Company Registration No. 05358471 (England and Wales)

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

COMPANY INFORMATION

Directors	Mr D Brooking Miss K O'Brien Mr R Gillespie Mr C James
Secretary	HCP Social Infrastructure (UK) Limited
Company number	05358471
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

CONTENTS

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

The principal activity of the company is raising of finance through bank loans, the bond market, and subordinated debt and their onward loan to a related party, Transform Schools (North Lanarkshire) Limited (a fellow subsidiary of Transform Schools (North Lanarkshire) Holdings Limited) in 2005. Transform Schools (North Lanarkshire) Limited is a company which has 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.

Financial performance and financial position

During the year the Company was able to fully service all of its debt requirements and therefore the Directors consider that the performance of the Company was satisfactory. The company's purpose is to finance the operating company (Transform Schools (North Lanarkshire) Limited), and therefore debt service is considered the key performance indicator.

The result for the year after taxation amounted to £nil (2018: £nil).

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. This has been considered based on the operating model for the group, which forecasts cashflows for the concession, to 2037.

The Company is reliant on Transform Schools (North Lanarkshire) Limited to manage its risks and to meet its debt repayments. The principal risk borne by Transform Schools (North Lanarkshire) Limited 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.

Other risks borne by Transform Schools (North Lanarkshire) Limited include a failure to achieve the forecast levels of availability; poor performance resulting in the Council having the right to terminate the Project Agreement; and the failure of the service provider. The directors consider that there are appropriate mitigations in place against these and hence the likelihood of all of these risks occurring is considered to be low.

Key performance indicators
The Company's profit and loss account is set out on page 11 and shows a profit after taxation for the year of £nil (2018: £nil).

The Company assesses its performance based on the financial performance in the period of the fellow subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, Transform Schools (North Lanarkshire) Limited.

The directors consider the performance of Transform Schools (North Lanarkshire) Limited for the year to be satisfactory, when compared to the financial model for the period.

The directors can report that the company was able to meet all of its funding requirements during the year under review.

Brexit
The risks from Brexit are a result of the risk it poses to the service providers of Transform Schools (North Lanarkshire) Limited, rather than the company itself. Therefore, this is linked to the service performance and service provider failure risks in that company. Transform Schools (North Lanarkshire) Limited 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 providers have 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, each 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 services providers to such an extent as to put the project at risk.

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

The Company's principal activity is the financing of a Private Finance Initiative (PFI) concession contract with North Lanarkshire Council.

On 8 June 2005, the Company issued £87,796,000 index-linked bonds and took out an index-linked loan of £70,000,000. The proceeds less issue costs were loaned on the same terms to a fellow subsidiary of Transform Schools (North Lanarkshire) Holdings Limited, Transform Schools (North Lanarkshire) Limited.

The Directors expect the activities to continue on this basis.

Results and dividends

The results for the year are set out on page 11.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

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

The Company's financial instruments include borrowings. The main purpose of these financial instruments is to raise finance for the Transform Schools (North Lanarkshire) Group operations. The Company has not entered into derivative transactions. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments be undertaken. The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

Principal risks and uncertainties

The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in financing the PFI contract. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil the Company's contractual obligations.

Liquidity risk

The Company's policy throughout the year has been that, to ensure continuity of funding, all of its borrowings should be matched by amounts owing from Transform Schools (North Lanarkshire) Limited with the same maturity.

Interest rate risk / Inflation risk
The Company's exposure to adverse movements in interest rates and inflation on its borrowings is matched by an equal but opposite exposure on amounts owing from Transform Schools (North Lanarkshire) Limited with the same maturity.

Capital risk management
The Company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings as disclosed in Note 12.

Credit risk
The Company's credit risk is primarily attributable to its other receivables however this is mitigated as the counterparties are all related parties. In addition, the PFI concession contract and associated receivables of the Company's sole customer, Transform School (North Lanarkshire) Limited, are underwritten by the Secretary of State.

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. HCP reports regularly to the board 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.

The board does not believe an audit committee is required for the following reasons:
- The board itself fulfils the responsibilities and requirements of an audit committee,
- through reviewing the financial controls and considering the appropriateness of the internal control and risk management systems,
- It also controls the appointment of the auditor, considers their independence and sets auditor remuneration.

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.

Responsibility statement of the directors in respect of the annual financial report

The directors confirm that: (a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and (b) the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

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 its profit or loss for that period. In preparing the 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 its 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..

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

1 Our opinion is unmodified

We have audited the financial statements of Transform Schools (North Lanarkshire) Funding Plc ("the Company") for the year ended 31 December 2019 which comprise the Statement of income and retained earnings, Balance sheet and the 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 Company's affairs as at 31 December 2019 and of its result 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors during the year ended December 2014. The period of total uninterrupted engagement is for the 6 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Going concern

Risk vs 2018: ▲

Refer to page 14 (accounting policy 1.2).

The risk

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.

That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements.

The risks most likely to adversely affect the Company's available financial resources over this period is the impact of Covid-19 on the intra-group related party who is the counterparty to the company's intra-group receivables balances. The primary risks to that counterparty are contract performance, subcontractor failure and compliance with borrowing covenants.

Our response

Our procedures included:

- **Our sector experience:** We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the company and the counterparty (the intra-group related party) in their cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.
- **Evaluating directors' intent:** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.
- **Assessing transparency:** We assessed the accuracy and completeness of the matters covered in the going concern disclosure.

Our results

We found the going concern disclosure without any material uncertainty to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £1.67 million (2018: £1.7 million), determined with reference to a benchmark of total assets of £168 million (2018: £172.6 million) of which it represents 1% (2018: 1%).

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £80,000 (2018: £85,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at our offices.

4 We have nothing to report on 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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.

We have nothing to report in these respects.

5 We have nothing to report on the Strategic Report and Directors' Report

The directors are responsible for the Strategic Report and Directors' Report together with the financial statements. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Strategic Report and 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 our 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.

6 We have nothing to report on the other 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 by the Company, 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.

We have nothing to report in these respects.

7 Respective responsibilities

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 including 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably. The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 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) FUNDING PLC

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Interest receivable and similar income	4	9,992	9,883
Interest payable and similar expenses	5	(9,992)	(9,883)
Result before taxation		-	-
Taxation	6	-	-
Result for the financial year		-	-

The Statement of Income and Retained Earnings 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) FUNDING PLC

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Current assets					
Debtors falling due after more than one year	8	160,000		163,454	
Debtors falling due within one year	8	10,777		9,162	
		170,777		172,616	
Creditors: amounts falling due within one year	10	(10,676)		(9,162)	
Net current assets			160,101		163,454
Creditors: amounts falling due after more than one year	11		(160,051)		(163,404)
Net assets			50		50
Capital and reserves					
Called up share capital	12		50		50

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. 05358471

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

1 Accounting policies

Company information
Transform Schools (North Lanarkshire) Funding plc 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 downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on Transform Schools (North Lanarkshire) Limited, a fellow group company with common directors, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on Transform Schools (North Lanarkshire) Limited's 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.

Transform Schools (North Lanarkshire) Limited'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 severe but possible downside scenarios.

Transform Schools (North Lanarkshire) Limited 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 Transform Schools (North Lanarkshire) Limited's 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 Transform Schools (North Lanarkshire) Limited, 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, Transform Schools (North Lanarkshire) Limited has its own business continuity plans to ensure that service provision will continue.

The Directors believe Transform Schools (North Lanarkshire) Limited 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 Accounting policies **(Continued)**

1.3 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

Index-linked bonds and index-linked 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. 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.

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.

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.

1 Accounting policies **(Continued)**

1.3 Financial instruments (continued)

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.

Derecognition of financial liabilities

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

1.4 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.

2 Auditor's remuneration

	2019	2018
Fees payable to the company's auditor and associates:	£'000	£'000
For audit services		
Audit of the financial statements of the company	5	3

The auditor remuneration was borne by Transform Schools (North Lanarkshire) Limited.

3 Employees

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

4 Interest receivable and similar income

		2019	2018
	Notes	£'000	£'000
Interest on the loans to Transform Schools (North Lanarkshire) Limited	8	9,992	9,883

5 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	5,709	5,848
Interest on bonds	2,080	2,116
Other finance charges	257	255
Interest on subordinated loans	1,507	1,438
Amortisation of finance arrangement costs	439	226
Total interest payable and similar expenses	9,992	9,883

6 Taxation

The results for the year do not give rise to a tax charge (2018: £nil).

7 Financial instruments

The Company's financial instruments include borrowings. The main purpose of these financial instruments is to raise finance for the Transform Schools (North Lanarkshire) Group operations. The Company has not entered into derivative transactions. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments be undertaken. The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

Interest rate risk / Inflation risk

The Company's exposure to adverse movements in interest rates and inflation on its borrowings is matched by an equal but opposite exposure on amounts owing from Transform Schools (North Lanarkshire) Limited with the same maturity.

Capital risk management

The Company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings as disclosed in Notes 12.

Liquidity risk

The Company's policy throughout the year has been that, to ensure continuity of funding, all of its borrowings should be matched by amounts owing from Transform Schools (North Lanarkshire) Limited with the same maturity.

Credit risk

The Company's credit risk is primarily attributable to its other receivables however this is mitigated as the counterparties are all related parties. In addition, the PFI concession contract and associated receivables of the Company's sole customer, Transform School (North Lanarkshire) Limited, are underwritten by the Secretary of State.

Interest rate profile

The index-linked bonds have interest payable at a rate of 2.343% plus RPI indexation on a principal amount that is also subject to RPI indexation.

The bank term loan has interest payable at a rate of 1.950% plus RPI indexation on a principal amount that is also subject to RPI indexation.

The loan stock has interest payable at a rate of 7.550% above the six month LIBOR rate.

Borrowing facilities

The Company had no more undrawn committed borrowing facilities at 31 December 2019 (2018: £nil).

8 Debtors

	2019	2018
Amounts falling due within one year:	**£'000**	**£'000**
Amounts due from Transform Schools (North Lanarkshire) Limited	10,777	9,162
Amounts falling due after one year:		
Amounts due from Transform Schools (North Lanarkshire) Limited	160,000	163,454
Total debtors	170,777	172,616

Amounts owing from Transform Schools (North Lanarkshire) Limited comprise a loan which is made up of the proceeds of £87,796,000 index-linked secured bonds, a £70,000,000 loan from European Investment Bank, £17,194,683 subordinated loan stock and a £50,000 direct loan. The balance is stated after the deduction of amortised issue costs of £3,426,044 (2018: £3,645,385). The terms and conditions applicable to the amounts owing from Transform Schools (North Lanarkshire) Limited are the same as those applicable to the borrowings of Transform Schools (North Lanarkshire) Funding plc (see Note 9).

No financial assets are past due or impaired as at the end of the reporting period. All of the financial assets included above are held at amortised cost.

9 Borrowings

	2019	2018
	£'000	**£'000**
Index-linked loans	66,334	68,138
Index-linked bonds	84,568	86,092
Subordinated loans	17,084	17,084
	167,986	171,314
Payable within one year	7,935	7,910
Payable after one year	160,051	163,404
Amounts included above which fall due after five years:	123,893	138,202

9 Borrowings (Continued)

The index-linked secured bonds due 2036 of £87,796,000 were created 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 bank 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 bank loan has attached certain covenants regarding, inter alia, performance of the company and Transform Schools (North Lanarkshire) Limited 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 and Group'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.

10 Creditors: amounts falling due within one year

	Notes	2019 £'000	2018 £'000
Loans and overdrafts	9	7,935	7,910
Amounts owed to group undertakings		355	355
Accrued interest		2,386	897
		10,676	9,162

All of the financial liabilities included above are held at amortised cost.

11 Creditors: amounts falling due after more than one year

	Notes	2019 £'000	2018 £'000
Loans and overdrafts	9	160,051	163,404

All of the financial liabilities included above are held at amortised cost.

12 Share capital

	2019	2018
	£'000	£'000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary of £1 each	50	50

13 Related party transactions

At 31 December 2019, the subordinated loan stock totalled £17,084,000, divided between Equitix Education 2 Limited, £8,542,000 (2018: £8,542,000) and Innisfree Nominees Limited £8,542,000 (2018: £8,542,000) split between Innisfree PFI Secondary Fund LP (ISF) and Innisfree PFI Secondary Fund 2 LP (ISF2) in the ratio 16% to 34% respectively.

Subordinated debt interest accrued at 31 December 2019 totalled £1,879,0000 (2018: £372,000), divided between Equitix Education 2 Limited for £186,000 and Innisfree Nominees Limited for £186,000 split between ISF and ISF2 in the ratio noted above.

During the year, an amount of £15,000 was paid to Innisfree Limited (2018: £14,500) and an amount of £15,000 was paid to Equitix Education 2 Limited (2018: £14,500) by Transform Schools (North Lanarkshire) Limited for the services of directors of the group companies.

During the year, the Company was under the management of 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.

14 Controlling party

The Company is a 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. The Company has no ultimate controlling party.

The only company in which the result of Transform Schools (North Lanarkshire) Funding plc is 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, London BR8 7AG.