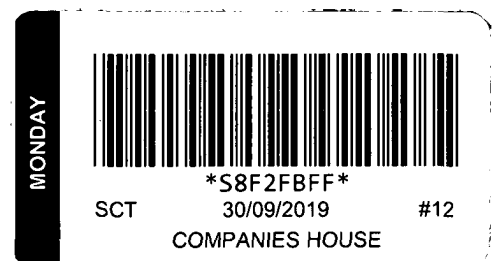


Company Registration No. 06261439 (England and Wales)

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mr R Thompson Mr S Gordon
Secretary	HCP Social Infrastructure (UK) Limited
Company number	06261439
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	RSM UK Audit LLP First Floor Quay 2 139 Fountainbridge Edinburgh EH3 9QG

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

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TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the company continued to be that of a holding company whose sole business is the holding of investments in its subsidiary companies: Transform Schools (Knowsley) Limited and Transform Schools (Knowsley) Intermediate Limited, together 'the Group'.

On 13 December 2007, Transform Schools (Knowsley) Limited, a subsidiary, entered into a PFI concession contract with Knowsley Metropolitan Borough Council, to design, build or refurbish, and provide services within seven secondary schools. A second PFI contract was entered into on 19 May 2011 to consolidate two existing Special Educational Needs (SEN) buildings into a single SEN facility. The contract end date for both contracts is 31 August 2034.

During the year to 31 December 2016 one of the secondary school buildings was converted into a college for further education. The building remains a part of the PFI concession contract.

Directors

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

Mr A Clapp

(Resigned 6 July 2018)

Mr R Thompson

Mr S Gordon

Results and dividends

The results for the year are set out on page 7.

In the prior financial year, the Company's subsidiary, Transform Schools (Knowsley) Limited, received a claim from Knowsley Metropolitan Borough Council ('the Authority'), with whom the PFI concession contract ('Project Agreement') is held. This was in relation to alleged historic shortfalls in service delivery. In December 2018, the the Company's subsidiary, Transform Schools (Knowsley) Limited, entered into a Settlement Agreement with the Authority and has also sub-contracted extensive remedial works (see notes 3 and 'other creditors' within notes 14 and 15 to the financial statements). The Company's subsidiary, Transform Schools (Knowsley) Limited, is taking steps in accordance with its underlying contracts to recover these costs incurred to 31 December 2018 and those expended in the subsequent period to the date of signing these financial statements. For the purposes of these financial statements, management has not recognised any recovery and, as such, this gives rise to the loss for the year.

The Directors are unable to propose a dividend in respect of the year ended 31 December 2018 (2017: £774,000).

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.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Principal risks and uncertainties

The risk management policy of the Company and Group is designed to manage risk at the earliest possible point. The Company maintains a detailed risk register which is formally reviewed by the Board of Directors. 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.

As discussed in 'Results and Dividends' the Group is expecting a level of recovery in relation to its costs incurred under the Settlement Agreement and for the remedial works. There is uncertainty around the level and timing of this recovery, therefore this does present a risk to the Group. However, with reference to its contracts with the supply chain, the Group is seeking to maximise recovery in 2019/20.

Going concern

Whilst the remedial works are carried out and the Group has paid Settlements to the Authority in the absence of any recovery to date, as mentioned above, the Group's Annual Debt Service Cover Ratio remains under its Default hurdle. Consequently the repayment of the sub-debt principal and interest has been placed on hold. The Group is not in default in respect of the subdebt as the lender has approved the deferral of capital payments and associated interest until late 2020.

The Group continues to update the Lenders on the status of both the works and the recovery. The implications of an Event of Default are that the Senior Lenders have a number of rights/remedies available to them which include an option to declare all amounts owing under the Finance Documents as immediately due and payable by issuing written notice. The Group has not received such written notice at the date of signing these financial statements. Given that the Event of Default post year end has not been formally waived, the Group's senior borrowings have been classified as due within 1 year on the Statement of Financial Position.

The Directors are monitoring the position closely and continue to adopt the going concern basis in preparing the annual report and the financial statements with reference to forecasts, scenario and sensitivity analysis, which show the Group has sufficient cash to meet its obligations, and with regard to a contractual ability to recover costs incurred.

Auditor

The auditor, RSM UK Audit LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to the 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 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 is aware of that information.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

Registered Office

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

On behalf of the board



Mr R Thompson

Director

30 September 2019

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing 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 the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

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

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

Opinion

We have audited the financial statements of Transform Schools (Knowsley) Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the group statement of total comprehensive income, the group statement of financial position, the company statement of financial position, the group statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty relating to going concern

We draw attention to Note 1.2 in the financial statements, which sets out the circumstances surrounding a claim made against Transform Schools (Knowsley) Limited, a fellow Group Company with regards to alleged historic shortfalls in service delivery under the PFI contract that Transform Schools (Knowsley) Limited is party to. The company's subsidiary Transform Schools (Knowsley) Limited has incurred substantial costs in relation to making good these shortfalls and has reached a settlement position with the Authority. Whilst the company's subsidiary Transform Schools (Knowsley) Limited believes it has a contractual right to recover these costs at least in part from the contractors, no ruling has been made to this regard to date. The costs incurred have led to the company's subsidiary Transform Schools (Knowsley) Limited breaching the terms of its Loan Agreement with its Senior Debt provider which has resulted in the reclassification of all Senior debt to falling due on demand. As stated in Note 1.3, these events or conditions, along with the other matters as set forth in Note 13, indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a strategic report or in preparing the directors' report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

Use of our report

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

RSM UK Audit LLP

ANDREW ALLCHIN (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
First Floor
Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

30 September 2019

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

GROUP STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Turnover	2	7,474	6,982
Cost of sales		(6,702)	(5,667)
Gross profit		772	1,315
Administrative expenses		(1,100)	(1,256)
Exceptional costs	3	(8,657)	-
Operating (loss)/profit		(8,985)	59
Interest receivable and similar income	6	11,090	11,411
Interest payable and similar expenses	7	(10,543)	(10,622)
(Loss)/profit before taxation		(8,438)	848
Taxation	8	1,571	-
(Loss)/Profit for the financial year	18	(6,867)	848
Other comprehensive income			
Cash flow hedges gain/(loss) on interest rate swaps arising in the year	15	7,051	3,415
Tax relating to other comprehensive income	16	(1,199)	(581)
Total comprehensive income for the year		5,852	2,834
Total comprehensive (loss)/income for the year		(1,015)	3,682

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
Debtors falling due after one year	11	162,064		167,865	
Debtors falling due within one year	11	8,070		7,543	
Cash at bank and in hand		9,738		11,169	
		<u>179,872</u>		<u>186,577</u>	
Creditors: amounts falling due within one year	14	(164,628)		(27,794)	
Net current assets			15,244		158,783
Creditors: amounts falling due after more than one year	15		(55,306)		(197,830)
Net liabilities			<u>(40,062)</u>		<u>(39,047)</u>
Capital and reserves					
Called up share capital	17		50		50
Hedging reserve	18		(33,738)		(39,590)
Profit and loss reserves	18		(6,374)		493
Shareholder's Deficit			<u>(40,062)</u>		<u>(39,047)</u>

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

The financial statements were approved by the board of directors and authorised for issue on 30 September 2019 and are signed on its behalf by:



Mr R Thompson
Director

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		2018	2017
	Notes	£'000	£'000
Fixed assets			
Investments	10	50	50
		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	17	50	50
		<u>50</u>	<u>50</u>

As permitted by s408 Companies Act 2006, the Company has not presented its own income statement and related notes. The result for the company for the year was £nil (2017: £774,000 profit).

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

The financial statements were approved by the board of directors and authorised for issue on 30 September 2019 and are signed on its behalf by:



Mr R Thompson
Director

Company Registration No. 06261439

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital £'000	Hedging reserve £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2017		50	(42,424)	419	(41,955)
Period ended 31 December 2017:					
Profit for the year		-	-	848	848
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	2,834	-	2,834
Total comprehensive income for the year		-	2,834	848	3,682
Dividends	9	-	-	(774)	(774)
Balance at 31 December 2017		50	(39,590)	493	(39,047)
Loss for the year		-	-	(6,867)	(6,867)
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	5,852	-	5,852
Total comprehensive income for the year		-	5,852	(6,867)	(1,015)
Balance at 31 December 2018		50	(33,738)	(6,374)	(40,062)

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

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

The Company's principal activities and nature of its operations are disclosed within the Director's Report.

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 as applicable to companies subject to the small companies regime.

The preparation of these financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies. The financial statements have been prepared under the historical cost convention modified to include certain financial instruments at fair value and in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom.

The company has also applied exemptions required under Section 11 Basic Financial Instruments and Section 12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

Service concession arrangements

The subsidiary Company entered into its Service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

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 result for the year was £nil (2017: £774,000 profit).

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 2018. The acquisition method of accounting has been adopted.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.3 Going concern

The current economic conditions create some general uncertainty. The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the council to continue to pay 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 account of reasonable counterparty performance, show the Group expects to be able to operate for the full term of the concession.

As detailed in the Director's Report the Company's subsidiary, Transform Schools (Knowsley) Limited, has entered a Settlement Agreement with the Authority and also incurred costs for remedial works. As a result, the Group is loss making as shown in the Statement of Total Comprehensive Income on page 7. The Group is also in a net liabilities position as shown on page 8.

The Company's subsidiary, Transform Schools (Knowsley) Limited, has taken steps to recover these costs. Whilst the remedial works are carried out and the Company's subsidiary, Transform Schools (Knowsley) Limited, has paid Settlements to the Authority in the absence any recovery to date, the Group's Annual Debt Service Cover Ratio remains under its Default hurdle. Consequently the repayment of the subdebt principal and interest has been placed on hold. The Group is not in default in respect of the subdebt as the lender has approved the deferral of capital payments and associated interest until late 2020.

The implications of an Event of Default are that the Senior Lenders have a number of rights/remedies available to them which include an option to declare all amounts owing under the Finance Documents as immediately due and payable by issuing written notice. The Group has not received such written notice at the date of signing these financial statements. Given that the Event of Default post year end has not been formally waived, the Group's borrowings have been classified as due within 1 year on the Statement of Financial Position.

The Group continues to update the Lenders on the status of both the works and the recovery.

The Directors are monitoring the position closely and continue to adopt the going concern basis in preparing the annual report and the financial statements with reference to forecasts, scenario and sensitivity analysis, which show the Group has sufficient cash to meet its obligations, and with regard to a contractual ability to recover costs incurred.

In accordance with FRS102 Section 12 Hedge Accounting the subsidiary hedging instrument has been recorded at fair value within the financial statements which has given rise to a shareholders' deficit as shown in the Group statement of financial position. This reserve does not impact on the long term forecasts of the Group which show it to be profitable over the life of the concession.

1.4 Turnover

All turnover and profit before taxation originates in the UK. Turnover represents the value, net of value added tax and discounts, of services provided in the year. Service revenue in respect of the the unitary charge is recognised as described in the finance debtor accounting policy.

1.5 Investments

Interests in subsidiaries are initially measured at cost, including directly attributable transaction costs and are subsequently measured at cost less impairment losses.

Interests in subsidiaries are assessed for impairment at each reporting date. Any impairment losses or reversal of impairment losses are recognised immediately in profit or loss.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.6 Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments. Financial instruments are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Senior 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 secured term loan is valued at amortised cost, taking account of projected indexation across the term of the liability.

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

Fair value hedge - fixed interest rate risk

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

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

1.7 Equity instruments

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

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.8 Derivatives

Hedge accounting

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss is discussed below.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.9 Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

1.10 Finance debtor and services income

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

1.11 Critical areas of judgement

The effective interest rate on senior debt instruments was calculated and is not deemed to be materially different to the interest rate applied in the financial statements and as such no adjustment has been made to the interest charge in the financial statements. This will continue to be monitored.

2 Turnover and other revenue

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

	2018 £'000	2017 £'000
Turnover		
Arising from the Group's principal activities	7,474	6,982
Other significant revenue		
Interest income	11,045	11,408
Bank Interest	45	3
Turnover analysed by geographical market		
	2018 £'000	2017 £'000
United Kingdom	7,474	6,982

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Exceptional costs

The exceptional items include costs in relation to the Settlement Agreement and remedial works, referred to in the Directors' Report, associated legal and consultancy costs.

The Company's subsidiary, Transform Schools (Knowsley) Limited, has a contractual ability to recover these costs. The amount of the recovery is not certain so no asset has been recognised.

4 Auditor's remuneration

	2018 £'000	2017 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the group and company	4	4
Audit of the company's subsidiaries	12	12
	<u>16</u>	<u>16</u>
For other services		
Taxation compliance services	7	7
	<u>7</u>	<u>7</u>

5 Employees

The Directors, who are key management personnel, received no salary in the performance of their duties during the current or preceding year. The Group had no employees in the current or preceding year.

6 Interest receivable and similar income

	2018 £'000	2017 £'000
Other interest receivable and similar income	11,090	11,411
	<u>11,090</u>	<u>11,411</u>

7 Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	8,497	8,848
Interest on subordinated loans	2,046	1,774
	<u>10,543</u>	<u>10,622</u>

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

8 Taxation

	2018 £'000	2017 £'000
Current tax		
Adjustments in respect of prior periods	(246)	-
Deferred tax		
Origination and reversal of timing differences	(1,326)	-
Total tax credit	<u>(1,571)</u>	<u>-</u>

	2018 £'000	2017 £'000
(Loss)/profit before taxation	<u>(8,438)</u>	<u>848</u>
Expected tax charge based on a corporation tax rate of 19.00% (2017: 19.25%)	(1,603)	163
Losses carried back	121	-
Adjustments in respect of prior years	(246)	-
Group relief	-	(163)
Adjust closing deferred tax to average rate of 19.00%	157	-
Tax expense for the year	<u>(1,571)</u>	<u>-</u>

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2018 £'000	2017 £'000
Deferred tax arising on:		
Revaluation of financial instruments treated as cash flow hedges	<u>(1,199)</u>	<u>(581)</u>

Reductions in the UK Corporation tax rate from 20% to 19% (effective from the 1 April 2017) and to 18% (effective from 1 April 2020) was substantively enacted on 26th October 2015. A further reduction to 17% from 1 April 2020 was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Dividends

	2018 £'000	2017 £'000
Interim paid	-	774

10 Fixed asset investments

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Investments	-	-	50	50

Movements in fixed asset investments Company

	Shares in group undertakings £'000
Cost	
At 1 January 2018 and 31 December 2018	50
Carrying amount	
At 31 December 2018	50
At 31 December 2017	50

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Debtors

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Amounts falling due within one year:				
Trade debtors	582	419	-	-
Finance debtor	5,928	5,541	-	-
Accrued income and prepayments	1,152	1,566	-	-
Other tax and social security	160	17	-	-
Corporation tax recoverable	248	-	-	-
	<u>8,070</u>	<u>7,543</u>	<u>-</u>	<u>-</u>
Amounts falling due after one year:				
Finance debtor	153,828	159,756	-	-
Deferred tax asset (note 16)	8,236	8,109	-	-
	<u>162,064</u>	<u>167,865</u>	<u>-</u>	<u>-</u>
Total debtors	<u>170,134</u>	<u>175,408</u>	<u>-</u>	<u>-</u>

12 Financial instruments

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Carrying amount of financial assets				
Debt instruments measured at amortised cost	<u>161,347</u>	<u>167,130</u>	<u>-</u>	<u>-</u>
Carrying amount of financial liabilities				
Measured at fair value through profit or loss				
- Other financial liabilities	40,648	47,699	-	-
Measured at amortised cost	<u>161,969</u>	<u>162,542</u>	<u>-</u>	<u>-</u>

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Loans and overdrafts

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Bank loans	137,797	143,742	-	-
Other loans	13,056	13,042	-	-
	<u>150,853</u>	<u>156,784</u>	<u>-</u>	<u>-</u>
Payable within one year	137,797	6,653	-	-
Payable after one year	13,056	150,131	-	-
	<u>150,853</u>	<u>156,784</u>	<u>-</u>	<u>-</u>

The value of the payments that are due in greater than 5 years is £nil (2017: £120,155,000).

The secured Subordinated loan stock is held 100% by PPDI Assetco Limited, and is repayable in semi annual instalments over the life of the concession. No payments are being made whilst the Company's subsidiary's Annual Debt Service Cover Ratio remains under its Default hurdle as a result of the remedial works costs and Settlements and no recovery to date. The Group is not in default in respect of this loan as the lender has approved the deferral of capital payments and associated interest until late 2020.

The secured senior loans represent amounts borrowed by the Group under a facility agreement with banks. The loans are repayable in instalments between 2010 and 2034. The loans bear interest at a margin over LIBOR. As part of the interest rate management strategy, the Group entered into interest rate swaps in respect of all senior debt. Under these swaps and the financing in place, the Group pays fixed interest at fixed rates between 5.7% and 6.3%. The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the Group and have certain covenants attached. With the Group in Default, the Senior Lenders have an option to declare all amounts owing under the Finance Documents as immediately due and payable by issuing written notice. The Group has not received such written notice at the date of signing these financial statements. Given that the Event of Default post year end has not been formally waived, the Group's borrowings have been classified as due within 1 year. Please see the the Directors' Report and note 1.3 for further details.

14 Creditors: amounts falling due within one year

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Loans and overdrafts	137,797	6,653	-	-
Corporation tax payable	-	246	-	-
Trade creditors	2,088	1,739	-	-
Other creditors	24,743	19,156	-	-
	<u>164,628</u>	<u>27,794</u>	<u>-</u>	<u>-</u>

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Loans and overdrafts	13,056	150,131	-	-
Other creditors	1,602	-	-	-
Derivative financial instruments	40,648	47,699	-	-
	<u>55,306</u>	<u>197,830</u>	<u>-</u>	<u>-</u>

Derivatives, including interest rate swaps are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

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

The fair value of derivatives is based on the bank's valuation which is provided annually at the year end. The directors consider this to be an appropriate basis.

16 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Assets	Assets
	2018	2017
	£'000	£'000
Group		
Tax losses	1,326	-
Cash flow hedge asset	6,910	8,108
	<u>8,236</u>	<u>8,108</u>
	Group	Company
	2018	2018
	£'000	£'000
Movements in the year:		
Asset at 1 January 2018	(8,109)	-
Charge to other comprehensive income	1,199	-
	<u>(6,910)</u>	<u>-</u>

The deferred tax asset set out above is expected to reverse in line with movements in the fair value adjustments in relation to the interest rate SWAP held by the Group.

TRANSFORM SCHOOLS (KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

17 Share capital

	Group and company	
	2018	2017
	£'000	£'000
Ordinary share capital		
Issued and fully paid		
50,100 Ordinary shares of £1 each	50	50

The company has two classes of ordinary shares (A and B) which carry no right to fixed income. Both classes of shares carry standard voting rights.

18 Reserves

Hedging reserve

The hedging reserve records the cumulative amount of gains and losses on the hedging instruments deemed effective in cash flow hedges net of tax.

Profit and loss reserves

Retained earnings represent cumulative profit and losses net of distributions to the shareholders. There are no unrealised profits or losses included within retained earnings.

19 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of undertaking and country of incorporation or residency		Nature of business	Class of shareholding	Direct	% Held Indirect
Transform Schools (Knowsley) Limited	UK	PFI Concession Company	Ordinary	99.8	0.2
Transform Schools (Knowsley) Intermediate Limited	UK	Investment Company	Ordinary	100	-

The companies above are registered at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

20 Controlling party

The immediate parent company of Transform Schools (Knowsley) Holdings Limited is PPD I Assetco Limited. The company is ultimately controlled by PPP Equity PIP LP, a limited partnership registered in England.