continued)

8	TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	2007	restated
		2006	
		£000	£000
	<u>Analysis of charge for the year</u>		
	Current tax		
	Group relief		
	Adjustments in respect of previous periods		
	UK corporation tax	(77)	
	Group relief		687
	Total current tax	<u>(77)</u>	<u>687</u>
	Deferred tax		
	Origination and reversal of timing differences	(1,497)	(1,012)
	Total deferred tax	<u>(1,497)</u>	<u>(1,012)</u>
	Total tax (charge) on profit on ordinary activities	<u>(1,574)</u>	<u>(325)</u>
	<i>Factors affecting the tax charge for the current year</i>		

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

		2007	restated
		2006	
		£'000	£'000
	Profit on ordinary activities before tax	<u>2,682</u>	<u>1,055</u>
	Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	(805)	(317)
	Effects of		
	Items disallowed for tax purposes	(769)	317
	Capital allowances in excess of amortisation	1,497	
	Group relief		687
	Total current tax credit/(charge) for the year	<u>(77)</u>	<u>687</u>

9 DEBTORS

		2007	2006
		£'000	£'000
	<u>Due within one year</u>		
	Trade debtors	121	218
	Other debtors		571
	Prepayments and accrued income	335	568
		<u>456</u>	<u>1,357</u>
	<u>Due after more than one year</u>		
	Finance debtor	<u>91,684</u>	<u>92,531</u>

Notes to the financial statements at 31 March 2007 (continued)

10 CREDITORS

	2007 £'000	restated 2006 £'000
Amounts falling due within one year		
Trade creditors	700	502
Corporation tax	77	
Other taxes	155	615
Other creditors	171	170
Accruals	242	1,704
Current instalments due on bank loans		
£10,777,683 subordinated loan at fixed rate repayable in instalments commencing September 2004	800	847
£36,510,000, repayable in instalments commencing August 2003	1,431	1,376
£33,540,379, repayable in instalments commencing August 2003	973	1,045
£33,252,521, repayable in instalments commencing August 2003	738	839
	<u>5,287</u>	<u>7,098</u>

11 CREDITORS amounts falling due after one year

	2007 £'000	restated 2006 £'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	6,393	7,239
£36,510,00 bank loan at fixed rate, repayable in instalments commencing August 2003	30,684	32,060
£33,540,379 bank loan at fixed rate, repayable in instalments commencing August 2003	27,793	28,838
£33,252,521 bank loan at fixed rate, repayable in instalments commencing August 2003	25,044	25,882
	<u>89,914</u>	<u>94,019</u>
Less included in creditors, amounts falling due within one year	3,942	4,106
	<u>85,972</u>	<u>89,913</u>
The maturity of debt is as follows		
In one year or less or on demand	3,942	4,106
Between one and two years	3,705	3,942
Between two and five year	10,719	10,777
In five years or more	71,548	75,194
	<u>89,914</u>	<u>94,019</u>

Notes to the financial statements at 31 March 2007 (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 AND CHARGES

	Lifecycle £'000	Deferred Tax £'000
At 1 April 2006	109	5,446
Increase during the year	<u>82</u>	<u>1,496</u>
At 31 March 2007	<u>191</u>	<u>6,942</u>

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.

14 OBLIGATIONS UNDER OPERATING LEASES

At 31 March 2007 the company had annual commitments under non cancellable operating leases, relating to land and buildings, as follows

	2007 £'000	2006 £'000
Operating Leases which expire Within one year	<u>30</u>	<u>30</u>

15 CAPITAL COMMITMENTS

There are no capital commitments at the year end (2006: £nil)

The Company has entered into the following other financial commitments

With Amey Business Services Limited to provide facilities management, maintenance cleaning and catering services to the project for the duration of the contract. Payments due in the next financial amounts to £3,671,000. This amount is indexed annually until 1 April 2030.

Notes to the financial statements for the year ended 31 March 2007 (continued)

16 CALLED UP SHARE CAPITAL

	2007 £000	2006 £000
Authorised		
100,000 Ordinary Shares of £1 each	<u>100</u>	<u>100</u>
	£'000	£'000
Allotted, called up and partly paid		
83,000 Ordinary Shares of £1 each	<u>83</u>	<u>83</u>

17 MOVEMENT IN RESERVES

	Profit and loss account £'000
At 1 April 2006	(153)
Retained profit for the year	1,108
At 31 March 2007	<u>955</u>

18 RECONCILIATION TO SHAREHOLDER S' FUNDS

	2,007 £'000	restated 2006 £'000
Opening equity shareholders' deficit	(70)	(1,487)
profit for the financial year	1,108	1,417
Closing equity shareholders' funds/(deficit)	<u>1,038</u>	<u>(70)</u>

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 22), in the following amounts

	2007 £000	2006 £000
John Laing Social Infrastructure	911	1,474
Bank of Scotland (net of issue costs)	7,257	11,099
PFI Infrastructure Finance Limited	375	504
Secondary Market Infrastructure Fund Limited	723	346

John Laing Social Infrastructure Ltd provides seconded staff and the services of 2 directors Subordinated loan notes outstanding as at 31 March 2007 £1,278,537

Services purchased from the Bank of Scotland are loan interest, fees and the services of 2 directors Subordinated loan notes outstanding as at 31 March 2007 £1,917,805 In addition, interest of £435,000 was received from the Bank of Scotland

PFI Infrastructure Finance Limited provided the service of 2 directors Subordinated loan notes outstanding as at 31 March 2007 £1,095,943

Secondary Market Infrastructure Fund UK Limited provided the services of 2 directors Subordinated loan notes outstanding as at 31 March 2007 £2,100,437

Notes to the financial statements at 31 March 2007 (continued)

20 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2,007 £'000	restated 2006 £'000
Operating Profit	1,337	246
Allocation of unitary charge to finance debtor less interest	(8,080)	(4,142)
Received from unitary charge less finance debtor interest	7,840	5,440
Revenue injection from CEC		9,589
Decrease in debtors	901	817
(Decrease) in creditors	(1,563)	(8,984)
	<u>435</u>	<u>2,966</u>

21 RECONCILIATION OF MOVEMENT IN NET DEBT

	At 31 March 2006 £'000	Cash Flow £'000	At 31 March 2007 £'000
Cash at Bank and in hand	8,608	(1,318)	7,290
Loans	(94,019)	4,105	(89,914)
	<u>(85,411)</u>	<u>2,787</u>	<u>(82,624)</u>

22 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.