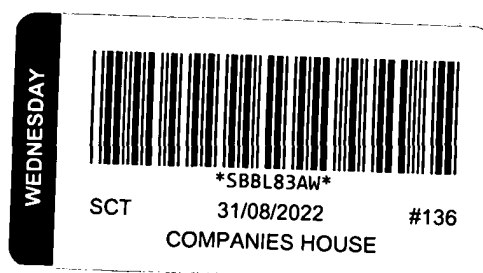


Company Registration No. 03561960

Health Management (Carlisle) Holdings Limited
Annual Report and Financial Statements
Year ended 31 December 2021



Health Management (Carlisle) Holdings Limited

Annual Report and Financial Statements Year ended 31 December 2021

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Health Management (Carlisle) Holdings Limited

Annual Report and Financial Statements

Year ended 31 December 2021

Company Information

Directors	M Templeton S Kelly
Company secretary	Karen Jarvie
Registered office	1 Park Row Leeds LS1 5AB
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP
Independent Auditor	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE

Health Management (Carlisle) Holdings Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2021.

Results and review of business

The principal activity of the group is undertaking a Private Finance Initiative (PFI) concession contract at the Cumberland Infirmary, Carlisle.

The PFI concession managed by the group is in a mature operational stage and continues to operate broadly in line with long term operational plans.

In addition to the core concession management, the group manages the delivery of capital variation projects for the Trust on a pass-through basis.

As shown in the group's profit and loss account on page 10 the group's turnover decreased by £1.3m (2020: increased by £3m) mainly due a lower value of variations conducted in the year. The operating profit decreased by £0.2m (2020: £nil movement) for the same reason. Net liabilities at 31 December 2021 were £6.3m (2020: £8.4m)

Principal risks and uncertainties

Operational risks are monitored closely involving full-time representation on site through the group's management services agent, periodic reporting by an independent Technical Assessor and regular dialogue with the executive team at the North Cumbria University Hospitals NHS Trust.

The group could be exposed to subcontractor failure to perform their obligations. This risk is being monitored closely but with principal focus being on the management and monitoring of ongoing service delivery.

The group is currently engaged in a dispute with the NHS Trust over lifecycle expenditure. While the outcome of the dispute is uncertain, the process is being actively managed by senior management and a collaborative solution sought.

Financial risk management

The group has exposure to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the group's performance. The directors have policies for managing each of these risks and they are summarised below:

Interest rate risk

The senior debt interest has been fixed through the use of fixed funding rates, plus a margin, as set out in note 15. In order to hedge against interest variations on its loan, the group entered into a fixed interest rate swap arrangement during 2010. The group's exposure to interest rate fluctuation will continue to be monitored.

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. In order to hedge against inflation, the group entered into a fixed-rate 22 year RPI swap during 2005. The group's exposure to inflationary fluctuation will continue to be monitored.

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 its revenue from an NHS Trust and is not exposed to significant credit risk. Cash investments and swap arrangements are with institutions of a suitable credit quality.

Major maintenance replacement risk

The group takes the risk that its projections for ongoing major maintenance replacement of the building and relevant equipment are adequate. These projections have been agreed with third parties and are subject to regular review by the directors.

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. This contract stipulates key performance criteria on operational activities as managed by the sub-contractor.

Health Management (Carlisle) Holdings Limited

Strategic report

The group also monitors its results against the financial covenants stipulated in the finance agreements. DSCR (Debt Service Cover Ratio) is required to exceed 1.05 and LLC (Loan Life Cover) is required to exceed 1.10. The group exceeded these thresholds in the financial year.

Approved by the Board on 22nd August 2022 and signed on its behalf by:



M Templeton
Director

Health Management (Carlisle) Holdings Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Principal activity

The principal activity of the group 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 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 £64.8m due 2010-2029 (as detailed in note 15). Construction was completed in March 2000 and service operations have been provided since that date.

Future Developments

The directors expect the group's activities to remain unchanged for the foreseeable future.

Dividends

£1.5M was paid during the year (2020: £3.8M).

Financial Instruments and financial risk management

Details of financial instruments and financial risk management are included in the Strategic Report on page 2.

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. In preparing these forecasts, the Directors have considered external economic factors including the ongoing COVID-19 pandemic, supply chain pressures arising from Brexit and other global price increases, as well as the ongoing dispute with the Trust outlined in the Strategic Report.

The forecasts 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.

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.

Directors of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

R Thompson	(resigned 31 March 2022)
S Kelly	
M Templeton	

Health Management (Carlisle) Holdings Limited

Directors' report

Disclosure of information to the auditor

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 auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

The auditor, Johnston Carmichael LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 22nd August 2022 and signed on its behalf by:



M Templeton
Director

Health Management (Carlisle) Holdings Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the parent company and the group and of the profit or loss of the parent company and the group for that period. In preparing the 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, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the parent company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company and the group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the parent 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

Opinion

We have audited the financial statements of Health Management (Carlisle) Holdings Limited (the 'parent company') and its subsidiary (the 'Group') for the year ended 31 December 2021 which comprise of the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is *applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'*.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2021, and of the 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and 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 applicable legal requirements.

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

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor responsibilities for the audit of the financial statements

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

Extent to which the audit is considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- United Kingdom Generally Accepted Accounting Practice, including FRS 102;
- UK Companies Act; and
- UK Corporation taxes legislation.

We gained an understanding of how the group and parent company is complying with these laws and regulations by making enquiries of management and those charged with governance. We corroborated these enquiries through our review of any relevant correspondence with regulatory bodies and board meeting minutes.

We assessed the susceptibility of the group and parent company's financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and

Health Management (Carlisle) Holdings Limited

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

operation of controls. In areas of the financial statements where the risks were considered to be higher, we performed procedures to address each identified risk.

The following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulation or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Reviewing the level of and reasoning behind the group's procurement of legal and professional services;
- Performing analytical procedures to identify any unusual or unexpected relationships; and
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias;
- Agreement of the financial statement disclosures to supporting documentation.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. This description forms part of our auditor's report.

Use of our report

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

Johnston Carmichael LLP

Allison Dalton (Senior Statutory Auditor)
For and on behalf of Johnston Carmichael LLP

23 August 2022

Chartered Accountants
Statutory Auditor

7-11 Melville Street
Edinburgh

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2021

Consolidated Profit and Loss Account

	Notes	2021 £'000	2020 £'000 Restated
Turnover		21,915	23,201
Cost of sales		(18,524)	(19,234)
Gross profit		3,391	3,967
Administrative expenses		(719)	(1,096)
Operating profit	5	2,672	2,871
Interest receivable and similar income	6	3,936	4,186
Interest payable and similar charges	7	(2,840)	(3,111)
Profit on ordinary activities before taxation		3,768	3,946
Tax on profit on ordinary activities	8	(1,902)	(1,322)
Profit for the financial year		1,866	2,624

All results in the current and prior years derive from the principal activities of the group wholly undertaken in the United Kingdom and which are continuing

Consolidated Statement of Comprehensive Income

	Notes	2021 £'000	2020 £'000 Restated
Profit for the year		1,866	2,624
Other comprehensive loss:			
Change in value of hedging instrument	16	3,608	3,869
Reclassifications to profit and loss	16	(2,522)	(2,376)
Deferred tax arising on unrealised gains on cash flow hedges	8	666	59
Other comprehensive income for the year, net of tax		1,752	1,552
Total comprehensive income for the year		3,618	4,176

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2021

Consolidated Balance Sheet

	Notes	2021 £'000	2020 £'000 Restated
Current assets			
Debtors: amounts falling due within one year	10	11,814	12,051
Debtors: amounts falling due after more than one year	11	41,832	44,932
Cash at bank and on deposit		6,328	6,802
		<u>59,974</u>	<u>63,785</u>
Creditors: amounts falling due within one year	12	<u>(15,400)</u>	<u>(16,078)</u>
Net current assets		44,574	47,707
Creditors: amounts falling due after more than one year	13	<u>(50,889)</u>	<u>(56,140)</u>
Net liabilities		<u>(6,315)</u>	<u>(8,433)</u>
Capital and reserves			
Called up share capital	17	841	841
Profit and loss reserve	19	3,755	3,389
Cash flow hedge reserve	19	<u>(10,911)</u>	<u>(12,663)</u>
Shareholders' deficit		<u>(6,315)</u>	<u>(8,433)</u>

The financial statements of the group were approved by the Board of Directors and authorised for issue on 22nd August 2022.

Signed on behalf of the Board of Directors



M Templeton
Director

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2021

Company Balance Sheet

	Notes	2021 £'000	2020 £'000
Fixed assets			
Investments	9	841	841
Current assets			
Debtors: amounts falling due within one year	10	2	2
Cash at bank and on deposit		3	3
		<u>5</u>	<u>5</u>
Net assets		<u>846</u>	<u>846</u>
Capital and reserves			
Called up share capital	17	841	841
Profit and loss	19	5	5
		<u>846</u>	<u>846</u>
Shareholders' funds		<u>846</u>	<u>846</u>

As permitted by section 408 of the Companies Act 2006, the company has not presented its own profit and loss account. Profit of the company in the year was Nil (2020: £Nil)

The financial statements of Health Management (Carlisle) Holdings Ltd, registered number 03561960, were approved by the Board of Directors and authorised for issue on 22nd August 2022.

Signed on behalf of the Board of Directors



M Templeton
Director

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2021

Consolidated Statement of Changes in Equity

	Share capital	Profit and loss	Cash flow hedge reserve	Total
	£'000	£'000	£'000	£'000
At 1 January 2020 Restated	841	4,565	(14,215)	(8,809)
Profit for the year	-	2,624	-	2,624
Other comprehensive income	-	-	1,552	1,552
Dividends paid	-	(3,800)	-	(3,800)
Total comprehensive income	-	(1,176)	1,552	376
At 31 December 2020 Restated	841	3,389	(12,663)	(8,433)
Profit for the year	-	1,866	-	1,866
Other comprehensive income	-	-	1,752	1,752
Dividends paid	-	(1,500)	-	(1,500)
Total comprehensive income	-	366	1,752	2,118
At 31 December 2021	841	3,755	(10,911)	(6,315)

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2021

Company Statement of Changes in Equity

	Share capital	Profit and loss	Total
	£'000	£'000	£'000
At 1 January 2020	841	5	846
Profit for the year	-	3,800	3,800
Dividends paid	-	(3,800)	(3,800)
Total comprehensive income	-	-	-
At 31 December 2020	841	5	846
Profit for the year	-	1,500	1,500
Dividends paid	-	(1,500)	(1,500)
Total comprehensive income	-	-	-
At 31 December 2021	841	5	846

Health Management (Carlisle) Holdings Limited

Year ended 31 December 2021

Consolidated Statement of Cash Flows

		2021	2020
	Note	£'000	£'000
Cash flows from operating activities	18	4,350	5,836
Net cash flow from operation activities		<u>4,350</u>	<u>5,836</u>
 Cash flows from investing activities			
Bank and deposit interest received	6	1	15
Interest element of finance receivable repayments	6	3,903	4,129
Dividends paid		<u>(1,500)</u>	<u>(3,800)</u>
Net cash flow from investing activities		<u>2,404</u>	<u>344</u>
 Cash flows from financing activities			
Interest paid on loan	7	(2,857)	(3,144)
Repayment of secured senior loan		(4,328)	(4,082)
Other interest	7	<u>(43)</u>	<u>(42)</u>
Net cash flow from financing activities		<u>(7,228)</u>	<u>(7,268)</u>
 Net (decrease)/ increase in cash and cash equivalents		(474)	(1,088)
Cash and cash equivalents at beginning of year		<u>6,802</u>	<u>7,890</u>
Cash and cash equivalents at end of year		<u>6,328</u>	<u>6,802</u>

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

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 Company's registration number is 03561960.

The address of its registered office is 1 Park Row, Leeds, LS1 5AB, United Kingdom.

The group's functional and presentation currency is the pound sterling. Monetary amounts in these financial statements are recorded to the nearest thousand.

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

These financial statements are prepared on a going concern basis, under the historical cost convention modified in respect of derivative financial instruments which are held at fair value.

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 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 in note 4.

Basis of Consolidation

The group's financial statements consolidate the financial statements of Health Management (Carlisle) Holdings Limited and Health Management (Carlisle) Limited drawn up to 31 December each year.

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. In preparing these forecasts, the Directors have considered external economic factors including the ongoing COVID-19 pandemic, supply chain pressures arising from Brexit and other global price increases, as well as the ongoing dispute with the Trust outlined in the Strategic Report.

The forecasts 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.

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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

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 group and value added taxes.

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

Where appropriate, income received under the PFI contract in respect of services provided during the operational phase of the contract is deferred to future periods in order to match those elements of income with the costs to which they relate. The turnover and cost of sales are recorded in the profit and loss account in the period in which the relevant costs are incurred.

Transactions to which the group 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.

Investments

Except as stated below, fixed asset investments are shown at cost less provision for impairment.

In the company balance sheet, investments in subsidiaries, acquired consideration is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

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 group 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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

3. Summary of significant accounting policies (continued)

Deferred tax is measured at the 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.

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

(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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

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

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.

(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 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 group'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.

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 group'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 group's shareholders. These amounts are recognised in the statement of changes in equity.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The exemptions which the company has taken are:

- (i) the requirement to prepare a statement of cash flows on the basis that it is a qualifying entity and the consolidated statement of cash flows includes the company's cash flows;

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

3. Summary of significant accounting policies (continued)

- (ii) certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (iii) the requirement to disclose related party transactions, with the members of the same group, that are wholly owned;

Prior Period Adjustment

The group has previously held an accrual for future lifecycle expenditure. The directors have now assessed that it is not appropriate for such an accrual to be held. A prior period adjustment has been processed for 2020 which has increased the opening P&L reserves by £1,319,000 and increased the profit after tax in the year by £963,000 (through a reduction in cost of sales of £1,189,000 net of corporation tax of £226,000). The closing 2020 P&L reserves have thereby increased by £2,282,000; Accruals and deferred income has decreased by £2,817,000 and corporation tax liability has increased by £535,000.

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 and estimates, 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 10 and 11 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 historical experience of the respective debtor. See note 11 for the carrying value of the debtors.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

4. Critical accounting judgements and estimation uncertainty (continued)

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 fair value of such instruments.

5. Operating profit

The group had no employees, other than the directors, during the year (2020: 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 £102,000 (2020: £100,000) to the company in respect of these services.

The audit fee in respect of the group was £17,000 for the year (2020: £16,000), payable to Johnston Carmichael LLP.

6. Interest receivable and similar income

	2021 £'000	2020 £'000
Imputed interest receivable on finance debtor	3,903	4,129
Interest receivable on loans from related parties	32	42
Interest income on bank deposits	1	15
	<u>3,936</u>	<u>4,186</u>

7. Interest payable and similar charges

	2021 £'000	2020 £'000
Interest on bank borrowings	1,018	1,331
Interest rate swap costs	1,779	1,738
Other financing costs	43	42
	<u>2,840</u>	<u>3,111</u>

The terms relating to the long-term bank loan are detailed in note 15.

Health Management (Carlisle) Holdings Limited
Notes to the financial statements
Year ended 31 December 2021

8. Taxation

(a) Tax expense included in profit or loss:

	2021 £'000	2020 £'000 Restated
Current tax		
Tax charge on profit on ordinary activities	1,204	1,144
Adjustment in respect of prior periods	-	(11)
	<hr/>	<hr/>
Total current tax	1,204	1,133
Deferred tax movement (note 14)		
Origination and reversal of timing differences	521	138
Adjustment in respect of prior periods	177	51
	<hr/>	<hr/>
Total deferred tax	698	189
	<hr/>	<hr/>
Total tax charge for the year	<u>1,902</u>	<u>1,322</u>

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

	2021 £'000	2020 £'000
Deferred Tax		
Arising from origination and reversal of timing differences	(666)	(59)
	<hr/>	<hr/>
	<u>(666)</u>	<u>(59)</u>

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

8. Taxation (continued)

(c) Reconciliation of tax charge

The tax on profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK (2020: higher than the standard rate of corporation tax in the UK) of 19% (2020: 19%).

The differences are reconciled below:

	2021 £'000	2020 £'000 Restated
Profit on ordinary activities before tax	3,768	3,946
Corporation tax at standard rate	716	749
Fixed asset differences	3	-
Expenses not deductible for tax purposes and income not taxable	-	52
Adjustment to brought forward values	433	372
Adjustment in respect of prior periods	-	(11)
Re-measurement of deferred tax- change in UK tax rate	142	51
Tax charged directly to equity	666	59
Timing differences	(58)	50
Total tax charge	1,902	1,322

Tax losses

In the Budget on 3 March 2021, it was announced that the UK corporation tax rate will increase to 23% from 1 April 2023. This will increase the company's future current tax charge accordingly. Deferred tax at 31 December 2021 has been calculated at 25%, the rate substantively enacted at the year end date.

Tax losses arising in previous years have been surrendered to the shareholder and former shareholder of the parent company by way of consortium relief (note 10). Amounts due from the former shareholder are now repaid in full. The shareholder is contracted to make payments to the company for such losses, surrendered at the rate which will be payable, as and when the company 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 company's cash flows require it.

Amounts of £1,676,762 (2020: £1,676,762) and £1,231,562 (2020: £1,231,562) have been included as consortium relief debtors and loans respectively (as detailed in note 11) in respect of these payments receivable from the shareholder, 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 2021

9. Investments

	Company	
	2021 £'000	2020 £'000
Investment in subsidiary	841	841
	<u>841</u>	<u>841</u>

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 1 Park Row, Leeds, LS1 5AB. The principal activity of Health Management (Carlisle) Limited is described on page 2 to the financial statements.

10. Debtors: amounts falling due within one year

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Finance debtor	3,100	2,735	-	-
Trade debtors	8,399	9,022	-	-
Amounts owed by Group undertakings	-	-	2	2
Prepayments and accrued income	60	56	-	-
Consortium Relief interest receivable	255	237	-	-
	<u>11,814</u>	<u>12,051</u>	<u>2</u>	<u>2</u>

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

	Group	
	2021 £'000	2020 £'000
Finance debtor	38,924	42,024
Consortium relief receivable (note 8)	1,677	1,677
Loans receivable (note 8)	1,231	1,231
	<u>41,832</u>	<u>44,932</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 2021

12. Creditors: amounts falling due within one year

	Group	
	2021	2020
	£'000	£'000
		Restated
Trade creditors	303	436
Taxation and social security	1,126	1,241
Senior secured loan (note 15)	4,164	4,256
Accruals and deferred income	8,077	8,528
Group relief payable	1,138	1,057
Deferred Tax (note 14)	592	560
	<u>15,400</u>	<u>16,078</u>

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

	Group	
	2021	2020
	£'000	£'000
Group relief payable	800	800
Senior secured loan (note 15)	35,541	39,706
Derivative financial instruments (note 16)	14,548	15,634
	<u>50,889</u>	<u>56,140</u>

14. Deferred Tax

	Group
	2021
	£'000
At 1 January 2021	560
Additions dealt with in profit or loss	698
Additions dealt with in other comprehensive income	(666)
	<u>592</u>
At 31 December 2021	<u>592</u>

Health Management (Carlisle) Holdings Limited
Notes to the financial statements
Year ended 31 December 2021

14. Deferred Tax (continued)

The deferred tax liability consists of the following;

	Group	
	2021	2020
	£'000	£'000
Accelerated capital allowances	4,229	3,531
Fair value of financial instruments	(3,637)	(2,971)
	<u>592</u>	<u>560</u>

15. Long-term loan

	Group	
	2021	2020
	£'000	£'000
Senior secured loan	<u>39,979</u>	<u>44,307</u>
Amounts repayable:		
In one year or less	4,229	4,328
In one year to five years	20,801	18,880
In more than five years	14,949	21,099
	<u>39,979</u>	<u>44,307</u>
Less: unamortised issue expenses	(273)	(345)
	<u>39,706</u>	<u>43,962</u>
Less: included within creditors due within one year	(4,164)	(4,256)
	<u>35,541</u>	<u>39,706</u>

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

The loan bears interest at a margin of 2.1% 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 company, and has certain covenants attached.

Subsequent Events

Post year end, an amendment was made to the loan and interest rate swap agreements to transfer from LIBOR to SONIA (effective from 1 January 2022). No other significant changes were made to the agreements. The estimated financial impact of the change is not material.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

16. Financial instruments RPI and interest rate swaps

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 affected 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 with the bank to hedge its exposure to the effect of interest rate fluctuations. The swap was affected on a maximum notional amount of £64.8 million payable in six-monthly intervals 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:

	Group	
	2021 £'000	2020 £'000
Liabilities		
RPI swap liability at period end	9,333	6,860
Interest rate swap liability at period end	5,215	8,774
	<u>14,548</u>	<u>15,634</u>

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

	2021 £'000	2020 £'000
Recognised through Other Comprehensive Income - RPI swap	1,730	(2,205)
Recognised through Other Comprehensive Income – Interest Rate swap	(5,338)	(1,664)
	<u>(3,608)</u>	<u>(3,869)</u>
Recognised through P&L – RPI swap	743	643
Recognised through P&L – Interest Rate swap	1,779	1,733
	<u>2,522</u>	<u>2,376</u>

17. Share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
420,501 ordinary 'A' shares of £1 each	420.5	420.5
420,501 ordinary 'B' shares of £1 each	420.5	420.5
	<u>841</u>	<u>841</u>

Both classes of shares rank pari passu and have identical rights in all respects.

Health Management (Carlisle) Holdings Limited
Notes to the financial statements
Year ended 31 December 2021

18. Notes to the cash flow statement

	2021 £'000	2020 £'000 Restated
Operating profit	2,672	2,871
Taxation	(1,123)	(1,631)
Decrease in debtors	3,369	3,194
(Decrease) / increase in creditors	(568)	1,402
	<hr/>	<hr/>
Cashflow from Operating activities	4,350	5,836
	<hr/>	<hr/>

	Group		
	At 1 January 2021 £'000	Cashflows £'000	Non-cash changes £'000
Cash at bank and in hand	6,802	(474)	-
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	6,802	(474)	-
	<hr/>	<hr/>	<hr/>
Senior Debt	(43,962)	4,328	(72)
Finance receivable	44,759	-	(2,736)
	<hr/>	<hr/>	<hr/>
Total	7,599	3,854	(2,808)
	<hr/>	<hr/>	<hr/>

19. 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.

Health Management (Carlisle) Holdings Limited

Notes to the financial statements

Year ended 31 December 2021

20. Related parties

The following companies, who have part ownership of the group, are considered to be related parties who incurred transactions with the group.

Dalmore Capital Fund LP

Amounts paid during the year

		2021 £'000	2020 £'000
Dalmore Capital Fund LP	Directors' Fees	365	365

Amounts owed to / (from) at

		31 December 2021 £'000	31 December 2020 £'000
Dalmore Capital Fund LP	Directors' Fees	32	25
Dalmore Capital Fund LP	Consortium relief surrendered	(2,741)	(2,741)
Dalmore Capital Fund LP	Consortium relief interest	(255)	(222)

21. Parent undertaking and controlling parties

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

The ultimate parent company is 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. Copies of the financial statements of Health Management (Carlisle) Holdings Limited are available from 1 Park Row, Leeds, LS1 5AB.