

Company Registration No. 05366823 (England and Wales)

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mr R Sheehan Miss K O'Brien Mr D Brooking Mr R Gillespie (Appointed 18 August 2017)
Secretary	HCP Social Infrastructure (UK) Limited
Company number	05366823
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

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TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present the strategic report for the year ended 31 December 2017.

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.

Description of principal risks and uncertainties

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

Lifecycle

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

Availability

Investment in the project is funded primarily by the bonds and subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the bonds will be unitary charge received from the Council under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the group's ability to make payments to bondholders. Deductions of £9,000 (2016: £12,000) were incurred in the year and passed on to the service providers.

Service performance

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

Service provider failure

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

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Financial performance and financial position

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

The increase in turnover to £10,534,000 (2016: £8,725,000) and the increase in cost of sales to £8,967,000 (2016: £7,704,000) are both largely due to expenditure on lifecycle costs and the associated margin on these costs. This has also led to a reduction in the interest receivable on the Finance Debtor to £10,341,000 (2016: £11,986,000) as the interest rate used is a variable rate and is affected by the level of margin.

Interest receivable and similar income has decreased to £10,347,000 (2016: £12,023,000) mainly due to reduced interest receivable on the Finance Debtor.

Interest payable and similar expenses has decreased to £9,816,000 (2016: £9,916,000) mainly due to decreased interest on loans of £9,335,000 (2016: £9,429,000), due to repayments of the loan principal.

Overall profit before tax has decreased to £1,381,000 (2016: £2,484,000), which has led to a lower corporation tax charge of £266,000 (2016: £489,000). Retained earnings have increased to £7,944,000 (2016: £6,885,000) following interim dividend payments in the year of £56,000 (2016: £511,000).

At 31 December 2017 the Group had net assets of £8,044,000 (2016: £ 6,945,000). The increase in cash held by the Group to £17,116,000 (2016: £15,943,000) is due to the timing difference between the unitary charge income from North Lanarkshire Council paid in accordance with its contractual obligations and the costs incurred by the Company in discharging its obligations under the concession contract.

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 Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £166,002,000 (2016: £168,180,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

Key Performance Indicators

Financial penalties are levied by North Lanarkshire Council in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £9,000 (2016: £12,000) 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 2017 against this measure was considered satisfactory.

On behalf of the board



Mr R Gillespie

Director

26 April 2018

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and financial statements for the year ended 31 December 2017.

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 9, which highlights a profit after tax of £1,337,000 (2016: £1,995,000).

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

The Company paid dividends of £56,000 in respect of the year ended 31 December 2017 (2016: £511,000).

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

Mr R Gillespie

(Resigned 18 August 2017)

(Appointed 18 August 2017)

Qualifying third party indemnity provisions

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

Financial instruments

Treasury operations and Financial Instruments

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

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

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Interest rate / 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.

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.

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.

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.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

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.

Auditor

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

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the 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 Gillespie

Director

26 April 2018

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Transform Schools (North Lanarkshire) Holdings Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Income and Retained Earnings, Consolidated Balance sheet, Company Balance sheet, Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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



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

Chartered Accountants

66 Queen Square

Bristol

BS1 4BE

30.04.18

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Turnover	2	10,534	8,725
Cost of sales		(8,967)	(7,704)
Gross profit		1,567	1,021
Administrative expenses		(717)	(644)
Operating profit		850	377
Interest receivable and similar income	6	10,347	12,023
Interest payable and similar expenses	7	(9,816)	(9,916)
Profit before taxation		1,381	2,484
Tax on profit	8	(266)	(489)
Profit and other comprehensive income for the financial year		1,115	1,995
Retained earnings at 1 January 2017		6,885	5,401
Dividends		(56)	(511)
Retained earnings at 31 December 2017		7,944	6,885

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

The accompanying notes form part of these financial statements.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Current assets			
Debtors falling due after one year	12	153,728	155,941
Debtors falling due within one year	12	15,109	15,243
Cash at bank and in hand		17,116	15,943
		185,953	187,127
Creditors: amounts falling due within one year	13	(11,326)	(10,678)
Net current assets		174,627	176,449
Creditors: amounts falling due after more than one year	14	(166,623)	(169,504)
Net assets		8,004	6,945
Capital and reserves			
Called up share capital	16	60	60
Profit and loss reserves		7,944	6,885
Total equity		8,004	6,945

The financial statements were approved by the board of directors and authorised for issue on 26 April 2018 and are signed on its behalf by:


Mr R Gillespie
Director

Company Registration No. 05366823

The accompanying notes form part of these financial statements.

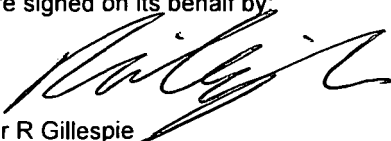
TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments	9	60	60
		<u>60</u>	<u>60</u>
Capital and reserves			
Called up share capital	16	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 2018 and are signed on its behalf by:


Mr R Gillespie
Director

Company Registration No. 05366823

The accompanying notes form part of these financial statements.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2016		60	-	60
Year ended 31 December 2016:				
Profit and total comprehensive income for the year		-	511	511
Dividends		-	(511)	(511)
Balance at 31 December 2016		60	-	60
Year ended 31 December 2017:				
Profit and total comprehensive income for the year		-	56	56
Dividends		-	(56)	(56)
Balance at 31 December 2017		60	-	60

The accompanying notes form part of these financial statements.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	19	3,565	2,270
Income taxes paid		(360)	(484)
Net cash inflow from operating activities		<u>3,205</u>	<u>1,786</u>
Investing activities			
Interest received		<u>10,347</u>	<u>12,023</u>
Net cash generated from investing activities		10,347	12,023
Financing activities			
Interest paid		(5,429)	(5,549)
Repayment of loans		(6,894)	(6,828)
Dividends paid		<u>(56)</u>	<u>(511)</u>
Net cash used in financing activities		<u>(12,379)</u>	<u>(12,888)</u>
Net increase in cash and cash equivalents		<u>1,173</u>	<u>921</u>
Cash and cash equivalents at beginning of year		<u>15,943</u>	<u>15,022</u>
Cash and cash equivalents at end of year		<u><u>17,116</u></u>	<u><u>15,943</u></u>

The accompanying notes form part of these financial statements.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 £56,000 (2016: £511,000)

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 following disclosures:

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

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2017. 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.

Given net assets position in 2017 of £8,004,000, (2016: £6,945,000), 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 of accounting in preparing the annual financial statements.

1.4 Turnover

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

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.5 Finance debtor and services income

The Group is an operator of a Private Finance Initiative ("PFI") contract. As the Group 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 PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The remainder of the income is allocated between interest receivable and the finance debtor using a project specific floating interest rate. The group recognises income in respect of the services provided, including major maintenance costs, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

1.6 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 2017

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

Index-linked bonds and index-linked loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period. The index-linked secured bonds and index-linked secured term loan are each carried at amortised cost, using the effective interest rate method, taking account of projected indexation across the term of the liability.

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

Cash and cash equivalents

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

Restricted cash

Cash at bank and current asset investments includes £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 2017

2 Turnover and other revenue

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

	2017 £'000	2016 £'000
Turnover		
Service Revenue	9,020	6,121
Pass-through Revenue	1,514	2,604
	<u>10,534</u>	<u>8,725</u>

3 Auditor's remuneration

	2017 £'000	2016 £'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	19	17
	<u>20</u>	<u>18</u>

4 Employees

There were no employees during the year (2016: none).

5 Directors' remuneration

	2017 £'000	2016 £'000
Sums paid to third parties for directors' services	<u>27</u>	<u>27</u>

No Director received any remuneration from the Company during the year (2016: £nil).

6 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest income		
Interest on bank deposits	6	37
Interest income on finance debtor	10,341	11,986
Total income	<u>10,347</u>	<u>12,023</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

7 Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	5,813	5,842
Interest on bonds	2,130	2,161
Other finance charges	262	268
Interest on subordinated loans	1,392	1,426
Amortisation of finance arrangement costs	219	219
	<u>9,816</u>	<u>9,916</u>

8 Taxation

	2017 £'000	2016 £'000
Current tax		
UK corporation tax on profits for the current period	266	497
Adjustments in respect of prior periods	-	(8)
Total current tax	<u>266</u>	<u>489</u>

The current tax charge for the year is in line with (2016: lower than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%).

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

	2017 £'000	2016 £'000
Profit before taxation	<u>1,381</u>	<u>2,484</u>
Expected tax charge based on a corporation tax rate of 19.25%	266	497
Adjustments in respect of prior periods	-	(8)
Tax expense for the year	<u>266</u>	<u>489</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. An additional reduction to 17% (effective from 1 April 2020) was substantially enacted in the Finance Bill on 6 September 2016. This will reduce the Company's future tax charge accordingly.

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9 Fixed asset investments

		Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
	Notes				
Investments in subsidiaries	10	-	-	60	60

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

10 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 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	Great Britain	PFI Concession Company	Ordinary	100.00	
Transform Schools (North Lanarkshire) Funding Plc	Great Britain	Funding Company	Ordinary	99.99	

The registered address of both subsidiaries listed above is 8 White Oak Square, Swanley, Kent, BR8 7AG

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11 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 2017

12 Debtors

	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Amounts falling due within one year:				
Trade debtors	2,238	2,640	-	-
Other debtors	12,274	12,239	-	-
Prepayments and accrued income	597	364	-	-
	<u>15,109</u>	<u>15,243</u>	<u>-</u>	<u>-</u>
Amounts falling due after one year:				
Finance debtor	<u>153,728</u>	<u>155,941</u>	<u>-</u>	<u>-</u>
Total debtors	<u>168,837</u>	<u>171,184</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 with the exception of prepayments and accrued income are held at amortised cost.

13 Creditors: amounts falling due within one year

	Notes	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Bank loans and overdrafts	15	7,494	7,110	-	-
Trade creditors		1,131	873	-	-
Amounts due to group undertakings		355	355	-	-
Corporation tax payable		147	240	-	-
Other taxation and social security		613	447	-	-
Accruals and deferred income		1,586	1,653	-	-
		<u>11,326</u>	<u>10,678</u>	<u>-</u>	<u>-</u>

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 2017

14 Creditors: amounts falling due after more than one year

		Group		Company	
	Notes	2017	2016	2017	2016
		£'000	£'000	£'000	£'000
Bank loans and overdrafts	15	166,623	169,504	-	-

Borrowings represent amounts owing by Transform Schools (North Lanarkshire) Funding plc, which is made up of the proceeds of £87,796,000 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 2017

15 Loans and overdrafts

	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Index-linked loans and bonds	157,033	159,530	-	-
Subordinated Loans	17,084	17,084	-	-
	<u>174,117</u>	<u>176,614</u>	<u>-</u>	<u>-</u>
Payable within one year	7,494	7,110	-	-
Payable after one year	166,623	169,504	-	-
	<u>174,117</u>	<u>176,614</u>	<u>-</u>	<u>-</u>
Amounts included above which fall due after five years:				
Payable by instalments	<u>120,866</u>	<u>125,399</u>	<u>-</u>	<u>-</u>

16 Capital and reserves

Share capital

	Group and company	
	2017 £'000	2016 £'000
Ordinary share capital		
Authorised		
30 Ordinary 'A' of £1 each	30	30
30 Ordinary 'B' of £1 each	30	30
	<u>60</u>	<u>60</u>
Issued and fully paid		
30,000 Ordinary 'A' of £1 each	30	30
30,000 Ordinary 'B' of £1 each	30	30
	<u>60</u>	<u>60</u>

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

Dividends	2017 £'000	2016 £'000
Dividends paid in the year	56	511
	<u>56</u>	<u>511</u>

TRANSFORM SCHOOLS (NORTH LANARKSHIRE) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17 Related party transactions

At 31 December 2017, the subordinated loan stock totalled £17,083,641, divided between Equitix Education 2 Limited, £8,541,821 (2016: £8,541,821) and Innisfree Nominees Limited £8,541,820 (2016: £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 2017 totalled £355,226 (2016: £354,891), divided between Equitix Education 2 Limited for £177,613 and Innisfree Nominees Limited for £177,613 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 (2016: £14,000), of which £1,000 (2016: £1,000) was outstanding at the year end which is included within the Trade Creditors balance.

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 (2016: £14,000), of which £7,000 (2016: £1,000) was outstanding at the year end which is included within the Trade Creditors balance.

During the year, the Company's subsidiary paid management fees amounting to £213,000 (2016: £214,000) 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.

18 Controlling party

The ultimate parent undertakings of Transform Schools (North Lanarkshire) Holdings Ltd (registered office 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG) are Equitix Education 2 (registered office 10-11 Charterhouse Square, London, EC1M 6EH) with a 50% holding and two limited partnerships, Innisfree PFI Secondary Fund (registered office 1st Floor Boundary House 91-93, Charterhouse Street, London, EC1M 6HR) with a 16% holding and Innisfree PFI Secondary Fund 2 LP (registered office 1st Floor Boundary House 91-93, Charterhouse Street, London, EC1M 6HR) with a 34% holding, managed by Innisfree Limited (registered office 1st Floor Boundary House 91-93, Charterhouse Street, London, EC1M 6HR). The Company has no ultimate controlling party.

19 Cash generated from operations	2017 £'000	2016 £'000
Profit for the year	1,115	1,995
Adjustments for:		
Income tax expense recognised in profit or loss	266	489
Finance costs recognised in profit or loss	9,816	9,916
Interest income recognised in profit or loss	(10,347)	(12,023)
Movements in working capital:		
Decrease in debtors	2,375	2,327
Increase/(decrease) in creditors	340	(434)
Cash generated from operations	3,565	2,270