Company Registration No. 5366823

Transform Schools (North Lanarkshire) Holdings Limited

Consolidated Annual Report and Financial Statements

31 December 2014

Transform Schools (North Lanarkshire) Holdings Limited

Annual Report and Financial Statements 2014

Contents

Transform Schools (North Lanarkshire) Holdings Limited

Strategic report

The Directors have pleasure in presenting their annual Strategic Report together with the audited Financial Statements and the Auditor's report, for the year ended 31 December 2014.

Principal activities and business review

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

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

Business Review

The Group has set specific business objectives, which are monitored using a number of key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below:

	2014 £'000	2013 £'000
Profit after taxation	1,903	1,938
Net assets	4,655	3,918
Financial Deductions	26	10

The result for the year is set out on page 6 which highlights profit for the year after tax of £1,903,000 (2013: £1,938,000).

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 finance year deductions of £25,667 (2013: £9,917) were levied by the North Lanarkshire Council and passed onto the service providers. This low level of deductions was considered satisfactory.

The Directors expect the general level of activity to remain consistent for the foreseeable future.

Financial risk management objectives and policies

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

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

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 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 Company's contractual obligations.

Credit risk

The Company's credit risk is primarily attributable to its trade and other debtors and the finance debtor. With the exception of relatively small trade debtors for activities ancillary to the PFI contracts recharged to other parties, the debtors arise from the Company's client, North Lanarkshire Council. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

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.

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

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 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.

Contractual relationships

The Group operates within a contractual relationship with its primary client, North Lanarkshire Council. Failure to perform obligations under this contract could have a direct and detrimental effect on the Group's result and could result in termination of the concession. To manage this risk the Group has regular meetings with the North Lanarkshire Council including discussions on performance, project progress, future plans and customer requirements.

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.

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.

By order of the board

R K Sheehan
Director
21st April 2015

Transform Schools (North Lanarkshire) Holdings Limited

Directors' report

The Directors have pleasure in presenting their annual report for the year ended 31 December 2014.

Directors

The following persons were Directors of the Company throughout the year:

J Graham
R K Sheehan
J E Haan (resigned 2nd January 2015)
S L Jones
K O'Brien (appointed 2nd January 2015)

Results and dividends

The result for the year is set out on page 6. The profit for the year after taxation amounted to £1,903,000 (2013: £1,938,000). The directors paid dividends of £1,166,000 in respect of the period ended 31 December 2014 (2013: £1,950,000). The directors expect the Company to continue its operations for the foreseeable future.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

During the year Deloitte LLP resigned as auditor and KPMG LLP were appointed. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Registered office

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

By order of the board

R K Sheehan
Director

21st April 2015

Transform Schools (North Lanarkshire) Holdings Limited

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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).

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 group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent 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.

Independent auditor's report to the members of Transform Schools (North Lanarkshire) Holdings Limited

We have audited the financial statements of Transform Schools (North Lanarkshire) Holdings Limited for the year ended 31 December 2014 set out on pages 6 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 4, 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK 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 for which the financial statements are prepared is consistent with the financial statements.

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.

Amanda Moses (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Arlington Business Park
Theale
Reading
RG7 4SD
30 April 2015

Transform Schools (North Lanarkshire) Holdings Limited

Consolidated profit and loss account
For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Turnover	1, 2	**7,607**	7,426
Cost of sales		**(6,622)**	(6,632)
Gross profit		**985**	794
Administrative expenses		**(729)**	(588)
Operating profit	3	**256**	206
Interest receivable and similar income	5	**12,443**	12,692
Interest payable and similar charges	5	**(10,274)**	(10,364)
Profit on ordinary activities before taxation		**2,425**	2,534
Taxation on ordinary activities	6	**(522)**	(596)
Profit for the financial year	18	**1,903**	1,938

All activities are derived from continuing operations in the United Kingdom.

The Group had no recognised gains or losses during the year or preceding year other than that reported above; consequently no statement of total recognised gains and losses is presented.

The notes on pages 9 to 25 form an integral part of these financial statements.

Transform Schools (North Lanarkshire) Holdings Limited

Balance sheet
At 31 December 2014

	Notes	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Fixed assets					
Tangible assets	8	**2**	4	**-**	-
Investments	9	**-**	-	**60**	60
		2	4	**60**	60
Current assets					
Investments	10	**-**	14,480	**-**	-
Debtors: amounts falling due within one year	11	**15,444**	15,373	**-**	-
Debtors: amounts falling due after more than one year	13	**159,722**	161,251	**-**	-
Cash at bank and in hand	12	**14,584**	380	**-**	-
		189,750	191,484	**-**	-
Current liabilities					
Creditors: amounts falling due within one year	14	**(10,740)**	(10,742)	**-**	-
Net current assets		**179,010**	180,742	**-**	-
Total assets less current liabilities		**179,012**	180,746	**60**	60
Creditors: amounts falling due after more than one year	15	**(174,357)**	(176,828)	**-**	-
Net assets		**4,655**	3,918	**60**	60
Capital and reserves					
Called-up share capital	17	**60**	60	**60**	60
Profit and loss account	18	**4,595**	3,858	**-**	-
Shareholder's funds	19	**4,655**	3,918	**60**	60

The notes on pages 9 to 25 form an integral part of these financial statements.

The financial statements of Transform Schools (North Lanarkshire) Holdings Limited, registered number 5366823 were approved by the Board of Directors on 21st April 2015.

By order of the board

R K Sheehan
Director

Transform Schools (North Lanarkshire) Holdings Limited

Consolidated cash flow statement
For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	20	**1,873**	1,070
Returns on investments and servicing of finance			
Interest received		**24**	58
Interest received on FRS 5 finance debtor		**12,419**	12,634
Interest and fees paid		**(5,649)**	(5,605)
		6,794	7,087
Tax paid		**(555)**	(592)
Equity dividends paid		**(1,166)**	(1,950)
Net cash inflow before use of financing		**6,947**	5,615
Management of Liquid Resources			
Current asset investments		**14,480**	1,276
		14,480	1,276
Financing			
Repayment of senior loan		**(3,048)**	(2,903)
Repayment of bond		**(4,175)**	(3,991)
		(7,223)	(6,894)
Increase/(decrease) in cash in the year		**14,204**	(3)

The notes on pages 9 to 25 form an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies

A summary of the principal accounting policies of the Group, all of which have been applied consistently in the current and prior years, is set out below:

Basis of preparation

The financial statements have been prepared in accordance with applicable law and United Kingdom accounting standards and under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2014. 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.

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.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Cost represents original purchase cost. Depreciation is provided at rates calculated to write off the cost less any residual value of these assets on a straight- line basis over their estimated useful lives as follows:

IT equipment	3 years
Equipment	10 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Turnover

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

1. Accounting policies (continued)

Finance debtor and services income

The Company is an operator of a PFI contract. The underlying asset is not deemed to be a tangible asset of the Company under FRS 5 Application Note F because the risks and rewards of ownership as set in that standard are deemed to lie principally with North Lanarkshire Council..

During the construction phase of the project all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between turnover which is recognised in accordance with FRS 5 Application Note G and interest receivable using a project specific interest rate. The remainder of the PFI unitary charge income is credited to the finance debtor.

The Company recognises income with regards to 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 for those services. Major maintenance costs are capitalised into the finance debtor.

Finance costs

Finance costs were capitalised during the construction phase of the contract. The finance costs on the debt are recognised at a constant rate in accordance with the carrying value of the debt.

Financial instruments

FRS 26 is required to be adopted by listed companies. The Company's subsidiary has issued listed debt and has therefore prepared its accounts in accordance with FRS 26. The Company and all subsidiaries have also adopted FRS 26 to ensure that consistent accounting policies are applied within the Group.

FRS 26 provides the requirements for the measurement, recognition and derecognition of financial instruments.

Financial assets

Financial assets have been classified into the 'loans and receivables' category, which include cash and cash equivalents, based on the nature and purpose of the financial assets.

Trade debtors and other debtors that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments, that are readily convertible into cash and are subject to an insignificant risk of change in value.

Financial assets are impaired where there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. The carrying amount of a financial asset is reduced by the impairment directly with the exception of trade debtors which would be reduced through the use of an allowance account, unless it is considered that it is uncollectible.

The Group derecognises a financial asset only when the contractual rights to receive the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies (continued)

Financial liabilities

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. Financial liabilities, including borrowings are initially measured at fair value, net of transaction costs. The index-linked secured bonds and bank secured term loan are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. Subordinated debt is measured at amortized cost. The Group de-recognises its financial liabilities when the Groups obligations are discharged, cancelled or they expire.

The effective interest method is a method of calculating amortised costs of the financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability.

Senior secured bonds and loan 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.

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

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results stated in the financial statements that arise from the inclusion of gains or losses in tax assessment periods different from those in which they are recognised in the financial statements. A deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of the evidence available, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment. The carrying values of these investments are reviewed annually by the Directors to determine whether there has been any impairment to their values.

Senior secured bonds and term loan

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 valued at amortised cost, using the effective interest rate method, taking account of projected indexation across the term of the liability.

Dividends on shares presented within shareholders' funds

Dividends are only recognised as a liability at that date to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes to the financial statements
For the year ended 31 December 2014

2. Turnover

	Group 2014 £'000	Group 2013 £'000
Turnover by origin and destination:		
United Kingdom	7,607	7,426

3. Operating profit

	Group 2014 £'000	Group 2013 £'000
Operating Profit is stated after charging:		
Fees payable to Company's auditor for the audit of the Company's annual accounts	1	1
Fees payable to the Company's auditor for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	18	17
Taxation compliance services	-	4
Depreciation of tangible fixed assets	2	2

4. Staff Costs

There were no employees during the year (2013: none). None of the Directors received any emoluments from the Company (2013: £nil). However, a total payment of £32,000 (2013: £27,000) was made for the services of the Directors.

5. Net interest payable

	Group 2014 £'000	Group 2013 £'000
Interest payable on bond and loan	(8,864)	(8,942)
Interest payable on loan stock	(1,410)	(1,422)
Interest receivable on bank accounts	24	58
Interest income on finance debtor (note 9)	12,419	12,634
	2,169	2,328

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Transform Schools (North Lanarkshire) Holdings Limited

Notes to the financial statements
For the year ended 31 December 2014

6. Taxation on profit on ordinary activities

	Group	
	2014	**2013**
	£'000	**£'000**
Current tax:		
Charge for the year	522	596

Factors affecting the tax charge for the year
The current tax charge for the year is higher (2013: higher) than the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%). The differences are explained below.

	Group	
	2014	**2013**
	£'000	**£'000**
Tax reconciliation:		
Profit on ordinary activities before taxation	2,425	2,534
Profit on ordinary activities multiplied by weighted average standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	521	589
Effect of:		
Movement in short term timing differences	1	2
Adjustments in respect of prior periods	-	5
Current tax charge for the year	522	596

The main UK corporation tax rate was reduced from 23% to 21% from 1 April 2014. A further reduction to 20% from 1 April 2015 was substantially enacted on 2 July 2013. This will reduce the Group's future tax charge accordingly.

Notes to the financial statements
For the year ended 31 December 2014

7. Profit attributable to the Company

The profit for the financial period dealt with in the financial statements of the Company, Transform Schools (North Lanarkshire) Holdings Limited, was £1,166,000 (2013: £1,950,000). As permitted by section 408 of the Companies Act 2008, no separate profit and loss account is presented in respect of the Parent Company.

8. Tangible fixed assets

	Group Equipment £'000	Total £'000
Cost		
At 1 January 2014	23	23
Additions	-	-
At 31 December 2014	23	23
Depreciation		
At 1 January 2014	19	19
Charge for the year	2	2
At 31 December 2014	21	21
Net book value		
At 31 December 2014	2	2
At 31 December 2013	4	4

The company has no fixed assets (2013: £nil).

Notes to the financial statements
For the year ended 31 December 2014

9. Investments

	Company £'000
a) Shares in subsidiary undertaking	
Cost	
At 1 January	60
Additions	-
At 31 December	60

Principal subsidiary undertakings

The parent company has investments in the following subsidiary undertakings:

Name:	Transform Schools (North Lanarkshire) Limited
Activity:	PFI Concession Company
Country of Incorporation:	Great Britain
Shareholding:	100% Ordinary Shares

Name:	Transform Schools (North Lanarkshire) Funding plc
Activity:	Funding Company
Country of Incorporation:	Great Britain
Shareholding:	99.998% Ordinary Shares

10. Short term deposits

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Short term deposits	-	14,480	-	-

Short-term deposits include £nil (2013: £9,500,000) restricted from use in the business, being held in the Company's reserve accounts.

Notes to the financial statements
For the year ended 31 December 2014

11. Debtors: amounts falling due within one year

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Finance debtor	12,692	12,779		
Trade debtors	2,320	2,171	-	-
Prepayments	232	344	-	-
Accrued income	200	79	-	-
	15,444	15,373	-	-

Aged analysis of trade debtors

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Current	2,320	2,120	-	-
30-60 days	-	-	-	-
60-90 days	-	1	-	-
90+ days	-	50	-	-
	2,320	2,171	-	-

Amounts outstanding represent payments due by North Lanarkshire. Receivables have not been impaired as in each case the directors consider the outstanding sums to be fully recoverable by the Group.

Details of the Group's financial instruments are given in note 15 to the financial statements.

12. Restricted Cash

Cash at bank includes £8,773,000 (2013: £9,515,000) restricted from use in the business, being held in the Company's reserve accounts under the terms of its Senior Loan facility.

Notes to the financial statements
For the year ended 31 December 2014

13. Debtors: amounts falling due after more than one year

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Finance debtor	159,722	161,251	-	-

14. Creditors: amounts falling due within one year

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Borrowings due within one year	7,231	7,236		
Trade creditors	698	656	-	-
VAT payable	481	478	-	-
Corporation Tax payable	249	282	-	-
Accrued interest	1,312	1,437	-	-
Accruals and deferred income	769	653	-	-
	10,740	10,742	-	-

15. Creditors: amounts falling due after more than one year

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Borrowings:				
Index-linked secured bonds	70,193	71,276	-	-
Index-linked bank secured term loan	87,080	88,468		
Subordinated debt	17,084	17,084	-	-
	174,357	176,828	-	-

Repayable as follows:

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Within one year	7,231	7,236	-	-
Between one and two years	7,184	7,221	-	-
Between two and five years	22,817	22,030	-	-
After five years	148,878	152,319	-	-
Less arrangement fees	(4,522)	(4,742)	-	-
	181,588	184,064	-	-

Notes to the financial statements
For the year ended 31 December 2014

15. Creditors: amounts falling due after more than one year (continued)

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, and a £70,000,000 index linked loan from European Investment Bank. The balance is stated after the deduction of amortised issue costs of £4,522,000 (2013: £4,742,000).

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.

Maturity profile of borrowings

	2014 £'000	2013 £'000
The maturity profile of the Group's financial liabilities was as follows:		
Borrowings repayable:		
Within one year	7,231	7,236
Between one and two years	7,184	7,221
Between two and five years	22,817	22,030
After five years	148,878	152,319
	186,110	188,806

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16. Financial instruments

The Group's financial instruments are shown in the table below. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments be undertaken. The Group has not entered into derivative transactions. The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and inflation 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 year. The Group has no significant foreign currency transactions. All the Group's borrowings are denominated in sterling.

Categories of financial instruments

	2014		
	Loans and debtors at amortised cost including cash and short-term deposits £'000	**Financial liabilities at amortised cost £'000**	**Fair value £'000**
Financial assets			
Trade and other debtors	2,520	-	2,520
Cash and short-term deposits	14,584	-	14,584
Finance debtor	172,414	-	255,170
	189,518	-	272,274
Interest income in the year	12,443		
Financial liabilities			
Index-linked secured bonds	-	(91,052)	(109,633)
Index-linked bank secured term loan	-	(73,454)	(83,648)
Subordinated debt	-	(17,084)	(34,102)
Trade and other creditors	-	(1,430)	(1,430)
	-	(183,020)	(228,813)
Interest and fee expense in the year		(10,274)	

Notes to the financial statements
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16. Financial instruments (continued)

	2013		
	Loans and debtors at amortised cost including cash and short-term deposits £'000	**Financial liabilities at amortised cost £'000**	**Fair value £'000**
Financial assets			
Trade and other debtors	2,250	-	2,250
Cash and short-term deposits	14,860	-	14,860
Finance debtor	174,030	-	227,928
	191,140	-	245,038
Interest income in the year	12,692		
Financial liabilities			
Index-linked secured bonds	-	(92,590)	(98,229)
Index-linked bank secured term loan	-	(74,390)	(75,787)
Subordinated debt	-	(17,084)	(30,464)
Trade and other creditors	-	(1,405)	(1,405)
	-	(185,469)	(205,885)
Interest and fee expenses in the year		(10,363)	

Fair values

The fair value of the index linked loan; the index linked bond; the subordinated debt; and the Finance debtor have been calculated by discounting the expected future cash flows at appropriate discount 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, 2% for the Financial Debtor and 1% for the subordinated debt, have been used as appropriate discount rates.

In the opinion of the directors the fair values of the trade and other debtors; trade and other creditors; and cash and other short-term deposits each equal their respective book values.

16. Financial instruments (continued)

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 client is a quasi-governmental organisation.

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 16 and 17, subordinated loan stock as disclosed in Notes 14 and 20, cash at bank and in hand, and borrowings as discussed in Note 13.

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.

A 50 basis point increase in the rate of each term deposit held would lead to £59,000 (2013: £73,000) increase in the Group's net interest receivable.

A 1% increase in the annual rate of inflation would increase expense by £55,000 (2013: £109,000). This would be attributable to the index linked secured bond and index linked secured term loan. The impact was calculated by modelling the impact of a 1% increase in the expense for the year.

A 1% increase in the annual rate of inflation would increase income by £1,724,000 (2013: £1,740,000), recognised in respect of the Finance debtor. This impact was calculated by modelling the effect of a 1% increase in inflation on the future cash flows associated with the Finance debtor, and hence the sensitivity in income recognised in the year.

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.

Financial liabilities gross maturity

The following table details the Group's remaining contractual maturities for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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16. Financial instruments (continued)

The gross maturity profile of the Group's non-derivative financial liabilities at 31 December was as follows:

2014	Borrowings £'000	Other financial liabilities £'000	Total non-derivative financial liabilities £'000	Total discount £'000	Carrying value £'000
Due on demand or within one year	(12,438)	(1,428)	(13,866)	5,207	(8,659)
Due within one to two years	(12,409)	-	(12,409)	5,224	(7,185)
Due within two to five years	(38,776)	-	(38,776)	15,958	(22,818)
Due after more than five years	(276,971)	-	(276,971)	132,565	(144,406)
	(340,594)	(1,428)	(342,022)	158,954	(183,068)

2013	Borrowings £'000	Other financial liabilities £'000	Total non-derivative financial liabilities £'000	Total discount £'000	Carrying value £'000
Due on demand or within one year	(12,503)	(1,405)	(13,908)	5,267	(8,641)
Due within one to two years	(12,500)	-	(12,500)	5,278	(7,222)
Due within two to five years	(38,193)	-	(38,193)	16,163	(22,030)
Due after more than five years	(290,089)	-	(290,089)	142,513	(147,576)
	(353,285)	(1,405)	(354,690)	169,221	(185,469)

17. Called up share capital

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Allotted, called up and full paid				
30,000 ordinary 'A' shares of £1 each	30	30	30	30
30,000 ordinary 'B' shares of £1 each	30	30	30	30
	60	60	60	60

Both classes of equity rank 'pari passu' in respect of dividends and other rights.

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18. Reserves

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Profit and loss account				
At 1 January	3,858	3,870	-	-
Profit for the financial year	1,903	1,938	1,166	1,950
Dividends paid	(1,166)	(1,950)	(1,166)	(1,950)
At 31 December	4,595	3,858	-	-

19. Reconciliation of Movements in Shareholders' Funds

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Profit for the financial year	1,903	1,938	1,166	1,950
Dividends paid	(1,166)	(1,950)	(1,166)	(1,950)
Net increase/(decrease) in shareholders' funds	737	(12)	-	-
Opening shareholders' funds	3,918	3,930	60	60
Closing shareholders' funds	4,655	3,918	60	60

20. Reconciliation of operating profit to operating cash flows

	Group	
	2014	2013
	£'000	£'000
Operating profit	256	206
Depreciation	2	2
Decrease in debtors	1,457	1,011
Increase / (decrease) in creditors	158	(148)
Net cash inflow from operating activities	1,873	1,070

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21. Analysis and reconciliation of net debt

(a) Analysis of movement in net debt

	As at 1 January 2014 £'000	Cash flow £'000	Other non cash changes £'000	As at 31 December 2014 £'000
Cash at bank and in hand	380	14,204	-	14,584
Secured senior loans	(166,981)	7,223	(4,748)	(164,506)
Liquid resources	14,480	(14,480)	-	-
Subordinated loan stock	(17,084)	-	-	(17,084)
Net debt	(169,205)	6,947	(4,748)	(167,006)

(b) Reconciliation of cash flow to movement in net debt

	2014 £'000	2013 £'000
Increase/(decrease) in cash in the period	14,204	(3)
Cash outflow from secured senior loans	7,223	6,894
Cash outflow from decrease in liquid resources	(14,480)	(1,276)
Change in net debt resulting from cash flows	6,947	5,615
Other non cash changes	(4,748)	(4,757)
Movement in net debt in the year	2,199	858
Opening net debt	(169,205)	(170,063)
Closing net debt	(167,006)	(169,205)

The analysis of net debt given above is stated after the deduction of the issue costs of financing.

Transform Schools (North Lanarkshire) Holdings Limited

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22. Related party disclosure

At 31 December 2014, the subordinated loan stock totalled £17,083,641, divided between Equitix Education 2 Limited, £8,541,821 (2013: £8,541,821) and Innisfree Nominees Limited £8,541,820 (2013: £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 2013 totalled £360,364 (2013: £358,701), divided between Equitix Education 2 Limited for £180,182 and Innisfree Nominees Limited for £180,182 split between ISF and ISF2 in the ratio noted above.

Amounts payable by the Company's subsidiary to Innisfree Nominees Limited acting in its capacity as manager of ISF and ISF2 for the services of the directors of Group companies during the year totalled £15,363 (2013: £13,386), of which £1,121 (2013: £1,127) was outstanding at the year end.

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 £15,363 (2013: £13,386), of which £1,121 (2013: £1,127) was outstanding at the year end.

23. Ultimate parent undertaking and controlling parties

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.