

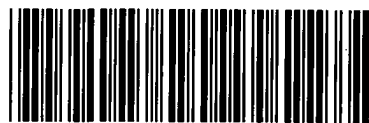
**Company Registration No. 03502452**

**South Manchester Healthcare (Holdings) Limited**

**Annual Report and Financial Statements**

**Year ended 31 March 2017**

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# **South Manchester Healthcare (Holdings) Limited**

## **Annual Report and Financial Statements for the Year ended 31 March 2017**

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# **South Manchester Healthcare (Holdings) Limited**

## **Annual Report and Financial Statements for the Year ended 31 March 2017**

### **Company Information**

#### **Directors**

A H Page (Alternate)  
R Little  
A J Watson  
J N E Cowdell  
S P Hornby

#### **Secretary**

Semperian Secretariat Services Limited

#### **Registered Office**

Third Floor  
Broad Quay House  
Prince Street  
Bristol  
BS1 4DJ

#### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditor  
2 Glass Wharf  
Bristol  
BS2 0FR

# **South Manchester Healthcare (Holdings) Limited**

## **Strategic report for the year ended 31 March 2017**

### **Business review and principal activities**

The company is a holding company with a single subsidiary, South Manchester Healthcare Limited (SMHL). SMHL is engaged in a 35 year contract with University Hospital of South Manchester NHS Foundation Trust, previously South Manchester University Hospital NHS Trust, for the design and construction of a Mental Health Care Facility and an Acute Care Facility, and in the provision of non-clinical support services at Wythenshawe and Withington Hospitals under the UK Government's Private Finance Initiative (the "PFI Contract").

The profit of the group for the financial year was £3,524,000 (2016: £4,929,000). The directors consider the performance of the company, and the group, during the year and the financial position at the end of the year to be in line with the long term expected performance of the project, and the prospects for the future to be satisfactory.

### **Principal risk and uncertainties**

The group has taken on the activity, as detailed above, and is risk averse in its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI and other contracts. In extreme circumstances, the group could be exposed to subcontractor failure to perform their obligations. The financial risks and the measures taken to mitigate them are detailed below.

### **Interest rate risk**

The senior debt interest has been fixed through use of an interest rate swap, plus a margin. Details of this can be found in note 16.

### **Inflation risk**

The group's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

### **Liquidity risk**

The group adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

### **Credit risk**

The group receives the bulk of its revenue from the University Hospital of South Manchester NHS Foundation Trust and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

In addition the holding company also takes the risk of impairment of its investment in the subsidiary. This risk is directly related to the performance of the subsidiary.

### **Key performance indicators ('KPIs')**

The group's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities as managed by the sub-contract. For this reason, the group's directors believe that further key performance indicators for the group are not necessary or appropriate for an understanding of the performance or position of the business.

Approved by the Board of Directors and signed on behalf of the Board by:

  
Date: 21/7/17  
Semperian Secretariat Services Limited

**27 JUL 2017**

# **South Manchester Healthcare (Holdings) Limited**

## **Directors' report for the year ended 31 March 2017**

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

### **Financial risk management objectives and policies**

Details of the principal risks and uncertainties are included in the Strategic Report.

### **Business review**

The information that fulfils the Companies Act requirements of the business review is included in the Strategic Report. This includes a review of the development of the business of the group during the year, of its position at the end of the year and of the likely future developments in its business.

### **Dividends**

Dividends of £4,467.54 per ordinary share (2016:5,624.74 per ordinary share) were paid during the year.

### **Directors**

The directors who served throughout the year, except as noted, were as follows:

P F Fisher	(resigned 22 February 2017)
D J Brooking	(resigned 19 April 2016)
J N E Cowdell	
M J Edwards (Alternate)	(resigned 16 December 2016)
R Little	
A H Page (Alternate)	
A J Watson	(appointed 19 April 2016)
P J Dodd (Alternate)	(appointed 11 May 2016 and resigned 13 May 2016)
S P Hornby	(appointed 22 February 2017)
J W Ward	(appointed 16 December 2016 and resigned 31 March 2017)

# **South Manchester Healthcare (Holdings) Limited**

## **Directors' report for the year ended 31 March 2017**

### **Directors' responsibilities statement**

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 the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (FRS 102).

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;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- 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.

### **Disclosure of information to the auditors**

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

### **Reappointment of auditors**

The auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, have signified their willingness to continue in office.

By order of the Board:



.....  
on behalf of Semperian Secretariat Services Limited  
Company secretary

**27 JUL 2017**

# **South Manchester Healthcare (Holdings) Limited**

## **Independent Auditors' Report to the members of South Manchester Healthcare (Holdings) Limited**

### **Our opinion**

In our opinion, South Manchester Healthcare (Holdings) Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2017 and of the group's profit and cash flow for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- The Consolidated and Company Balance Sheets as at 31 March 2017;
- the Consolidated Profit and Loss Account and Consolidated Statement of Comprehensive Income for the year then ended; and
- the Consolidated Cash Flow Statement for the year then ended; and
- the Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and Directors' Report have been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# South Manchester Healthcare (Holdings) Limited

## Independent Auditors' Report to the members of South Manchester Healthcare (Holdings) Limited

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;

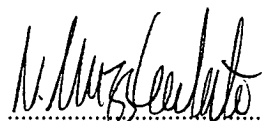
the reasonableness of significant accounting estimates made by the directors; and

the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Nick Muzzlewhite (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

Date: 28/07/17



## South Manchester Healthcare (Holdings) Limited

### Consolidated Profit and Loss Account for the Year Ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Turnover	5	31,203	27,294
Cost of sales		(27,814)	(23,690)
<b>Gross profit</b>		<b>3,389</b>	<b>3,604</b>
Administrative expenses	6	(705)	(835)
<b>Operating profit</b>		<b>2,684</b>	<b>2,769</b>
Interest receivable and similar income	7	3,826	4,294
Interest payable and similar charges	8	(1,413)	(1,540)
		2,413	2,754
<b>Profit on ordinary activities before taxation</b>		<b>5,097</b>	<b>5,523</b>
Tax on profit on ordinary activities	9	(1,573)	(594)
<b>Profit for the financial year</b>		<b>3,524</b>	<b>4,929</b>

All results in the current and prior years derive from continuing operations.

### Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2017

	2017 £'000	2016 £'000
Profit for the financial year	3,524	4,929
<b>Other comprehensive expenses:</b>		
Unrealised loss on cash flow hedges	(478)	(948)
Reclassifications to profit and loss	423	420
Deferred tax arising on unrealised (gain)/loss on cash flow hedges	(2)	84
<b>Other comprehensive expenses for the year, net of tax</b>	<b>(57)</b>	<b>(444)</b>
<b>Total comprehensive income for the year</b>	<b>3,467</b>	<b>4,485</b>

# South Manchester Healthcare (Holdings) Limited

## Consolidated Balance Sheet as at 31 March 2017

	Notes	2017 £'000	2016 £'000
<b>Current assets</b>			
Debtors: amounts falling due after more than one year	12	43,264	48,959
Debtors: amounts falling due within one year	13	6,462	6,272
Cash at bank and on deposit		8,051	7,765
		<u>57,777</u>	<u>62,996</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(7,706)</u>	<u>(6,701)</u>
<b>Net current assets</b>		50,071	56,295
<b>Creditors: amounts falling due after more than one year</b>	15	(40,247)	(44,920)
<b>Provision for liabilities</b>	18	<u>(4,186)</u>	<u>(4,736)</u>
<b>Net liabilities</b>		<u>5,638</u>	<u>6,639</u>
<b>Capital and reserves</b>			
Called up share capital	19	1	1
Profit and loss account		6,572	7,516
Cash flow hedge reserve		<u>(935)</u>	<u>(878)</u>
<b>Total Shareholders' funds</b>		<u>5,638</u>	<u>6,639</u>

The financial statements of South Manchester Healthcare (Holdings) Limited, registered number 03502452 were approved by the Board of Directors and authorised for issue on 21 July 2017.

Signed on behalf of the Board of Directors by:



S P Hornby  
Director

The notes on page 13 to 25 form an integral part of these financial statements.

# South Manchester Healthcare (Holdings) Limited

## Company Balance Sheet as at 31 March 2017

	Notes	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Investments	11	1	1
<b>Current assets</b>			
Intercompany loan notes- falling due after more than one year	12	6,174	6,174
Loan notes interest – due within one year	13	25	25
Cash at bank		-	-
		6,199	6,199
<b>Creditors: amounts falling due within one year</b>			
Loan notes- interest due within one year	14	(25)	(25)
<b>Net current assets</b>		6,174	6,174
<b>Total assets less current liabilities</b>		6,175	6,175
<b>Creditors: amounts falling due after more than one year</b>			
Loan notes – falling due after more than one year	15	(6,174)	(6,174)
<b>Net assets</b>		1	1
<b>Capital and reserves</b>			
Called up share capital	19	1	1
Profit and loss account		-	-
<b>Total Shareholders' funds</b>		1	1

The financial statements of South Manchester Healthcare (Holdings) Limited, registered number 03502452, were approved by the Board of Directors and authorised for issue on 21 July 2017.

Signed on behalf of the Board of Directors by:



S P Hornby  
Director

The notes on page 13 to 25 form an integral part of these financial statements.

## South Manchester Healthcare (Holdings) Limited

### Consolidated Statement of Changes in Equity for the Year Ended 31 March 2017

	Called up share capital	Profit and loss account	Cash flow hedge reserve	Total shareholders funds
	£'000	£'000	£'000	£'000
<b>At 1 April 2015</b>	<b>1</b>	<b>8,212</b>	<b>(434)</b>	<b>7,779</b>
Profit for the financial year	-	4,929	-	4,929
Other comprehensive expense	-	-	(444)	(444)
Total comprehensive income	-	4,929	(444)	4,485
Dividends paid	-	(5,625)	-	(5,625)
<b>At 31 March 2016</b>	<b>1</b>	<b>7,516</b>	<b>(878)</b>	<b>6,639</b>
Profit for the financial year	-	3,524	-	3,524
Other comprehensive expense	-	-	(57)	(57)
Total comprehensive income	-	3,524	(57)	3,467
Dividends paid	-	(4,468)	-	(4,468)
<b>At 31 March 2017</b>	<b>1</b>	<b>6,572</b>	<b>(935)</b>	<b>5,638</b>

## **South Manchester Healthcare (Holdings) Limited**

### **Company Statement of Changes in Equity for the Year Ended 31 March 2017**

	<b>Called up Share capital</b>	<b>Profit and loss account</b>	<b>Total shareholders' funds</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2015</b>	1	-	1
Profit and total comprehensive income for the financial year	-	5,625	5,625
Dividends paid	-	(5,625)	(5,625)
<b>At 31 March 2016</b>	1	-	1
Profit and total comprehensive income for the financial year	-	4,468	4,468
Dividends paid	-	(4,468)	(4,468)
<b>At 31 March 2017</b>	1	-	1

# South Manchester Healthcare (Holdings) Limited

## Consolidated Cash Flow Statement for the Year Ended 31 March 2017

	Notes	2017 £'000	2016 £'000
<b>Net cash inflow from operating activities</b>	20	8,997	10,211
Taxation paid		(2,279)	(2,380)
<b>Net cash generated from operating activities</b>		<u>6,718</u>	<u>7,831</u>
<b>Cash flow from investing activities</b>			
Bank and deposit interest received		32	15
Interest element of finance receivable repayments		3,794	4,279
<b>Net cash generated from investing activities</b>		<u>3,826</u>	<u>4,294</u>
<b>Cash flow from financing activities</b>			
Interest paid on loan		(1,365)	(1,487)
Other interest		(11)	(12)
Repayment on bank loan		(4,414)	(4,128)
Repayment of unsecured loan stock		-	-
Dividends paid		(4,468)	(5,625)
<b>Net cash used in financing activities</b>		<u>(10,258)</u>	<u>(11,252)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		286	873
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u>7,765</u>	<u>6,892</u>
<b>Cash and cash equivalents at the end of the financial year</b>		<u>8,051</u>	<u>7,765</u>

# **South Manchester Healthcare (Holdings) Limited**

## **Notes to the financial statements for the Year ended 31 March 2017**

### **1. General information**

The company is a holding company with a single subsidiary, South Manchester Healthcare Limited (SMHL). SMHL is engaged in a 35 year contract with University Hospital of South Manchester NHS Foundation Trust, previously South Manchester University Hospital NHS Trust, for the design and construction of a Mental Health Care Facility and an Acute Care Facility, and in the provision of non-clinical support services at Wythenshawe and Withington Hospitals under the UK Government's Private Finance Initiative (the "PFI Contract").

The company is a private company limited by shares and is incorporated in England.

The address of its registered office is Third Floor, Broad Quay House, Prince Street, Bristol, United Kingdom, BS1 4DJ.

The company and group's functional and presentation currency is the pound sterling.

### **2. Statement of compliance**

The financial statements of South Manchester Healthcare (Holdings) Limited have been prepared in compliance with applicable accounting and financial reporting standards in the United Kingdom, including FRS 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and the Companies Act 2006.

### **3. Summary of significant accounting policies**

A summary of the company and group's principal accounting policies, which have been consistently applied, is set out below.

#### **Basis of preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of 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 in note 4.

#### **Statement of compliance**

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

#### **Exemptions for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with, including notification of, and no objection to, the use of exemptions by the company's shareholders. The company has taken advantage of the exemption from preparing a cash flow statement, on the basis that it is a qualifying entity and the consolidated cash flow statement, included in these financial statements, includes the company's cash flows.

#### **Basis of consolidation**

The group's financial statements incorporate the results, assets and liabilities of South Manchester Healthcare (Holdings) Limited and its wholly owned subsidiary undertaking South Manchester Healthcare Limited as at 31 March 2017 and their results for the year ended 31 March 2017.

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 3. Summary of significant accounting policies (*continued*)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises income when it has fully fulfilled its contractual obligations. The company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

#### Finance debtor and interest receivable

The group has elected to take the exemption under FRS 102 paragraph 35.10 (i) to continue to apply its previous accounting treatment in respect of Service Concession Arrangements entered into prior to the date of transition to FRS 102. The costs incurred in constructing the assets have been treated as a finance debtor. This treatment arose from applying the guidance within previous UK GAAP which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer.

The finance debtor represents the costs arising on the construction of the assets including initial tender costs. During asset construction, finance debtor interest income is recognised on an accruals basis and is capitalised within the finance debtor receivable. Once the project reached its operational phase and was accepted by the customer a constant proportion of the planned net revenue arising from the project was allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term the finance debtor is expected to be fully repaid.

#### Major Maintenance

As noted in the directors' report, the company is responsible for the major maintenance replacement risk associated with its principal activity. Costs are recorded as cost of sales, in the profit and loss account, in the period in which the costs of major maintenance replacement are incurred.

#### Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

#### Investments

Investments held as fixed assets are stated at cost, less any provision for impairment in value.



# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 3. Summary of significant accounting policies (*continued*)

#### **Cash and cash equivalents**

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

#### **Financial Instruments**

The group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### **(i) Financial assets**

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### **(ii) Financial liabilities**

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

##### **(iii) Offsetting**

Financial assets and liabilities are offset and 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.

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 3. Summary of significant accounting policies (*continued*)

#### *(iv) Derivatives and Hedging arrangements*

Derivatives, which may include interest rate swaps and RPI 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 income as appropriate, unless they are included in hedging arrangements.

The company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the profit and loss account in the same period in which the hedged transaction is recognised in the profit and loss account or when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

#### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

#### **Dividends**

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

#### **Investment income**

Investment income includes dividends and interest receivable. Dividends are recognised when declared by the paying company. Interest receivable is recognised on an accruals basis.

### 4. Critical accounting judgements and estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may subsequently differ from these estimates.

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates made are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements, adopted by management, in applying the group's accounting policies are described below:

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 4. Critical accounting judgements and estimation uncertainty (*continued*)

#### Finance Debtor

The group has elected to continue to apply its previous accounting treatment in respect of service concession arrangements entered into prior to the date of transition to FRS 102. This has resulted in the measurement of the finance debtor being different from that which would have resulted had the requirements of FRS 102 Section 34 been fully adopted. Accounting for service concession contracts and finance debtors requires estimation of service margins, finance debtors interest rates and the associated amortisation profile which are based on the forecast results of the PFI contracts over the respective concession length. See notes 12 and 13 for the carrying value of the finance debtor.

#### Impairment of debtors

Management makes an estimate of the likely recoverable value of trade and other debtors by considering factors including the current credit rating, the ageing profile and the historic experience of the respective debtor. See note 12 for the carrying value of the debtors.

#### Treatment and measurement of derivatives

The directors have adopted a policy of cash flow hedge accounting for derivative financial instruments and have assessed that the group's interest rate swap meets the criteria for hedge accounting under FRS 102. This allows unrealised gains and losses to be deferred in a cash flow hedge reserve and only recognised through the profit and loss account at the same time as the hedged cash flows.

The derivative financial instruments are recognised at fair value. The measurement of fair value is based on estimates of future market interest and inflation rates and will therefore be subject to change. The group has used a third party valuation expert to assist with valuing such instruments.

#### Taxation

The assessment of the tax charge may include uncertain tax positions where the tax treatment has not yet been agreed with the taxation authorities. Management make an estimate of the taxation charge for the period and the value of balances, with reference to legislation, discussions with taxation authorities, advice from taxation advisors, and the determination of similar taxation cases.

Deferred tax is recognised at tax rates that are expected to be applicable when the timing differences reverse, to the extent that such rates have been substantially enacted. Given the phased reduction in future tax rates in the UK, the deferred tax asset or liability recognised is therefore dependent upon an estimate of the timing of such reversals.

### 5. Turnover

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom.

### 6. Operating profit

The company had no employees, other than the directors, during the year (2016: none). The emoluments of the directors are paid by the controlling parties. The directors services to this company and to a number of fellow group companies are primarily of a non- executive nature and their emoluments are deemed to be wholly attributable to the controlling parties. The controlling parties charged £96,494 (2016: £95,390) to the company in respect of these services.

The audit fee in respect of the group was £7,160 for the year (2016: £9,713). The audit fees in respect of the company, of £2,185, has been paid by the subsidiary undertaking, for which no recharges has been made (2016: £2,132).

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 7. Interest receivable and similar income

	2017 £'000	2016 £'000
Imputed interest receivable on finance debtor	3,794	4,279
Interest income on bank deposits	32	15
	<u>3,826</u>	<u>4,294</u>

### 8. Interest payable and similar charges

	2017 £'000	2016 £'000
Interest payable on bank borrowings	706	828
Interest rate swap costs	423	420
Interest payable on loans from group undertakings	284	292
	<u>1,413</u>	<u>1,540</u>

The terms relating to the long-term bank loan are detailed in note 16.

### 9. Tax on profit on ordinary activities

#### (a) Tax expense included in profit or loss:

	2017 £'000	2016 £'000
<b>Current tax</b>		
Tax charge on profit on ordinary activities	2,396	2,424
Adjustments in respect of prior periods	(271)	-
Total current tax	<u>2,125</u>	<u>2,424</u>
<b>Deferred tax movement (note 18)</b>		
Origination and reversal of timing differences	(742)	(1,282)
Effect of decrease in tax rate on opening liability	(183)	(548)
Adjustments in respect of prior periods	373	-
Total deferred tax	<u>(552)</u>	<u>(1,830)</u>
Total tax charge for the year	<u>1,573</u>	<u>594</u>

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 9. Tax on profit on ordinary activities (*continued*)

#### (b) Tax income included in other comprehensive income or equity

	2017 £'000	2016 £'000
<b>Deferred tax</b>		
Arising from origination and reversal of timing differences	(9)	(95)
Arising from changes in tax rates and laws	11	11
	<hr/>	<hr/>
Total tax expense/(income) included in other comprehensive income	2	(84)
	<hr/>	<hr/>

#### (c) Reconciliation of tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2016: lower) than the standard rate of Corporation Tax in the UK of 20% (2016: 20%).

The differences are reconciled below:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	5,097	5,523
	<hr/>	<hr/>
Tax charge on profit on ordinary activities at standard rate	1,019	1,105
Expenses not deductible for tax purposes and income not taxable	635	37
Re-measurement of deferred tax- change in UK tax rate	(183)	(548)
(Over)/ under provision	102	-
	<hr/>	<hr/>
Total tax charge	1,573	594
	<hr/>	<hr/>

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2017. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2016.

As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £263,000.

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 10. Dividends

	2017 £'000	2016 £'000
Dividends paid of £4,467.54 (2016: £5,624.74) per ordinary share	4,468	5,625
	<u>4,468</u>	<u>5,625</u>

### 11. Investments

Company	2017 £'000	2016 £'000
Investment in subsidiary undertaking at cost At 31 March	1	1
	<u>1</u>	<u>1</u>

The company owns the entire ordinary issued share capital of South Manchester Limited, a company registered in England and Wales. The principal activity of South Manchester Limited is described on page 2 of the financial statements.

### 12. Debtors: amounts falling due after more than one year

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Finance receivable	42,614	48,079	-	-
Intercompany loan notes	-	-	6,174	6,174
Prepayments and accrued income	650	880	-	-
	<u>43,264</u>	<u>48,959</u>	<u>6,174</u>	<u>6,174</u>

### 13. Debtors: amounts falling due within one year

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Finance receivable	5,465	5,791	-	-
Trade debtors	68	84	-	-
Amounts owed by subsidiary undertaking	-	-	25	25
Prepayments and accrued income	929	397	-	-
	<u>6,462</u>	<u>6,272</u>	<u>25</u>	<u>25</u>

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 14. Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Senior debt (note 16)	4,712	4,366	-	-
Trade creditors	39	142	-	-
Corporation tax payable	1,146	1,300	-	-
Taxation and social security	383	473	-	-
Amount owed to group undertakings	54	72	25	25
Accruals and deferred income	1,372	348	-	-
	<u>7,706</u>	<u>6,701</u>	<u>25</u>	<u>25</u>

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

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Senior debt	32,935	37,647	-	-
Subordinated debt	6,174	6,174	6,174	6,174
Derivative financial instruments (note 17)	1,126	1,071	-	-
Accruals and deferred income	12	28	-	-
	<u>40,247</u>	<u>44,920</u>	<u>6,174</u>	<u>6,174</u>

The principal terms and conditions relating to the group's borrowing facilities are summarised below.

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 16. Loans and Borrowings

Group	2017 £ 000	2016 £ 000
<b>Loans and borrowings falling due within one year</b>		
Senior debt	4,712	4,366
	<b>2017 £ 000</b>	<b>2016 £ 000</b>
<b>Loans and borrowings falling due between one and five years</b>		
Senior debt	22,618	21,053
	<b>2017 £ 000</b>	<b>2016 £ 000</b>
<b>Loans and borrowings falling due after more than five years</b>		
Senior debt	10,317	16,594
Subordinated debt	6,174	6,174
	<b>16,491</b>	<b>22,768</b>
	<b>2017 £ 000</b>	<b>2016 £ 000</b>
<b>Company</b>		
<b>Loans and borrowings falling due after more than five years</b>		
Subordinated debt	6,174	6,174

### Term Loan facility

The tenure of the Term Loan is 25 years and it is repayable in 42 semi-annual instalments commencing on 12 February 2003. Interest charged on amount drawn under the facility is based on the floating LIBOR rate plus a margin. The Term Loan Facility has been syndicated to a consortium of banks. All amounts drawn under the Term Loan Facility are secured by a fixed charge over all leasehold interest, book debts, project accounts and intellectual property of the Company and the Group and by a floating charge over the Company and Group's undertaking and assets.

### Loan Notes

The shareholders each hold tranches, in proportion to their shareholding, of £6,173,789 South Manchester Healthcare (Holdings) Limited Loan Note (2016: £6,173,789). The Loan Notes are unsecured and bear interest at a floating rate based on LIBOR plus 4%. The Loan Notes are due for repayment in 2023.



# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 17. Financial instruments interest rate swap

The fair value of derivatives used for hedging in the Balance Sheet are:

Group	2017 £'000	2016 £'000
Creditors: due after one year - Fair value of swaps	(1,126)	(1,071)
Net Fair value of swaps in the Balance Sheet	<u>(1,126)</u>	<u>(1,071)</u>

The movement in the fair value of derivatives used for hedging are:

Group	2017 £'000	2016 £'000
Recognised through Other Comprehensive Income	(55)	(528)
	<u>(55)</u>	<u>(528)</u>

On 15 April 2013 South Manchester Healthcare Limited entered into an interest rate swap arrangement commencing on 30 August 2013 for 10 years at a rate of 1.65%. The only derivative instrument held is the interest rate swap, which converts the borrowing from a rate linked to LIBOR to the fixed rate detailed above. The fair value of this class of derivative financial instrument at 31 March 2017 is £ (1,125,847) (2016: £ (1,071,000)).

Cash flows on both the loan and the interest rate swaps are paid bi-annually until 2023. During 2017, a hedging loss of £478,000 (2016: £948,000 loss) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £423,000 (2016: £420,000) was reclassified from the hedge reserve to profit and loss within interest payable.

### 18. Provisions for liabilities

Group	Deferred Tax £'000
At 1 April 2016	4,736
Credit to profit or loss	(552)
Charge to other comprehensive income	2
At 31 March 2017	<u>4,186</u>

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 18. Provision for liabilities (continued)

The provision for deferred tax consists of the following deferred tax liabilities/(assets):

	2017 £'000	2016 £'000
Accelerated capital allowances	4,377	4,929
Other timing differences	(191)	(193)
	<u>4,186</u>	<u>4,736</u>

The net deferred tax liability expected to reverse in the next 12 months is £543,000. This primarily relates to the reversal of timing differences on capital allowances.

### 19. Called up share capital

	Group and company	
	2017 £'000	2016 £'000
<b>Allotted, called up and fully paid</b>		
1,000 (2016: 1,000) ordinary shares of £1 each	1	1
	<u>1</u>	<u>1</u>

The issued share capital is split into 250 of each A, B, C and D ordinary shares. The shares rank pari passu.

### 20. Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	2017 £'000	2016 £'000
Operating profit	2,684	2,769
Decrease in debtors	6,083	7,669
Increase/(decrease) in creditors	230	(227)
<b>Net cash inflow from operating activities</b>	<u>8,997</u>	<u>10,211</u>

# South Manchester Healthcare (Holdings) Limited

## Notes to the financial statements for the Year ended 31 March 2017

### 21. Related parties

During the year the following related party transactions were entered into:

Related party	Class of transaction	2017 Expenditure £'000	2016 Expenditure £'000	2017 Balance due to £'000	2016 Balance due to £'000
Sodexo Investment Services Limited, Sodexo Limited and Sodexo Property Solutions Limited	Services, advisory and loan	28,490	23,380	7	119
Innisfree M&G PPP LP	Advisory and loan	102	97	6	6
Semperian PPP Investment Partners No 2 Limited	Advisory and loan	203	194	24	12
Imagile Infrastructure Management Limited	Advisory	534	532	-	-
Imagile Business Support Limited	Advisory	33	52	16	32

### 22. Ultimate parent undertaking and controlling parties

In the directors' opinion there is no ultimate controlling party.

The current shareholders are Innisfree Nominees Limited, acting as nominee for Innisfree M&G PPP LP, a UK Limited Partnership (25%), Sodexo Investment Services Limited (25%), and Semperian PPP Investment Partners No.2 Limited (50%). The directors consider that there is no single ultimate controlling party at the year end.

### 23. Subsidiary and related undertakings

The company holds investments in the following undertakings incorporated in the UK.

Subsidiary and related undertakings	Activities	Percentage of ordinary shares held
South Manchester Healthcare Limited	Project Company	100%

The registered office for the companies shown above is: Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ.