# Annual Report and Financial Statements
# Alpha Schools (Highland) Project Plc

**For the Year Ended** 31 January 2018



**Company No.** 05516176

# Company information

| | |
|---|---|
| **Company registration number** | 05516176 |
| **Registered office** | First Floor Templeback<br>10 Templeback<br>Bristol<br>BS1 6FL |
| **Directors** | K O'Brien<br>A P Bhuwania |
| **Secretary** | Jordans Company Secretaries Limited |
| **Bankers** | Barclays Bank PLC<br>1 Churchill Place<br>London<br>E14 5HP |
| **Independent Auditor** | KPMG LLP<br>66 Queen Square<br>Bristol<br>BS1 4BE |

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# Strategic report

The directors submit their annual report and the audited financial statements for the year ended 31 January 2018.

## Business review and principal activities

The Company's principal activity is to finance the activities of Alpha Schools (Highland) Limited, a Special Purpose Company that has been established to enter into a Private Finance Initiative ("PFI") contract with The Highland Council. The PFI contract involves the design, build and financing of eleven primary and secondary schools together with the provision of certain facilities management services within these schools. The availability date of the first school was 26 March 2007 and the term of the PFI contract is 30 years from this date. The Company receives service payments from The Highland Council for each school from the date it becomes available. The main construction and external work of all schools is now complete and full service payments are now being received in respect of all eleven schools.

On 6 April 2006, the Company issued fixed rate bonds of £81,405,210 and borrowed a fixed rate loan from the European Investment Bank ("EIB") of £60,000,000. The proceeds raised in respect of the bonds and loan (less debt issue costs) have been lent to Alpha Schools (Highland) Limited under the terms of an On-Loan Agreement to enable it to carry out its obligations under the PFI contract. The same terms that apply to the Company in respect of the bonds and loan also apply to Alpha Schools (Highland) Limited.

The Company has not since its date of incorporation carried on any business or activities other than incidental to the financing of Alpha Schools (Highland) Limited, therefore its profit before tax was £nil (2017: £nil) and has been since incorporation. The company therefore has net assets of £50,000, which represent its share capital and is also consistent with prior year.

Both the Company and Alpha Schools (Highland) Limited are wholly owned subsidiaries of Alpha Schools (Highland) Holdings Limited.

## Principal risks and uncertainties

The principal risk facing the Company is the inability to meet its obligations in respect of interest and principal repayments on the bonds and EIB loan. A Financial Guarantee provided by Ambac Assurance UK Limited ("Ambac") is in place to manage this risk. Under the terms of the Guarantee, Ambac unconditionally and irrevocably agrees to pay all sums due and payable by the Company in the event that the Company fails to pay.

In order to meet its contractual obligations, the Company is dependent on receipt of funds from Alpha Schools (Highland) Limited and therefore is dependent on the successful operation of Alpha Schools (Highland) Limited and the PFI contract in general. The PFI contracts have however been structured to minimise the risks retained by Alpha Schools (Highland) Limited and there are various security and contractual arrangements in place to protect Alpha Schools (Highland) Limited from default or non-performance by any sub-contractors. Intra-group loan agreements are in place to define the funding arrangements between the Company and Alpha Schools (Highland) Limited. It is due to the contractual arrangements that are in place, and the certainty of the service payments being received by The Highland Council by Alpha Schools (Highland) Limited that the directors have adopted the going concern basis of accounting.

## Future developments

The directors do not anticipate any change in the Company's activities.

# Strategic report (continued)

### Financial risk management objectives

The directors' approach to financial risk management objectives and exposures has been set out in note 9 of these financial statements.

### Summary of key performance indicators

The directors have monitored the progress of the overall Company strategy and the individual strategic elements by reference to the following financial indicator, and is satisfied with the Company's performance as debt related costs continue to be met.

| | **2018** | 2017 | **Method of calculation** |
|---|---|---|---|
| | **£** | £ | |
| Net debt | **127,620,995** | 131,390,658 | Total net debt at balance sheet date |

The reduction in net debt is primarily due to the scheduled repayment of the Senior Debt Financing of £4,156,636.

As the Company is primarily a financing vehicle, there are no relevant non-financial key performance indicators.

**K O'Brien**

**Director**

23 July 2018

Registered in England - No. 05516176
First Floor Templeback
10 Templeback
Bristol
BS1 6FL

# Directors' Report

### Directors and their interests

The directors of the Company who held office during the year and to date are as follows:

K O'Brien (appointed 20 June 2018)
A P Bhuwania (appointed 20 June 2018)
G A Quaife (resigned 20 June 2018)
E G Wegener (resigned 20 June 2018)

G A Quaife and E G Wegener benefited from qualifying third party indemnity provisions in place during the financial year.

In accordance with the Company's Articles of Association, none of its directors are required to retire. None of the directors who held office at the beginning or end of the year had any interests in the shares of the Company.

### Results and dividends

The result for the year amounted to £Nil (2017: £Nil).

The directors do not recommend payment of a dividend in respect of the year (2017: £Nil).

### Political donations

The Company made no political donations in the year (2017: £Nil).

### Responsibility Statement:

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 January 2018. The directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with FRS 102, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

- the strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

### Audit Committee Statement:

Under section 7.1 of the Combined Code the Company is required to either have a separate audit committee or set out the reasons why the directors view not having a separate Audit Committee is appropriate. The board does not believe an audit committee is required for the following reasons:

- all board directors are non-executive and are employees of the advisors to the shareholder.
- the board fulfils the responsibilities and requirements of an audit committee, through reviewing the financial controls and considering the appropriateness of the internal control and risk management systems. See Financial Risk Management Objectives and Policies section.
- It also controls the appointment of the auditor, considers their independence and sets the auditor remuneration.

# Directors' Report (continued)

The Company has outsourced the financial reporting function to Galliford Try Investments Consultancy Services Limited (Galliford Try). Authorities remain vested in the board members of the Company. Galliford Try reports regularly to the board of the Company. The Board receives regular reports from Galliford Try which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the Company operates. The Board also receives quarterly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the Company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, Galliford Try evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

## Disclosure of information to the auditor

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

## Auditor

A resolution to appoint KPMG LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 489 of the Companies Act 2006.

**K O'Brien**

**Director**

23 July 2018

Registered in England - No. 05516176
First Floor Templeback
10 Templeback
Bristol
BS1 6FL

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; ~~and~~
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities. Under applicable laws and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

# Independent auditor's report to the members of Alpha Schools (Highland) Project Plc

## 1 Our opinion is unmodified

We have audited the financial statements of Alpha Schools (Highland) Project Plc ("the Company") for the year ended 31 January 2018 which comprise the Profit and loss account and Statement of Comprehensive Income, Balance sheet, Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 January 2018 and of its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors during the year ended 31 January 2014. The period of total uninterrupted engagement is the five years ended 31 January 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

## 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. The matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

# Independent auditor's report to the members of Alpha Schools (Highland) Project Plc (continued)

**Recoverability of intra-group receivables balances**
(£127.7 million; 2017: £131.4 million)
*Refer to page 16 (accounting policy) and page 17 (financial disclosures)*

***The risk***
**Low risk, high value**

The carrying amount of the company's intra-group receivables balances, held at amortised cost less impairment represents 100% of the company's total assets.

We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.

***Our response***

Our procedures included:

- **Tests of detail:** Comparing the carrying amount of the intra-group receivable with the respective net asset values of the counterparty (the intra-group related party), excluding the intra-group liability to Alpha Schools (Highland) Limited, to identify whether the remaining net asset values of the counterparty, are sufficient to repay the intra-group receivable.

- **Forecast review**: Reviewing the counterparty (the intra-group related party) forecasts, to identify whether it is appropriate to consider it likely that sufficient cash will be generated to allow the repayment of the debt, when it falls due. As part of assessing the forecast cash inflows we have inspected the agreement with The Highland Council, guaranteeing the unitary charge income for 30 years from service, subject to meeting performance requirements, and assessed that forecast cash flows are in line with our own expectations based on our knowledge of the entity and experience of the industry in which it operates.

**Our results**
We found the assessment of the recoverability of the inter-group receivable to be acceptable.

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the statutory financial statements as a whole was set at £1.2 million, determined with reference to a benchmark of total assets, of which it represents 1.0% (2017: 1.0%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £60,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit was performed using the materiality levels set out above, covering 100% (2017: 100%) of the profit before taxation and total assets held.

# Independent auditor's report to the members of Alpha Schools (Highland) Project Plc (continued)

**4 We have nothing to report on going concern**

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

**5 We have nothing to report on the strategic report and the directors' report**

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

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

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

**6 We have nothing to report on the other matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

**7 Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# Independent auditor's report to the members of Alpha Schools (Highland) Project Plc (continued)

***Auditor's responsibilities***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

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

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

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

**Richard Lomax (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
66 Queen Square
Bristol
BS1 4BE

Date: 27 July 2018

# Profit and loss account and Statement of Comprehensive Income

| | Note | **2017** £ | 2017 £ |
|---|---|---|---|
| Interest receivable | 3 | **7,802,675** | 8,008,467 |
| Interest payable and similar expenses | 3 | **(7,802,675)** | (8,008,467) |
| **Profit before taxation** | | **-** | - |
| Taxation | 4 | **-** | - |
| **Results and Total Comprehensive Income** | | **-** | - |

# Balance sheet

| | Note | 2018 £ | 2017 £ |
|---|---|---|---|
| **Current assets** | | | |
| Debtors - amounts falling due after more than one year | 5 | **122,532,879** | 126,680,714 |
| Debtors - amounts falling due within one year | 6 | **5,138,116** | 4,759,944 |
| **Current liabilities** | | | |
| **Creditors - amounts falling due within one year** | 7 | **(5,138,116)** | (4,759,944) |
| Net current assets | | **-** | - |
| **Total assets less current liabilities** | | **122,532,879** | 126,680,714 |
| **Creditors - amounts falling due after more than one year** | 8 | **(122,482,879)** | (126,630,714) |
| **Net Assets** | | **50,000** | 50,000 |
| **Capital and reserves** | | | |
| Called-up share capital | 10 | **50,000** | 50,000 |
| **Equity shareholders' funds** | | **50,000** | 50,000 |

K O'Brien
Director

The director authorised and approved the financial statements for issue on 23 July 2018.

Company Registration Number: 05516176

# Statement of Changes in Equity

| | £ | £ | £ |
|---|---|---|---|
| | Called Up Share Capital | Profit & Loss Account | Total Equity |
| Balance as at 1 February 2017 | 50,000 | - | 50,000 |
| Total Comprehensive Income | - | - | - |
| Dividends | - | - | - |
| **Balance at 31 January 2018** | 50,000 | - | 50,000 |

| | Called Up Share Capital | Profit & Loss Account | Total Equity |
|---|---|---|---|
| Balance as at 1 February 2016 | 50,000 | - | 50,000 |
| Total Comprehensive Income | - | - | - |
| Dividends | - | - | - |
| **Balance at 31 January 2017** | 50,000 | - | 50,000 |

# Notes to the financial statements

## 1. Principal accounting policies

Alpha Schools (Highland) Project Plc (the "Company") is a public company limited by shares and incorporated, domiciled and registered in England, in the UK

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling.

When preparing these financial statements the Directors have made the judgement that the company meets the definition of Financial Institution as it sole purpose is to provide financing and treasury functions for the group.

The Company's parent undertaking, Alpha Schools (Highland) Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Alpha Schools (Highland) Holdings Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from the registered address at First Floor Templeback, 10 Temple Back, Bristol, United Kingdom, BS1 6FL. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The Company has also taken the exemptions under FRS 102 available in respect of the following disclosures

- As the Company is a wholly owned subsidiary of Alpha Schools (Highland) Holdings Limited, the Company has taken advantage of the exemption covered in FRS102 section 33 and has therefore not disclosed transactions or balances with entities which form part of the group

### *1.1. Measurement convention*

The financial statements are prepared on the historical cost basis.

### *1.2. Going concern*

The Directors have reviewed the Company's projected profits and cash flows by reference to a financial model covering accounting periods up to April 2037. Having examined the current status of the Company's principal contracts and likely developments in the foreseeable future, the Directors consider that the Company will be able to settle its liabilities as they fall due as with the contractual arrangements that are in place, and the certainty of the service payments being received by The Highland Council, which is a local authority and therefore public sector funded and its obligations are underwritten by the Secretary of State for Education, that the directors have adopted the going concern basis of accounting and accordingly the financial statements have been prepared on a going concern basis.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

# Notes to the financial statements (continued)

## 1. Accounting policies (continued)

### *1.3. Basic financial instruments*

*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 interest for a similar debt instrument.

*Interest-bearing borrowings classified as basic financial instruments*

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

### *1.4. Expenses*

*Interest receivable and Interest payable*

Interest payable and similar expenses include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds lent to a fellow subsidiary.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

### *1.5. Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which 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 not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

# Notes to the financial statements (continued)

## 2. Operating profit

None of the directors received any remuneration as directors from the Company during the current or prior year. The Company has no directly employed personnel in the current or prior year.

Audit fees of £4,000 (2017: £4,000) and other administration expenses are borne by Alpha Schools (Highland) Limited, a fellow subsidiary undertaking.

## 3. Interest payable and similar expenses (net)

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| Interest payable on bonds and secured loans | **(5,838,031)** | (6,038,441) |
| Interest payable due to Alpha Schools (Highland) Holdings Ltd | **(1,964,644)** | (1,970,026) |
| Interest receivable on loans made to Alpha Schools (Highland) Ltd | **7,802,675** | 8,008,467 |
| | **-** | - |

## 4. Taxation

The results for the year do not give rise to a tax charge (2017: £Nil).

## 5. Debtors – Amount falling due after more than one year

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| Amounts owed by Alpha Schools (Highland) Limited | **122,482,879** | 126,630,714 |
| Amounts owed by Alpha Schools (Highland) Holdings Limited | **49,999** | 49,999 |
| Amounts owed by Infrastructure Investments Holdings Ltd | **1** | 1 |
| | **122,532,879** | 126,680,714 |

The principal loan amounts owed by Alpha Schools (Highland) Limited comprise:

- senior debt facilities of £111,400,803 of which £4,147,420 is due within one year (Note 6) (2017: £115,170,466 of which £3,769,548 was due within one year), and;
- subordinated debt facilities of £15,229,796, none of which is due within one year (Note 6) (2017: £15,229,796, of which none was due within one year).

Senior debt facilities comprise a loan which is made up of the proceeds of the issue of £81,405,210 of fixed rate bonds and a £60,000,000 fixed rate loan from the European Investment Bank ("EIB"). The loans are stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £825,535 (2017: £872,480). The Company has lent the proceeds of both the bond and EIB loan to Alpha Schools (Highland) Limited on the same terms as those applicable to the Company.

# Notes to the financial statements (continued)

## 6. Debtors - amounts falling due within one year

| | 2018 £ | 2017 £ |
|---|---|---|
| Amounts owed by Alpha Schools (Highland) Limited (refer to Note 5) | **4,147,720** | 3,769,548 |
| Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes | **990,396** | 990,396 |
| | **5,138,116** | 4,759,944 |

## 7. Creditors - amounts falling due within one year

| | 2018 £ | 2017 £ |
|---|---|---|
| Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes | **990,396** | 990,396 |
| Borrowings – amounts falling due within one year: | | |
| Fixed rate secured bonds | **2,272,393** | 1,980,824 |
| Secured bank term loans | **1,875,327** | 1,788,724 |
| | **5,138,116** | 4,759,944 |

## 8. Creditors - amounts falling due after more than one year

| | 2018 £ | 2017 £ |
|---|---|---|
| Borrowings: | | |
| Fixed rate secured bonds | **62,970,360** | 65,242,868 |
| Secured bank term loans | **44,282,723** | 46,158,050 |
| Amounts owed to Alpha Schools (Highland) Holdings Limited | **15,229,796** | 15,229,796 |
| | **122,482,879** | 126,630,714 |
| Repayable as follows: | | |
| Between one and two years | **4,375,754** | 4,147,728 |
| Between two and five years | **13,235,168** | 12,946,642 |
| After five years | **104,871,957** | 109,536,344 |
| Total borrowings | **122,482,879** | 126,630,714 |

# Notes to the financial statements (continued)

### 8. Creditors - amounts falling due after more than one year (continued)

The undiscounted contractual maturities are repayable as follows:

| | | |
|---|---|---|
| Less than one year | **4,260,943** | 3,883,169 |
| Between one and two years | **4,487,080** | 4,260,943 |
| Between two and five years | **13,577,144** | 13,292,163 |
| After five years | **105,851,256** | 110,623,317 |
| Total borrowings | **128,176,423** | 132,059,592 |

Fixed rate senior guaranteed secured bonds due in 2036 of £100,400,000 were created on 6 April 2006. Of this £81,400,000 were issued and sold at a market value of £81,405,210. The Company has £19,000,000 variation bonds which may be used to finance certain variations within the PFI contract, which have not been drawn. The bonds are repayable in semi-annual instalments commencing on 31 January 2010 and ending on 31 January 2036. Interest on the bonds is also payable semi-annually at a rate of 4.792% per annum and payments commenced on 31 July 2006.

The secured bank term loan is from the European Investment Bank. Principal repayments are made semi-annually commencing on 31 January 2010 and ending on 31 January 2035. Interest on the loan is also payable semi-annually at the rate of 4.58% per annum and payments commenced on 31 July 2006.

Payments in respect of both the bonds and EIB loan are guaranteed by Ambac Assurance UK Limited which unconditionally and irrevocably guarantees to pay all sums due and payable by the Company in the event that the Company fails to pay. The cost of this guarantee is treated as a direct cost of finance by the Company.

The fixed rate senior guaranteed bonds and the secured bank term loan are each stated at amortised cost, using the effective interest rate method and are net of unamortised issue costs of £825,535 (2017: £872,480). These costs together with the interest expense are allocated to the profit and loss account over the term of the loans. Interest is calculated using the effective interest rate method.

The Company has received £15,229,796 (2017: £15,229,796) in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited, the proceeds of which have been on-lent to Alpha Schools (Highland) Limited on the same terms.

Interest is payable on the loan notes at a rate of 12.9%. The loan notes are repayable in three instalments beginning on 31 July 2036 and ending on 31 July 2037.

The borrowings are secured by a fixed charge over the assets of the Company, an assignment of all rights under the legal agreements to which the Company is a party and a floating charge over all the Company's undertakings and assets which have not been effectively secured by way of a fixed charge or assignment.

The carrying value of the Company's secured assets (including those of its fellow subsidiary) at the balance sheet date was £141,064,308 (2017: £144,067,426).

The Company, Alpha Schools (Highland) Holdings Limited and Alpha Schools (Highland) Limited have granted a joint and several guarantee in respect of each other's obligations under the senior finance documents. Alpha Schools (Highland) Holdings Limited has also guaranteed the obligations of Alpha Schools (Highland) Limited to the Company under the Intercompany On-Loan Agreements.

# Notes to the financial statements (continued)

## 9. Financial instruments

The Company's financial instruments comprise borrowings and loans receivable. The sole purpose of these financial instruments is to raise finance for the operations of Alpha Schools (Highland) Limited. The Company has not entered into derivative transactions. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments be undertaken. The main risk arising from the Company's financial instruments is credit risk. The Board's policy for managing this risk is summarised below.

The Company's financial instruments are summarised as follows:

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| **Financial assets** | | |
| Loans and receivables measured at amortised cost | **130,782,175** | 131,440,658 |
| **Financial liabilities** | | |
| Other creditors (accrued subordinated loan note interest – see Note 7) | **990,396** | 990,396 |
| Measured at amortised cost | **126,630,599** | 130,400,262 |
| | **127,620,995** | **131,390,658** |

The undiscounted contractual maturities are repayable as follows:

| | 2018 | 2017 |
|---|---|---|
| Less than one year | **4,260,943** | 3,883,169 |
| Between one and two years | **4,487,080** | 4,260,943 |
| Between two and five years | **13,577,144** | 13,292,163 |
| After five years | **105,851,256** | 110,623,317 |
| Total borrowings | **128,176,423** | 132,059,592 |

**Credit risk**

The Company is dependent on receipt of funds from Alpha Schools (Highland) Limited in order to meet its contractual obligations. In turn, Alpha Schools (Highland) Limited is dependent on receipt of funds from The Highland Council in return for the delivery of services. The directors consider credit risk to be very low due to the fact that The Highland Council is a local authority with specific public sector funding committed to funding the PFI contract.

In order to further manage credit risk, the directors have ensured that there are contractual arrangements in place to minimise the risks retained by Alpha Schools (Highland) Limited (for example in respect of performance and availability deductions which are principally passed on to that company's sub-contractors) and to protect it from default or other non-performance by any of its sub-contractors. As credit risk is considered to be minimal, a sensitivity analysis of the exposure has not been performed.

The Company, Alpha Schools (Highland) Holdings Limited and Alpha Schools (Highland) Limited have granted a joint and several guarantee in respect of each other's obligations under the senior finance documents. Alpha Schools (Highland) Holdings Limited has also guaranteed the obligations of Alpha Schools (Highland) Limited to the Company under the Intercompany On-Loan Agreements.

# Notes to the financial statements (continued)

## 9. Financial instruments (continued)

### Interest rate risk

The Company has no exposure to interest rate risk as all its borrowings are at a fixed rate of interest. Although current market interest rates are currently below the fixed rate of interest, this is not considered to be a risk given that the income being received by Alpha Schools (Highland) Limited to service repayment of the borrowings is also fixed.

### Liquidity risk

This risk is managed via the funding contracts into which the Company has entered. The repayment profiles of the debt and loan commitments are set out in note 8 above. In addition, the back to back lending arrangement with Alpha Schools (Highland) Limited ensures that liquidity risk within the Company is minimised.

### Interest rate profile

The interest rate profile of the Company's financial liabilities was as follows:

| | **2018** | 2017 |
|---|---|---|
| | **£** | £ |
| Fixed rate borrowings | **126,630,599** | 130,400,262 |

The fixed rate bonds have interest payable at 4.792% and the bank loan has fixed rate interest payable at 4.58%. The subordinated loan notes have interest payable at 12.9%.

### Fair values

Set out below is a comparison of book values and fair values of the Company's financial instruments.

| | **Fair Value 2018** | Fair Value 2017 | **Book Value 2018** | Book Value 2017 |
|---|---|---|---|---|
| | **£** | £ | **£** | £ |
| Financial assets: | | | | |
| Loans to fellow subsidiary undertakings | **150,246,386** | 152,737,798 | **126,630,599** | 130,400,262 |
| Interest owed by Alpha Schools (Highland) Limited on subordinated loan notes | **990,396** | 990,396 | **990,396** | 990,396 |
| At 31 January | **151,236,782** | 153,728,194 | **127,620,995** | 131,390,658 |
| Financial liabilities: | | | | |
| Fixed rate secured bonds | **73,822,164** | 76,109,518 | **65,242,753** | 67,223,692 |
| Secured bank term loan | **52,674,748** | 54,653,810 | **46,158,050** | 47,946,774 |
| Subordinated loan notes | **23,749,474** | 23,953,532 | **15,229,796** | 15,229,796 |
| Interest owed to Alpha Schools (Highland) Holdings Limited on subordinated loan notes | **990,396** | 990,396 | **990,396** | 990,396 |
| At 31 January | **151,236,782** | 155,707,256 | **127,620,995** | 131,390,658 |

# Notes to the financial statements (continued)

## 9. Financial instruments (continued)

The fair value of the loans to fellow subsidiary undertakings is based on the market value of similar debt instruments at 31 January 2018. The terms of the loans to fellow subsidiaries is based on cash flows discounted using a rate based on borrowings of 7.5% (2017:7.5%).

The fair value of the fixed rate secured bond is based on its market value at 31 January 2018. The secured bank term loan's fair value is based on cash flows discounted using a rate based on borrowings of 3.43% (2017: 3.56%). The terms of both the loan and the bond are fixed therefore no adjustment has been made to change the book value to fair value.

### Capital risk management

The Company's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company is highly geared, consistent with similarly structured PFI investment companies. The risk of interruption of cash inflows by the Company (which are required to repay the debt) is low due to these ultimately being receivable from the public sector. The gearing ratios at 31 January 2018 and 31 January 2017 were as follows:

| | **2018** | 2017 |
|---|---|---|
| | **£** | £ |
| Fixed rate secured bonds and secured bank term loan | **111,400,803** | **115,170,465** |
| Equity plus subordinated loan notes | **15,279,796** | **15,279,796** |
| Total capital | **126,680,599** | **130,450,261** |
| Gearing ratio | 88% | 88% |

The Company has complied with all externally imposed capital requirements during the year.

## 10. Called up share capital

| | **2018** | 2017 |
|---|---|---|
| | **£** | £ |
| **Allotted, issued and fully paid** | | |
| 50,000 ordinary shares of £1 each | **50,000** | 50,000 |

All shares carry equal voting and rights to dividends.

# Notes to the financial statements (continued)

## 11. Related party transactions

Alpha Schools (Highland) Project Plc has issued £81,405,210 bonds and borrowed £60,000,000 from the European Investment Bank. These funds have been on-loaned, less debt issue costs, to Alpha Schools (Highland) Limited. The amount outstanding at the year end from Alpha Schools (Highland) Limited in respect of the bonds was £65,242,753 (2017: £67,223,692) and in respect of the European Investment Bank loan was £46,158,050 (2017: £47,946,774).

During the year, the Company received interest from Alpha Schools (Highland) Limited of £3,470,190 (2017: £3,577,910) in respect of the bonds and £2,367,840 (2017: £2,460,531) in respect of the EIB loan.

The Company has received £15,229,796 (2017: £15,229,796) in the form of fixed rate subordinated loan notes from Alpha Schools (Highland) Holdings Limited, the proceeds of which have been on-lent to Alpha Schools (Highland) Limited. During the year the Company received interest of £1,964,644 (2017: £1,970,026) from Alpha Schools (Highland) Limited in respect of the subordinated loan notes.

The relationship between Alpha Schools (Highland) Project Plc and Alpha Schools (Highland) Limited is described in the Directors' Report.

## 12. Ultimate parent undertaking

The Company is a subsidiary of Alpha Schools (Highland) Holdings Limited which is incorporated in Great Britain and registered in England, in the UK. The smallest group in which the Company's results are consolidated is Alpha Schools (Highland) Holdings Limited. Copies of Alpha Schools (Highland) Holdings Limited consolidated financial statements can be obtained from the Company Secretary at the registered office First Floor Templeback,10 Templeback, Bristol, BS1 6FL.

As at the balance sheet date Alpha Schools (Highland) Holdings Limited was a wholly owned subsidiary of Infrastructure Investments (Holdings) Limited, registered in England, in the UK. The directors consider at that date the ultimate controlling party was HICL Infrastructure Company Limited whose registered address is East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3PP. This is the largest group in which the company results will be included.

Following the sale, as described in note 13 below, the largest group in which the results of the Company will be included going forward is headed by Equitix Fund IV LP, the ultimate controlling party.

## 13. Post Balance Sheet Events

On 20 June 2018, 100% of the shareholding and subordinated loan notes of Alpha Schools (Highland) Holdings Limited was sold by Infrastructure Investment Holdings Limited to Equitix Ash Holdco 1 Limited.