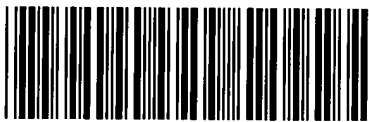


Company Registration No. 05366823 (England and Wales)

**TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	Mr R Sheehan Miss K O'Brien Miss J Crouch Mr D Brooking
<b>Secretary</b>	HCP Social Infrastructure (UK) Limited
<b>Company number</b>	05366823
<b>Registered office</b>	8 White Oak Square London Road Swanley Kent BR8 7AG
<b>Auditor</b>	KPMG LLP 66 Queen Square Bristol BS1 4BE

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# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

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# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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The directors present the strategic report for the year ended 31 December 2016.

### **Fair review of the business**

On 24 May 2005, the Group 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, now in its operational phase, finishes on 31 March 2037.

The principal activity of the Company is that of a holding company, with investments in Transform Schools (North Lanarkshire) Limited and Transform Schools (North Lanarkshire) Funding plc.

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

### **Financial performance and financial position**

Operating profit is calculated by recognising a margin on regular service costs incurred; no margin is recognised on pass through costs including additional capital works funded in full by North Lanarkshire Council. As a result the Group made a post-tax profit of £1,995,000 (2015: £1,937,000) for the year on a turnover of £8,727,000 (2015: £7,799,000). At the 31 December 2016 the Group had net assets of £6,945,000 (2014: £5,461,000). The increase in cash held by the Group results from the timing difference between the unitary charge income from North Lanarkshire Council paid in accordance with its contractual obligations and the costs incurred by the Group in discharging its obligations under the concession contract.

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

The directors believe the financial asset to be recoverable over the term of the Project Agreement.

### **Key Performance Indicators**

Financial penalties are levied by North Lanarkshire Council in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £12,000 (2015: £20,000) were levied by North Lanarkshire Council and passed onto the service providers. The directors consider this low level of deduction to be satisfactory.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As discussed above the Group's performance as at 31 December 2016 against this measure was considered satisfactory.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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### Description of principal risks and uncertainties

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

#### *Credit risk*

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

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

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

#### *Interest rate risk/inflation risk*

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

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

#### *Liquidity risk*

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

#### *Contractual relationships*

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

The Group's principal price risk exposure arises from cost inflation, to the extent that inflation differs from the index used in its unitary payment.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## DIRECTORS' REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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The directors present their annual report and financial statements for the year ended 31 December 2016.

### Principal activities

On 24 May 2005, the Group 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.

The principal activity of the Company is that of a holding company, with investments in Transform Schools (North Lanarkshire) Limited and Transform Schools (North Lanarkshire) Funding plc.

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

### Results and dividends

The results for the year are set out on page 8, which highlights a profit after tax of £1,995,000 (2015: £1,937,000).

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

The Company paid dividends of £511,000 in respect of the year ended 31 December 2016 (2015: £1,131,000).

### Directors

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

Mr R Sheehan  
Miss K O'Brien  
Miss J Crouch  
Mr D Brooking

### 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.

### Auditor

The auditor, KPMG LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

### 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 auditor of the company and group 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 auditor of the company and group is aware of that information.

### Registered office

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

On behalf of the board



Mr R Sheehan

Director 26 APR 2017

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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### Financial risk management objectives and policies

The Group has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited (HCP). Authorities remain vested in the board members of the Group. 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 Group 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 Group 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.

### Going concern

The Group believes that future economic benefits will cover the obligations that arose from the financing of the construction of the project for North Lanarkshire Council.

The directors have also considered the ability of North Lanarkshire Council (the Council) to continue to pay the Unitary fees, due under the Concession contract, to the Group and do not consider this to be a material risk. The Group's forecasts and projections, taking into account reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the board



Mr R Sheehan  
Director

26 APR 2017

# **TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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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 group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *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 group and parent company and of their profit or loss for that period. In preparing each of the parent company and group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



# **TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED**

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We have audited the financial statements of Transform Schools (North Lanarkshire) Holdings Limited for the year ended 31 December 2016 set out on pages 8 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

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#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



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

Chartered Accountants  
66 Queen Square  
Bristol  
BS1 4BE

27 April 2017

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
Turnover	2	8,725	7,799
Cost of sales		(7,704)	(6,795)
<b>Gross profit</b>		<b>1,021</b>	<b>1,004</b>
Administrative expenses		(644)	(687)
<b>Operating profit</b>	3	<b>377</b>	<b>317</b>
Interest receivable and similar income	7	12,023	12,161
Interest payable and similar expenses	8	(9,916)	(10,049)
<b>Profit before taxation</b>		<b>2,484</b>	<b>2,429</b>
Taxation	9	(489)	(492)
<b>Profit and other comprehensive income for the financial year</b>		<b>1,995</b>	<b>1,937</b>
Retained earnings at 1 January 2016		5,401	4,595
Dividends		(511)	(1,131)
<b>Retained earnings at 31 December 2016</b>		<b>6,885</b>	<b>5,401</b>

The Consolidated Statement of Income and Retained Earnings has been prepared on the basis that all operations are continuing operations.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
<b>Current assets</b>			
Debtors falling due after one year	14	155,941	158,162
Debtors falling due within one year	14	15,243	15,349
Investments	15		13,294
Cash at bank and in hand		15,943	1,728
		<u>187,127</u>	<u>188,533</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(10,678)</u>	<u>(11,115)</u>
<b>Net current assets</b>		176,449	177,418
<b>Creditors: amounts falling due after more than one year</b>	17	(169,504)	(171,957)
<b>Net assets</b>		<u>6,945</u>	<u>5,461</u>
<b>Capital and reserves</b>			
Called up share capital	19	60	60
Profit and loss reserves		6,885	5,401
<b>Total equity</b>		<u>6,945</u>	<u>5,461</u>

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

*R. Sheehan*

Mr R Sheehan  
Director

26 April 2017

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Investments	11	60	60
		<u>60</u>	<u>60</u>
<b>Capital and reserves</b>			
Called up share capital	19	60	60
		<u>60</u>	<u>60</u>

The financial statements were approved by the board of directors and authorised for issue on 26 April 2017 and are signed on its behalf by:

*Richard Sheehan*

Mr R Sheehan  
Director

Company Registration No. 05366823

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
<b>Balance at 1 January 2015</b>		60	-	60
<b>Year ended 31 December 2015:</b>				
Profit and total comprehensive income for the year		-	1,131	1,131
Dividends	10	-	(1,131)	(1,131)
<b>Balance at 31 December 2015</b>		60	-	60
<b>Year ended 31 December 2016:</b>				
Profit and total comprehensive income for the year		-	511	511
Dividends	10	-	(511)	(511)
<b>Balance at 31 December 2016</b>		60	-	60

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	2,270	2,540
Income taxes paid		(484)	(513)
<b>Net cash inflow from operating activities</b>		<u>1,786</u>	<u>2,027</u>
<b>Investing activities</b>			
Interest received		<u>12,023</u>	<u>12,161</u>
<b>Net cash generated from investing activities</b>		12,023	12,161
<b>Financing activities</b>			
Interest paid		(5,549)	(5,434)
Repayment of loans		(6,828)	(7,185)
Dividends paid		<u>(511)</u>	<u>(1,131)</u>
<b>Net cash used in financing activities</b>		<u>(12,888)</u>	<u>(13,750)</u>
<b>Net increase in cash and cash equivalents</b>		921	438
Cash and cash equivalents at beginning of year		<u>15,022</u>	<u>14,584</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>15,943</u></u>	<u><u>15,022</u></u>
<b>Relating to:</b>			
Cash at bank and in hand		15,943	1,728
Short term deposits included in current asset investments		<u>-</u>	<u>13,294</u>

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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### 1 Accounting policies

#### Company information

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

The group consists of Transform Schools (North Lanarkshire) Holdings Limited and all of its subsidiaries.

#### 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.

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £511,000 (2015: £1,131,000)

The results of the company, Transform Schools (North Lanarkshire) Holdings Limited are included in these consolidated 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 preparation and disclosure of the Cash Flow Statement and related notes.

#### 1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2016. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

#### 1.3 Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Group and the fact the obligations of the Group's sole customer are underwritten by the Secretary of State for Education they believe that the Group will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

The directors have reviewed the obligations of the Company as a holding company and concluded it is appropriate to prepare the financial statements on the going concern basis.

#### 1.4 Turnover

Service income is recognised in accordance with the finance debtor and services income accounting policy below and excludes VAT.



# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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### 1 Accounting policies

(Continued)

#### 1.5 Finance debtor and services income

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

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

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

#### 1.6 Fixed asset investments

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Fixed asset investments are held at cost less any provision for impairment.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 1 Accounting policies

(Continued)

#### 1.7 Basic financial instruments

The Group 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 Group's statement of financial position when the group 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 less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus 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*

Senior secured bonds and term 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.

Issue costs are written off to the profit and loss account, over the term of the debt on a straight line basis.

##### *Cash and cash equivalents*

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

##### *Investments*

Current asset investments represent cash placed on deposit for a period of no longer than six months.

##### *Restricted cash*

Cash at bank and current asset investments includes £10,299,000 (2015: £9,295,000) restricted from use in the business, being held in the Group's reserve accounts under the terms of its Senior Loan facility.

#### 1.8 Equity instruments

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

#### 1.9 Taxation

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

##### *Current tax*

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

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 2 Turnover and other revenue

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

	2016 £'000	2015 £'000
<b>Turnover</b>		
Arising from the Group's principal activity	8,725	7,799

### 3 Operating profit

	2016 £'000	2015 £'000
--	---------------	---------------

Operating profit for the year is stated after charging/(crediting):

Depreciation of owned tangible fixed assets	-	2
---------------------------------------------	---	---

### 4 Auditor's remuneration

	2016 £'000	2015 £'000
--	---------------	---------------

Fees payable to the company's auditor and associates:

#### For audit services

Audit of the financial statements of the group and company	1	1
Audit of the company's subsidiaries	17	17
	18	18

### 5 Employees

There were no employees during the year (2015: none).

### 6 Directors' remuneration

	2016 £'000	2015 £'000
--	---------------	---------------

Sums paid to third parties for directors' services	27	27
----------------------------------------------------	----	----

No Director received any remuneration from the Company during the year (2015: £nil).

### 7 Interest receivable and similar income

	2016 £'000	2015 £'000
<b>Interest income</b>		
Interest on bank deposits	37	30
Interest income on finance debtor	11,986	12,131
<b>Total income</b>	12,023	12,161

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 8 Interest payable and similar expenses

	2016 £'000	2015 £'000
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest on bank overdrafts and loans	5,842	5,906
Interest on bonds	2,161	2,221
Other finance charges	268	276
Interest on subordinated loans	1,426	1,427
Amortisation of finance arrangement costs	219	219
	<u>9,916</u>	<u>10,049</u>

### 9 Taxation

	2016 £'000	2015 £'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	497	492
Adjustments in respect of prior periods	(8)	-
Total current tax	<u>489</u>	<u>492</u>

The current tax charge for the year is in line with (2015: in line with) the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%).

The entire tax expense for the year has been recorded in the Consolidated Statement of Income and Retained Earnings.

	2016 £'000	2015 £'000
Profit before taxation	<u>2,484</u>	<u>2,429</u>
Expected tax charge based on a corporation tax rate of 20.00%	497	492
Adjustments in respect of prior periods	(8)	-
Tax expense for the year	<u>489</u>	<u>492</u>

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

The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. A further reduction to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantially enacted in the Summer Finance Bill 2015 on 26 October 2015. This will reduce the Company's future tax charge accordingly.

An additional reduction to 17% (effective from 1 April 2020) was substantially enacted in the Finance Bill on 6 September 2016.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 10 Dividends

	2016 £'000	2015 £'000
Dividends paid in the year	511	1,131
	<u>511</u>	<u>1,131</u>

### 11 Fixed asset investments

	Notes	Group 2016 £'000	2015 £'000	Company 2016 £'000	2015 £'000
Investments in subsidiaries	12	-	-	60	60
		<u>-</u>	<u>-</u>	<u>60</u>	<u>60</u>

Fixed asset investments represents an equity investment in fellow group undertakings. The investments are carried at historical cost.

### 12 Subsidiaries

Details of the company's subsidiaries at 31 December 2016 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shares held	% Held	
			Direct	Indirect
Transform Schools (North Lanarkshire) Limited	PFI Concession Company	Ordinary	100.00	
Transform Schools (North Lanarkshire) Funding plc	Funding Company	Ordinary	99.99	

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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### 13 Financial instruments

The Group'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 Group has not entered into derivative transactions. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken. The main risks arising from the Group'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.

#### *Credit risk*

The Group's principal financial assets are cash and short-term deposits, trade and other receivables and the Finance debtor. The Group's credit risk is primarily attributable to its trade and other receivables and the Finance debtor. With the exception of relatively small trade receivables for activities ancillary to the PFI contracts recharged to other parties, the receivables arise from the Group's client, North Lanarkshire Council. The credit and cash flow risks are not considered significant as the obligations are underwritten by the Secretary of State for Education.

For cash and short-term deposits, only independently rated counterparties with a minimum medium-term senior debt rating of at least AA from Standard & Poor's and Aa2 from Moody's are accepted. The maximum exposure to credit risk is the carrying value of the financial assets in the table above.

#### *Capital risk management*

The Group manages its capital to ensure its ability to continue as a going concern. The capital structure of the Group mainly comprises equity attributable to equity holders of Transform Schools (North Lanarkshire) Holdings Limited consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 20 and 21, subordinated loan stock as disclosed in Notes 17 and 19, cash at bank and in hand, and borrowings as discussed in Note 19.

The Group maintains or adjusts its capital structure through incurring new subordinated debt or repaying existing borrowings.

#### *Interest rate risk/Inflation risk*

All borrowings are index linked and fixed rate. In addition, the unitary charge is index linked thus mitigating this risk. Interest rate risk arises on the Group's cash and short term deposits.

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

#### *Liquidity risk*

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

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 13 Financial instruments

(Continued)

#### Fair values

The fair values of the index-linked loan, index-linked bond and the subordinated debt have been calculated by discounting the expected future cash flows at prevailing interest rates. Expected future cash flows have been calculated assuming that future increases in the Retail Price Index are constant at 2.5%. The UK gilt yield curve and an assumed credit spread of 1% for the index-linked loan, 1% for the index-linked bonds and 1% for the subordinated debt, have been used as appropriate discount rates.

	2016 Book value £'000	Fair value £'000	2015 Book value £'000	Fair value £'000
Index-linked bonds	88,437	111,506	89,623	103,906
Index-linked loans	71,093	83,963	72,334	79,506
Subordinated loan stock	17,084	31,369	17,084	33,403
	<u>176,614</u>	<u>226,838</u>	<u>179,041</u>	<u>216,815</u>

### 14 Debtors

	Group 2016 £'000	2015 £'000	Company 2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	2,640	2,303	-	-
Other debtors	12,239	12,326	-	-
Prepayments and accrued income	364	720	-	-
	<u>15,243</u>	<u>15,349</u>	<u>-</u>	<u>-</u>
<b>Amounts falling due after one year:</b>				
Finance debtor	<u>155,941</u>	<u>158,162</u>	<u>-</u>	<u>-</u>
Total debtors	<u>171,184</u>	<u>173,511</u>	<u>-</u>	<u>-</u>

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

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 15 Current asset investments

	Group	2015	Company	2015
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Short-term cash investments	-	13,294	-	-

Current asset investments represents cash placed on deposit for a period of no longer than six months. Included within current asset investments is an amount of £nil (2015: £9,294,000) which is restricted from use in the business, being held in the Company's reserve accounts.

### 16 Creditors: amounts falling due within one year

	Notes	Group	2015	Company	2015
		2016	2015	2016	2015
		£'000	£'000	£'000	£'000
Bank loans and overdrafts	18	7,110	7,084	-	-
Trade creditors		873	1,063	-	-
Corporation tax payable		240	228	-	-
Other taxation and social security		447	441	-	-
Accruals and deferred income		2,008	2,299	-	-
		10,678	11,115	-	-

All financial liabilities included above are held at amortised cost.



# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 17 Creditors: amounts falling due after more than one year

	Notes	Group 2016 £'000	2015 £'000	Company 2016 £'000	2015 £'000
Bank loans and overdrafts	18	169,504	171,957	-	-

Borrowings represent amounts owing by Transform Schools (North Lanarkshire) Funding plc, which is made up of the proceeds of £72,796,000, £5,850,000 and £9,150,000 index linked secured bonds, a £70,000,000 index linked loan from European Investment Bank and £17,084,000 of subordinated loan stock. The balance is stated after the deduction of amortised issue costs.

The index-linked secured bonds, which are due for payment in 2036 of £87,796,000 were created on 8 June 2005, of which £72,796,000 were issued and sold in 2005, followed by £6,211,050 (nominal value £5,850,000) of variation bonds in 2006 and a further £9,726,084 (nominal value £9,150,000) of variation bonds in 2007.

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 March 2009 and semi-annually thereafter until September 2034. The loan bears interest at a rate of 1.95% plus RPI indexation. The bank loan has certain covenants attached. 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 secured subordinated loan stock has been subscribed by Transform Schools (North Lanarkshire) Funding plc. The loan stock bears interest at a rate of 7.55% above the 6-month LIBOR, and is repayable in instalments between 2009 and 2033. It is secured by second fixed and floating charges over the undertaking, property, assets and rights of the Company.

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

All financial liabilities included above are held at amortised cost.

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 18 Loans and overdrafts

	Group 2016 £'000	2015 £'000	Company 2016 £'000	2015 £'000
Bank loans	159,530	161,957	-	-
Subordinated Loans	17,084	17,084	-	-
	<u>176,614</u>	<u>179,041</u>	<u>-</u>	<u>-</u>
Payable within one year	7,110	7,084	-	-
Payable after one year	<u>169,504</u>	<u>171,957</u>	<u>-</u>	<u>-</u>
Amounts included above which fall due after five years:				
Payable by instalments	<u>125,399</u>	<u>128,873</u>	<u>-</u>	<u>-</u>

### 19 Share capital

	Group and company	
	2016 £'000	2015 £'000
<b>Ordinary share capital</b>		
<b>Authorised</b>		
30 Ordinary 'A' of £1 each	30	30
30 Ordinary 'B' of £1 each	30	30
	<u>60</u>	<u>60</u>
<b>Issued and fully paid</b>		
30,000 Ordinary 'A' of £1 each	30	30
30,000 Ordinary 'B' of £1 each	30	30
	<u>60</u>	<u>60</u>

# TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

### 20 Related party transactions

At 31 December 2016, the subordinated loan stock totalled £17,083,641, divided between Equitix Education 2 Limited, £8,541,821 (2015: £8,541,821) and Innisfree Nominees Limited £8,541,820 (2015: £8,541,820) 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 2016 totalled £354,891 (2015: £364,396), divided between Equitix Education 2 Limited for £177,446 and Innisfree Nominees Limited for £177,446 split between ISF and ISF2 in the ratio noted above.

Amounts payable by the Company's subsidiary to Equitix Education 2 Limited for the services of the directors of Group companies during the year totalled £14,000 (2015: £14,000), of which £1,000 (2015: £1,000) was outstanding at the year end.

Amounts payable by the Company's subsidiary to Innisfree Limited for the services of the directors of Group companies during the year totalled £14,000 (2015: £14,000), of which £1,000 (2015: £1,000) was outstanding at the year end.

During the year, the Company's subsidiary paid management fees amounting to £214,000 (2015: £211,000) to HCP Social Infrastructure (UK) Limited under a management services agreement. HCP is beneficially owned by Innisfree M&G PPP LP and is therefore a related party to Innisfree Limited, which is a nominee shareholder of the Transform Schools (North Lanarkshire) group.

### 21 Controlling party

The ultimate parent undertakings of Transform Schools (North Lanarkshire) Holdings Ltd are Equitix Education 2 and two limited partnerships, Innisfree PFI Secondary Fund and Innisfree PFI Secondary Fund 2 LP, managed by Innisfree Limited. The Company has no ultimate controlling party.

22 Cash generated from operations	2016 £'000	2015 £'000
Profit for the year	1,995	1,937
Adjustments for:		
Income tax expense recognised in profit or loss	489	492
Finance costs recognised in profit or loss	9,916	10,049
Interest income recognised in profit or loss	(12,023)	(12,161)
Depreciation and impairment of tangible fixed assets	-	2
Movements in working capital:		
Decrease in debtors	2,327	1,655
(Decrease)/increase in creditors	(434)	566
<b>Cash generated from operations</b>	<b>2,270</b>	<b>2,540</b>