Company Registration No. 06261520 (England and Wales)

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

COMPANY INFORMATION

Directors	Mr R Thompson Mr M Templeton
Secretary	Vercity Social Infrastructure (UK) Limited (formerly HCP Social Infrastructure (UK) Limited)
Company number	06261520
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) LIMITED

CONTENTS

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

Principal activities

On 13 December 2007, Transform Schools (Knowsley) Limited 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.

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

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 Thompson	
Mr J S Gordon	(Resigned 21 October 2020)
Mr M Templeton	(Appointed 21 October 2020)

Results and dividends

The results for the year are set out on page 9. The Company has made a profit for the year of £1,457,000 (2019: loss of £3,134,000).

In the financial year ended 31 December 2017, the Company 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 Company entered into a Settlement Agreement with the Authority and has also sub-contracted extensive remedial works (see note 4). The Company has and continues to take steps in accordance with its underlying contracts to recover these costs incurred to year ended 31 December 2020 and those expended in the subsequent period to the date of signing these financial statements. For the purposes of these financial statements, management has recognised a proportion of recovery (see note 1.9), but this is not at 100% giving rise to a loss in the prior financial year.

During the year on 17 June 2020, the Company received a further Subordinated Loan injection of £4,000,000 to cover its operating costs as a result of ongoing remedial work settlements discussed above. This injection will bear interest at the same rate as existing Subordinated Loans.

The directors are unable to propose a dividend in respect of the year ended 31 December 2020 (2019: £nil).

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.

Principal risks and uncertainties
The risk management policy of the Company 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 Company 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 Company. However, with reference to its contracts with the supply chain, the Company is seeking to maximise recovery in 2021/22.

The Company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Company itself is not considered to be significantly exposed, subcontractors which the Company engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Going concern
As mentioned in 'Results and dividends', the Company received an additional £4,000,000 in sub-ordinated debt. The repayment of any sub-debt principal and interest has been placed on hold. The Company is not in default in respect of the sub-debt as the lender has approved the deferral of capital payments and associated interest until December 2022 when the Company's position around the remedial works and recovery is more certain.

Following three adjudications in favour of Transform Schools (Knowsley) Limited and the first cash inflow being received during the year, and subsequent to the year end, the Company is no longer in a default position and is above the default hurdle of the Company's Annual Debt Service Cover Ratio (ADSCR).

The directors have prepared projected cash flow information for at least twelve months from the date of their approval of these financial statements and continue to monitor these closely. On the basis of this cash flow information, the directors consider that the Company will continue to operate within the long-term facility currently agreed. In addition, during the operational phase of the project, sufficient cash flow has been, and is, projected to continue to be generated to allow the Company to meet its liabilities as they fall due for payment.

In accordance with FRS 102 Section 12 Hedge Accounting the Company's hedging instrument has been recognised at fair value within the financial statements which has given rise to a shareholders' deficit as shown in the statement of financial position. This reserve does not impact on the long-term forecasts of the Company.

The cash flow forecasts prepared do however assume the recovery of remedial work costs in line with contractual terms. As noted in the Directors' Report and in note 1.9, the proportion and timing of recovery is unknown which will impact on future cash flows. Further to the recent adjudication decisions and associated cash inflows during the first quarter of 2021, the forecasted recovery of remedial work costs is deemed to be prudent although the timing may differ to that modelled. Should recovery of costs not occur in line with the model, the Company could be in default of its covenants and as such the Company is reliant on the Senior Lender's continued and wider support. The Directors believe this to give rise to a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

The Directors continue to prepare the accounts on the basis of going concern for a period of at least 12 months from the date of approval of these financial statements as they believe, based on adjudications granted in favour of the Company, the Company has the ability to recover remedial costs and believe, based on support to date, including covenant waivers, that the Senior Lender will continue to support the Company should timing of recovery differ to that modelled.

Covid-19
The COVID-19 pandemic continues to cause significant impact to the UK's economy however the Company has continued to be paid in full since the year end in accordance with the Project Agreement. The Company does not expect this position to change. The project remains fully operational and as a result continues to be entitled to the receipt of the Unitary Payment from the Authority.

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Auditor
The auditor, RSM UK Audit LLP, is 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 Company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

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
29th June 2021
....

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law).

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

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

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

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

Opinion
We have audited the financial statements of Transform Schools (Knowsley) Limited (the 'Company') for the year ended 31 December 2020 which comprise the statement of total comprehensive income, statement of financial position, 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 Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 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 related to going concern
We draw attention to the Directors' Report and note 1.2, which set out the circumstances surrounding a claim made against the Company with regard to alleged historic shortfalls in service delivery under the PFI contract that the Company is party to. The Company has incurred substantial costs in relation to making good these shortfalls and has reached a settlement position with the Authority. The Company believes it has a contractual right to recover these costs at least in part from the supply chain, with adjudications awarded in the Company's favour in the year resulting in associated cash inflows during the first quarter of 2021, however this is only a proportion of the total costs to be recovered and timing of the receipt is unknown. As stated in Note 1.2, these events or conditions, along with the other matters set out in Note 1.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

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

We have nothing to report in this regard.

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 material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

The extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the company operates in and how the Company is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102 and the Companies Act 2006. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside the normal course of business.

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

Claire Monaghan (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor

First Floor
Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG
29/06/2021

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Turnover	**3**	8,356	7,526
Cost of sales		(6,354)	(6,653)
Gross profit		2,002	873
Administrative expenses		(2,037)	(1,392)
Exceptional costs	**4**	(1,537)	(10,311)
Exceptional income	**4**	4,601	6,890
Operating profit/(loss)		3,029	(3,940)
Interest receivable and similar income	**3**	10,253	10,702
Interest payable and similar expenses	**7**	(10,542)	(10,540)
Profit/(loss) before taxation		2,740	(3,778)
Tax on profit/(loss)	**8**	(1,283)	644
Profit/(loss) for the financial year		1,457	(3,134)
Other comprehensive income			
Cash flow hedges loss arising in the year	**12**	(1,821)	(6)
Tax relating to other comprehensive income	**8**	1,159	1
Total comprehensive income/(expense) for the year		795	(3,139)

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Current assets					
Debtors falling due after more than one year	9	149,453		156,364	
Debtors falling due within one year	9	20,150		15,000	
Cash at bank and in hand		8,994		6,330	
		178,597		177,694	
Creditors: amounts falling due within one year	11	(44,085)		(166,262)	
Net current assets			134,512		11,432
Creditors: amounts falling due after more than one year	12		(176,918)		(54,633)
Net liabilities			(42,406)		(43,201)
Capital and reserves					
Called up share capital	14		50		50
Hedging reserve	15		(34,405)		(33,743)
Profit and loss account	15		(8,051)		(9,508)
Total equity			(42,406)		(43,201)

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 29th June 2021 and are signed on its behalf by:

Mr R Thompson
Director

Company Registration No. 06261520

TRANSFORM SCHOOLS (KNOWSLEY) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Hedging reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2019	50	(33,738)	(6,374)	(40,062)
Year ended 31 December 2019:				
Loss for the year	-	-	(3,134)	(3,134)
Other comprehensive income:				
Cash flow hedges losses	-	(6)	-	(6)
Tax relating to other comprehensive income	-	1	-	1
Total comprehensive expense for the year	-	(5)	(3,134)	(3,139)
Balance at 31 December 2019	50	(33,743)	(9,508)	(43,201)
Year ended 31 December 2020:				
Profit for the year	-	-	1,457	1,457
Other comprehensive income:				
Cash flow hedges losses	-	(1,821)	-	(1,821)
Tax relating to other comprehensive income	-	1,159	-	1,159
Total comprehensive income for the year	-	(662)	1,457	795
Balance at 31 December 2020	50	(34,405)	(8,051)	(42,406)

1 Accounting policies

Company information

Transform Schools (Knowsley) Limited is a private company limited by shares domiciled and incorporated in England and Wales. The registered number is 06261520 and 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 in the Directors' 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 financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The Company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

The Company has also taken advantage of the exemption in Section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

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.

1 Accounting policies **(Continued)**

1.2 Going concern

As mentioned in 'Results and dividends', the Company received an additional £4,000,000 in sub-ordinated debt. The repayment of any sub-debt principal and interest has been placed on hold. The Company is not in default in respect of the sub-debt as the lender has approved the deferral of capital payments and associated interest until December 2022 when the Company's position around the remedial works and recovery is more certain.

Following three adjudications in favour of Transform Schools (Knowsley) Limited and the first cash inflow being received during the year, and subsequent to the year end, the Company is no longer in a default position and is above the default hurdle of the Company's Annual Debt Service Cover Ratio (ADSCR).

The directors have prepared projected cash flow information for at least twelve months from the date of their approval of these financial statements and continue to monitor these closely. On the basis of this cash flow information, the directors consider that the Company will continue to operate within the long-term facility currently agreed. In addition, during the operational phase of the project, sufficient cash flow has been, and is, projected to continue to be generated to allow the Company to meet its liabilities as they fall due for payment.

In accordance with FRS 102 Section 12 Hedge Accounting the Company's hedging instrument has been recognised at fair value within the financial statements which has given rise to a shareholders' deficit as shown in the statement of financial position. This reserve does not impact on the long-term forecasts of the Company.

The cash flow forecasts prepared do however assume the recovery of remedial work costs in line with contractual terms. As noted in the Directors' Report and in note 1.9, the proportion and timing of recovery is unknown which will impact on future cash flows. Further to the recent adjudication decisions and associated cash inflows during the first quarter of 2021, the forecasted recovery of remedial work costs is deemed to be prudent although the timing may differ to that modelled. Should recovery of costs not occur in line with the model, the Company could be in default of its covenants and as such the Company is reliant on the Senior Lender's continued and wider support. The Directors believe this to give rise to a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

The Directors continue to prepare the accounts on the basis of going concern for a period of at least 12 months from the date of approval of these financial statements as they believe, based on adjudications granted in favour of the Company, the Company has the ability to recover remedial costs and believe, based on support to date, including covenant waivers, that the Senior Lender will continue to support the Company should timing of recovery differ to that modelled.

1.3 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 unitary charge is recognised as described in the finance debtor accounting policy.

1 Accounting policies **(Continued)**

1.4 Financial instruments

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

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

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 statement of total comprehensive income, over the term of the debt on a straight line basis.

Fair value hedge - fixed interest rate risk

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.

1.5 Equity instruments

Equity instruments issued by the Company 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 Company.

1 Accounting policies **(Continued)**

1.6 ***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 hedge

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 (OCI). 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.

1.7 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

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 the 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 Accounting policies **(Continued)**

1.8 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 Company 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.

1.9 Critical areas of judgement

Effective interest rate

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.

Cost Recovery – Accrued Income

As noted in the Directors' Report, the Company 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 Company entered into a Settlement Agreement with the Authority and has also sub-contracted extensive remedial works. The Company has and continues to take steps in accordance with its underlying contracts to recover these costs incurred to 31 December 2020 and those expended in the subsequent period on remedial works.

Following three adjudication decisions in favour of Transform Schools (Knowsley) Limited, and the first cash inflow, in the year to 31 December 2020, the Directors believe it appropriate to recognise a proportion of cost recovery and £10,948,000 is included in accrued income in the current year. The Directors have considered all recoverable costs and have taken a prudent view not to assume 100% of these costs will be recovered. In making their assessment as to recoverable costs the directors have applied a percentage with reference to costs recovered to date and adjusted for the Directors' estimate of future recovery, although 100% cost recovery continues to be pursued.

2 Change in accounting policy

Amendments to FRS102: Interest rate reform

The Company's hedged items and hedging instruments continue to be linked to Sterling LIBOR. The Company has early adopted the transitional provisions set out in the amendments to FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Interest Rate Benchmark Reform, issued in December 2019, to those hedging relationships directly affected by IBOR reform. In accordance with these amendments, for the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Company assumes that the benchmark interest rate is not altered as a result of IBOR reform and can continue to apply hedge effectiveness throughout the transition period.

3 Turnover

An analysis of the Company's turnover originating in the UK is as follows:

	2020 £'000	2019 £'000
Turnover analysed by class of business		
Arising from the Company's principal activity	8,356	7,526

	2020 £'000	2019 £'000
Other significant revenue		
Finance Debtor Interest	10,243	10,657
Bank Interest	10	45

4 Exceptional items

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. Exceptional income includes amounts estimated to be recoverable through the underlying contracts as detailed in note 1.9 and this is included in accrued income.

5 Auditor's remuneration

Fees payable to the Company's auditor and associates:	2020 £'000	2019 £'000
For audit services		
Audit of the financial statements of the Company	18	15
Audit of the financial statements of the Company's fellow group undertakings	4	4
	22	19
For other services		
Taxation compliance services	7	7

6 Employees

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2019: nil).

The directors, who are also key management personnel, did not receive any remuneration from the Company during the year for services rendered (2019: nil).

7 Interest payable and similar expenses

	2020 £'000	2019 £'000
Interest on bank overdrafts and loans	7,676	7,959
Interest payable to group undertakings	2,757	2,175
Other interest on financial liabilities	147	169
Finance discounting costs	(38)	237
	10,542	10,540

8 Taxation

	2020 £'000	2019 £'000
Current tax		
Adjustments in respect of prior periods	-	(1)
Deferred tax		
Origination and reversal of timing differences	1,283	(643)
Total tax charge/(credit)	1,283	(644)

The actual charge/(credit) for the year can be reconciled to the expected charge/(credit) for the year based on the profit or loss and the standard rate of tax as follows:

	2020 £'000	2019 £'000
Profit/(loss) before taxation	2,740	(3,778)
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	521	(718)
Unutilised tax losses carried forward	715	-
Change in unrecognised deferred tax assets	279	-
Adjustments in respect of prior years	-	(1)
Effect of change in corporation tax rate	(232)	75
Taxation charge/(credit) for the year	1,283	(644)

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

	2020 £'000	2019 £'000
Deferred tax arising on:		
Revaluation of financial instruments treated as cash flow hedges	(1,159)	(1)

8 Taxation (Continued)

For the year ended 31 December 2020, the UK Corporation tax rate of 19% is applied.

The Finance Act 2016 reduced the corporation tax rate to 17% with effect from 1 April 2020 and so this rate was used in the December 2019 deferred tax calculations. In the Budget of 11 March 2020, the Chancellor of the Exchequer announced that the planned rate reduction to 17% would no longer be taking effect. The changes announced during the Budget of 11 March 2020 were substantively enacted as at the 2020 balance sheet date, therefore, all opening deferred taxation balances have been remeasured at 19% with an adjustment recognised in the 2020 total tax charge.

9 Debtors

Amounts falling due within one year:	2020 £'000	2019 £'000
Trade debtors	1,206	665
Corporation tax recoverable	-	123
Amounts owed by group undertakings	3	-
Finance debtor	6,786	6,343
Accrued income and prepayments	12,155	7,869
	20,150	15,000

Amounts falling due after more than one year:	2020 £'000	2019 £'000
Finance debtor	140,698	147,485
Deferred tax asset	8,755	8,879
	149,453	156,364
Total debtors	169,603	171,364

10 Loans and overdrafts

	2020 £'000	2019 £'000
Bank loans	124,789	131,444
Subordinated loans	17,085	13,070
	141,874	144,514
Payable within one year	7,431	131,444
Payable after one year	134,443	13,070

The subordinated loan is held with Transform Schools (Knowsley) Intermediate Limited, a fellow group company, and is repayable in semi annual instalments over the life of the concession. Interest is charged at 10% plus a margin for the movement in RPI year on year. No payments are being made whilst the Company continues to incur remedial works costs with limited recovery to date. The Company is not in default in respect of this loan as the lender to the Transform Schools (Knowsley) Group has approved the deferral of capital payments and associated interest until December 2022.

The secured senior loans represent amounts borrowed by the Company 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 Company entered into interest rate swaps in respect of all senior debt. Under these swaps and the financing in place, the Company pays fixed interest at fixed rates between 5.82% and 6.27%. The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the Company and have certain covenants attached.

After the reporting date, the Senior Lenders have formally granted the Company a Waiver in respect of historic Events of Default and the ADSCR Default.

11 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Loans	7,431	131,444
Trade creditors	2,441	2,574
Other taxation and social security	609	362
Other creditors	924	2,369
Deferred income	21,352	19,521
Accruals	11,328	9,992
	44,085	166,262

12 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Bank Loans	117,358	-
Amounts due to group undertakings	17,085	13,070
Other creditors	-	909
Derivative financial instruments	42,475	40,654
	176,918	54,633

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 the 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.

13 Deferred taxation

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

Balances:	Assets 2020 £'000	Assets 2019 £'000
Unrelieved tax losses	685	1,968
Cash flow hedge asset	8,070	6,911
	8,755	8,879

Movements in the year:	2020 £'000
Asset at 1 January 2020	(8,879)
Charge to profit or loss	1,283
Credit to other comprehensive income	(1,159)
Asset at 31 December 2020	(8,755)

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 Company.

13 Deferred taxation **(Continued)**

The deferred tax asset has been recognised as long term forecasts show that the asset can be utilised/ recovered against future taxable profits.

14 Share capital

	2020	2019
	£'000	£'000
Ordinary share capital		
Authorised		
50,100 Ordinary shares of £1 each	50	50

The company has one class of ordinary shares which carry no right to fixed income. The shares carry standard voting rights.

15 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.

16 Controlling party

The Company is indirectly a wholly-owned subsidiary of Transform Schools (Holdings) Limited which is incorporated in the United Kingdom and registered in England and Wales. Transform Schools (Knowsley) Holdings Limited owns 100% of the share capital in Transform Schools (Knowsley) Intermediate Limited, which in turns owns 0.2% of the share capital in the Company. The remaining 99.8% of the share capital in the Company is owned by Transform Schools (Holdings) Limited. The only Group in which the results of Transform Schools (Knowsley) Limited are consolidated is Transform Schools (Knowsley) Holdings Limited, copies of whose financial statements are available from 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

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

17 Related party transactions

The Company is indirectly a wholly-owned subsidiary of Transform Schools (Knowsley) Holdings Limited and has taken advantage of the exemption in Section 33 of FRS102 'Related party disclosures' from disclosing related party transactions with other group companies within these financial statements.