

Company Registration No. 03561960

Health Management (Carlisle) Holdings Limited

Annual Report and Financial Statements

Year ended 31 December 2016

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Health Management (Carlisle) Holdings Limited

Annual Report and Financial Statements Year ended 31 December 2016

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Health Management (Carlisle) Holdings Limited

Annual Report and Financial Statements Year ended 31 December 2016

Company Information

Directors

Rory William Christie
John Stephen Gordon
Stephen John Mallion
Stephen Michael Jones (Alternate)
John McDonagh (Alternate)

Secretary

Semperian Secretariat Services Limited

Registered Office

Third Floor
Broad Quay House
Prince Street
Bristol
BS1 4DJ

Bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Independent Auditors

Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol
United Kingdom

Health Management (Carlisle) Holdings Limited

Group Strategic report

Business review and principal activities

The group's principal activity is undertaking a Private Finance Initiative (PFI) concession contract entered into on 26 September 1997 with the North Cumbria University Hospitals NHS Trust to refurbish certain existing hospitals, design and construct further hospital buildings and manage and provide non-clinical support services at the hospitals. The project will run for a period of 45 years. The finance for the project is provided via a term loan facility of £64.8 million due 2010-2029 (as detailed in note 17). Construction was completed in March 2000 and service operations have been provided since that date.

There have not been any changes in the group's activities in the year under review and the directors are not aware, at the date of this report, of any likely changes in the next year.

The profit before tax for the year is £3.2 million, representing a £12.4 million variance on the prior year loss of £9.2 million. The prior year loss was a result of a £1.0 million write off in connection with a dispute regarding faults with the passive fire protection in the building, firestopping rectification costs, legal and professional costs incurred and a provision of £8.8 million for future costs in connection with the building defects. As at 31 December 2016, the provision totals £6.2 million (2015: £8.8m) (refer to note 20).

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. For this reason, the group's directors believe that further key performance indicators for the group are not necessary or appropriate to gain an understanding of the performance or position of the business.

Going concern

The directors have prepared detailed model forecasts incorporating the relevant terms of the PFI contract, subcontracts and credit agreements, and have adopted prudent assumptions in relation to economic and operational factors. The directors recognise the fact that the group is currently in breach of its banking covenants and is forecast to remain in breach until September 2021. The senior lender has acknowledged this position and has issued a Reservation of Rights letter. Ongoing discussions with the senior lender are positive, and they continue to support the group.

The forecasts (which are updated regularly) predict that the group will have sufficient cash resources to meet its liabilities as they fall due for a period of 12 months from the date of signing the financial statements. The forecasts assume that the £6.2 million provision in respect of firestopping rectification, legal and professional costs will be incurred over the period to July 2020 and will be met from cash generated from operations, and therefore indicate that the group can continue to operate within its current funding arrangements.

Having considered the financial position of the group, its expected future cash flows and the ongoing support of the group's senior lender, the directors have a reasonable expectation that the group will have adequate resources to continue to generate positive operating cashflows and have therefore prepared the financial statements on a going concern basis.

Principal risks and uncertainties

The group's principal activity as detailed above is risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks as detailed in the following section.

Financial instruments and financial risk management

The group's principal financial instruments comprise a secured bank loan, RPI and interest rate swaps, and cash. The main risks arising from the group's financial instruments are interest rate, inflation, liquidity and credit. The board has policies for managing each of these risks and they are summarised below:

Interest and inflation rate risk

In order to hedge against interest variations on its loan, the group entered into a fixed interest rate swap arrangement during 2010. As the group receives income linked to RPI, it also entered into a fixed-rate 22 year RPI Swap during 2005. The group's exposure to interest and inflationary fluctuations will continue to be monitored.

Health Management (Carlisle) Holdings Limited

Group Strategic report

Financial instruments and financial risk management (continued)

Liquidity risk

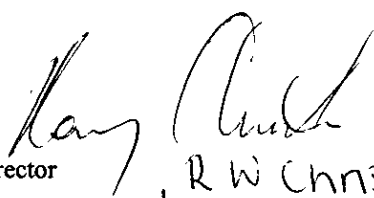
The PFI contract and related subcontracts are fixed for the life of the contract and, in the normal course of business, this enables the group to have reasonable certainty over its income and expenditure. In addition, the group has a credit agreement in place with its lenders which fixes the level of borrowing and repayments until the loan is repaid. As detailed above, the directors maintain detailed model forecasts which allow close monitoring of forecast cash flows.

Credit risk

The group receives its revenue from a NHS Trust and therefore is not exposed to significant credit risk.

Cash investments and the interest rate and RPI swap arrangements are with institutions of a suitable credit quality.

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


Director R W Christie
Date: 20th June 2017

Health Management (Carlisle) Holdings Limited

Directors' report

The directors present their annual report and the audited group financial statements for the year ended 31 December 2016.

Financial risk management objectives and policies

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

Strategic report

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.

Environment

The group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies via its sub-contractors to reduce any damage that might be caused by the group's activities.

Employees

The group has no direct employees as detailed in note 7.

Dividends

The directors have not recommended the payment of a dividend (2015: £nil).

Directors

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

Rory William Christie

John Stephen Gordon

(resigned as Director and appointed as Alternate 17 May 2016, resigned as Alternate and appointed as Director 28 July 2016)

Stephen John Mallion

Stephen Michael Jones (Alternate)

John McDonagh (Alternate)

Roger Thompson

(resigned as Alternate 17 May 2016, appointed as Alternate 28 July 2016)


(appointed 17 May 2016, resigned 28 July 2016)

Disclosure of information to 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 group's auditors are aware of that information. The directors confirm that there is no relevant information of which they are aware and of which they know the auditors are unaware.

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors.

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


Director
Date: 20th June 2017

Health Management (Carlisle) Holdings Limited

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements (the "financial statements") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 group and the company and of the profit or loss of the group and 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;
- 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 group and company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Health Management (Carlisle) Holdings Limited

Independent Auditor's Report to the members of Health Management (Carlisle) Holdings Limited

We have audited the financial statements of Health Management (Carlisle) Holdings Limited for the year ended 31 December 2016 which comprise the consolidated Profit and Loss Account, the consolidated Statement of Comprehensive Income, the consolidated and Company Balance Sheets, the consolidated and Company Statement of Changes in Equity, the consolidated Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 group's and the parent 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. 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.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit 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.

Opinion on 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 Group 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 Group strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit we have not identified any material misstatements in the Group strategic report and the directors' report.

Health Management (Carlisle) Holdings Limited

Independent Auditor's Report to the members of Health Management (Carlisle) Holdings Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Wright

Andrew Wright (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
Date: 20 June 2017

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2016

Consolidated profit and loss account

	Notes	2016 £'000	2015 £'000
Turnover	3	16,786	15,915
Cost of sales		(13,077)	(13,132)
Gross profit		3,709	2,783
Operating expenses (including exceptional items)	5	(1,797)	(13,282)
Operating profit/(loss)	5	1,912	(10,499)
Interest receivable and similar income	8	4,893	5,033
Interest payable and similar charges	9	(3,609)	(3,737)
		1,284	1,296
Profit/(loss) on ordinary activities before taxation		3,196	(9,203)
Tax (charge)/credit on profit/(loss) on ordinary activities	10	(578)	1,727
Profit/(loss) for the financial year		2,618	(7,476)

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

Consolidated statement of comprehensive income

	Notes	2016 £'000	2015 £'000
Profit/(loss) for the year		2,618	(7,476)
Other comprehensive loss:			
Unrealised (loss)/gain on cash flow hedges		(1,907)	6,741
Reclassifications to profit and loss		(2,449)	(2,550)
Deferred tax arising on unrealised loss/(gain) on cash flow hedges	10	543	(1,233)
Other comprehensive (loss)/income for the year, net of tax		(3,813)	2,958
Total comprehensive loss for the year		(1,195)	(4,518)

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2016

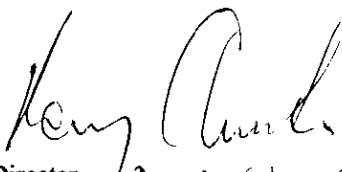
Consolidated balance sheet

	Notes	2016 £'000	2015 £'000
Current assets			
Debtors: amounts falling due within one year	12	10,115	12,351
Debtors: amounts falling due after more than one year	13	57,683	58,927
Cash at bank and on deposit	14	5,392	5,614
		<u>73,190</u>	<u>76,892</u>
Creditors: amounts falling due within one year	15	<u>(12,744)</u>	<u>(15,292)</u>
Net current assets		60,446	61,600
Creditors: amounts falling due after more than one year	16	(76,687)	(74,073)
Provision for liabilities	20	<u>(6,236)</u>	<u>(8,809)</u>
Net liabilities		<u>(22,477)</u>	<u>(21,282)</u>
Capital and reserves			
Called up share capital	21	841	841
Profit and loss	22	(3,320)	(5,938)
Cash flow hedge reserve	22	<u>(19,998)</u>	<u>(16,185)</u>
Shareholders' deficit		<u>(22,477)</u>	<u>(21,282)</u>

As permitted by section 408 of the Companies Act 2006, the company has not presented its own profit and loss account. The profit of the company in the year was £2,000 (2015: £nil).

The financial statements of Health Management (Carlisle) Holdings Limited, registered number 03561960 were approved by the Board of Directors and authorised for issue on 20/6/2017.

Signed on behalf of the Board of Directors


 Director R W Christie

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2016

Company balance sheet

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investment	11	841	841
Current assets			
Debtors: amounts falling due within one year	12	2	-
Cash at bank	14	2	525
		<hr/> 4	<hr/> 525
Creditors: amounts falling due within one year	15	-	(523)
		<hr/>	<hr/>
Net current assets		4	2
		<hr/>	<hr/>
Net assets		845	843
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	21	841	841
Profit and loss	22	4	2
		<hr/>	<hr/>
Shareholders' funds		845	843
		<hr/>	<hr/>

The financial statements of Health Management (Carlisle) Holdings Limited, registered number 03561960, were approved by the Board of Directors and authorised for issue on 20/6/2017.

Signed on behalf of the Board of Directors



Director

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2016

Consolidated statement of changes in equity

	Share capital	Profit and loss	Cash flow hedge reserve	Total
	£'000	£'000	£'000	£'000
At 1 January 2015	841	1,538	(19,143)	(16,764)
Loss for the year	-	(7,476)	-	(7,476)
Other comprehensive income	-	-	2,958	2,958
Total comprehensive loss	-	(7,476)	2,958	(4,518)
At 31 December 2015	841	(5,938)	(16,185)	(21,282)
Profit for the year	-	2,618	-	2,618
Other comprehensive loss	-	-	(3,813)	(3,813)
Total comprehensive loss	-	2,618	(3,813)	(1,195)
At 31 December 2016	841	(3,320)	(19,998)	(22,477)

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2016

Company statement of changes in equity

	Share capital	Profit and loss	Total
	£'000	£'000	£'000
At 1 January 2015	841	2	843
Profit and total comprehensive income for the year	-	-	-
At 31 December 2015	841	2	843
Profit and total comprehensive income for the year	-	2	2
At 31 December 2016	841	4	845

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2016

Consolidated cash flow statement

	Notes	2016 £'000	2015 £'000
Net cash inflow from operating activities	23(a)	422	606
Taxation paid		-	(468)
Net cash generated from operating activities		<u>422</u>	<u>138</u>
Cash flow from investing activities			
Bank and deposit interest received		40	71
Interest element of finance receivable repayments	8	<u>4,796</u>	<u>4,926</u>
Net cash generated from investing activities		<u>4,836</u>	<u>4,997</u>
Cash flow from financing activities			
Interest paid on loan		(3,640)	(3,758)
Other interest		-	(13)
Repayment of secured senior loan		<u>(1,840)</u>	<u>(1,948)</u>
Net cash used in financing activities		<u>(5,480)</u>	<u>(5,719)</u>
Net decrease in cash and cash equivalents	23(b)	(222)	(584)
Cash and cash equivalents at the beginning of the year		<u>5,614</u>	<u>6,198</u>
Cash and cash equivalents at the end of the year		<u>5,392</u>	<u>5,614</u>

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

1. General information

The group's principal activity is undertaking a Private Finance Initiative (PFI) concession contract entered into on 26 September 1997 with the North Cumbria University Hospitals NHS Trust to refurbish certain existing hospitals, design and construct further hospital buildings and manage and provide non-clinical support services at the hospitals.

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 Health Management (Carlisle) 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 group's principal accounting policies, which have been consistently applied, is set out below.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK law and accounting standards, and in accordance with the historical cost convention, except for the revaluation of certain financial instruments.

The preparation of financial statements in conformity with FRS 102 requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group'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 below.

Going concern

The financial statements are prepared on the going concern basis. As disclosed on page 2 the directors believe that the group has adequate resources to continue in operational existence for the foreseeable future.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking drawn up to 31 December each year.

Turnover

Turnover is derived wholly from the principal activity in the UK. Turnover, which is stated net of value added tax, represents amounts invoiced for services provided and is recognised over the period in which the associated services are provided.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

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

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.

Taxation

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 income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit. Deferred tax is not discounted.

Investments

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

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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

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

(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.

Other financial assets are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are 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.

Derivatives, including 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.

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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

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

(iv) *Hedging arrangements*

The group 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. RPI swaps are held to restrict the company's exposure to the effect of RPI fluctuations on its income.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income. 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.

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

Judgements, estimates and 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:

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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

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

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 historical experience of the respective debtor. See note 12 for the carrying value of the debtors.

Provisions for other liabilities

Where management become aware of contractual or other disputes, with either customers or suppliers, or of potentially onerous contract arrangements, they make an estimate of the likely outcome of each situation by considering factors including the likelihood and timing of any cash flows, and the historical experience of similar situations.

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 and RPI swap meet 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 to ascertain the value of such instruments.

5. Operating profit/(loss)

This is stated after charging:

	2016 £'000	2015 £'000
Auditors' remuneration - audit services for the audit of the company accounts	2	2
- other services pursuant to legislation; audit of subsidiary accounts	15	17
	<u>17</u>	<u>19</u>

The audit fee for Health Management (Carlisle) Holdings Limited was paid by Health Management (Carlisle) Limited in the current and prior years.

Operating expenses for the year ended 31 December 2016 include £690,369 (2015: £11,300,504) in respect of firestopping rectification, legal and professional costs associated with the dispute referred to in the Strategic report, less a credit of £825,000 (2015: £nil) in recognition of such costs that will be recovered from the service provider between March 2017 and March 2019.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

6. Directors' emoluments

	2016 £'000	2015 £'000
Emoluments	92	89

Directors' emoluments are paid by Interserve Investments Limited and Dalmore Capital Limited and recharged to the group.

No director was a member of a pension scheme to which the group contributes at any time during the year ended 31 December 2016 (2015: none).

7. Staff costs

The group does not have any direct employees (2015: none). Key management personnel are considered to be the directors, the remuneration of which is disclosed in note 6.

8. Interest receivable and other similar income

	2016 £'000	2015 £'000
Bank interest	29	57
Other interest	68	50
Finance debtor interest receivable	4,796	4,926
	<u>4,893</u>	<u>5,033</u>

9. Interest payable and similar charges

	2016 £'000	2015 £'000
Interest payable on long-term loan	3,609	3,724
Other interest payable	-	13
	<u>3,609</u>	<u>3,737</u>

The terms relating to the long-term bank loan are detailed in note 17.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

10. Taxation

(a) Tax expense/(credit) included in profit or loss:

	2016 £'000	2015 £'000
Current tax		
Tax charge on profit/(loss) on ordinary activities	166	278
Adjustment in respect of prior periods	-	1
Total current tax	166	279
Deferred tax movement (note 19)		
Origination and reversal of timing differences	587	(1,453)
Effect of decrease in tax rate on opening liability	(162)	(487)
Adjustment in respect of prior periods	(13)	(66)
Total deferred tax	412	(2,006)
Total tax charge/(credit) for the year	578	(1,727)

(b) Tax (income)/expense included in other comprehensive income or equity

	2016 £'000	2015 £'000
Deferred tax		
Arising from origination and reversal of timing differences	(740)	754
Arising from changes in tax rates and laws	197	479
Total tax (income)/expense included in other comprehensive income	(543)	1,233

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

10. Taxation (continued)

(c) Reconciliation of tax charge/(credit)

The tax assessed on the profit/(loss) on ordinary activities for the year is lower (2015: higher) than the standard rate of Corporation Tax in the UK of 20% (2015: 20.25%).

The differences are reconciled below:

	2016 £'000	2015 £'000
Profit/(loss) on ordinary activities before tax	3,196	(9,203)
Tax charge/(credit) on profit/(loss) on ordinary activities before tax at a rate of 20% (2015: 20.25%)	639	(1,864)
Expenses not deductible for tax purposes and income not taxable	51	227
Adjustment in respect of prior periods	(13)	(65)
Revaluation of tax debtor	166	280
Re-measurement of deferred tax- change in UK tax rate	(265)	(305)
Total tax charge/(credit)	578	(1,727)

The Finance Act 2016, which received Royal Assent on 15 September 2016, includes legislation to reduce the main rate of corporation tax to 17% from 1 April 2020. The reduction in the main rate of corporation tax to 19% from 1 April 2017 had already been enacted on 18 November 2015. Accordingly the deferred tax has been calculated at the tax rate of 17%.

Tax losses arising in previous years have been surrendered to the shareholders of the group by way of consortium relief (note 13). The shareholders are contracted to make payments to the group for such losses surrendered at the rate which will be payable, as and when the group becomes liable to Corporation Tax which would not have been payable but for the surrender of the losses.

The group has agreed to defer these contractually due payments via loans which are repayable at the end of the concession or earlier on demand if the group's cash flows require it.

Amounts of £2,829,512 (2015: £2,995,944) and £2,463,124 (2015: £2,463,124) have been included as consortium relief debtors and loans respectively (as detailed in note 13) in respect of these payments receivable from the shareholders, representing valuations at current tax rates of the expected future cash inflows.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

11. Investment in subsidiary undertaking

Company	2016 £'000	2015 £'000
Investment in subsidiary undertaking: At 1 January and 31 December	841	841

The company owns the entire ordinary issued share capital of Health Management (Carlisle) Limited, a company registered in England and Wales. The registered office of Health Management (Carlisle) Limited is Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ. The principal activity of Health Management (Carlisle) Limited is described on page 2 to the financial statements.

12. Debtors: amounts falling due within one year

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Finance receivable	1,658	1,463	-	-
Trade debtors	7,250	8,629	-	-
Amounts due from subsidiary undertaking	-	-	2	-
Prepayments and accrued income	832	1,119	-	-
Other debtors	375	1,140	-	-
	<u>10,115</u>	<u>12,351</u>	<u>2</u>	<u>-</u>

13. Debtors: amounts falling due after more than one year

	Group	
	2016 £'000	2015 £'000
Finance receivable	51,181	52,840
Consortium relief receivable from related parties (note 10)	2,830	2,996
Loans receivable from related parties (note 10)	2,463	2,463
Deferred tax asset (note 19)	759	628
Other debtors	450	-
	<u>57,683</u>	<u>58,927</u>

The loans are repayable on demand or at the end of the project term, and bear interest at bank base rate plus 2.5% per annum.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

14. Cash and deposits

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Cash at bank and in hand	5,392	3,114	2	525
Cash held on deposit	-	2,500	-	-
	<u>5,392</u>	<u>5,614</u>	<u>2</u>	<u>525</u>

15. Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Trade creditors	318	4,349	-	-
Taxation and social security	1,034	520	-	-
Senior secured loan (note 17)	1,837	1,841	-	-
Accruals and deferred income	9,555	8,582	-	-
Amounts owed to subsidiary undertaking	-	-	-	523
	<u>12,744</u>	<u>15,292</u>	<u>-</u>	<u>523</u>

16. Creditors: amounts falling due after more than one year

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Group relief payable	800	800	-	-
Senior secured loan (note 17)	51,793	53,535	-	-
Derivative financial instruments (note 18)	24,094	19,738	-	-
	<u>76,687</u>	<u>74,073</u>	<u>-</u>	<u>-</u>

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

17. Long-term loan

Group	2016 £'000	2015 £'000
Senior secured loan	54,319	56,159
Amounts repayable:		
In one year or less	1,837	1,841
In one to five years	12,503	10,011
In more than five years	39,979	44,307
	54,319	56,159
Less: unamortised issue expenses	(689)	(783)
	53,630	55,376
Less: included within creditors due within one year	(1,837)	(1,841)
	51,793	53,535

The senior secured loan represents amounts borrowed under a facility agreement with Barclays Bank.

The loan bears interest at a margin of 2% over LIBOR and is repayable in six-monthly instalments between 2010 and 2029. The loan is secured by fixed and floating charges over the property, assets and rights of the group, and has certain covenants attached. As at 31 December 2016 the Annual Debt Service Cover Ratio was breached. While the lender has issued a Reservation of Rights letter, they have not indicated that they will demand repayment of the loan and continue to support the group.

18. Financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	2016 £'000	2015 £'000
Financial assets		
Measured at amortised cost		
Finance receivable (refer to notes 12 and 13)	52,839	54,303
Measured at undiscounted amount receivable		
Trade debtors (refer to note 12)	7,250	8,629
Other debtors (refer to notes 12 and 13)	825	-
Cash at bank and on deposit	5,392	5,614
	66,306	68,546

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

18. Financial instruments (continued)

	2016 £'000	2015 £'000
Financial liabilities		
Measured at amortised cost		
Senior secured loan (refer to note 17)	53,630	55,376
Measured at undiscounted amount payable		
Trade creditors (refer to note 15)	318	4,349
Measured at fair value and designated in an effective hedging relationship		
Derivative financial liabilities (see below)	24,094	19,738
	<u>78,042</u>	<u>79,463</u>

In May 2005 the group entered into a 22 year fixed RPI swap arrangement designed to restrict its exposure to the effect of RPI fluctuations on its income. The swap was effected on a notional total of £114 million payable in six monthly amounts between October 2005 and October 2027.

In order to hedge against interest variations on the loan, in March 2010 the group entered into a 19 year fixed interest rate swap arrangement to hedge its exposure to the effect of interest rate fluctuations. The swap was effected on a maximum notional amount of £64.8 million payable in six-monthly amounts between March 2010 and September 2028. Sums are exchanged reflecting the difference between floating and fixed interest rates, calculated on a predetermined notional principal amount.

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

	2016 £'000	2015 £'000
Group liabilities		
RPI swap liability at period end	11,147	9,000
Interest rate swap liability at period end	12,947	10,738
	<u>24,094</u>	<u>19,738</u>

The movements in the fair value of derivatives used for hedging and designated in an effective hedging relationship are:

	2016 £'000	2015 £'000
Group		
RPI swap liability	(2,147)	2,435
Interest rate swap	(2,209)	1,756
	<u>(4,356)</u>	<u>4,191</u>

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

19. Deferred tax

Group	Deferred tax £'000
At 1 January 2016	(628)
Movement dealt with in profit or loss	412
Movement dealt with in other comprehensive income	(543)
At 31 December 2016	<u>(759)</u>

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

	2016 £'000	2015 £'000
Accelerated capital allowances	3,169	3,441
Tax losses recognised	(653)	(1,409)
Other timing differences	821	893
Fair value movements on financial instruments	(4,096)	(3,553)
	<u>(759)</u>	<u>(628)</u>

The net deferred tax asset expected to reverse in the next 12 months is £59,253. This primarily relates to the utilisation of tax losses.

20. Provision for liabilities

Group	Provision for firestopping defects £'000
At 1 January 2016	8,809
Movement dealt with in profit or loss	(2,573)
At 31 December 2016	<u>6,236</u>

The provision for liabilities consists of an amount of £6,236,000 provided by the Group in respect of professional fees and other costs relating to the rectification of firestopping defects. The provision is expected to be utilised between 2017 and 2020.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

21. Share capital

	Group and company	
	2016	2015
	£'000	£'000
Allotted, called up and fully paid		
841,002 ordinary shares of £1 each	841	841

22. Reserves

Called-up share capital- represents the nominal value of shares that have been issued.

Profit and loss- includes all current and prior period profits and losses.

Cash flow hedge reserve- used to record transactions arising from the group's cash flow hedging arrangements.

23. Notes to the cash flow statement

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

	2016	2015
	£'000	£'000
Operating profit/(loss)	1,912	(10,499)
Decrease/(increase) in debtors	3,500	(2,805)
(Decrease)/increase in creditors	(4,990)	13,910
Net cash inflow from operating activities	422	606

(b) Analysis of net funds:

	At 1 January 2016 £'000	Cash £'000	Other £'000	At 31 December 2016 £'000
Cash at bank	5,614	(222)	-	5,392
Finance receivable	54,303	-	(1,464)	52,839
Secured senior loan	(55,376)	1,840	(94)	(53,630)
	<u>4,541</u>	<u>1,618</u>	<u>(1,558)</u>	<u>4,601</u>

Health Management (Carlisle) Holdings Limited

Notes to the financial statements Year ended 31 December 2016

24. Related parties

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

Interserve Plc and subsidiaries (Interserve Plc is the ultimate parent company of Interserve PFI 2005 Limited, the current immediate shareholder of Health Management (Carlisle) Holdings Limited).

Interserve Investments Ltd

During the year £nil (2015: £90.635) was paid to Interserve Investments Ltd for reimbursement of costs associated with the project.

At the year end £144,489 (2015: £98,601) of Directors' fees were accrued but not yet invoiced by Interserve Investments Ltd.

At the year end £2,646,318 (2015: £2,729,534) in respect of consortium relief surrendered and £73,726 (2015: £39,858) in respect of consortium relief interest was owed by Interserve PFI 2005 Limited.

Interservefm Limited

During the year £17,284,473 (2015: £10,842,676) was paid to Interservefm Limited for reimbursement of costs and work performed on behalf of the group.

At the year end £858,183 (2015: £3,284,129) was owed to Interservefm Limited for their services, net of a £1,000,000 provision which was originally made in the year ended 31 December 2015 in full and final settlement of the firestopping dispute. Subsequent to the year end Interservefm issued a credit note for this value.

At the year end £825,000 (2015: £nil) was owed by Interservefm Limited in respect of firestopping rectification costs which will be recouped between March 2017 and March 2019.

Dalmore Capital Fund LP and partners (Dalmore Capital Fund LP is the ultimate parent company of Dalmore Capital (Carlisle 1) Limited, the current immediate shareholder of Health Management (Carlisle) Holdings Limited).

During the year £11,113 (2015: £112,096) was paid to Dalmore Capital Fund LP for reimbursement of costs associated with the project.

At the year end £34,776 (2015: £11,113) of Directors' fees were accrued but not yet invoiced by Dalmore Capital Fund LP, and £13,335 (2015: £nil) was invoiced but not yet paid.

At the year end £2,646,318 (2015: £2,729,534) in respect of consortium relief surrendered and £73,726 (2015: £39,858) in respect of consortium relief interest was owed by Dalmore Capital Fund LP.

25. Controlling parties

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

The immediate parent companies of Health Management (Carlisle) Holdings Limited are Dalmore Capital (Carlisle 1) Limited and Interserve PFI 2005 Limited.

The ultimate parent companies are Interserve Plc and Dalmore Capital Fund LP, acting by their general manager, Dalmore Capital Limited.

These are the smallest and largest group accounts that are prepared of which the company is a member. No other group accounts are prepared. Copies of the financial statements of Health Management (Carlisle) Holdings Limited are available from Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ.