

**SALFORD SCHOOLS SOLUTIONS  
LIMITED**

**Directors' Report and Financial Statements**

**Year ended 31 December 2011**

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**SALFORD SCHOOLS SOLUTIONS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011**

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# **SALFORD SCHOOLS SOLUTIONS LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

J Barber  
T J Hesketh  
M D Canham  
R Cooper

### **REGISTERED OFFICE**

Epsilon  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire  
SN5 6NX

### **BANKERS**

HSBC  
City of London Branch  
60 Queen Victoria Street  
London  
EC4N 4TR

### **AUDITOR**

Baker Tilly UK Audit LLP  
Hartwell House  
55 - 61 Victoria Street  
Bristol  
BS1 6AD

# **SALFORD SCHOOLS SOLUTIONS LIMITED**

## **DIRECTORS' REPORT**

The Directors present their report and the audited financial statements for the year ended 31 December 2011

### **PRINCIPAL ACTIVITY**

The Company's principal activity is the design, construction, financing, operation and maintenance of two secondary schools under a Government Private Finance Initiative (PFI) program for the benefit of Salford City Council

The construction of Buile Hill Visual Arts College and Harrop Fold School was completed in August 2008 and both schools were handed over on 1 September 2008. The contract has now entered the 25 year service delivery period which lasts until 31 August 2033

### **DIRECTORS**

The directors who served during the period were as follows

- J Barber
- T J Hesketh
- M D Canham
- R Cooper

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

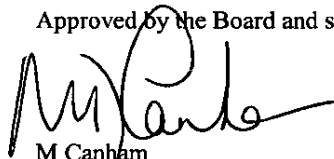
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

### **AUDITOR**

Baker Tilly UK Audit LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption

Approved by the Board and signed on its behalf by



M Canham

Director

Date 28 March 2012

## **SALFORD SCHOOLS SOLUTIONS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

UK 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent, 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SALFORD SCHOOLS SOLUTIONS LIMITED**

We have audited the financial statements on pages 5 to 13. 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 3, 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](http://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 2011 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, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the directors' report

*Baker Tilly UK Audit LLP*

### **Andrew Allchin FCA (Senior Statutory Auditor)**

for and on behalf of Baker Tilly UK Audit LLP, Statutory Auditor

Chartered Accountants

Hartwell House, 55 – 61 Victoria Street,

Bristol, BS1 6AD

Date

*12/4/2012*

## **SALFORD SCHOOLS SOLUTIONS LIMITED**

### **PROFIT AND LOSS ACCOUNT for the year ended 31 December 2011**

	<b>Note</b>	<b>2011 £</b>	<b>2010 £</b>
<b>TURNOVER</b>		1,955,129	1,817,258
Cost of sales		(1,502,474)	(1,416,882)
<b>GROSS PROFIT</b>		452,655	400,376
Administrative expenses		(241,468)	(232,787)
<b>OPERATING PROFIT</b>		211,187	167,589
Interest receivable and similar income	2	2,206,343	2,251,281
Interest payable and similar charges	3	(2,203,116)	(2,287,675)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	214,414	131,195
Taxation on profit on ordinary activities	5	(43,412)	(27,551)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	10,11	171,002	103,644

All results above relate entirely to continuing operations

There are no gains or losses for the current or preceding years other than the profit as stated above  
Accordingly no statement of total recognised gains and losses has been presented

# SALFORD SCHOOLS SOLUTIONS LIMITED

## BALANCE SHEET as at 31 December 2011

	Note	2011 £	2010 £
<b>CURRENT ASSETS</b>			
Debtors due within one year	6	939,233	910,118
Debtors due after more than one year	6	35,037,050	35,858,742
Cash at bank and in hand		1,759,819	1,446,440
		<u>37,736,102</u>	<u>38,215,300</u>
<b>CREDITORS: amounts falling due within one year</b>	7	<u>(3,762,569)</u>	<u>(3,172,730)</u>
<b>NET CURRENT ASSETS</b>		33,973,533	35,042,570
<b>CREDITORS: amounts falling due after more than one year</b>	8	<u>(33,899,603)</u>	<u>(34,940,840)</u>
<b>NET ASSETS</b>		<u>73,930</u>	<u>101,730</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	9	40,000	40,000
Profit and loss account	10	33,930	61,730
<b>SHAREHOLDER'S FUNDS</b>	11	<u>73,930</u>	<u>101,730</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime

These financial statements were approved and authorised for issue by the Board of Directors on 28 March 2012 and were signed on its behalf by



M Canham

Director



**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2011**

**1. ACCOUNTING POLICIES**

A summary of the principal accounting policies, which have been applied consistently throughout the current and preceding 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

**Going concern**

The Company's business activities are detailed in the Directors' Report. The Directors have reviewed the budget for the foreseeable future, and have considered the projected cash flows based on the contractual receipts and payments of cash. They project that the loan covenant terms will be met for the foreseeable future. Having considered the risks and uncertainties of the business, their projections for the future performance of the Company, and the current uncertain economic environment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Cash Flow Statement**

The Company meets the size criteria for a small company set by the Companies Act 2006 and, therefore, in accordance with FRS 1, 'Cash flow statements', it has not prepared a cash flow statement.

**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 tax is provided in full on 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 the 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.

**Turnover and long term contracts**

The project agreement with Salford City Council provides for the charging of a unitary fee from the date the schools are made available until the end of the service delivery agreement. The unitary fee is fixed subject to performance and inflation indexation.

During the construction phase, construction costs incurred are recorded as cost of sales. Turnover is also recognised in relation to the construction work performed but no profit on construction is recognised. The turnover recognised is included within the 'financial asset' described below. If construction costs are forecast to exceed amounts which can be subsequently recovered, a loss is recognised as soon as this is foreseen.

Amounts recoverable on long-term contracts, which are included in debtors, represent future amounts due over the life of the service delivery contract for the fair value of the construction work on the schools. This financial asset comprises the construction turnover recognised up to the balance sheet date, other directly attributable costs, interest on loan facilities used to finance the construction less amounts collected to date.

Interest is recorded on the financial asset at a constant rate based on the carrying amount.

The unitary fee charged is split between services provided (which is recorded as turnover), collection of the financial asset, payment of interest on the financial asset and deferred income.

Turnover in relation to both construction and services provided is recorded net of VAT and arises entirely in the UK.

## **SALFORD SCHOOLS SOLUTIONS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)** **for the year ended 31 December 2011**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **Capitalisation of finance costs**

Interest arising on loans taken out to fund the construction of an asset are capitalised within amounts recoverable on long-term contracts until the construction is completed and the asset is handed over to the customer

##### **Capital instruments**

Share capital is included in shareholder's funds. Debt instruments, which contain an obligation to repay, are classified as liabilities. In accordance with FRS 4 (Capital Instruments), the costs associated with the issue of debt instruments are charged to the Profit and Loss account over the life of the instruments, at a constant rate based on the carrying amount.

##### **Derivative financial instruments**

The Company uses derivative financial instruments to reduce exposure to interest rate fluctuations. The Company does not hold or issue derivative financial instruments for speculative purposes. Details of the Company's interest rate swap contracts are given in note 14.

##### **Dividends**

Dividends to the Company's ordinary shareholders are recognised in the financial statements when the amount has been agreed by the Board of Directors, the Company's senior debt provider and have been paid.

#### **2. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Bank interest receivable	78	2
Interest on finance debtor	2,206,265	2,251,279
	<u>2,206,343</u>	<u>2,251,281</u>

#### **3. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Bank interest payable	1,798,661	1,863,509
Other interest payable	371,846	390,867
Amortisation of debt issue costs	32,609	33,299
	<u>2,203,116</u>	<u>2,287,675</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 31 December 2011**

**4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

**Employee costs**

The Company had no employees in the year other than the directors (2010 nil)

The Directors did not receive any remuneration from the Company during the year (2010 £nil)

**Auditor's remuneration**

Auditor's remuneration for the audit was £3,193 payable to Baker Tilly UK Audit LLP (2010 £3,100)

Auditor's remuneration for tax services was £2,334, payable to Baker Tilly Tax and Accounting Limited (2010 £2,266)

**5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

**(a) Analysis of tax charges in the period**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
UK corporation tax on profits in the period	43,412	27,551
Adjustment in respect of previous periods	-	-
	<hr/>	<hr/>
<b>Total current tax</b>	43,412	27,551
	<hr/>	<hr/>
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	-
	<hr/>	<hr/>
<b>Tax on profit on ordinary activities</b>	43,412	27,551
	<hr/>	<hr/>

**(b) Factors affecting tax charges for the period**

The tax assessed for the year is equal to (2010 equal to) the standard rate of tax applicable to small companies in the UK of 20 25% (2010 21%)

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before taxation	214,414	131,195
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 20 25% (2010 21%)	43,412	27,551
Expenses not deductible for tax purposes	-	-
Adjustment in respect of previous periods	-	-
	<hr/>	<hr/>
<b>Current tax charge for the period</b>	43,412	27,551
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# SALFORD SCHOOLS SOLUTIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 December 2011

### 6. DEBTORS

	2011 £	2010 £
Amounts recoverable on long-term contracts due within one year	822,484	774,786
Other debtors	19,633	18,941
Prepayments and accrued income	97,116	116,391
<b>Debtors due within one year</b>	<b>939,233</b>	<b>910,118</b>
Amounts recoverable on long-term contracts due after more than one year	35,037,050	35,858,742
<b>Total debtors</b>	<b>35,976,283</b>	<b>36,768,860</b>

Interest payable was being capitalised until the practical completion date. Included in amounts recoverable on long-term contracts is interest totalling £2,038,727 (2010: £2,038,727).

### 7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £	2010 £
Bank loans (note 8)	918,366	977,316
Trade creditors	58,266	201,539
Corporation tax	43,412	14,214
Other creditors	203,264	157,439
Accruals and deferred income	2,539,261	1,822,222
	<b>3,762,569</b>	<b>3,172,730</b>

## SALFORD SCHOOLS SOLUTIONS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 December 2011

#### 8. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011	2010
	£	£
Other loans	2,783,983	2,900,795
Bank loans	31,115,620	32,040,045
	<u>33,899,603</u>	<u>34,940,840</u>

In accordance with FRS 4, issue costs of £423,697 (2010 £456,306) have been set off against the total loan drawdowns. The amount set off against loans falling due within one year is £31,868 (2010 £34,078) and after more than one year is £391,829 (2009 £422,228)

#### Maturity of debt

The loans (stated net of unamortised issue costs) are repayable as follows

	2011	2010
	£	£
Due within one year (note 7)	918,366	977,316
Due between one and two years	1,145,723	918,357
Due between two and five years	3,301,299	3,249,642
Due in more than five years	29,452,581	30,772,841
	<u>34,817,969</u>	<u>35,918,156</u>

#### Bank loans

The bank loans comprise senior debt and equity bridge debt

The senior debt consists of a loan that is repayable by December 2032 with principal repayments on the loan which commenced in September 2008. The amount of the senior debt loan drawdown as at 31 December 2011 is £32,381,473 (2010 £33,392,867), with £950,234 (2010 £1,011,394) falling due within one year and £31,431,239 (2010 £32,381,473) after more than one year. The interest rate on the loan has been fixed at 5.45% per annum until September 2015 through the use of a swap.

The bank loans are secured by floating charges over all the assets, rights and undertakings of the Company.

#### Other loans

Other loans comprise Unsecured Subordinated Loan Notes 2006 (the "loan notes")

The loan notes carry a coupon of 12.8% and interest is paid quarterly in arrears on 31 March, 30 June, 30 September and 31 December each calendar year.

Providing certain defaults are not made by the Company, the loan notes are due for repayment on the termination of the service delivery contract. As such the loan notes have been classified in debt due in more than five years. Part or all of the loan notes can be redeemed earlier at the option of the Company.

The terms of the loan notes state that payments of interest and repayments of the loan principal are only to be made if sufficient funds are available to avoid a breach of covenants in the Company's banking facilities and whilst the Company is not in the process of a liquidation or other such winding-up proceedings. No such covenant breaches have occurred during the current or prior year.

#### 9. SHARE CAPITAL

	2011	2010
	£	£
Allotted, called up and fully paid		
40,000 ordinary shares of £1 each, issued at par	<u>40,000</u>	<u>40,000</u>

# SALFORD SCHOOLS SOLUTIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 December 2011

### 10. PROFIT AND LOSS ACCOUNT

	£
At 1 January 2011	61,730
Profit for the financial year	171,002
Dividends distributed to the holder of the ordinary shares	(198,802)
<b>At 31 December 2011</b>	<b>33,930</b>

### 11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2011 £	2010 £
Opening shareholder's funds	101,730	48,086
Profit for the financial year	171,002	103,644
Dividends distributed to the holder of the ordinary shares	(198,802)	(50,000)
<b>Closing shareholder's funds</b>	<b>73,930</b>	<b>101,730</b>

### 12. FINANCIAL COMMITMENTS

The Company is committed to the provision of design and construction services. The total value contracted but not provided for is £Nil (2010: £565).

### 13. CONTROLLING PARTY

The Company's immediate parent undertaking and controlling party is Salford Schools Solutions Holdco Limited, a company registered in England and Wales, with ownership of this company shared equally between HOCHTIEF PPP Schools Capital Limited and NEIF Project Investments Limited. Accordingly, there is no overall parent company and no ultimate controlling party.

### 14. DERIVATIVES NOT INCLUDED AT FAIR VALUE

The fair values of the Company's derivatives are as follows:

	Principal		Fair value	
	2011 £	2010 £	2011 £	2010 £
Interest rate swap contracts	32,559,862	33,576,828	(8,081,064)	(4,024,985)

The Company uses derivatives to manage the exposure to interest rate movements on its senior and equity bridge debt. The fair values are based on market values of equivalent instruments at the balance sheet date.

The interest rate swap contracts have fixed interest receipts at an average rate of 4.74% over the life of the swap contracts, which terminate on 31 December 2032, and have floating interest payments at LIBOR.

# SALFORD SCHOOLS SOLUTIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 December 2011

### 15. RELATED PARTY TRANSACTIONS

At 31 December 2011 an amount of £1,430,096 50 (2010 £1,490,797 50) was owed to HOCHTIEF PPP Schools Capital Limited (which owns 50% of the Company's parent company) and £1,430,096 50 (2010 £1,490,797 50) was owed to NEIF Project Investments Limited (which owns 50% of the Company's parent company) Both of the above relate to amounts of the Company's loan notes held

The interest payable in the year on the above loan notes was £139,784 (2010 £195,433) to HOCHTIEF PPP Schools Capital Limited and £139,784 (2010 £195,433) to NEIF Project Investments Limited At 31 December 2011 an amount of £46,139 (2010 £48,098) was owed to HOCHTIEF PPP Schools Capital Limited and £46,139 (2010 £48,098) was owed to NEIF Project Investments Limited in respect of accrued interest

	Transaction amount for the period ended 31 December 2011 £	Amount due (to) / from party as at 31 December 2011 £
<b>HOCHTIEF PPP Solutions (UK) Limited (shareholder of parent company)</b>		
- Provision of goods and services	99,960	14,264
<b>HOCHTIEF PPP Schools Capital Limited</b>		
- Interest on loan	139,784	46,139
<b>NEIF Project Investments Limited (shareholder of parent company)</b>		
- Provision of goods and services	14,960	14,960
- Interest on loan	139,784	46,139
	<hr/>	<hr/>