The Edinburgh Schools Partnership Limited

Directors' Report and Accounts

For the year ended

31 March 2006
Registered Number SC206930

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Directors' Report and Financial Statements

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Directors' Report

The Directors present their report and audited accounts for the year ended 31 March 2006

Principal activity

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 schools and 1 community centre

Review of the business and future developments

The project has settled into its operational stage facilities management 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 2006 the ESP consortium is comprised of John Laing Social Infrastructure Limited, Secondary Market Infrastructure Fund Limited, Uberior Infrastructure Investments Ltd and Quayle Munro PFI Fund Limited Partnership

Results and dividend

The results for the year are set out in the attached profit and loss account The loss for the year of £3,823,000 (2005 – loss of £6,666,000) has been transferred to reserves The directors do not recommend payment of a dividend (2005 – (nil)

Directors and Directors' Interests

The Directors who held office during the year were as follows:
M T Smith
J C Elliot
D B Marshall
K W Gillespie (appointed 29/04/05)
N Smith (resigned 30/06/05, re appointed 01/07/05)
R S Mackie (resigned 04/11/05)
P McVey (resigned 04/11/05)
A Scott (resigned 04/11/05)
A L Tennant (resigned 24/04/05)
J M Linney (appointed 01/07/05)
A C Ritchie (appointed 04/11/05)
I R Gethin (appointed 08/12/05)
B S Williams (appointed 08/12/05)

As at 30 January 2007 the Directors were as follows:
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)

None of the Directors who held office during the financial year had any interest in the share capital of the company

Financial Risk of the Company

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
The company holds surplus cash in a floating interest rate current account HBoS bank loans are fully hedged and the EIB loan is based on a fixed rate All subordinated debt is at a fixed rate

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

Liquidity Risk
The common terms agreements states that certain debts cover ratios must be covered and reviewed every six months via a model update. If these ratios are not meet 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 2005/06 All deductions have been passing though from customer to supplier

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 enquiries 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

Auditors

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

By order of the board

Director 31 **January 2007**

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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 accounts, 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
- Prepare the accounts 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 and to enable them to ensure that the accounts comply with the Companies Act 1985 They are responsible for safe guarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report to the members of the Edinburgh Schools Partnership Limited

We have audited the company's financial statements for the year ended 31 March 2006 which comprise Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses and the related notes 1 to 21 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)

In addition 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 judgments 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 2006 and of its loss 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
31 January 2007

Profit and Loss Account

For the year ended 31 March 2006

	Note	2006 £000	2005 £000
Turnover	2	**17,895**	16,175
Cost Of Sales		**(5,862)**	(7,021)
Gross Profit		**12,033**	9,154
Administrative Expenses		**(10,387)**	(10,335)
Operating Profit/(Loss)	3	**1,646**	(1,181)
Interest Receivable		**678**	319
Interest Payable	5	**(6,834)**	(6,321)
Loss on ordinary activities before tax		**(4,510)**	(7,183)
Tax on ordinary activities	6		
Income from surrender of tax losses		**687**	517
Loss for the year		**(3,823)**	(6,666)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss for the year of £3,823,000 (2005 – loss of £6,666,000)

Balance Sheet
at 31 March 2006

	Note	2006 £000	2005 £000
Tangible Fixed assets	7	**90,307**	97,070
Current assets			
Debtors	8	**1,357**	2,174
Cash at bank and in hand		**8,608**	8,228
		9,965	10,402
Creditors amounts falling due within one year	9	**(7,098)**	(16,191)
Net current assets /(liabilities)		**2,867**	(5,789)
Total assets less current liabilities		**93,174**	91,281
Creditors· amounts falling due after more than one year	10	**(89,913)**	(92,690)
Provisions for Liabilities and Charges			
Deferred Income	12	**(33,554)**	(25,171)
Lifecycle Provision	13	**(110)**	
Net Liabilities		**(30,403)**	(26,580)
Capital and reserves			
Called up share capital	15	**83**	83
Profit and loss account	16	**(30,486)**	(26,663)
		(30,403)	(26,580)

These accounts were approved by the board of Directors on 31 January 2007 and were signed on its behalf by

J. Lisney

Director

31.1.07

Statement of Cash Flows
For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net Cash inflow from Operating activities	21 (a)	**11,289**	10,185
Returns on investment and servicing of finance			
Interest Received		**678**	319
Interest Paid		**(6,834)**	(6,321)
		(6,156)	(6,002)
Taxation			
Sale of tax losses		**687**	517
Capital expenditure and financial Investment			
Payments to acquire fixed assets		**(2,663)**	(33,262)
Net cash inflow/(outflow) before management of liquid resources and financing		**3,157**	(28,562)

Statement of Cash Flows
For the year ended 31 March 2006

		2006	2005
		£'000	£'000
Net cash inflow/(outflow) before management of liquid resources and financing		**3,157**	(28,562)
Management of liquid resources			
Repayment of short term loans			
Financing			
Long term loans		**(2,777)**	31,003
(Decrease)/Increase in cash		**380**	2,441
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		**380**	2,441
Cash outflow from movement in loans		**10,601**	
Cash inflow from new loans			(31,003)
Change in net debt resulting from cash flows		**10,981**	(28,562)
Movement in net debt	21(b)	**10,981**	(28,562)
Net debt at 1 April 2005	21(b)	**(96,392)**	(67,830)
Net debt at 31 March 2006	21(b)	**(85,411)**	(96,392)

Notes to the accounts

(forming part of the accounts)

1 Accounting Policies

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 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

Fixed Assets

In accordance with FRS 15, tangible fixed asset are stated at cost and include interest charged in respect of loans for the purposes of constructing assets up until practical completion

Depreciation

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

Buildings	27 30 years
Plant and machinery	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

Milestone Payments

Milestone payments are credited to deferred income and are released to the profit and loss account in equal instalments over the life of the contract, commencing October 2002

Deferred Taxation

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, with the following exception

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

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

Operating leases

During the year the company did not employ any staff

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 accounts

(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, facilities management and information technology services to schools

3 Operating Profit/(Loss)

	2006	2005
	£'000	£'000
Operating Profit/(loss) is stated after charging		
Auditor's remuneration	**24**	10
Depreciation	**9,426**	8,641
Operating Lease Rentals Office Lease	**16**	10

4. Directors' Emoluments

The Directors did not receive any remuneration from the company during the year (2005 – nil)

5 Interest Payable

	2006	2005
	£000	£000
On Bank Loans	7,332	7,367
Interest capitalised in tangible fixed assets	(512)	(1,131)
	6,820	6,236
Commitment fees on funds not utilised	14	85
	6,834	6,321

Notes to the accounts

(forming part of the accounts)

6 Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2006 £000	2005 £000
Current tax		
Income from sale of tax losses by way of consortium relief	**(687)**	(517)
Total current tax	**(687)**	(517)
Deferred tax		
Originating and reversal of timing differences (note 14)		
Tax on profit on ordinary activities	**(687)**	(517)

(b) Factors affecting the tax change for the year

Profit on ordinary activities before tax	**(4,520)**	(7,183)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 – 30%)	**(1,356)**	(2,155)
Effect of		
Expenses not deductible for tax purposes	**424**	252
Prior year adjustment for consortium relief	**(687)**	(517)
Unrecognised movement in deferred tax	**932**	1,903
Total current tax credit (note 6(a))	**(687)**	(517)

(c) Factors that may affect future tax charges

Based on current capital expenditure plans, the company expects that depreciation will be in excess of capital allowance claims in future years The tax losses are available indefinitely for offset against future taxable profits

Notes to the accounts

(forming part of the accounts)

7. Fixed Assets

	Buildings £000	Plant and machinery £000	Assets in the course of construction £000	TOTAL £000
Cost 1 April 2005	66,742	30,059	13,219	110,020
Additions	2,243	420		2,663
Transfers	9,169	4,050	(13,219)	
Cost at 31 March 2006	**78,154**	**34,529**		**112,683**
Depreciation at 1 April 2005	3,301	9,649		12,950
Additions	2,663	6,763		9,426
As at 31 March 2006	**5,964**	**16,412**		**22,376**
NBV at 31 March 2005	63,440	20,410	13,219	97,070
NBV at 31 March 2006	**72,190**	**18,117**		**90,307**

Included within the short leasehold buildings at cost is capitalised interest to date of £5,126,217 (2005 £4,613,991)

8. Debtors

	2006 £'000	2005 £'000
Trade Debtors	**218**	868
Prepayments and accrued income	**282**	258
Other Debtors	**857**	333
Income from the Surrender of tax loses		353
VAT Recoverable		362
	1,357	2,174

Notes to the accounts

(forming part of the accounts)

9 Creditors: amounts falling due within one year

	2006	2005
	£000	£000
Trade Creditors	**502**	3,631
Other Creditors	**171**	
Accruals	**1,703**	630
VAT payable	**615**	
£10,777,683 subordinated loan at fixed rate repayable in instalments commencing September 2004	**847**	3,080
£36,510,00 bank loan at fixed rate, repayable in instalments commencing August 2003	**1,376**	1,108
£33,540,379 bank loan at fixed rate, repayable in instalments commencing August 2003	**1,045**	779
£33,252,521 bank loan at fixed rate, repayable in instalments commencing August 2003	**839**	6,963
	7,098	16,191

10. Creditors amounts falling due after more than one year

	2006	2005
	£000	£000
Not wholly repayable within five years		
£10,777,683 subordinated loan at fixed rate repayable in instalments commencing September 2004	**6,393**	7,073
£36,510,00 bank loan at fixed rate, repayable in instalments commencing August 2003	**30,684**	32,064
£33,540,379 bank loan at fixed rate, repayable in instalments commencing August 2003	**27,793**	29,071
£33,252,521 bank loan at fixed rate, repayable in instalments commencing August 2003	**25,043**	24,482
	89,913	92,690

Notes to the accounts

(forming part of the accounts)

11. Creditors: bank loans

The maturity of debt is as follows	**2006 £000**	2005 £000
Less than on year	**4,107**	11,930
Between one and two years	**3,942**	3,435
Between two and five years	**10,777**	10,995
In five years or more	**75,193**	78,260
Total net debt	**94,019**	104,620

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 outstanding Senior Debt tranche B being fixed at 5 26% Subordinated loan interest is fixed at 13 07%

12. Deferred Income

	2006 £000
At 1 April 2005	**25,171**
Amounts received during the year	**9,588**
Released to profit and loss account	**(1,205)**
At 31 March 2006	**33,554**

13. Provisions for Liabilities and charges

	Lifecycle Provision
At 1 April 2005	
Increase during the year	110
At 31 March 2006	**110**

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. Deferred tax

	2006 £'000	2005 £'000
Accelerated capital allowances	**1,015**	1,955
Tax losses carried forward	**(1,015)**	(1,955)
Deferred tax liability/(asset)		

Notes to the accounts

(forming part of the accounts)

15. Share Capital

	2006	2005
	£000	£000
Authorised		
Ordinary Shares of £1 each	**100**	100
Allotted, called up and fully paid		
Ordinary Shares of £1 each	**83**	83

16 Reconciliation of Shareholders' Funds and Movement on Reserves

	Share Capital £'000	Profit & Loss Account £'000	Total Shareholder Funds £'000
At 1 April 2005	83	(26,663)	(26,580)
Loss for the period		(3,823)	(3,823)
At 31 March 2006	**83**	**(30,486)**	**(30,403)**

17. Capital Commitments

There are no capital commitments at the year end (2005 – £ nil)

18. Other Financial Commitments

	30 September 2006	30 September 2005
	£'000	£'000
Operating Leases which expire		
Within one year	**16**	10
In two to five years		
Over five years		

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 schools for the duration of the contract Payments due in the next financial year amount to £3,789,000 This amount is indexed annually until 1 April 2030

Notes to the accounts

(forming part of the accounts)

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 19), in the following amounts

	2006	2005
	£	£
Miller Construction (UK) Limited	**3,117,593**	35,004,643
John Laing Social Infrastructure Limited	**1,473,709**	340,685
Bank of Scotland (net of issue costs)	**11,099,320**	2,641,976
Quayle Munro PFI Fund Limited Partnership	**503,981**	4,406
Secondary Market Infrastructure Fund Limited	**346,148**	

Balances due as at 31 March 2006 to / (from) shareholders of ESP (Holdings) Limited or their groups were

	2006	2005
	£	£
Miller Construction (UK) Limited		2,547,660
John Laing Social Infrastructure Limited		20,875
Bank of Scotland (net of issue costs)	**316,041**	
Quayle Munro PFI Fund Limited Partnership		1,469
Secondary Market Infrastructure Fund Limited		98,917

Miller Construction (UK) Ltd is no longer a related party as it sold its shares in October 2005

John Laing Social Infrastructure Ltd provides seconded staff and the services of 2 directors Subordinated loan notes outstanding as at 31 March 2006 £1,414,537

Services purchased from Bank of Scotland are loan interest, fees and the services of 2 directors Subordinated Loan notes outstanding as at 31 March 2006 £2,288,335 In addition, interest of £678,467 was received from the Bank of Scotland

Quayle Munro PFI Fund Limited Partnership provided the services of 2 directors Subordinated Loan notes outstanding as at 31 March 2006 £1,212,403

Secondary Market Infrastructure Fund Limited provided the services of 2 directors Subordinated Loan notes outstanding as at 31 March 2006 £2,323,938

20 Parent Undertaking and 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

Notes to the accounts

(forming part of the accounts)

21. Notes to the Statement of Cashflows

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	31 March 2006	31 March 2005
	£'000	£'000
Operating Profit/(Loss)	**1,646**	(1,181)
Depreciation tangible fixed assets	**9,426**	8,641
Movement in deferred income	**8,384**	321
(Increase)/decrease in debtors	**817**	2,383
Increase/(decrease) in creditors	**(8,984)**	21
	11,289	10,185

(b) Analysis of net debt

	At 1 April 2005	**Cash flow**	**At 31 March 2006**
	£'000	**£'000**	**£'000**
Cash at Bank and in hand	8,228	380	**8,608**
Short term debt	(104,620)	10,601	**(94,019)**
	(96,392)	10,981	**(85,411)**