

Manchester School Services Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2010

Registered Number 05319068



Manchester School Services Limited

Financial Statements

For the Year Ended 31 December 2010

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Manchester School Services Limited

Company Information

Directors	M J Rawlinson M A Reicherter P Veerapen (Appointed 2 February 2010) T J Hesketh R McClatchey (Resigned 2 February 2010)
Company secretary	Infrastructure Managers Limited
Registered office	Epsilon Windmill Hill Business Park Whitehill Way Swindon SN5 6NX
Auditor	Baker Tilly UK Audit LLP Chartered Accountants and Statutory Auditors First Floor Quay 2 139 Fountainbridge Edinburgh EH3 9QG
Bankers	Nationwide Building Society Kings Park Road Moulton Park Northampton Northants NN3 6NW
Solicitors	Addleshaw Goddard 150 Aldersgate Street London EC1A 4EJ

Manchester School Services Limited

The Directors' Report

For the Year Ended 31 December 2010

The Directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2010

Principal activities and business review

The principal activity of the company during the year was the provision of a secondary school and its subsequent operation and maintenance for the benefit of Manchester City Council

Business review and future developments

For the operational phase there is an Operational Manager in place who is responsible for the day to day management of the facilities and constant monitoring of the lifecycle works as appropriate. This forms the primary key performance indicators along with the monitoring of actual costs against budget. As the company entered full operational phase it faced operational risks and actively monitors financial performance against loan covenants. The company has been performing well and has been compliant with the covenants laid out in the loan agreement. The company is also forecasting compliance with the covenants laid out in the loan agreement for the next 12 months.

The directors expect the future performance of the company to be profitable and in line with the forecasting model.

Results and dividends

The profit for the year, after taxation, amounted to £311,318 (2009 profit £355,212)

Particulars of dividends paid are detailed in note 8 to the financial statements

Key performance indicators

The Directors believe that the key performance indicator of the business is the debt service cover ratio. This ratio is actively monitored and is healthily above the requirements under the loan agreement in current and forecasted years.

Financial instruments

The financial risk management policy of the company is designed to identify and manage risk at the earliest possible point. The company keeps a detailed risk register which is formally reviewed by the Board on an annual basis. The company does not undertake financial instrument transactions that are speculative or unrelated to the company's trading activities. Board approval is required for the use of any new financial instrument, and the company's ability to enter into any new transaction is constrained by covenants in its existing funding agreement. The company's exposure to and management of price risk, cash flow risk, liquidity risk, and credit and interest rate risk is detailed below.

Price risk

The company's price risk is managed through a twenty five year project agreement with the Manchester City Council providing for payments that are fixed subject to performance and inflation indexation and through sub-contracts with suppliers that largely mirror the provisions of the project agreement with Manchester City Council.

Manchester School Services Limited

The Directors' Report *(continued)*

For the Year Ended 31 December 2010

Cash flow risk

Cash flows are generated from the availability of the schools and from the maintenance provided to the Manchester City Council. Cash flows are secured under a long-term contract with Manchester City Council, whose liabilities are effectively underwritten by the Government.

Liquidity risk

The company's liquidity risk is principally managed through financing the company by means of long-term and short-term borrowings which are tailored to match expected cost and revenues for operations and revenues arising from the contract under the Private Finance Initiative. In addition, the company maintains a debt service reserve bank account to provide short-term liquidity against future debt service requirements.

Credit and interest rate risk

The company has interest-bearing liabilities which earn interest at variable rates. The company also enters into interest rate swaps, the purpose of which is to manage the interest rate risk arising from the company's borrowings. No interest rate swaps were open at year end.

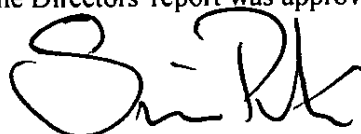
Directors

The Directors who served the Company during the year and up to the date of this report are listed on page 1.

Auditor

A resolution to re-appoint Baker Tilly UK Audit LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006.

The Directors' report was approved by the board on 29 March 2011 and signed on its behalf by



For and on behalf of
Infrastructure Managers Limited
Company Secretary
Edinburgh

Company Registration Number 05319068

Manchester School Services Limited

Statement of Directors' Responsibilities

For the Year Ended 31 December 2010

The Directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year ended 31 December 2010. 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 proper accounting records that 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.

In so far as the Directors are aware

- there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

The Directors' responsibilities were approved by the board on 29 March 2011 and signed on its behalf by



M.A. Reichert
Director

Manchester School Services Limited

Independent auditor's report to the members of Manchester School Services Limited

We have audited the financial statements on pages 7 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

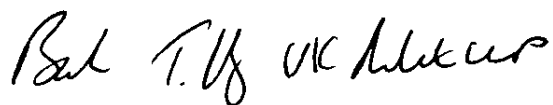
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Manchester School Services Limited

Independent auditor's report to the members of Manchester School Services Limited *(continued)*



I ALEXANDER L TAIT (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG
29/3/11

Manchester School Services Limited

Profit and Loss Account

For the Year Ended 31 December 2010

	Note	2010 £	2009 £
Turnover	2	1,755,633	1,671,140
Cost of sales		<u>(1,064,277)</u>	<u>(1,019,685)</u>
Gross profit		691,356	651,455
Administrative expenses		<u>(306,756)</u>	<u>(164,334)</u>
Operating profit	3	384,600	487,121
Interest receivable	5	1,845,125	1,883,190
Interest payable and similar charges	6	<u>(1,849,328)</u>	<u>(1,882,939)</u>
Profit on ordinary activities before taxation		380,397	487,372
Tax on profit on ordinary activities	7	<u>(69,079)</u>	<u>(132,160)</u>
Profit for the financial year	14	<u>311,318</u>	<u>355,212</u>

The Company has no recognised gains and losses other than those included in the profit above, which all relate to continuing activities, and therefore no separate Statement of Total Recognised Gains and Losses has been presented

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents

The notes on pages 9 to 14 form part of these financial statements

Manchester School Services Limited

Balance Sheet

as at 31 December 2010

	Note	2010 £	2009 £
Current assets			
Debtors due within one year	9	1,294,180	1,174,204
Debtors due after one year	9	26,033,718	26,736,572
Cash at bank		1,457,813	1,722,197
		<u>28,785,711</u>	<u>29,632,973</u>
Creditors: Amounts falling due within one year	10	<u>(1,635,038)</u>	<u>(1,759,386)</u>
Net current assets		<u>27,150,673</u>	<u>27,873,587</u>
Total assets less current liabilities		<u>27,150,673</u>	<u>27,873,587</u>
Creditors: Amounts falling due after more than one year	11	<u>(26,705,924)</u>	<u>(27,490,392)</u>
Net assets		<u>444,749</u>	<u>383,195</u>
Capital and reserves			
Share capital	13	306,900	306,900
Profit and loss account	14	137,849	76,295
Equity shareholders' funds	15	<u>444,749</u>	<u>383,195</u>

These financial statements on pages 7 to 14 were approved by the Directors and authorised for issue on 29 March 2011 and are signed on their behalf by



M A Reicherter
Director

The notes on pages 9 to 14 form part of these financial statements

Manchester School Services Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. The financial statements have been prepared on a going concern basis as the Company's financial projections indicate that sufficient funds will be generated to allow on-going obligations to be met as they fall due.

Cash flow statement

The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the Company is small.

Turnover

Turnover represents the value of work done on long-term contracts and services rendered, net of VAT. Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated by reference to the value of work performed to date as a proportion of the total contract value.

Costs incurred in the construction of the centre have been accounted for under Financial Reporting Standard (FRS) 5 Application Note F. Applying the guidance within the Application Note indicates that the project's principal agreement transfers substantially all the risks and rewards of ownership to the customer. As such the costs incurred on the project, including interest charges during the construction phase, have been treated as a finance debtor within these accounts.

Fees are allocated between turnover and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

Management service income is allocated between turnover and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract. Turnover represents the income allocated to the services provided as part of the overall project.

Deferred and current taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is recognised in respect of all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Manchester School Services Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

Capital instruments

Shares are included in shareholders' funds. Other debt instruments, which contain an obligation to repay, are classified as liabilities. In accordance with Financial Reporting Standard No 4 (Capital Instruments), the costs associated with the issue of capital instruments, other than shares, are charged to the profit and loss account over the life of the instrument, at a constant rate based on the carrying amount.

2 Turnover

The turnover and profit before tax are attributable to the one principal activity of the Company. An analysis of turnover is given below.

	2010 £	2009 £
United Kingdom	<u>1,755,633</u>	<u>1,671,140</u>

3 Operating profit

Operating profit is stated after charging

	2010 £	2009 £
Auditor's remuneration - as auditor	<u>4,120</u>	<u>4,000</u>

4. Particulars of employees and directors

The company had no employees in either period other than the Directors. During the year fees of £145,054 (2009: £35,410) were accrued to third parties for the provision of directors' services.

5 Interest receivable

	2010 £	2009 £
Bank interest receivable	3,188	1,701
Finance debtor receivable interest	<u>1,841,937</u>	<u>1,881,489</u>
	<u>1,845,125</u>	<u>1,883,190</u>

6 Interest payable and similar charges

	2010 £	2009 £
Interest payable on bank borrowing	1,460,495	1,485,674
Interest payable on loans due to immediate parent company	<u>388,833</u>	<u>397,265</u>
	<u>1,849,328</u>	<u>1,882,939</u>

Manchester School Services Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2010 £	2009 £
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 28% (2009 - 28%)	100,456	102,672
Over/under provision in prior year	(31,377)	-
Total current tax	<u>69,079</u>	<u>102,672</u>
Deferred tax		
Origination and reversal of timing differences	-	29,488
Tax on profit on ordinary activities	<u>69,079</u>	<u>132,160</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

	2010 £	2009 £
Profit on ordinary activities before taxation	<u>380,397</u>	<u>487,372</u>
Profit on ordinary activities by rate of tax	106,511	136,464
Utilisation of tax losses	-	(27,522)
Tax chargeable at lower rates	(6,103)	(6,270)
Adjustments to tax charge in respect of previous periods	(31,329)	-
Total current tax (note 7(a))	<u>69,079</u>	<u>102,672</u>

8 Dividends

Equity dividends

	2010 £	2009 £
Paid during the year		
Dividends on ordinary shares	<u>249,764</u>	<u>628,373</u>

Manchester School Services Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

9 Debtors

	2010	2009
	£	£
Trade debtors	472,555	439,332
Finance debtor	26,736,572	27,345,122
Other debtors	118,771	126,322
	<u>27,327,898</u>	<u>27,910,776</u>

The debtors above include the following amounts falling due after more than one year

	2010	2009
	£	£
Finance debtor	<u>26,033,718</u>	<u>26,736,572</u>

Finance debtor balance includes capitalised interest of £1,742,012 (2009 £1,742,012)

10 Creditors: Amounts falling due within one year

	2010	2009
	£	£
Bank loans	772,431	669,819
Trade creditors	465,864	247,134
Amounts owed to group undertakings	12,027	9,895
Corporation tax	100,456	102,670
Other taxation	47,631	114,949
Other creditors	182,333	578,566
Accruals and deferred income	54,296	36,353
	<u>1,635,038</u>	<u>1,759,386</u>

11 Creditors: Amounts falling due after more than one year

	2010	2009
	£	£
Bank loans	23,721,571	24,493,998
Amounts owed to group undertakings	2,984,353	2,996,394
	<u>26,705,924</u>	<u>27,490,392</u>

Manchester School Services Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

12 Creditors - capital instruments

Creditors include loans which are due for repayment as follows

	2010 £	2009 £
Amounts repayable		
In one year or less or on demand	784,458	679,714
In more than one year but not more than two years	833,458	784,455
In more than two years but not more than five years	2,678,808	2,599,683
In more than five years	23,193,658	24,106,255
	<u>27,490,382</u>	<u>28,170,107</u>

The bank loan is secured by a floating charge over all the assets, rights and undertakings of the Company. The Company has a bank loan of £24,772,975 (2009 £25,466,280). This loan is repayable over 25 years following financial close in monthly instalments that commenced on 30 June 2007. Interest is payable at 5.65%.

Issue costs of £278,973 (2009 £302,463) have been set off against the total loan drawdowns in accordance with FRS4.

During the year ended 31 December 2007 the Company issued a £3,022,621 Coupon Bearing Investment Sum to its immediate parent company, Manchester School Services Holdings Limited. The investment bears a Coupon of 12.85 per cent per annum and repayment of capital started on 30 June 2007. The Coupon on the principal amount accrues daily and is payable quarterly on 31 March, 30 June, 30 September and 31 December each year. The investment sum was advanced under a subordinated loan agreement and is therefore unsecured, and would rank alongside ordinary creditors in the case of a winding up.

13 Share capital

Authorised share capital:

	2010 £	2009 £
306,900 Ordinary shares of £1 each	<u>306,900</u>	<u>306,900</u>

Allotted, called up and fully paid:

	2010		2009	
	No	£	No	£
Ordinary shares of £1 each	<u>306,900</u>	<u>306,900</u>	<u>306,900</u>	<u>306,900</u>

14 Profit and loss account

	2010 £	2009 £
Balance brought forward	76,295	349,456
Profit for the financial year	311,318	355,212
Equity dividends	(249,764)	(628,373)
Balance carried forward	<u>137,849</u>	<u>76,295</u>

Manchester School Services Limited

Notes to the Financial Statements

For the Year Ended 31 December 2010

15 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Profit for the financial year	311,318	355,212
Equity dividends	(249,764)	(628,373)
Net addition/(reduction) to shareholders' funds	61,554	(273,161)
Opening shareholders' funds	383,195	656,356
Closing shareholders' funds	444,749	383,195

16 Related party disclosures

The share capital of the company is held wholly by Manchester School Services Holdings Limited

Hochtief PPP Schools Capital Limited holds a 50% shareholding in Manchester School Services Holdings Limited. Hochtief PPP Schools Capital Limited was paid £72,527 (2009 £17,705) for directorial services. In addition £1,090,370 (2009 £1,012,880) was paid to Hochtief Facility Management UK Limited, a company under the same control as Hochtief PPP Schools Capital Limited, for the provision of operational services.

New Schools Investment Company Limited holds a 50% shareholding in Manchester School Services Holdings Limited. During the year New Schools Investment Company Limited received £72,527 (2009 £17,705) which was paid to Barclays Private Equity (the controlling party of New Schools Investment Company Limited) for directorial services. Barclays Private Equity is a company registered in England and Wales.

Included within creditors is a loan of £2,996,380 (2009 £3,006,289) from Manchester School Services Holdings Limited. Interest of £388,833 (2009 £397,265) was paid to Manchester School Services Holdings Limited in relation to this loan as well as dividends of £249,764 (2009 £628,373).

17 Ultimate parent company

The Company's immediate parent undertaking is Manchester School Services Holdings Limited, a company registered in England and Wales, with ownership of this company shared between Hochtief PPP Schools Capital Limited and New Schools Investment Company Limited. Accordingly, there is no overall parent company and no ultimate controlling party.