Company Registration No. 05358471 (England and Wales)

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

COMPANY INFORMATION

Directors	Mr D J Brooking Miss K O'Brien Mr C James Mr G Pearce
Secretary	Vercity Social Infrastructure (UK) Limited
Company number	05358471
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	BDO LLP 55 Baker Street London W1U 7EU

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report for the year ended 31 December 2020.

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 (2019: £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 statement of comprehensive income is set out on page 15 and shows a profit after taxation for the year of £nil (2019: £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.

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 stated 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.

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 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.

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.

Financial risk management objectives and policies
The Company has outsourced the financial reporting function to Vercity Social Infrastructure (UK) Limited (Vercity). Authorities remain vested in the board members of the Company. Vercity reports regularly to the board of the Company. The Board receives regular reports from Vercity 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, Vercity 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.

Section 172 Companies Act 2006 Statement
The Directors have a duty to promote the success of the Company for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies act 2006 ("section 172").

The Directors have identified the Company's main stakeholders as the following:

i. The Company's shareholders, bondholders and credit provider

Principal considerations of the board are whether the investment objective of the Company is meeting shareholder and bondholder expectations and the how the manager implements the objective. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder and bondholder briefing meetings to ensure that shareholder and bondholder engagement is optimized.

ii. The manager

The delivery by the manager of its services is fundamental to the long term success of the Company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

a) The likely consequences of any decision in the long term

The Company has outsourced the management of the Company to Vercity Social Infrastructure (UK) Limited ("Vercity"), the manager. The delivery by the manager of its services is fundamental to the long term success of the Company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

(b) The interests of the Company's employees

As an externally managed Company, the Company's activities are all outsourced and therefore it does not have any employees. The Company does however, pay due regard to the interests and safety of all those engaged by contractors to the Company to perform services on its behalf.

(c) The need to foster the Company's business relationships with suppliers, customers and others

The Company is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the Company has policies and procedures to ensure regular communication is maintained between the parties.

(d) The impact of the Company's operations on the community and the environment

The Company has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the Company is committed to minimizing environmental disruption from its activities. The board upholds the Company's environmental policy in all its activities and requires all parties to the arrangement to do the same.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

The Company is committed, in its day to day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense, but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

(f) The need to act fairly between members of the Company

The members of the Company are represented at board meetings by their appointed director(s). Conflicts on matters to be discussed are identified at each meeting of the board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regards to it.

The Directors are cognisant of their duty under s172 in their deliberation as a board on all matters . Decisions made by the board take into account the interests of all the Company's key stakeholders and reflect the board's belief that the long term sustainable success of the Company is linked directly to its key stakeholders.

On behalf of the board

Miss K O'Brien
Director
28 June 2021

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

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 14.

No ordinary dividends were paid. (2019: nil). 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 J Brooking	
Miss K O'Brien	
Mr C James	
Mr R Gillespie	(Resigned 15 March 2021)
Mr G Pearce	(Appointed 15 March 2021)

Going concern
The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in the accounting policies in the notes to the financial statements (see note1.2).

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 risk management objectives and policies

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' 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.

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.

Future developments

The directors are not aware, at the date of this report, of any major changes in the company's activities in the next year.

Auditor

BDO LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Energy and carbon report

As the company has not consumed or emitted more than 40,000 kWh of energy in the current or prior reporting period, the company qualifies as a low energy user and is not required to report on its emissions, energy consumption or energy efficiency activities.

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.

On behalf of the board

Miss K O'Brien
Director
28 June 2021

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' responsibilities pursuant to DTR4
The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit and loss of the company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the company, together with a description of the principal risks and uncertainties that they face.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

INDEPENDENT AUDITOR'S REPORT

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

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Transform Schools (North Lanarkshire) Funding Plc ('the Company') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 1 March 2021 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. This is the first period of engagement, We remain independent of Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our audit work included, but was not restricted to, the following:

- We critically assessed the directors' going concern assessment, including the reasonableness of the assumptions used by the Company and the counterparty (the intra-group related party) in their cash flow forecasts in order to settle the payments of principal and interest on the onward loan. The key assumption was identified as the determination of lifecycle costs.
- We evaluated the achievability of the actions the Directors consider they would take to improve the position should risks materialise in relation to COVID 19 in the counterparty. This evaluation considered the potential impact of COVID 19 on the counterparty's contract performance, subcontractor performance and compliance with borrowing covenants.
- We assessed the accuracy and completeness of the matters covered in the going concern disclosures in the financial statements.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

	2020
Key audit matters	Recoverability of inter-group receivables
Materiality	*Financial statements as a whole* £1.68m based on 1% total assets

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter below to be the key audit matters to be communicated in our report.

Key audit matter
Recoverability of inter-group receivables

Impairment of financial assets is accounted for as detailed in note 1.3.

The carrying amount of the Company's intra-group receivables balances, held at amortised cost less impairment represents 100% of the Company's total assets.

The recoverability of amounts due is directly linked to the ability of the counterparty to continue generating cash flows which can be used to repay this balance.

How our scope addressed this matter
Our audit work included, but was not restricted to, the following:

- We reviewed the counterparty (the intra-group related party) forecasts to identify whether it is appropriate to consider it likely that sufficient cash will be generated to allow the repayment of the debt, when it falls due. As part of assessing the forecast cash inflows we have inspected the agreement with North Lanarkshire Council guaranteeing the unitary charge income until 2037, subject to meeting performance requirements, and assessed that forecast cash flows are in line with our own expectation based on our knowledge of the entity and experience of the industry in which it operates.

- We evaluated the potential impact of COVID 19 on the counterparty's performance and projected cash flow forecast outcomes.
- We compared the carrying amount of the *intra-group receivable* with the respective net asset value of the counterparty (the intra-group related party), excluding the intra-group liability due from Transform Schools (North Lanarkshire) Funding Plc, to identify whether the remaining net asset values of the counterparty are sufficient to repay the intra-group receivables.

Key observations:

- Based on the work performed we found the assessment of the recoverability of the intra-group receivable to be acceptable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2020 £m
Materiality	£1.68 million
Basis for determining materiality	Benchmark of total assets of £168m of which it represents 1%
Rationale for the benchmark applied	The Company is asset driven, with the bond liability matching the receivable balance provided to the related party counterparty.
Performance materiality	A haircut of 65% of financial statement materiality which amounts to £1,092,00 to reflect that this is the first year audited by BDO LLP.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £33,600 (2019: £110,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting
Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which *the Companies Act 2006 requires us 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 • 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.

Responsibilities of directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company and industry, we identified the principal risk of non-compliance with laws and regulations that might have a material effect on the financial statements and direct impact on the preparation of the financial statements, to be Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Company's companies assets.

Audit procedures performed by the engagement team included:

- We considered the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the recoverability of intra-group receivable balances;
- We agreed all large journal entries in the year to supporting documentation; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

DocuSigned by:
Cassie Forman-Kotsapa
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Cassie Forman-Kotsapa (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
29 June 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Interest receivable and similar income	5	9,518	9,992
Interest payable and similar expenses	6	(9,518)	(9,992)
Result before taxation		-	-
Taxation	7	-	-
Result for the financial year		-	-

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

BALANCE SHEET

AS AT 31 DECEMBER 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Current assets					
Debtors falling due after more than one year	9	156,175		160,000	
Debtors falling due within one year	9	12,552		10,777	
		168,727		170,777	
Creditors: amounts falling due within one year	11	(12,501)		(10,676)	
Net current assets			156,226		160,101
Creditors: amounts falling due after more than one year	12		(156,176)		(160,051)
Net assets			50		50
Capital and reserves					
Called up share capital	13		50		50

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

The financial statements were approved by the board of directors and authorised for issue on 28 June 2021 and are signed on its behalf by:

Miss K O'Brien
Director

Company Registration No. 05358471

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) FUNDING PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £'000
Balance at 1 January 2019	50
Year ended 31 December 2019:	
Profit and total comprehensive income for the year	-
Balance at 31 December 2019	50
Year ended 31 December 2020:	
Profit and total comprehensive income for the year	-
Balance at 31 December 2020	50

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 financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Transform Schools (North Lanarkshire) Holdings Limited. These consolidated financial statements are available from its registered office,

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 12 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.

1.3 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet 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.

1 Accounting policies (Continued)

Basic financial assets

Basic financial assets are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or 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.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

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.

Derecognition of financial liabilities

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

2 Auditor's remuneration

	2020	2019
Fees payable to the company's auditor and associates:	£'000	£'000
For audit services		
Audit of the financial statements of the company	5	5

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

3 Employees

There were no employees during the year (2019: none).

4 Directors' remuneration

No directors received any remuneration for services to the company during the year (2019: nil).

5 Interest receivable and similar income

	2020	2019
	£'000	£'000
Interest Income		
Interest receivable from group companies	9,518	9,992

6 Interest payable and similar expenses

	2020	2019
	£'000	£'000
Interest on financial liabilities measured at amortised cost:		
Interest on loans	3,121	3,281
Interest on bonds	4,347	4,508
Other finance charges	248	257
Interest on subordinated loans	1,583	1,507
Amortisation of finance arrangement costs	219	439
Total interest payable and similar expenses	9,518	9,992

7 Taxation

The results for the year do not give rise to a tax charge (2019: £nil).

8 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 and 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.

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 2020 (2019: £nil).

9 Debtors

	2020	2019
Amounts falling due within one year:	**£'000**	**£'000**
Amounts owed by a group company	12,552	10,777

9 Debtors (Continued)

Amounts falling due after more than one year:	2020 £'000	2019 £'000
Amounts owed by a group company	156,175	160,000
Total debtors	168,727	170,777

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 £3,206,702 (2019: £3,426,044). 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 10).

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.

10 Loans and overdrafts

	2020 £'000	2019 £'000
Bank loans	64,232	66,334
Bonds	83,069	84,568
Subordinated loans	17,084	17,084
	164,385	167,986
Payable within one year	8,209	7,935
Payable after one year	156,175	160,051
Amounts included above which fall due after five years:	123,893	138,202

10 Loans and overdrafts **(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 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.

11 Creditors: amounts falling due within one year

	Notes	2020 £'000	2019 £'000
Bank loans	10	4,183	3,997
Bonds	10	4,026	3,938
Accruals and deferred income		4,292	2,741
		12,501	10,676

12 Creditors: amounts falling due after more than one year

	Notes	2020 £'000	2019 £'000
Bank loans	10	60,048	52,917
Bonds	10	79,044	90,050
Amounts owed to parent undertaking	10	17,084	17,084
		156,176	160,051

13 Share capital

	2020	2019	2020	2019
Ordinary share capital	**Number**	**Number**	**£'000**	**£'000**
Issued and fully paid				
Ordinary of £1 each	50,000	50,000	50	50

14 Related party transactions

At 31 December 2020, the subordinated loan stock totalled £17,084,000, divided between Equitix Education 2 Limited, £8,542,000 (2019: £8,542,000) and Innisfree Nominees Limited £8,542,000 (2019: £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 2020 totalled £3,462,0000 (2019: £1,879,000), divided between Equitix Education 2 Limited for £1,731,000 and Innisfree Nominees Limited for £1,731,000 split between ISF and ISF2 in the ratio noted above.

During the year, an amount of £21,000 was paid to Innisfree Limited (2019: £15,000) and an amount of £15,000 was paid to Equitix Education 2 Limited (2019: £15,000) 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 Vercity Social Infrastructure (UK) Limited under a management services agreement. Vercity 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.

15 Ultimate 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 Limited are Equitix Education 2 Limited (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.