

RESULTS

Mitie has thanked the government's Building Schools for the Future (BSF) programme for an 11% rise in profits. The largest provider of facilities management services to UK schools, it has secured preferred bidder status on the Derbyshire County Council BSF project, worth £65m over a period of 25 years, and a 31-year contract to deliver total facilities management to three new PFI schools in Kent worth £40m. The wins have contributed to an order book of £4.9bn compared with 2008's £4.4bn. Revenue also grew by 8.2% to £1,521.9m compared with £1,407.2m last year.

MJ Gleeson has warned of further write-downs in the second half of the financial year as the recession continues to batter the housing market. In its interim statement, the firm says market conditions facing the housebuilding industry were the "worst in living memory". Revenue from continuing operations decreased by 37% to £30.6m and the pre-tax loss increased from £0.3m in 2007 to £5.4m for the half year to 31 December 2008. The plummeting figures have led to a 60% reduction in the group's headcount since June. However, it says there is light at the end of the tunnel in the form of a pipeline of regeneration projects and its strong positions in facilities management, strategic land and the social housing PFI sector.

Waste management company **Shanks Group** has revealed that its profits after tax fell from £28.3m in 2007-08 to £6.4m in the year 2008-09, after it faced "extremely challenging market conditions" in the second half of 2008. The company has made 100 redundancies across its UK and Belgian divisions in response to the downturn in trading, with 55 members of staff being let go in the UK. Shanks has said it will continue to develop its three key principal growth opportunities of recycling, organics processing and UK PFI.

Schools charity launched



Give us a 'T': the Transformation Trust takes off

A charity to support disadvantaged children and improve extracurricular activities for all pupils launched in London last month with over £1m in pledges from Building Schools for the Future (BSF) companies.

The Transformation Trust, which will fund the Shakespeare Schools Festival and free school breakfasts, among other initiatives, has been backed by Balfour Beatty, Bouygues, Carillion, Redstone

and RM. It aims to raise £20m in five years and eventually become England's biggest education charity.

Fears have been raised that companies contributing to the charity could be given preference when bidding for schools schemes. But Partnerships for Schools, the agency in charge of the programme, said the trust would have entirely separate governance arrangements from BSF, so there would be no conflict of interest.

RATE WATCH – RATE WATCH – RATE WATCH

With JC Rathbone Associates – Financial Risk Consultants

Alistair Darling's Budget last month was frankly disappointing. One particularly worrying point that emerged from the Budget was the huge level of future government funding required. We have noted in this column recently that we felt that the government will need to embark on a fairly hefty gilt issuance programme and now we know that it will be larger than most had expected.

The Chancellor has indicated a very optimistic growth forecast, with a move from negative growth this year of 3.5% to a miraculous recovery of positive growth in 2010 of 1.25% – increasing further to 3.5% positive over the following 3 years. This rapid return to economic health should see a sharp reduction in the deficit, but the Chancellor is forecasting that it will still be as high as £97bn in 2013/2014.

And Mervyn King seemed to paint a rather gloomier picture in his comments following the Inflation Report recently. He ruled out the chance of raising interest rates in the foreseeable future, indicating that there would likely be no change from the current near-zero position before the end of the year. He also suggested that it was too early to assess the effect of the Quantitative Easing (QE) programme, up from the original £75bn to £125bn, but pledged that the Bank would be ready

for a swift exit as soon as the economy started to grow again.

The European Central Bank (ECB) has addressed interest rates once again and has cut rates this month from 1.25% to 1.00%. This was not necessarily a unanimous forecast, as some had expected a wait until June before seeing a further cut. Most analysts are more interested in what, if anything, the ECB intends to do about setting up its version of QE. This will be much more difficult to achieve in Euroland given the large variation in bond yields between different countries. In the UK, the government's QE programme has to date purchased stock (mainly gilts) of about £45bn, leaving approximately £80bn more to go. So far the one thing that QE has done in the UK is to keep gilts prices high. This was not the purpose of the exercise,

but in light of the government's vastly expanded gilt issuance noted above, anything that holds down gilt yields is a major benefit.

More positive news saw three major projects reach financial close last month: Five Hospital, Enniskillen Hospital and the M25 widening project. These schemes, together with the recent M80 scheme and Greater Manchester's waste deal, give a very positive message to future PFI projects and their funding requirements. However, there is a real danger that loan margins will remain high and the underlying fixed cost of funding will increase in line with the expected gilt issuance referred to above, creating affordability issues that could once again cause delayed completion(s) and affordability issues.

INTEREST PERIOD	GBP / SWAPS	
	18.05.2009	18.02.2009
3 Month LIBOR	1.3388%	2.0675%
3 Years	2.4625%	2.4125%
5 Years	3.1300%	2.9500%
10 Years	3.7850%	3.6400%
20 Years	4.1600%	4.0150%
30 Years	4.0175%	3.7900%
GBP / BASE RATE		
Lending Rates	0.5000%	1.5000%
FX – EUR/GBP		
Currencies	0.8860	0.8903