Worcestershire Hospital SPC plc

Annual report and financial statements

Registered number 03649489

31 December 2015

Contents

Company Information

Non-Executive Directors

PP Ashbrook
AE Birch
BIIF Corporate Services Limited
KW Gillespie
GS Jackson
BP Millsom
T Ryan (alternate to AE Birch)
CT Solley

Registered Office

Adamson House
Towers Business Park
Wilmslow Road
Didsbury
Manchester
M20 2YY

Registered Auditor

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Solicitors

Dundas & Wilson
Northwest Wing
Bush House
Aldwych
London
WC2B 4EZ

Bankers

Bank of Scotland
Edinburgh Branch
150 Fountainbridge
Edinburgh
EH3 9PE

Company Secretary

Ailison Mitchell LLB ACIS
Adamson House
Towers Business Park
Wilmslow Road
Didsbury
Manchester
M20 2YY

Strategic report

Company objectives

The objectives of the company are to successfully design, construct, finance, refurbish and operate certain facilities and provide non-clinical services at Worcester Royal Infirmary for a period of 30 years under a concession agreement with Worcester Acute Hospitals NHS Trust.

Company's strategy

To ensure that the company achieves its objective, the strategy is to implement processes, policies and procedures to comply with the control matrices stipulated in the project documentation committed to at the inception of the project. This includes minimising performance and availability deductions, cash monitoring and maintenance of good working relationships between all stakeholders.

Principal risks and uncertainties

As the project is currently in its operational phase, operational risks are monitored closely. This takes the form of full-time representation on site through the Company's management services agent and periodic reporting by the independent Technical Assessor plus regular dialogue with the executive team of the Worcester Acute Hospitals NHS Trust.

There is no RPI swap to reduce volatility of operating cash flows in relation to the fixed rate debt service. However, this is under continuous review by the directors. Current forecasts show that modest reductions in RPI would not have a material impact on project economics.

The company's principal financial instruments comprise secured bonds, a mezzanine loan and unsecured loan stock. The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues arising from the concession.

The company does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities. The secured bonds and the unsecured loan stock is not exposed to interest rate risk.

A small proportion of cash flow is derived from bank interest on cash balances. The current low levels of interest rates have reduced this interest but this has not impacted on debt covenant compliance.

During the previous year, a dispute arose with the Trust over certain defects and the level of availability deductions which should apply as a consequence. Negotiation with all contract parties is at an advanced stage and the financial statements include a charge of £5.1m (2014: £8.7m). The effect of this is more fully explained in note 1.

The Company's revenues have largely been in line with expectations, with very few deductions applied for non-availability of the assets. Any such deductions are generally passed down to the subcontractors so there is usually no direct financial consequence to the company. An exception to this is the cost of the fire-stopping settlement which has been charged to the profit and loss account. Compliance with the detailed and complex operational requirements of the PFI projects remains a key risk given the potential termination consequences. Directors receive regular reports on actual performance compared to termination trigger thresholds.

Another risk is the continued funding from the public sector counterparties to the PFI project agreements, especially as these counterparties are under pressure to make savings in their operational PFI contracts. To date, most of the pressure to make such cost savings has fallen on the sub-contractors to the project companies rather than on the project companies themselves. Furthermore, it is understood that current policy from central government is not to encourage voluntary termination of PFI projects.

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator. These are reported quarterly to the Board and have been extremely small in relation to total unitary payments.

Another key indicator is the ratio of operating cash flow to the senior debt service amount. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

Strategic report *(continued)*

Development and performance of the business

The company made a pre-tax loss of £919,000. Excluding the exceptional operating cost of £5,138,000, profit before tax was £4,219,000 compared to £4,855,000 in 2014. The exceptional operating loss is more fully explained in note 1.

By order of the board

Ailison Mitchell LLB ACIS
Company Secretary

Adamson House
Towers Business Park
Wilmslow Road
Didsbury
Manchester
M20 2YY

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2015.

Business review

During the previous year, a dispute arose with the Trust over certain defects and the level of availability deductions which should apply as a consequence. The effect of this is explained in notes 1 and 12.

The results of the company for the year are set out in the profit and loss account on page 9 and in note 16.

Proposed dividend and transfer to reserves

The company made no dividend payment in the year (*2014: £705,000*).

The loss for the year is £84,000 (*2014: £3,065,000)*.

Directors

The directors who held offices during the year are set out on page 1.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Political and charitable donations

There were no political donations made in the year (*2014: £nil)*.

Corporate Governance

The Company is committed to high standards of corporate governance, as are appropriate for the longer term obligations to finance, construct and operate non-clinical services for the new Worcester Royal Infirmary hospital under the Private Finance Initiative programme.

The Board of Directors also acts as the Board of Directors of the holding company. Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with the Worcester Acute Hospitals NHS Trust. The Board has taken note of the UK Corporate Governance Code, which applies to equity quoted plcs with certain reporting requirements; this company, not being an equity quoted plc, is not bound by the code's requirements but has voluntarily adopted certain of those principles as detailed below.

This report is a narrative on the principles of corporate governance as applied in this company. It does not provide a detailed statement to identify those provisions of the new code from which the Company's governance differs.

A. The Board

1. The Board meets quarterly and reviews operating performance against the financial model and detailed management budgets. This model incorporates all aspects of the strategic business plan and associated risks; all proposals for contract variations are vetted before approval against the model.

   The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project.

2. The position of Chairman is rotated on an annual basis and the nominated chair leads the Board.

3. The Board comprises 7 non-executive directors nominated by each participating shareholder.

4. The Board receives quarterly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the hospital project.

5. Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision.

Directors' report *(continued)*

A. ***The Board (continued)***

6. For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation.

B. ***Remuneration***

No directors received remuneration directly from the Company. The remuneration for services of the non-executive directors is set out in note 4.

C. ***Dialogue with Institutions***

The Board maintains regular liaison with Assured Guaranty as insurance guarantor of the Bond issue.

D. ***Financial Reporting***

1. The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the Company and ensures that they are consistently applied.
2. The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships.
3. The Board has decided to undertake the role of an Audit Committee with all directors. The Audit Committee meets annually to review the Audit Committee Discussion document tabled by the Auditors.
4. The Board continues to satisfy itself that, given the contractual and long-term funding provisions, the Company will continue to trade as a going concern. The consideration of going concern is set out in note 1.

E. ***Internal controls***

1. The Board annually reviews the need for a formal internal audit function.
2. The Board maintains a sound system of internal control to safeguard shareholders' investments and the companies' assets.

Disclosure of information to auditor

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

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 2 and 3.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

A L Mitchell LLB ACIS
Company Secretary

Adamson House
Towers Business Park
Wilmslow Road
Didsbury
Manchester
M20 2YY

Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP

1 St Peter's Square
Manchester
M2 3AE
United Kingdom

Independent auditor's report to the members of Worcestershire Hospital SPC plc

We have audited the financial statements of Worcestershire Hospital SPC plc for the year ended 31 December 2015 set out on pages 9 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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. 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Worcestershire Hospital SPC plc
(continued)

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, 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.

Liam Finnigan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

Profit and Loss Account and Other Comprehensive Income
for year ended 31 December 2015

	Note	**2015 £000**	**2015 £000**	2014 £000	2014 £000
Turnover	*2*		**30,130**		38,050
Cost of sales - ordinary		**(25,336)**		(32,687)	
Cost of sales - exceptional		**(5,138)**		(8,659)	
Total cost of sales			**(30,474)**		(41,346)
Operating loss			**(344)**		(3,296)
Other interest receivable and similar income	*5*		**4,676**		4,840
Interest payable and similar charges	*6*		**(5,251)**		(5,348)
Loss on ordinary activities before taxation			**(919)**		(3,804)
Tax on loss on ordinary activities	*7*		**835**		739
Loss for the financial year			**(84)**		(3,065)

The Company has no recognised gains or losses other than the retained loss for the year and therefore no separate statement Other Comprehensive Income has been presented.

There is no difference between the loss on ordinary activities before taxation and the historical cost equivalent.

The results for the year arise wholly from continuing operations.

The notes on pages 12 to 24 form an integral part of these Financial Statements.

Balance Sheet
at 31 December 2015

	Note	2015 £000	2014 £000
Current assets			
Debtors (including £69,960,000 (2014: £72,700,000) due after more than one year)	*8*	**103,435**	102,093
Cash at bank and in hand		**15,795**	13,328
		119,230	115,421
Creditors: amounts falling due within one year	*9*	**(12,346)**	(10,634)
Total assets less current liabilities		**106,884**	104,787
Creditors: amounts falling due after more than one year	*10*	**(74,719)**	(76,895)
Provisions for liabilities and charges	*12*	**(26,583)**	(22,226)
Net assets		**5,582**	5,666
Capital and reserves			
Called up share capital	*13*	**60**	60
Profit and loss account		**5,522**	5,606
Total shareholders' funds		**5,582**	5,666

The notes on pages 12 to 24 form an integral part of these financial statements

These financial statements were approved by the board of directors on 28 April 2016 and were signed on its behalf by:

Director
CT SOLLEY
Company registered number: 03649489

Statement of Changes in Equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2014	60	9,376	**9,436**
Total comprehensive income for the year			
Loss for the year	-	(3,065)	**(3,065)**
Total comprehensive loss for the year	-	(3,065)	**(3,065)**
Transactions with owners, recorded directly in equity			
Dividends	-	(705)	(705)
Balance at 31 December 2014	**60**	**5,606**	**5,666**

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015	60	5,606	**5,666**
Total comprehensive income for the year			
Loss for the year	-	(84)	**(84)**
Total comprehensive income for the year	-	(84)	**(84)**
Transactions with owners, recorded directly in equity			
Dividends	-	-	-
Balance at 31 December 2015	**60**	**5,522**	**5,582**

The notes on pages 12 to 24 form an integral part of these financial statements

Notes
(forming part of the financial statements)

1 Accounting policies

Worcestershire Hospital SPC plc (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS 102, issued in July 2015 and effectively immediately, have been applied. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Company has made one measurement and recognition adjustment. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 16.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Service concession arrangements – the Company entered into its Service concession arrangement before the date of transition to this FRS. Therefore, its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

The Company's ultimate parent undertaking, Consolidated Investment Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Consolidated Investment Holdings Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

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

As the consolidated financial statements of Consolidated Investment Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 17.

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

1.2 Going concern

The company currently has £79,665,000 *(2014: £81,605,000)* of total debt. The company's forecasts and projections, which include the impact of the settlement referred to in the directors' report and note 12, and take account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities.

During the previous year, a dispute arose over certain defects and the level of availability deductions which should be applied as a consequence. With a view to bringing this dispute to a prompt resolution, the directors are negotiating a settlement figure with all contract parties. The facilities maintenance contractor is undertaking a programme of remedial works and these are substantially complete. The directors have appointed technical experts to determine the full extent of the remedial works required and to provide assurance that the works are being carried out to the appropriate standard.

As the negotiations are at an advanced stage, the directors are confident that an overall settlement will be reached with all parties in the very near future, including payments and reimbursements, and have recognised the resultant assets and liabilities in the financial statements. The directors are confident in bringing the dispute to a prompt resolution in the very near future. They have also considered the likely outcomes of arbitration proceedings in the unexpected event that the negotiations do not conclude for any reason. As a result, the directors anticipate that the contractual operations will continue for the foreseeable future.

The Directors have reviewed the Company's projected loss and cash flows, which include the impact of the settlement referred to in the directors' report and note 12, and by reference to a financial model covering accounting periods up to December 2031. The company has considerable financial resources together with long-term contracts with the NHS Trust. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1.3 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes *(continued)*

1 Accounting policies *(continued)*

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The Company is obligated to keep a separate cash reserve in respect of future financing costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £3,178,000 at the year end (2014: £3,204,000).

The Company is also obligated to keep a separate cash reserve in respect of future major maintenance costs. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £3,929,000 at the year end (2014: £3,404,000)

1.5 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Finance debtor and service income

The Company is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Company under FRS102 section 34C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Trust.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. Amounts receivable under the agreement with the Worcester Acute Hospitals NHS Trust relating to the hospital facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

In the operational phase, the balance of unitary payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease) is accounted for as turnover. This figure is adjusted in each period to ensure that income recognised more accurately reflects the value of economic benefits provided to the public sector client in each period, and is necessary due to the inflationary nature of the unitary payments. As a consequence of this adjustment to turnover, which is generally positive in the first half of the concession and negative in the second half (and must net out over the whole concession), a unitary payment control account debtor is recorded on the balance sheet.

1.7 Expenses

Interest receivable and Interest payable

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

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

Interest payable is recognised in profit or loss as it accrues, using the effective interest method. Other interest receivable and similar income is recognised in profit or loss as it accrues.

1.8 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense

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

1.9 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date. Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods.

Notes *(continued)*

2 Turnover

	2015		2014	
	Turnover	**Attributable pre-tax loss**	Turnover	Attributable pre-tax loss
	£000	**£000**	£000	£000
By activity				
Operational services	**22,522**	**(1,243)**	22,146	(4,067)
MES services	**7,608**	**324**	7,371	263
Construction Services	**-**	**-**	8,533	-
	30,130	**(919)**	38,050	(3,804)

The turnover and loss on ordinary activities before taxation arise entirely within the United Kingdom.

3 Auditor's remuneration:

	2015	2014
	£000	£000
Amounts receivable by the auditor and their associates in respect of:		
Audit of these financial statements	**13**	13

4 Staff costs and Directors' remuneration

	2015	2014
	£000	£000
Recharges in respect of non-executive directors' services to third parties	**268**	244

The company had no employees during the year (2014: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges. The Directors received no remuneration for their services during the year (2014: £nil). A payment is made for the services of the non-executive directors to their employer.

5 Other interest receivable and similar income

	2015	2014
	£000	£000
Bank interest	**67**	77
Finance debtor interest receivable	**4,609**	4,763
	4,676	4,840

Notes *(continued)*

6 Interest payable and similar charges

	2015	2014
	£000	£000
To parent company	**528**	474
On bank loans and overdrafts	**4,723**	4,874
	5,251	5,348

7 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2015	2014
	£000	£000
UK corporation tax		
Current tax on income for the period	**-**	-
Adjustments in respect of prior periods	**-**	(108)
	-	(108)
Deferred tax (see note 12)		
Tax losses	**253**	(385)
Origination and reversal of timing differences	**(261)**	(229)
Effect of changes in tax rate	**(827)**	(17)
Total tax credit	**(835)**	(739)

		2015			2014	
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
	£000	**£000**	**£000**	£000	£000	£000
Recognised in Profit and loss account	**-**	**(835)**	**(835)**	(108)	(631)	(739)
Recognised in other comprehensive income	**-**	**-**	**-**	-	-	-
Total tax	**-**	**(835)**	**(835)**	(108)	(631)	(739)

Notes *(continued)*

7. Taxation *(continued)*

Reconciliation of effective tax rate

	2015 £000	2014 £000
Loss for the year	**(84)**	(3,065)
Total tax credit	**(835)**	(739)
Loss excluding taxation	**(919)**	(3,804)
Tax at standard rate of 20.25% *(2014: 21.5%)*	**(186)**	(818)
Effects on actual tax charge for the year:		
Expenses not deductible for tax purposes	**(11)**	(11)
Reduction in tax rate on deferred tax balances	**(638)**	198
Adjustments in respect of previous periods	**-**	(108)
Total tax credit charged to the profit and loss account (see above)	**(835)**	(739)

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax liability at 31 December 2015 has been calculated based on these rates.
An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly and reduce the deferred tax liability at 31 December 2015 by £385,000.

8 Debtors

	2015 £000	2014 £000
Finance debtor	**72,700**	75,275
Trade debtors	**6,390**	4,926
Other debtors	**22,603**	21,023
Prepayments and accrued income	**86**	-
Corporation tax	**1,656**	869
	103,435	102,093

Debtors include a finance debtor of £69,960,000 (2014: £72,700,000) due after more than one year.

Notes *(continued)*

9 Creditors: amounts falling due within one year

	2015	2014
	£000	£000
Fixed-rate guaranteed secured bonds	**2,031**	2,149
Mezzanine loan	**346**	320
Amount owing to parent company	**767**	239
Trade creditors	**6,494**	5,664
Taxation and social security	**578**	364
Accruals and deferred income	**2,130**	1,898
	12,346	10,634

10 Creditors: amounts falling due after more than one year

	2015	2014
	£000	£000
Fixed-rate guaranteed secured bonds	**67,030**	68,867
Mezzanine loan	**4,532**	4,871
Amounts owing to parent company	**3,157**	3,157
	74,719	76,895

11 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2015	2014
	£000	£000
Creditors falling due after more than one year		
Fixed-rate guaranteed secured bonds	**67,030**	68,867
Mezzanine loan	**4,532**	4,871
Amounts owing to parent company	**3,157**	3,157
	74,719	76,895

	2015	2014
	£000	£000
Creditors falling due within one year		
Fixed-rate guaranteed secured bonds	**2,031**	2,149
Mezzanine loan	**346**	320
Amounts owing to parent company	**767**	239
	3,144	2,708

Notes *(continued)*

11 Interest-bearing loans and borrowings *(continued)*

Included within Fixed rate guaranteed secured bonds is an amount repayable after five years of £56,630,000 (2014: £59,896,000), included within the mezzanine loan are amounts repayable after five years of £2,726,000 (2014: £3,250,000) and included within amounts owing to parent company are amounts repayable after five years of £3,157,000 (2014: £3,157,000) respectively.

Terms and debt repayment schedule

The total cash repayable on the loan is as follows:

	Currency	Nominal interest rate	Year of maturity	Repayment schedule	2015 £000	2014 £000
Fixed-rate guaranteed secured bonds	GBP	5.57%	2030	Semi-annual	**70,817**	71,016
Mezzanine loan	GBP	LIBOR +5%	2024	Semi-annual	**4,924**	5,191
Amounts owing to parent company	GBP	15%	2031	Semi-annual	**3,924**	3,396

The fixed-rate guaranteed secured bonds are secured by a fixed charge over the whole of the property, assets and undertaking of the company, assignment of all rights to any proceeds of any insurance policies and all present and future book and other charges over all assets which have not been secured by way of a fixed charge or assignment.

12 Provisions for liabilities and charges

	Settlement Provision £000	Deferred Tax £000	Total £000
At beginning of year	13,269	8,957	**22,226**
Utilised during year	-	-	-
Charge to the profit and loss for the year	5,192	(835)	**4,357**
At the end of the year	**18,461**	**8,122**	**26,583**

The provision for a settlement figure relates to the dispute over certain defects and the level of availability deductions which should apply as a consequence. As negotiations are at an advanced stage, the directors are confident in bringing the dispute to a prompt resolution. £7.3m of the settlement provision is estimated to be utilised within one year and the residual balance is to be utilised throughout the remaining term of the concession. The amount of the settlement provision is based on a discount rate of 2.2%. The undiscounted settlement provision is £21m.

Notes *(continued)*

12 Provisions for liabilities and charges *(continued)*

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015	2014	**2015**	2014	**2015**	2014
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**4,882**	5,506	**4,882**	5,506
Unused tax losses	**(131)**	(385)	**-**	-	**(131)**	(385)
Other	**-**	-	**3,371**	3,836	**3,371**	3,836
Tax (assets) / liabilities	**(131)**	(385)	**8,253**	9,342	**8,122**	8,957
Net of tax liabilities/(assets)	**131**	385	**(131)**	(385)	**-**	-
Net tax liabilities	**-**	-	**8,122**	8,957	**8,122**	8,957

In the year ended 31 December 2016 a net decrease in the deferred tax liabilities of £164,000 is expected to occur due to the reversal of timing difference offset by utilisation of all tax losses.

13 Capital and reserves

Called up share capital

	2015	2014
	£000	£000
Allotted, called up and fully paid		
Equity: 60,000 Ordinary shares of £1 each	**60**	60

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes *(continued)*

14 Related parties

The details of the related party transactions are detailed as follows:

Related party	Relationship	Class of transaction	2015 Income/ (expenditure) £000	2014 Income/ (expenditure) £000	2015 Debtor/ (creditor) £000	2014 Debtor/ (creditor) £000
Civis PFI/PPP Infrastructure Fund LP (previously known as PFI/PPP Infrastructure Fund LP)	50% shareholder in Consolidated Investment Holdings Limited	Directors' services	**(82)**	(81)	-	-
Aberdeen Infrstructure Finance GP Ltd	Sister company of 50% shareholder in Consolidated Investment Holdings Limited	Directors' services	**(82)**	(81)	-	-
BIIF Bidco Limited	16.7% shareholders of Worcestershire Hospital SPC Holdings Limited	Directors' services	**(66)**	(41)	-	-
Semperian PPP Investment Partners No 2 Limited	16.7% shareholders of Worcestershire Hospital SPC Holdings Limited	Directors' services	**(66)**	(41)	**(12)**	-
Ken Gillespie	Director	Directors' services	**(25)**	-	-	-
Glass Advisory Services Limited	100% owned by LW McKenna (director)	Consultant's fee	-	(13)	-	-

15 *Ultimate parent company and parent company of larger group*

The company is a subsidiary undertaking of Worcestershire Hospital SPC Holdings Limited, a company incorporated in England and Wales, of which 67% is owned by Consolidated Investment Holdings Limited.

The largest and smallest group in which the results of the Company are consolidated is that headed by Consolidated Investment Holdings Limited incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from Adamson House, Towers Business Park, Wilmslow Road, Didsbury, Manchester, M20 2YY.

Notes *(continued)*

16 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following table and the notes that accompany the table.

Reconciliation of equity

	Note	UK GAAP	1 January 2014 Effect of transition to FRS102	FRS102	UK GAAP	31 December 2014 Effect of transition to FRS102	FRS102
		£000	**£000**	**£000**	**£000**	**£000**	**£000**
Current assets							
Debtors (due within one year)		22,458	-	22,458	28,386	-	28,386
Debtors (due after more than one year)		75,275	-	75,275	73,707	-	73,707
Cash at bank and in hand		12,056	-	12,056	13,328	-	13,328
Creditors: amounts due within one year		(11,005)	-	(11,005)	(10,634)	-	(10,634)
Net current assets		98,784	-	98,784	104,787	-	104,787
Creditors: amounts falling due after one year		(79,157)	-	(79,157)	(76,895)	-	(76,895)
Provisions for liabilities and charges	a	(7,753)	(2,438)	(10,191)	(20,801)	(1,425)	(22,226)
Net assets		11,874	(2,438)	9,436	7,091	(1,425)	5,666
Capital and reserves							
Called up share capital		60	-	60	60	-	60
Profit and loss account	a	11,814	(2,438)	9,376	7,031	(1,425)	5,606
Shareholders' equity		11,874	(2,438)	9,436	7,091	(1,425)	5,666

Notes *(continued)*

16 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of loss for the year ended 31 December 2014

	Note	UK GAAP £000	2014 Effect of transition to FRS102 £000	FRS102 £000
Turnover		38,050	-	38,050
Operating costs		(41,346)	-	(41,346)
Operating loss		(3,296)	-	(3,296)
Other interest receivable and similar income		4,840	-	4,840
Interest payable and similar charges		(5,348)	-	(5,348)
Loss on ordinary activities before taxation		(3,804)	-	(3,804)
Taxation	a	(274)	1,013	739
Loss for the year		(4,078)	1,013	(3,065)

Notes to the reconciliation of equity and loss

a Discounting of deferred tax

The company discounted its deferred tax assets and liabilities under old UK GAAP. In accordance with the requirements of FRS 102.29, current and deferred tax assets/liabilities are not permitted to be discounted.

17 Accounting estimates and judgements

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

- Accounting for the service concession contract and finance debtors requires estimation of a finance debtor interest rate.