

Company Registration No. 04157362

Summit Healthcare (Dudley) Limited

Annual Report and Financial Statements

For the year ended 31 March 2018



Summit Healthcare (Dudley) Limited

Annual report and financial statements for the year ended 31 March 2018

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Summit Healthcare (Dudley) Limited

Annual report and financial statements for the year ended 31 March 2018

Officers and professional advisers

Directors

S M Jones
R J Marsden
M T Smith
R M Thompson
J S Gordon
C T Solley

Company Secretary

W L Rapley

Bankers

Lloyds Bank plc
11-15 Monument Street
London
EC3V 9JA

Registered Office

Interserve House
Ruscombe Park
Twyford
Reading
RG10 9JU

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Summit Healthcare (Dudley) Limited

Strategic report

The directors present their strategic report on the company for the year ended 31 March 2018. These financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Business review and principal activities

The company's principal activity is undertaking a Private Finance Initiative (PFI) concession contract with the Dudley Group of Hospitals NHS Trust to design, build, refurbish, finance and operate various hospital facilities in Dudley, West Midlands. The contract was signed on 17 May 2001 with building activities commencing immediately and completing in March 2005. Service operations on the existing buildings also commenced from May 2001 and will run for 40 years from that date.

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

As shown in the company's statement of comprehensive income on page 8, the company's turnover increased by £3.60m (2017: increased by £0.46m), mainly due to the increased variations and inflationary increases.

The operating profit decreased by £2.2m in the year (2017: increased by £1.8m), mainly due to increased lifecycle expenditure in the year. In the previous year, the provision was reduced resulting in a net credit.

Financing charges were a net charge of £3.2m for the year (2017: charge £0.5m), mainly due to an increase in inflation on the indexed bonds and loan.

The company's financial position as detailed in the statement of financial position on page 9 of the financial statements shows a deterioration of £38.4m in the net asset position due mainly to the reduction in fair value of Contract Debtor. This was due to an increase in the discount rate.

The company's operations are managed under the supervision of its shareholders and lenders and are largely determined by the detailed terms of the PFI contract. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business.

The PFI contract and related subcontracts are fixed for the life of the contract and this enables the company to have reasonable certainty over its income and expenditure for this year. In addition, the company has credit agreements in place with its lenders via its sister company, Dudley Summit PLC, which state the level of borrowing and repayments due, subject to RPI inflation, until the loan and bonds are fully repaid by 2038. These agreements subject the company to various covenants. The company remains in compliance with all covenants.

However, as noted in previous years, the decline in the credit rating of AMBAC (the Monoline Guarantor) in November 2008 led to its 'Loss of Qualifying Status' under the agreement with the European Investment Bank (EIB) and also represented a 'Guarantor Event of Default'. The EIB continues to hold the right to request a replacement guarantor. If a replacement were requested and not provided within 45 days of the request, the EIB would have the right to call in their loan. The EIB has been levying an additional 'default' interest charge since the downgrade of AMBAC but has not made any request for a replacement guarantor. Whilst the EIB has reserved its right to request a replacement guarantor, the directors have not received any indication that this right would be exercised.

As the underlying project outlook is profitable and revenue is being generated from a long term government contract, the directors are confident that there will be no changes to the situation outlined above and in any event are confident that alternative replacement funding could be arranged if required.

Therefore the directors, having considered the financial position of the company and its expected future cash flows, have prepared the financial statements on the going concern basis.

The company was incorporated in Great Britain, registered in England and Wales and is domiciled in the United Kingdom.

Summit Healthcare (Dudley) Limited

Strategic report (continued)

Principal risk and uncertainties

The company's principal activity as detailed above is largely risk averse as its trading relationships with its customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks as detailed in the following section, and to inadequate provision for long term maintenance obligations on the project.

One of the risks of the Company is that services may not be able to continue due to the financial failure of one of Company's subcontractors. The financial stability of the facilities management and management service company is being monitored. The directors have reviewed the benchmarking information on the facilities management contract fee and are comfortable that this is a market rate which would enable replacement of the subcontractor for a similar fee. The management service subcontractor fee has been reviewed and the directors feel comfortable that the service is at the market rate. In conjunction with this analysis, the directors have agreed in principle for the provision of management services to be transferred to a third party. That transfer will be subject to the consent of the group's Lenders.

Financial instruments and financial risk management

The company's principal financial instruments comprise its finance receivable, cash, guaranteed secured bonds and loans, and subordinated unsecured loan stock. The main purpose of these financial instruments has been to finance the design, build and operation of various hospitals under the Government's Private Finance Initiative. The company has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the company's financial instruments are interest rate, inflation, liquidity and credit. The board has policies for managing each of these risks and they are summarised below:

Interest and inflation rate risk

The company's main borrowings are at fixed rates of interest uplifted by RPI increases and it also receives income linked to RPI. The company also invests in cash deposits at floating rate.

The company's exposure to interest and inflationary fluctuations will continue to be monitored.

Liquidity risk

The company adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its obligations. Due to the nature of the project cash flows are reasonably predictable and so, subject to the matter regarding the downgraded credit rating of AMBAC and the impact on the EIB loan as detailed on page 2, this is not a major risk area for the company.

Credit risk

The company receives its revenue from a NHS Trust and therefore is not exposed to significant credit risk. Cash investments and borrowings are with institutions of a suitable credit quality.

Events

There have been no significant events since the statement of financial position date.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

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



C Solley
Director

Date: 28th September 2018

Summit Healthcare (Dudley) Limited

Directors' report

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

Strategic report

The information that fulfils the Companies Act requirements of the business review is included in the strategic report. This includes a review of the development of the business of the company during the year, and of its position at the end of the year and of the likely future developments in its business. Details of the principal risks, uncertainties and financial risk management are included in the strategic report.

Environment

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

Employees

The company has no direct employees as detailed in note 5 on page 15.

Results and dividends

The results of the company are as set out in the statement of comprehensive income on page 8.

The directors do not recommend the payment of a dividend (2017: £nil).

Directors and their interests

The directors who served during the year and at the date of this report are set out below:

S M Jones
R J Marsden
M T Smith
R M Thompson
J S Gordon
C T Solley

None of the directors at 31 March 2018 held any interests in the share capital of the company.

Information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:


- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

The Company will be carrying out at tender for the audit of its 31 March 2019 financial statements.

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


C Solley
Director

Date: 28th September 2018

Summit Healthcare (Dudley) Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 accounting 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Summit Healthcare (Dudley) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial of Summit Healthcare (Dudley) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements the 'company which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 21.

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" (United Kingdom Generally Accepted Accounting Practice).

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's responsibilities for the audit of the financial statements section of our report.

We are independent of the 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 other 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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is material misstatement in the financial statements or a material misstatement of other information. 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 respect of these matters.

Independent auditor's report to the members of Summit Healthcare (Dudley) Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 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's 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.

Philip Doherty

Philip Doherty FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

Date: *25 September* 2018

Summit Healthcare (Dudley) Limited

Statement of comprehensive income for the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	2	34,420	30,788
Cost of sales		(30,963)	(25,040)
Gross profit		<u>3,457</u>	<u>5,748</u>
Administrative expenses		(900)	(938)
Operating profit	3	<u>2,557</u>	<u>4,810</u>
Interest receivable and similar income	6	10,609	10,798
Interest payable and similar charges	7	(13,772)	(11,265)
		<u>(3,163)</u>	<u>(467)</u>
(Loss)/profit before taxation		(606)	4,343
Tax charge	8	(564)	(855)
(Loss)/profit on after taxation		<u>(1,170)</u>	<u>3,488</u>
Other comprehensive income for the year			
Loss for the year on revaluation of financial asset taken to equity		(37,236)	(3,271)
Total comprehensive (expense)/income for the year		<u>(38,406)</u>	<u>217</u>

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

Summit Healthcare (Dudley) Limited

Statement of financial position as at 31 March 2018

	Notes	2018 £'000	2017 £'000
Fixed Assets			
Tangible Assets	9	38	29
Current assets			
Debtors: amounts falling due within one year	10	3,011	21,609
Debtors: amounts falling due after more than one year	11	155,452	194,777
Cash and deposits	12	25,354	935
		<u>183,817</u>	<u>217,321</u>
Creditors: amounts falling due within one year	13	<u>(14,456)</u>	<u>(9,763)</u>
Net current assets		<u>169,361</u>	<u>207,558</u>
Total assets less current liabilities		<u>169,399</u>	<u>207,587</u>
Creditors: amounts falling due after more than one year	14	<u>(163,324)</u>	<u>(163,106)</u>
Net assets		<u><u>6,075</u></u>	<u><u>44,481</u></u>
Capital and reserves			
Called up share capital	18	10	10
Profit and loss account		(20,346)	(19,176)
Fair value reserve		<u>26,411</u>	<u>63,647</u>
Shareholder's surplus		<u><u>6,075</u></u>	<u><u>44,481</u></u>

The financial statements of Summit Healthcare (Dudley) Limited; registered number 04157362 were approved by the Board of Directors and authorised for issue on the 28th September 2018.

Signed on behalf of the Board of Directors


C Solley
Director

Summit Healthcare (Dudley) Limited

Statement of changes in equity for the year ended 31 March 2018

	Called up share capital £'000	Profit and loss account £'000	Fair value reserve £'000	Total equity £'000
At 1 April 2016	10	(22,664)	66,918	44,264
Profit for the year	-	3,488	-	3,488
Loss on financial asset	-	-	(3,271)	(3,271)
Total comprehensive income	-	3,488	(3,271)	217
At 31 March 2017	10	(19,176)	63,647	44,481
Loss for the year	-	(1,170)	-	(1,170)
Loss on financial asset	-	-	(37,276)	(37,276)
Total comprehensive income	-	(1,170)	(37,276)	(38,406)
At 31 March 2018	10	(20,346)	26,411	6,075

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies

Summit Healthcare (Dudley) Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the company's registered office is shown on page 1.

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below and have been applied consistently in the current and prior years, except as noted below.

(a) *Going concern*

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

(b) *Accounting convention*

The financial statements have been prepared in accordance with applicable UK law and accounting standards, and in accordance with the historical cost basis, modified to include certain items at fair value (see Financial Instruments below), and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, mainly in relation to the presentation of a cash flow statement, reconciliation of any share movements in the year, key management personnel compensation and financial instruments. The parent and controlling companies are detailed in note 20 below.

(c) *Tangible fixed assets*

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Office equipment: 4 years. Leasehold property improvements: 10 years.

(d) *Finance receivable*

During the period of construction, costs incurred as a direct consequence of designing and constructing the facilities, including finance costs, were shown as assets under construction.

On completion, credit was taken for the deemed sale, which was recorded within turnover. The construction expenditure and associated costs were reallocated to cost of sales. Amounts receivable are classified as a financial asset.

In the prior year the company took advantage of exemptions made available under section 35 10 (i) of FRS 102, and as such there has been no change to the treatment of the financial asset receivable due to the adoption of the standard.

The financial asset is recorded in the statement of financial position at fair value with movements in fair value recorded in the fair value reserve with the exception of impairment due to permanent diminution in value recorded in the statement of comprehensive income.

Revenues received from the customer are apportioned between:

- capital repayments;
- finance income; and
- operating revenue.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies (continued)

(e) *Finance costs*

Finance costs of financial liabilities are recognised in the statement of comprehensive income over the term of such instruments at a constant rate on the carrying amount.

(f) *Borrowing costs*

It is company policy to capitalise borrowing costs during the construction phase. Cumulative borrowing costs of £20.185 million have been 100% capitalised.

£nil borrowing costs have been capitalised since commencement of the operational phase.

(g) *Lifecycle costs*

Under the terms of the PFI contract, the company has a programme of expenditure for the maintenance of and replacement of non-moveable assets in the hospital facilities. In recognition of this obligation, the company has created a lifecycle expenditure provision to record the difference between the annual charge for maintenance prescribed by the contract terms and that actually incurred.

(h) *Capital Commitments*

There are no capital commitments (2017: £nil).

(i) *Financial instruments*

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

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.

Gains and losses arising from changes in fair value of financial assets are recognised directly in reserves, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in reserves is included in the net profit or loss for the year.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method 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.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies (continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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.

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.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, 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 finance income as appropriate, unless they are included in a hedging arrangement.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligation specified in the contract is discharged, cancelled, or expires.

(j) Bank debt policy

Interest-bearing bonds and bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the statement of comprehensive income using the effective interest method, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Issue costs are amortised over the period of the borrowings in proportion to the scheduled principal repayments.

(k) Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items or income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1. Accounting policies (continued)

(l) Critical Accounting Judgements and Key Sources of Estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

Certain critical accounting judgements in applying the group's accounting policies are described below:

- Accounting for the service concession contract and finance debtor require an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the PFI contract.

Certain key sourced of estimation uncertainty:

- The finance debtor is revalued held at fair value by discounting future movements in capital and interest using a suitable rate. Details are given in Note 19.

(m) Estimates

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.

Effective Interest Rate

Interest payable on the indexed secured bond and indexed loan is calculated using the effective interest rate. Effective interest rate calculations are based on assumptions regarding future RPI rates, which are based on management's best estimates where there is a level of uncertainty.

2. Turnover

The company's turnover is derived from activities in the United Kingdom, represents amounts invoiced, excluding VAT, for services rendered, and is recognised each year as the applicable portions of the amounts receivable relating to finance and operating costs calculated on a consistent basis (see accounting policy note 1).

3. Operating profit

This is stated after charging:

	2018 £'000	2017 £'000
Auditor's remuneration - audit services for the audit of the company accounts	16	15
Tax services - compliance (not provided by auditors)	6	10
Depreciation	6	7

4. Directors' emoluments

Directors' emoluments during the year were £nil (2017: nil) in respect of services rendered in connection with the management of the affairs of this company.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

The emoluments of the highest paid director were £nil (2017: nil).

5. Staff costs

The company does not have any direct employees (2017: none). Any staff working for the company are seconded from other companies in accordance with the management services agreement.

6. Interest receivable and similar income

	2018 £'000	2017 £'000
Bank interest	126	169
Interest on the finance receivable	10,483	10,629
	<u>10,609</u>	<u>10,798</u>

Other than interest on the finance receivable, all interest has been earned on loans and receivable category of financial assets.

7. Interest payable and similar charges

	2018 £'000	2017 £'000
Loan stock interest	(2,389)	(2,388)
Payable to fellow subsidiary undertaking	(11,383)	(8,877)
	<u>(13,772)</u>	<u>(11,265)</u>

8. Tax charge

The tax charge for the year is made up as follows:

	2018 £'000	2017 £'000
Analysis of tax charge for the year		
Current tax:		
UK corporation tax	-	11
Prior year adjustments	(11)	-
Total current tax (note 8b)	<u>(11)</u>	<u>11</u>
Deferred tax:		
Origination and reversal of timing differences	-	844
Prior year restatement	575	-
Total deferred tax	<u>575</u>	<u>844</u>
Total tax charge for the year	<u>564</u>	<u>844</u>

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

8. Tax charge (continued)

(a) Factors affecting current tax charge

The tax assessed for the year is same (2017: lower) as the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018 £'000	2017 £'000
(Loss) / Profit before tax	(606)	4,343
Tax at 19% (2018: 20%)	(115)	868
Prior year adjustments	566	112
Other adjustments	-	14
Expenses not deductible for tax purposes	113	-
Effect of changes in the tax rate	-	(139)
Total tax charge for the year (note 8a)	564	855

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

(b) Factors that may affect future tax charges

It is estimated that the company has gross tax losses arising in the UK of approximately £14.7 million (2017: £17.1 million) that are available for offset against future taxable profits.

The company agreed some years ago to surrender a portion of its tax losses to date to the shareholders of its parent company. The company does not consider it appropriate to currently recognise an asset in respect of future possible payments to be made by the shareholders for the remainder of these losses.

We are considering the implications of the new regulations on interest deductibility. Our initial view is the company will not be affected. However, a detailed review is ongoing and will be completed in due course.

The deferred tax (asset)/liability recognised and unrecognised in the financial statements can be analysed as follows:

	Provided		Not provided	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Accelerated capital allowances	3,971	713	-	-
Short term timing differences	(5)	3,075	-	-
Losses carried forward	(2,505)	(2,903)	-	-
Total	1,461	885	-	-

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

9. Fixed assets

	Office building and equipment £'000
Cost	
At 1 April 2017	65
Additions	15
Disposals	-
At 31 March 2018	<u>80</u>
Depreciation	
At 1 April 2017	(36)
Charge for the year	(6)
At 31 March 2018	<u>(42)</u>
Net book value	
At 31 March 2018	<u>38</u>
At 31 March 2017	<u>29</u>

10. Debtors: amounts falling due within one year

	Note	2018 £'000	2017 £'000
Finance receivable	19	2,092	1,934
Trade debtors		670	90
Prepayments		249	245
Investments		-	19,340
Deferred tax asset		-	-
		<u>3,011</u>	<u>21,609</u>

Finance receivable is classified as a financial asset at fair value.

The directors consider that the carrying amount of trade debtors approximate their fair value.

All the above debtors in both 2018 and 2017 are current and were settled within 30 days.

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

	Note	2018 £'000	2017 £'000
Finance receivable	19	155,452	194,777
		<u>155,452</u>	<u>194,777</u>

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

12. Cash and deposits

	2018 £'000	2017 £'000
Cash at bank	25,354	935
Cash held on deposit	-	-
	<u>25,354</u>	<u>935</u>

13. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	1,259	152
Accruals and deferred income	7,068	3,699
Other creditors	444	391
Payable to fellow subsidiary undertaking:		
- Guaranteed secured bonds (note 15)*	2,098	2,157
- Committed term loan facility (note 16)*	3,577	3,353
Corporation tax	-	11
	<u>14,446</u>	<u>9,763</u>

The directors consider that the carrying amount of trade and other creditors approximate their fair value. Trade and other creditors are included as part of the financial liabilities.

All the above trade creditors in both 2018 and 2017 are current and were settled within 30 days.

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

	2018 £'000	2017 £'000
Loan from fellow subsidiary	50	50
Payable to fellow subsidiary undertaking:		
- Guaranteed secured bonds (note 15)*	74,820	74,153
- Committed term loan facility (note 16)*	67,775	68,790
Loan Stock (note 17)	19,228	19,228
Deferred tax	1,461	885
	<u>163,334</u>	<u>163,106</u>

*Dudley Summit PLC, a fellow subsidiary undertaking, has loaned its external borrowings to the company. The terms of these loans mirror those of the original borrowings with third parties as disclosed in notes 15 and 16 below.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

15. Long-term bonds

	2018 £'000	2017 £'000
Not wholly repayable within five years:		
3.7772% Index-linked guaranteed secured bonds of £71,000,000, due 2038 and repayable in six monthly instalments commenced March 2005	48,802	50,209
Bond indexation	28,764	26,813
	<u>77,566</u>	<u>77,022</u>
Amounts falling due:		
In less than one year	2,098	2,157
Between one and two years	1,965	2,025
Between two and five years	4,645	4,878
After five years	68,858	67,962
	<u>77,566</u>	<u>77,022</u>

The bonds are with Dudley Summit PLC. The terms of the bonds are such that all payments of principal and interest are indexed to retail price inflation. The payment schedule above is based on the indexed principal outstanding as at 31 March 2018. The bond is secured under the terms of a Security Trust Deed on the assets and liabilities Dudley Summit PLC.

16. Long-term loan

	2018 £'000	2017 £'000
Not wholly repayable within five years:		
3.0716% Index-linked committed term facility of £70,000,000, due 2034, and repayable in six monthly instalments commencing March 2005	45,271	47,457
Indexation on the loan	26,683	25,348
	<u>71,954</u>	<u>72,805</u>
Amounts falling due:		
In less than one year	3,577	3,353
Between one and two years	3,684	3,453
Between two and five years	11,721	10,986
After five years	52,972	55,013
	<u>71,954</u>	<u>72,805</u>

The loan is with Dudley Summit PLC. The terms of the loan are such that all payments of principal and interest are indexed to retail price inflation. The payment schedule above is based on the indexed principal outstanding as at 31 March 2018.

The loan is secured under the terms of a Security Trust Deed on the assets and liabilities of the company.

During late 2008 the credit rating of AMBAC (the Monoline Guarantor) declined which led to a 'Loss of Qualifying Status' under the finance agreement and represents a 'Guarantor Event of Default'. As disclosed on page 2, since November 2008 the European Investment Bank, the loan provider, whilst reserving the right to request a replacement guarantor, have not done so and therefore to date there is no default on the loan. EIB continues to make the loan available but have levied additional 'default' interest charges.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

17. Loan stock

	2018 £'000	2017 £'000
Amounts payable in more than five years:		
13% Subordinated loan notes	9,364	9,364
12.5% Subordinated loan notes	9,364	9,364
Zero coupon subordinated loan notes	500	500
	<u>19,228</u>	<u>19,228</u>

The subordinated loan stock bears fixed interest at the rates detailed above per annum payable six monthly. The loan stock is redeemable on the redemption date (31 May 2041) in whole or in part on such earlier date as the company may decide. The stock is subordinated until all of the secured obligations of the company have been repaid and discharged in full.

18. Called up share capital

	2018 £'000	2017 £'000
Authorised:		
60,000 ordinary shares of £1 each	<u>60</u>	<u>60</u>
 The company has 60,000 shares at £1 each which carry no rights to fixed income.		
 Allotted, called up and fully paid:		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

The company has 10,000 shares at £1 each which carry no rights to fixed income.

19. Other financial instruments

An explanation of the company's objectives, policies and strategies for the role of other financial instruments can be found in the Strategic Report and Accounting Policies note 1(i).

The company's fellow subsidiary issued the Guaranteed Secured Bonds in order to finance the design, build and operation of various hospital buildings under the Government's PFI Initiative.

The disclosures below do not include short-term debtors and creditors.

Financial assets

The company's financial assets are its finance receivable of £158 million (2017: £197 million) and its cash of £25 million (2017: £1 million), both of which are denominated in sterling. The cash asset is a floating rate asset, while the finance receivable is a fixed interest rate asset. The weighted average interest rate for the fixed rate financial asset is 7.7% (2017: 7.7%). The weighted average period for which the interest rate on the fixed rate financial asset is fixed is 24 years (2017: 25 years).

The fair value of the finance receivable has been calculated by discounting future cash flows relating to the asset using long term interest rates, subject to a floor, plus a risk factor specific to this project. The discount rate being used is 5.68% (2017: 3.65%). The decrease in value this year is due primarily to an increase in discount rate.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

19. Other financial instruments (continued)

Financial liabilities

The company's financial liabilities are the amounts owing to its fellow subsidiary for its listed bonds and committed term loan facility as described in notes 15 and 16, and its own issued unsecured loan stock as described in note 17, all of which are denominated in sterling.

The bonds and loan are floating rate financial liabilities comprising a 3.7772% RPI linked guaranteed secured bond, and a 3.0716% RPI linked committed term loan facility.

The unsecured loan notes are a fixed rate financial liability. The weighted average interest rate of the loan notes is 12.42% (2017: 12.42%), and the weighted average period for which interest rates on the loan notes are fixed is 24 years (2017: 25 years).

The listed bonds, term loan and loan stock are classified as 'other financial liabilities' and have been retained at cost because this is materially similar to amortised cost.

The finance receivable is accounted for at fair value and is classified as a level 3 financial asset.

	2018 Level 3 £'000	2017 Level 3 £'000
Financial asset		
Balance at 1 April 2017	196,711	201,770
Amounts due in one year	(1,931)	(1,788)
Total gains or losses:		
- in the statement of other comprehensive income	(37,236)	(3,271)
Balance at 31 March 2018	<u>157,544</u>	<u>196,711</u>

Financial risk management and sensitivities

These have been considered in detail in the financial statements of the parent company Summit Holdings (Dudley) Limited.

20. Parent undertaking and controlling parties

The company is a 100% subsidiary of Summit Holdings (Dudley) Limited, which is the largest and smallest company to consolidate these financial statements. The registered office is the same as the company and is shown on Page 1.

Summit Holdings (Dudley) Limited is jointly owned and jointly controlled in equal shares by Interserve PFI Holdings Limited, Aberdeen Infrastructure (No.3) Limited and Crimson Project Investments Limited.

Copies of the financial statements of Summit Holdings (Dudley) Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

Summit Healthcare (Dudley) Limited

Notes to the financial statements for the year ended 31 March 2018

21. Related parties

The following disclosures are required by FRS 102 Section 33 "Related Party Disclosures":

Parties	Services	Payments during the year to 31 March 2018 £'000	Amounts payable at 31 March 2018 £'000	Payments during the year to 31 March 2017 £'000	Amounts payable at 31 March 2017 £'000
Interserve plc and its subsidiary undertakings	Operational and management services	30,207	1,375	26,131	94
	Loan stock interest	-	391	390	-
	Loan stock principal	-	3,121	-	3,121
Aberdeen Infrastructure Partners LP Inc. and its subsidiary undertakings	Loan stock interest	1,205	-	1,202	-
	Loan stock principal	-	9,366	-	9,366
Dalmore Capital Fund LP and its associates	Loan stock interest	798	-	796	-
	Loan stock principal	-	6,741	-	6,741

Amounts payable at 31 March 2018 are included within trade creditors, accruals and deferred income, and creditors due after more than one year. Terms in relation to the Loan stock are shown in note 17.