Company Registration No. 05358417 (England and Wales)

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

COMPANY INFORMATION

Directors	Mr D Brooking Miss K O'Brien Mr R Gillespie Mr C James
Secretary	HCP Social Infrastructure (UK) Limited
Company number	05358417
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report for the year ended 31 December 2019.

Fair review of the business
On 24 May 2005, the Company entered into a PFI concession contract with North Lanarkshire Council (the "Council") to design, build, finance and provide services within twenty-four primary and secondary schools. The concession contract finishes on 31 March 2037.

On 8 June 2005, Transform Schools (North Lanarkshire) Funding Plc, a fellow subsidiary undertaking of Transform Schools (North Lanarkshire) Holdings Limited authorised the creation of £87,796,000 index-linked bonds and took out an index-linked loan of £70,000,000 and a subordinated loan of £17,084,000. The proceeds from both the bond issue, bank loan and subordinated debt were onward loaned to the company with identical terms for payment of interest and principal.

No change in the Company's principal activities is anticipated.

Description of principal risks and uncertainties
The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance. The directors have policies for managing each of these risks and they are summarised below:

Lifecycle
The principal risk borne by the company is that lifecycle costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by future estimates of lifecycle expenditure being prepared by maintenance experts on an asset by asset basis and by the periodic technical evaluations of the physical condition of the facilities. In addition actual expenditure is compared to the lifecycle forecast.

Availability
During the operational phase the principal source of funds available to meet its liabilities under the bonds will be unitary charge received from the Council under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the company's ability to make payments to bondholders. Deductions of £12,000 (2018: £16,000) were incurred in the year and passed on to the service providers.

Service performance
Performance risk under the Project Agreement and related contracts are substantially passed on to the service providers. The obligations of these subcontractors are underwritten by parent company guarantees. Ultimately, poor performance may result in the Council having the right to terminate the Project Agreement. As noted in the discussion of the company's KPIs, the levels of deductions levied in the year were low and are not considered to pose a risk to the project.

Service provider failure
The likelihood of this risk is assessed through the review of service provider financial statements and through discussions with the service providers. The company currently considers the likelihood of this risk as being low. However, as continuity of service delivery is of paramount importance, the company has a Business Continuity Plan which details how the company would deal with a service provider failure. This includes directly employing staff and sub-contractors until a replacement sub-contractor is in place.

Financial performance and financial position
Operating profit is calculated by recognising a fixed margin on regular service costs and lifecycle costs incurred; no margin is recognised on costs that are passed on to North Lanarkshire Council including additional capital works funded in full by North Lanarkshire Council.

The increase in turnover to £15,612,000 (2018: £11,311,000) is largely due to increased pass through revenue, and the increase in cost of sales to £14,265,000 (2018: £10,317,000) is due to pass through expenditure. The increase in pass through costs and revenue is driven by the increased provision for defects discussed below and the corresponding accrued income related to the recovery of those costs. The decrease in operating costs to £672,000 (2018: £740,000) is predominantly due to a decrease in professional fees on which no margin is recognised. The increase in margin to £1,347,000 (2018: £994,000) is driven by lower legal and professional costs relating to a drainage defect on which no turnover or margin was recognised.

Interest receivable and similar income has decreased to £10,259,000 (2018: £10,375,000) mainly due to the reduction in interest receivable on the Finance Debtor as the interest rate used is a variable rate and is affected by the level of inflation, see note 7.

Interest payable and similar expenses has decreased to £9,772,000 (2018: £9,882,000) mainly due to lower indexation rates chargeable on loans resulting in interest of £9,296,000 (2018: £9,402,000).

Overall profit before tax has increased to £1,162,000 (2018: £747,000), which has led to a higher corporation tax charge of £221,000 (2018: £143,000). Retained earnings have increased to £8,649,000 (2018: £7,708,000) following non payment of interim dividend payments in the year (2018: £840,000).

At 31 December 2019 the Company had net assets of £8,659,000 (2018: £7,718,000). The increase in cash held by the Company to £18,166,000 (2018: £16,289,000) is due to the timing difference between the unitary charge income from North Lanarkshire Council paid in accordance with its contractual obligations and the costs incurred by the Company in discharging its obligations under the concession contract.

At 31 December 2019 the company had total borrowings of £167,985,000 (2018: £171,314,000). During the year the company has made loan repayments of £7,893,000 (2018: £7,304,000).

At 31 December 2019 the company had a provision for defects rectification of £4,709,900 (2018: £600,000). This relates to a drainage issue at one of the twenty-four schools and is offset by £4,109,900 of accrued income to be received from Balfour Beatty in respect of these works under a court ruling dated 9 September 2019.

Financial covenants have been met during the year and having considered the anticipated future performance and position of the Company, the directors are of the opinion that the covenants will continue to be met in the future.

The Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £160,841,000 (2018: £163,791,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

Key Performance Indicators
Financial penalties are levied by North Lanarkshire Council in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £12,000 (2018: £16,000) were levied by North Lanarkshire Council and passed onto the service providers. The directors consider this low level of deduction to be satisfactory.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As discussed above the Company's performance as at 31 December 2019 against this measure was considered satisfactory.

Brexit

The risks from Brexit are a result of the risk it poses to the service providers, rather than the company itself. Therefore, this is linked to the service performance and service provider failure risks referred to above. The company is substantively insulated from these risks because non-performance will result in deductions being passed down to the service providers. However, there remains a risk that in extreme circumstances non-performance may result in the Council having the right to terminate the Project Agreement, however performance levers are significantly below threshold levels at which point the Council would be in that position.

The service provider has performed a review of their respective exposure to Brexit. The relevant concerns relate to availability of spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU. While there will likely be some disruption, the service provider has a strategy in place to keep this to a minimum. This will result in higher costs to the service providers but not impact the company itself. The directors are comfortable that the increased costs and disruption will not threaten the service provider to such an extent as to put the project at risk.

COVID-19 Pandemic

The risks posed by the current COVID-19 pandemic include the Council not paying the Unitary Charge, a risk of the service provider falling behind on fulfilling their contractual requirements due to staff sickness, resulting in a high level of deductions and the risk of service provider failure.

The Scottish Government released a Scottish Procurement Policy Note (SPPN 5/2020) on 26 March 2020 that states public bodies should pay suppliers as quickly as possible to maintain cash flow and protect jobs. On 2 April 2020 a further guidance note was issued relating to PFI projects. This note stated that PFI contractors should consider themselves part of the public sector response to the COVID-19 emergency and asked that contracting authorities maintain unitary charge payments and moderate payment and performance regimes as appropriate. In addition to this, the Council have expressed that they wish to work together in the current circumstances. There has been no increase in deduction at this stage. Any deductions would however be passed down to the service providers.

The service provider is continually updating its Business Continuity Plans to demonstrate how services will be covered in the event of certain levels of staff sickness. These have been reviewed by the Board.

The Board have assessed the financial stability of the service provider and continue to assess new information. As the service provider has a large number of public sector customers, in particular schools, they are supported by the Payment Policy Note for the public sector to ensure cashflow is maintained and therefore the board consider the risk of failure to be low.

The board have considered the additional risks posed by the Covid-19 pandemic and have concluded that the company can mitigate these risks and continue to operate as a going concern for the foreseeable future.

On behalf of the board

Mr R Gillespie
Director
30 April 2020

The directors present their annual report and financial statements for the year ended 31 December 2019.

Principal activities

On 24 May 2005, the Company entered into a PFI concession contract with North Lanarkshire Council to design, build, finance and provide services within twenty-four primary and secondary schools. The concession contract finishes on 31 March 2037.

No change in the Company's principal activities is anticipated.

Results and dividends

The results for the year are set out on page 9, which highlights a profit after tax of £941,000 (2018: £604,000).

The Directors expect the Company to continue its operations for the foreseeable future.

The Directors paid dividends of £Nil in respect of the year ended 31 December 2019 (2018: £840,000).

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr D Brooking
Miss K O'Brien
Mr R Gillespie
Mr C James

Qualifying third party indemnity provisions

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Financial instruments

Treasury operations and financial instruments

The company's financial instruments result in the company's exposure to liquidity, credit rate and interest rate risks. Further information on the financial instruments employed by the company can be seen in the notes to these financial statements.

Liquidity risk

The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings with an amortising profile that matches the expected availability of funds from the Company's operating activities.

Interest rate risk / inflation risk

The majority of borrowings are at fixed rate other than index-linking, and therefore no interest rate risk arises on them. Interest rate risk arises on the Company's sub-ordinated debt which is linked to 6-month LIBOR, and its cash and short-term deposits.

The majority of the Company's borrowings comprise an index-linked secured bond and an index-linked secured loan. Repayment of these loans, and meeting operational expenditure commitments, will be made from income which is itself subject to indexation. The Company thereby mitigates substantially all exposure to movements in the retail price index.

Credit risk
The Company's credit risk is primarily attributable to its trade debtors, other debtors and the Finance Debtor, each of which arise from its sole client, North Lanarkshire Council. The credit and cash-flow risks are not considered significant since there are no indications that the Council will not be able to fulfil its obligations. In addition the obligations of North Lanarkshire Council are underwritten by the Secretary of State for Education.

For cash and short-term deposits, only independently rated counterparties with a minimum medium-term senior debt rating of at least AA from Standard & Poors and Aa2 from Moody's are accepted.

Should the ratings of existing counterparties fall below these levels, the Company and its senior lenders each have the right to require that an acceptable replacement counterparty be appointed.

Contractual relationships
The Company operates within a contractual relationship with its primary client, North Lanarkshire Council and it's principal subcontractor Engie Services Limited. Failure to perform obligations under this contract could have a direct and detrimental effect on the Company's result and could result in termination of the concession. To manage this risk the Company has regular meetings with North Lanarkshire Council and Engie Services Limited including discussions on performance, project progress, future plans and customer requirements. In addition the performance of Engie Services Limited is supported contractually by a parent company guarantee.

Financial risk management objectives and policies
The Company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited (HCP). Authorities remain vested in the board members of the Company. The Board receives regular reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the Company operates.

The Board also receives quarterly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the Company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

Auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Statement of disclosure to auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Registered Office
The Company's Registered Office is 8 White Oak Square, Swanley, Kent, BR8 7AG.

On behalf of the board

Mr R Gillespie
Director
30 April 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

Opinion

We have audited the financial statements of Transform Schools (North Lanakshire) Holdings Limited ("the company") for the year ended 31 December 2019 which comprise the Statement of Income and Retained Earnings, the Balance sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic and Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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 take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

66 Queen Square
Bristol
BS1 4BE

30 April 2020

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Turnover	3	15,612	11,311
Cost of sales		(14,265)	(10,317)
Gross profit		1,347	994
Operating costs		(672)	(740)
Operating profit		675	254
Interest receivable and similar income	7	10,259	10,375
Interest payable and similar expenses	8	(9,772)	(9,882)
Profit before taxation		1,162	747
Tax on Profit	9	(221)	(143)
Profit and other comprehensive income for the financial year		941	604
Total comprehensive income for the year		941	604
Retained earnings at 1 January 2019		7,708	7,944
Dividends		-	(840)
Retained earnings at 31 December 2019		8,649	7,708

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

The accompanying notes form an integral part of the financial statements.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Current assets					
Debtors falling due after one year	**10**	158,600		160,566	
Debtors falling due within one year	**10**	9,172		6,089	
Cash at bank and in hand		18,166		16,289	
		185,938		182,944	
Creditors: amounts falling due within one year	**12**	(12,519)		(11,222)	
Net current assets			173,419		171,722
Creditors: amounts falling due after more than one year	**13**		(160,050)		(163,404)
Provisions for liabilities	**14**		(4,710)		(600)
Net assets			8,659		7,718
Capital and reserves					
Called up share capital	**15**		10		10
Profit and loss reserves			8,649		7,708
Total equity			8,659		7,718

The financial statements were approved by the board of directors and authorised for issue on 30 April 2020 and are signed on its behalf by:

Mr R Gillespie
Director

Company Registration No. 05358417

The accompanying notes form an integral part of the financial statements.

1 Accounting policies

Company information

Transform Schools (North Lanarkshire) Limited is a private company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company's parent undertaking, Transform Schools (North Lanarkshire) Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Transform Schools (North Lanarkshire) Holdings Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

1 Accounting policies **(Continued)**

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts covering a period of at least 17 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Education.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Company's operating cash inflows are largely dependent on unitary charge receipts receivable from North Lanarkshire Council and the Directors expect these amounts to be received even in reasonably possible downside scenarios.

The Company continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Turnover

Turnover in relation to service revenue is recognised in accordance with the Finance Debtor and services income accounting policy below and excludes VAT. Turnover in relation to pass-through revenue is recognised when the services are performed.

1 Accounting policies **(Continued)**

1.4 Finance debtor and services income

The Company is an operator of a Private Finance Initiative ("PFI") contract. As the Company entered into the contract prior to the date of transition to FRS102, the Company has taken advantage of the exemption in Section 35.10 (i) of FRS102 which permits it to continue to account for the service concession using the accounting policy adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the Company under old UK GAAP, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the Finance Debtor. During the operational phase PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The remainder of the income is allocated between interest receivable and the Finance Debtor using a project specific floating interest rate. The company recognises income in respect of the services provided, including major maintenance costs, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

1.5 *Basic financial instruments*

The Company has elected to apply the provisions of Section 11 "Basic Financial Instruments" of FRS102 to all of its financial instruments. Financial instruments are recognised in the Company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset with the net amounts presented in the financial statements, when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Amounts due to Transform Schools (North Lanarkshire) Funding plc are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period. The index-linked secured bonds and index-linked secured term loan are each carried at amortised cost, using the effective interest rate method, taking account of projected indexation across the term of the liability. This is mirrored in the Transform Schools (North Lanarkshire) Funding plc financial statement

Subordinated loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held in current accounts.

Restricted cash

Cash at bank and current asset investments includes £12,233,000 (2018: £11,628,000) restricted from use in the business, being held in the Company's reserve accounts in accordance with the requirements of the project Collateral Deed.

1 Accounting policies **(Continued)**

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.7 Taxation

The tax expense represents the sum of the tax currently payable.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

1.8 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

1.9 Service Concession Accounting

The Company is an operator of a Public Finance Initiative ("PFI") Contract. The Company entered into a project agreement (the "Contract") with North Lanarkshire Council (the "Council") to design, build, finance, operate and maintain 24 school sites. Under the Contract, the Company has contracted to provide hard and soft facilities management services to the Council. The company has passed these obligations down to Engie Services Limited via subcontracts. The obligation to provide major maintenance works (lifecycle) is retained by the Company. The timing and extent of the major maintenance works is a key assumption that will affect the cashflows of the Company, further information is shown in note 2. The Contract does not entitle the Council to any share of the profits of the Company. The Council is entitled to terminate the Contract at anytime by giving 3 months written notice. If the Council exercise this right it is liable to pay the Company compensation as set out in the Contract, which would include the senior debt, redundancy costs and other sub-contractor losses and the market value of the subordinated debt.

As the Company entered into the Contract prior to the date of transition to FRS102, the Company has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the Company under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Council.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on Contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase the Council pays the Company a fixed Unitary Charge payment, as determined in the Contract, that is inflated by RPI each year. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Company recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, actual expenditure is compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of concession increase by 5% the impact on profit in the year would be a decrease of £228,000.

Provisions for liabilities

The directors use their judgement when determining the appropriate level of the Company's liability to repair the defects. The value of the provision is based on an estimation of future costs prepared by building experts.

Due to the involvement of the relevant building experts the directors believe the level of estimation uncertainty is low. However, should actual costs exceed the provision, the directors believe that the Company has adequate resources to fund these costs, taking appropriate mitigating action where necessary.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2019 £'000	2018 £'000
Service Revenue	9,602	9,638
Pass-through Revenue	6,010	1,673
	15,612	11,311

4 Auditor's remuneration

	2019	2018
Fees payable to the company's auditor and its associates:	£'000	£'000
For audit services		
Audit of the company's financial statements	26	22
Audit of the company's fellow subsidiaries	7	5
	33	27

5 Employees

There were no employees during the year (2018: none).

6 Directors' remuneration

	2019	2018
	£'000	£'000
Sums paid to related parties for directors' services	30	29

No Director received any remuneration from the Company during the year (2018: £nil).

7 Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest income		
Interest on bank deposits	61	52
Interest income on finance debtor	10,198	10,323
Total interest receivable and similar income	10,259	10,375

8 Interest payable and similar expenses

	2019	2018
	£'000	£'000
Interest on financial liabilities measured at amortised cost:		
Interest on loans	9,296	9,402
Other finance charges	257	255
Amortisation of finance arrangement costs	219	219
Other interest charges	-	6
Total interest payable and similar expenses	9,772	9,882

9 Taxation

	2019	2018
	£'000	£'000
Current tax		
UK corporation tax on profits for the current period	221	143

9 Taxation (Continued)

The current tax charge for the year is in line with the standard rate of corporation tax in the UK of 19% (2018:19%).

	2019 £'000	2018 £'000
Profit before taxation	1,162	747
Expected tax charge based on a corporation tax rate of 19% (2018:19%)	221	143
Tax expense for the year	221	143

The entire tax expense for the year has been recorded in the Statement of Income.

The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. A further reduction to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantially enacted in the Summer Finance Bill 2015 on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantially enacted on 6 September 2016.

Since then it was substantively enacted on 17 March 2020 that the rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent.

10 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	2,479	2,428
Finance debtor	2,241	3,225
Prepayments and accrued income	4,452	436
	9,172	6,089
Amounts falling due after one year:		
Finance debtor	158,600	160,566
Total debtors	167,772	166,655

No financial assets are past due or impaired at the end of reporting period. All financial assets included above with the exception of prepayments and accrued income are held at amortised cost

11 Borrowings

	2019 £'000	2018 £'000
Amounts due to Transform Schools (North Lanarkshire) Funding Plc	167,985	171,314
	167,985	171,314
Payable within one year	7,935	7,910
Payable after one year	160,050	163,404

Amounts included above which fall due after five years:

	2019 £'000	2018 £'000
Payable by instalments	110,236	115,795

12 Creditors: amounts falling due within one year

	Notes	2019 £'000	2018 £'000
Loans and overdrafts	11	7,935	7,910
Trade creditors		793	926
Corporation tax payable		59	31
Other taxation and social security		448	349
Accruals and deferred income		3,284	2,006
		12,519	11,222

All financial liabilities included above are held at amortised cost.

13 Creditors: amounts falling due after more than one year

	Notes	2019 £'000	2018 £'000
Amounts due to Transform Schools (North Lanakshire) Funding Plc	11	160,050	163,404

Amounts owing to Transform Schools (North Lanarkshire) Funding plc ("FinCo") represents a loan from that company which is made up of the proceeds of £87,796,000 index-linked secured bonds, a £70,000,000 index-linked loan from the European Investment Bank and subordinated debt of £17,084,000 raised by Transform Schools (North Lanarkshire) Funding plc and onward lent on identical terms. The balance is stated after the deduction of amortised issue costs.

The index-linked secured bonds due 2036 of £87,796,000 were created by FinCo on 8 June 2005, all of which were issued and sold. Interest on the bonds is payable semi-annually at a rate of 2.343% plus RPI indexation, commencing on 30 September 2005. Unless previously redeemed or purchased and cancelled, the bonds will mature on 31 March 2036. The principal amount outstanding of the bonds is adjusted semi-annually for RPI indexation. The indexation ratio is calculated as the RPI for the month, eight months prior to the payment date compared against the same month in the preceding year.

The index linked secured term loan is from the European Investment Bank with repayments commencing September 2008 and semi-annually thereafter until September 2034. The loan bears interest at a rate of 1.950% plus RPI indexation. The capital amount outstanding of the loan is adjusted semi-annually for RPI indexation. The indexation ratio is calculated as the RPI for the month, eight months prior to the payment date compared against the same month in the preceding year.

The term loan has attached certain covenants regarding performance of the company of financial and non-financial obligations under the PFI contracts. In the current and prior years, the company was fully compliant with all covenants.

The above borrowings are secured by a fixed and floating charge over the whole of the Company's undertaking and assets.

The secured subordinated loan stock bears interest at 7.550% above the six month LIBOR rate, and is repayable in instalments between 2009 and 2033. It is secured by second fixed and floating charges over the undertaking, property, assets and rights of the Company.

The liabilities are held at amortised cost using the effective interest rate method, taking account of projected indexation across the term of the liability.

All financial liabilities included above are held at amortised cost.

14 Provisions for liabilities

	2019 £'000	2018 £'000
Provision for defects rectification	4,710	600

14 Provisions for liabilities (Continued)

In the prior financial year the company entered into a legal dispute with its building contractor, Balfour Beatty Construction Limited, in respect of the liability for drainage defects identified by surveys undertaken by experts at one of the primary schools within the estate. The provision as at 31 December 2019 represents management's best estimate in relation to the cost of the required drainage rectification works and has been compiled using a number of expert witnesses engaged via the Project Company's Legal Representatives.

Following a successful court action in September 2019, £4,100,000 of the rectification costs are to be funded by the original construction contractor, Balfour Beatty. This amount has been recognised within prepayments accrued income and has been received post year end.

The provision is expected to be utilised over the period to 31 December 2021.

15 Capital and reserves

Share Capital	**2019 £'000**	**2018 £'000**
Ordinary share capital		
Authorised		
10,000 Ordinary of £1 each	10	10
Issued and fully paid		
10,000 Ordinary of £1 each	10	10

Holders of ordinary shares are entitled to received dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Dividends	**2019 £'000**	**2018 £'000**
Dividends paid in the year	-	840
	-	840

16 Related party transactions

Amounts payable by the Company to Equitix Education 2 Limited for the services of the directors of Group companies during the year totalled £15,000 (2018: £14,500), of which £7,600 (2018: £7,400) was outstanding at the year end.

Amounts payable by the Company to Innisfree Limited for the services of the directors of Group companies during the year totalled £15,000 (2018: £14,500), of which £Nil (2018: £Nil) was outstanding at the year end.

During the year, the Company paid management fees amounting to £227,000 (2018 £221,000) to HCP Social Infrastructure (UK) Limited under a management services agreement. HCP is beneficially owned by Innisfree M&G PPP LP and is therefore a related party to Innisfree Limited, which is a nominee shareholder of the Transform Schools (North Lanarkshire) group.

As a wholly-owned subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, the company has taken advantage of the exemption in Section 33 of FRS102 'Related party disclosures' from disclosing related party transactions with other group companies within these financial statements.

17 Controlling party

The only company in which the result of Transform Schools (North Lanarkshire) Limited are consolidated is Transform Schools (North Lanarkshire) Holdings Limited. Copies of the financial statements are available from the registered office at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The Company is a wholly-owned subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, which is incorporated in Great Britain and registered in England and Wales. The ultimate parent undertakings of Transform Schools (North Lanarkshire) Holdings Ltd are Equitix Education 2 (50%) and two limited partnerships, Innisfree PFI Secondary Fund (16%) and Innisfree PFI Secondary Fund 2 LP (34%), managed by Innisfree Limited. The Company has no ultimate controlling party.

18 Non-adjusting Balance Sheet Event

The COVID-19 pandemic continues to cause significant impact to the UK's economy; however, the Company has continued to be paid in full since the year end in accordance with Government guidance and the concession contract and does not expect this position to change. The project remains fully operational and is fully available for use by the client under the terms of the contract and as a result continues to be entitled to the receipt of the Unitary Payment.

These financial statements are for the year ended 31 December 2019 and therefore the impact of COVID-19 on these accounts is considered to be a non-adjusting post-balance sheet event.