COMPANY REGISTRATION NUMBER: 04638901

Elgin Health (St George's) Limited

Annual Report and Financial Statements

31 March 2021

Elgin Health (St George's) Limited

Annual Report and Financial Statements

Year Ended 31 March 2021

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Officers and Professional Advisers

The Board of Directors	G Steven M Donn J Gordon F Laing
Company Secretary	Infrastructure Managers Limited
Registered Office	Cannon Place 78 Cannon Street London EC4N 6AF
Independent Auditors	Johnston Carmichael LLP Chartered Accountants & Statutory Auditors 7-11 Melville Street Edinburgh EH3 7PE
Bankers	Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN
Solicitors	CMS Cameron McKenna LLP Mitre House 160 Aldersgate Street London EC1A 4DD

Elgin Health (St George's) Limited

Directors' Report

Year Ended 31 March 2021

The directors present their report and the audited Annual Report and Financial Statements of Elgin Health (St George's) Limited ("the Company") for the year ended 31 March 2021.

Principal activities

The principal activities of the Company are the finance, operation and maintenance of St George's Hospital, Morpeth, through an agreement with Newcastle, North Tyneside and Northumberland Mental Health NHS Trust. The agreement was entered into under the Government's Private Finance Initiative (PFI) Scheme. The project is in year 15 of its term ending in 2033.

Performance Review

The profit for the financial year, after taxation, amounted to £965,245 (2020: £1,570,423).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Covid-19 was declared a pandemic in March 2020 and since then there has been widespread disruption in the UK. The Company's income is availability based and due from the Health Board so the risk of non-payment is considered remote, and to date the company has continued to receive payment in line with the contract terms. Alongside this, the Company has not experienced material variation from its projected levels of expenditure and key suppliers (primarily the facilities manager) have continued to be able to service the Company. The directors have considered the current performance and the future financial impact to the Company of this pandemic, taking into account the sources of income and expenditure. It is the directors' view that although the likely full impact is unknown, and at this stage is not possible to quantify, it is not expected to materially impact on the operations or financial position of the Company.

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the Group loan agreement. At the year end this ratio was 1.38 (2020: 1.32).

Going Concern

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions, including the impact of Covid-19, that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the Company has adequate resources to continue in in operational existence for the foreseeable future and meet its debt covenants as they fall due. The company's operating cash flows are largely dependent on the unitary charge receipts and the directors expect these amounts will be received even in severe, but plausible downside scenarios.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

M Donn	
J Gordon	
F Laing	
G Steven	(Appointed 1 July 2021)
R Christie	(Resigned 1 July 2021)

Dividends

Particulars of dividends paid are detailed in note 10 to the financial statements.

Financial instruments

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company are credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash Flow and Liquidity risk

Many of the Cash Flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Small company provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Disclosure of information to auditor

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

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The auditor, Johnston Carmichael LLP, is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

Elgin Health (St George's) Limited

Directors' Report *(continued)*

Year Ended 31 March 2021

This report was approved by the board of directors on Dec 20, 2021 and signed by order of the board by:

Infrastructure Managers Limited
Company Secretary

Elgin Health (St George's) Limited

Directors' Responsibilities Statement

Year Ended 31 March 2021

The directors are responsible for preparing the Directors' Report and the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and applicable law).

Under company law the directors must not approve the Annual Report and Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing the Annual Report and Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Financial Statements; and
- prepare the Annual Report and 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.

Elgin Health (St George's) Limited

Independent Auditor's Report to the Members of Elgin Health (St George's) Limited

Opinion

We have audited the financial statements of Elgin Health (St George's) Limited (the 'Company') for the year ended 31 March 2021 which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021, and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor'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

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

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

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

Other information

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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; or
- the directors were not entitled to take advantage of the small companies' exemptions from the requirement to prepare a Strategic Report.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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.

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

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

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

- UK GAAP
- Companies Act 2006
- Corporation Tax legislation
- VAT legislation

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

We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls. In areas of the financial statements where the risks were considered to be higher, we performed procedures to address each identified risk.

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

- reviewing minutes of meetings of those charged with governance;
- reviewing the level of and reasoning behind the Company's procurement of legal and professional services; and
- performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias.

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

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

Johnston Carmichael LLP

Irvine Spowart (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP

Chartered Accountants
Statutory auditor

7-11 Melville Street
Edinburgh
EH3 7PE

20 December 2021
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Elgin Health (St George's) Limited

Statement of Comprehensive Income

Year Ended 31 March 2021

	Note	2021 £	2020 £
Turnover	4	**3,345,581**	4,495,381
Cost of sales		**(1,429,820)**	(2,059,038)
Gross profit		**1,915,761**	2,436,343
Administrative expenses		**(278,426)**	(234,043)
Operating profit	5	**1,637,335**	2,202,300
Interest receivable and similar income	7	**1,431,230**	1,526,131
Interest payable and similar expenses	8	**(1,876,905)**	(1,925,953)
Profit before taxation		**1,191,660**	1,802,478
Tax on profit	9	**(226,415)**	(232,055)
Profit for the financial year		**965,245**	1,570,423
Fair value movements on cash flow hedging instruments, net of tax		**1,132,628**	44,980
Total comprehensive income for the year		**2,097,873**	1,615,403

All the activities of the Company are from continuing operations.

The notes on pages 13 to 25 form part of these Financial Statements.

Elgin Health (St George's) Limited

Statement of Financial Position

As at 31 March 2021

	Note	2021 £	2020 £
Current assets			
Debtors: amounts falling due within one year	11	**10,509,298**	9,904,711
Debtors: amounts falling due after more than one year	11	**21,599,856**	22,932,156
Cash at bank and in hand		**5,647,844**	5,411,414
		37,756,998	38,248,281
Creditors: amounts falling due within one year	12	**(6,471,808)**	(5,835,463)
Net current assets		**31,285,190**	32,412,818
Total assets less current liabilities		**31,285,190**	32,412,818
Creditors: amounts falling due after more than one year	13	**(29,259,910)**	(31,956,345)
Provisions for liabilities			
Taxation including deferred taxation	14	**(8,677)**	(10,847)
Net assets		**2,016,603**	445,626
Capital and reserves			
Called up share capital	17	**324,000**	324,000
Fair value reserve	18	**(4,829,573)**	(5,962,201)
Retained earnings	18	**6,522,176**	6,083,827
Total shareholders' funds		**2,016,603**	445,626

These financial statements have been prepared and delivered in accordance with the provisions applicable to the small companies regime.

The Financial Statements were approved by the board of directors and authorised for issue on Dec 20, 2021 and are signed on behalf of the board by:

Gary Steven
Gary Steven (Dec 20, 2021 10:35 GMT)

G Steven
Director

Company registration number: 04638901

The notes on pages 13 to 25 form part of these Financial Statements.

Elgin Health (St George's) Limited

Statement of Changes in Equity

Year Ended 31 March 2021

		Called up share capital £	Fair value reserve £	Retained earnings £	**Total** **£**
At 1 April 2019		324,000	(6,007,181)	4,625,397	(1,057,784)
Profit for the financial year				1,570,423	1,570,423
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		–	44,980	–	44,980
Total comprehensive income for the year		–	44,980	1,570,423	1,615,403
Dividends paid and payable	**10**	–	–	(111,993)	(111,993)
Total investments by and distributions to owners		–	–	(111,993)	(111,993)
At 31 March 2020		324,000	(5,962,201)	6,083,827	**445,626**
Profit for the financial year				965,245	**965,245**
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		–	1,132,628	–	**1,132,628**
Total comprehensive income for the year		–	1,132,628	965,245	**2,097,873**
Dividends paid and payable	**10**	–	–	(526,896)	**(526,896)**
Total investments by and distributions to owners		–	–	(526,896)	**(526,896)**
At 31 March 2021		324,000	(4,829,573)	6,522,176	**2,016,603**

The notes on pages 13 to 25 form part of these Financial Statements.

1. General information

Elgin Health (St George's) Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Cannon Place, 78 Cannon Street, London, EC4N 6AF.

The principal activities of the Company are the finance, operation and maintenance of St George's Hospital, Morpeth, through an agreement with Newcastle, North Tyneside and Northumberland Mental Health NHS Trust. The agreement was entered into under the Government's Private Finance Initiative (PFI) Scheme. The project is in year 15 of its term ending in 2033.

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

2. Statement of compliance

The individual financial statements of Elgin Health (St George's) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A have been applied, other than where additional disclosures is required to show a true and fair view.

3. Accounting policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

3. Accounting policies *(continued)*

(b) Going concern

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions, including the impact of Covid-19, that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the Company has adequate resources to continue in in operational existence for the foreseeable future and meet its debt covenants as they fall due. The company's operating cash flows are largely dependent on the unitary charge receipts and the directors expect these amounts will be received even in severe, but plausible downside scenarios.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

(c) Disclosure exemptions

The Company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

The Company has also taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

3. Accounting policies *(continued)*

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgments

The judgments (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

i) Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those instruments on its Statement of Financial Position. No market prices are available for these instruments and consequently the fair values are determined by calculating the present value of the estimated future cashflows based on observable yield curves. There is also a judgment on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

ii) Deferred taxation

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Judgment is required in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgment requires the Directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be

3. Accounting policies *(continued)*

generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract. These were forecast intially within the operating model at financial close and are closely monitored throughout the duration of the project.

(e) Revenue recognition

Turnover represents the services' share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case tax is also recognised in Other Comprehensive Income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred.tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences 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.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

3. Accounting policies *(continued)*

(g) Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

The Company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the Company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

The company is obligated to keep cash reserves as at the balance sheet date and 30th September in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown within the "cash at bank and in hand" balance amounts to £4,521,000 (2020: £4,450,484) as at the balance sheet date.

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Lifecycle

The Company is responsible for the lifecycle costs associated with its principal activity, however risk here is mitigated by passing on lifecycle risk to a third party facilities management company. Lifecycle costs are accounted for on an accrual basis as disclosed in the indicative lifecycle works program or lifecycle tracker as used by all parties through the operating phase of the concession period, with any underspend included within accruals and creditors due less than one year.

(k) Reclassification of comparative information

The following reclassification of comparative information has been made to more appropriately reflect its nature:

Note 11: The deferred tax asset has been reclassified from debtors falling due within one year.

3. Accounting policies *(continued)*

(l) Financial instruments

The Company has elected to apply the provisions of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instrument Issues" of FRS102, in full, to all of its financial instruments.

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are initially recognised at the present value of cash payable to the lender and are subsequently measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The effective interest rate amortisation is included in interest payable and similar charges in the Statement of Comprehensive Income.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. 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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

3. Accounting policies *(continued)*

(m) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

The company has elected to early adopt the FRS 102 Interest Rate Benchmark reform Amendment. The amendments enable the Company to take advantage of the temporary amendments to speci?c hedge accounting requirements in FRS 102 paragraphs 12.25C to 12.25F to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The Company is exposed to LIBOR within its hedge accounting relationships, which is subject to interest rate benchmark reform.

The Company's borrowings are linked to LIBOR and as described at Note 12 the Company has entered into an interest rate swap to restrict its exposure to future interest rate fluctuations. The UK Financial regulator (the FCA) have legislated that GBP LIBOR will cease to be published after 31 December 2021. The Company is undergoing a review alongside relevant lenders to establish an alternative to LIBOR and intend to implement a solution in advance of the cessation date. For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Company assumes that the new interest rate benchmark will be on an economically equivalent basis to LIBOR and therefore will continue to apply hedge effectiveness throughout the transition period. This will be reassessed after the transition period once the terms of the change are finalised.

4. Turnover

Turnover arises from:

	2021	2020
	£	£
Rendering of services	**3,345,581**	4,495,381

The whole of the turnover is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

5. Operating profit

Operating profit or loss is stated after charging:

	2021	2020
	£	£
Fees payable for the audit of the annual report and financial statements	**9,265**	8,500

Included in the fee above is £3,200 (2020: £3,100) for taxation compliance services. Also included in the fee above is £1,000 (2020: £1,000) for the audit of the immediate parent entity Elgin Health (St George's) Holdings Limited.

6. Particulars of employees and directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2020: nil). The directors, who are also key management personnel, did not receive any remuneration from the Company during the year (2020: £nil). Fees paid to investors in respect of their directors are disclosed in note 19.

7. Interest receivable and similar income

	2021	2020
	£	£
Interest on cash and cash equivalents	**1,330**	33,071
Interest receivable on finance debtor	**1,429,900**	1,493,060
	1,431,230	1,526,131

8. Interest payable and similar expenses

	2021	2020
	£	£
Interest on bank loans and overdrafts	**1,425,114**	1,481,925
Interest due to Group undertakings	**437,586**	438,935
Other interest payable and similar expenses	**14,205**	5,093
	1,876,905	1,925,953

9. Tax on profit

Major components of tax expense

	2021	2020
	£	£
Current tax:		
UK current tax expense	**228,585**	345,406
Adjustments in respect of prior periods	**–**	(112,552)
Total current tax	**228,585**	232,854

9. Tax on profit *(continued)*

	2021	2020
	£	£
Deferred tax:		
Origination and reversal of timing differences	**(2,170)**	(799)
Tax on profit	**226,415**	232,055

Reconciliation of tax expense

The tax assessed on the profit for the year is the same as (2020: lower than) the standard rate of corporation tax in the UK of 19% (2020: 19%).

	2021	2020
	£	£
Profit before taxation	**1,191,660**	1,802,478
Profit before taxation by rate of tax	**226,415**	342,471
Adjustment to tax charge in respect of prior periods	**–**	(112,552)
Impact of change in future tax rate	**–**	2,136
Total tax charge	**226,415**	232,055

Factors that may affect future tax expense

A change to the future UK corporation tax rate was announced in the March 2021 Budget. The rate will increase from 19% to 25% with effect from 1 April 2023. This change had not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. The effect of this change, if it applied to the deferred tax balance at 31 December 2020, would be to increase the deferred tax asset by £384,187.

10. Dividends

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2021	2020
	£	£
Interim dividend of £1.63 (2020: £0.35) per ordinary share	**526,896**	111,993

11. Debtors

Debtors amounts falling due within one year are as follows:

	2021	2020
	£	£
Trade debtors	**4,124**	–
Prepayments and accrued income	**9,175,115**	8,656,508
Corporation tax repayable	**263,437**	228,912
Finance debtor	**1,066,622**	1,019,291
	10,509,298	9,904,711

11. Debtors *(continued)*

Debtors amounts falling due after more than one year are as follows:

	2021	2020
	£	£
Deferred tax asset	**1,132,863**	1,398,541
Finance debtor	**20,466,993**	21,533,615
	21,599,856	22,932,156

Included within Prepayments and accrued income is £8,712,849 (2020: £8,203,778) relating to the unitary charge control account, of which £5,108,510 is forecast to be received within the next 12 months via Unitary Charge receipts with amounts received being offset by service concession accounting adjustments.

The finance debtor represents payments due from Aberdeenshire Council in respect of the Project Agreement. These payments are received over the remaining life of the agreement.

Finance Debtor

The movement in the finance debtor is analysed as follows:

	2021	2020
	£	£
At beginning of year	**22,552,906**	23,509,041
Amortisation	**(1,019,291)**	(956,135)
At end of year	**21,533,615**	22,552,906

The finance debtor represents payments due from Northumberland, Tyne and Wear NHS Foundation Trust in respect of the Project Agreement. These payments are received over the remaining life of the agreement.

12. Creditors: amounts falling due within one year

	2021	2020
	£	£
Bank loans and overdrafts	**1,334,561**	1,388,838
Trade creditors	**180,316**	73,299
Amounts owed to Group undertakings	**90,141**	91,343
Accruals and deferred income	**4,635,920**	4,095,628
Taxation and social security	**230,870**	186,355
	6,471,808	5,835,463

Amounts due to group undertakings consists of interest of £90,141 (2020: £91,343) due on subordinated debt loans.

Included within accruals and deferred income are amounts recognised in respect of future payments due on lifecycle underspend of £4,155,574 (20120: £3,601,339), the timings of which are uncertain.

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

	2021	2020
	£	£
Bank loans and overdrafts	**20,372,898**	21,671,028
Amounts owed to Group undertakings	**2,924,576**	2,924,576
Derivative financial liability	**5,962,436**	7,360,741
	29,259,910	31,956,345

The senior debt due to Bank of Scotland plc is secured by a bond and floating charge over all the assets, rights and undertakings of the Company and by a guarantee supported by a bond and floating charge over the assets and undertakings of its parent company. The loan bears interest of 5.534% per annum under a swap agreement entered into by the Company. The swap rate is fixed for the duration of the loan. The term loan is repayable under an instalment scheme whereby small repayments are made in the first few years of the loan. The final repayment is due October 2031. Senior debt is stated net of finance costs of £251,372 (2020: £265,577). Included within creditors: amounts falling due after more than one year is an amount of £14,798,621 (2020: £16,653,688) in respect of liabilities payable or repayable by instalments which fall due for payment after more than five years from the reporting date.

Subordinated debt provided by Elgin Health (St George's) Holdings Limited bears interest at 15% per annum and is repayable in 2033. Included within creditors: amounts falling due after more than one year is an amount of £2,924,576 (2020: £2,924,576) in respect of subordinated debt liabilities which fall due for payment after more than five years from the reporting date.

14. Provisions for liabilities

	Deferred tax (note 15)
	£
At 1 April 2020	**10,847**
Credited to Statement of Comprehensive Income in year	**(2,170)**
At 31 March 2021	**8,677**

15. Deferred tax

The deferred tax included in the Statement of Financial Position is as follows:

	2021	2020
	£	£
Included in debtors (note 11)	**1,132,863**	1,398,541
Included in provisions for liabilities (note 14)	**(8,677)**	(10,847)
	1,124,186	1,387,694

The deferred tax account consists of the tax effect of timing differences in respect of:

	2021	2020
	£	£
Short term timing differences	**8,677**	10,847
Derivative financial instruments	**(1,132,863)**	(1,398,541)
	(1,124,186)	(1,387,694)

15. Deferred tax *(continued)*

The net deferred tax liability expected to reverse in 2021 is £2,169. This primarily relates to the reversal of deferred tax recognised on FRS 102 adjustments.

	£
Opening balance as at 1 April 2020	(1,387,694)
Movement through the Statement of Comprehensive Income	(2,170)
Movement through Other Comprehensive Income	265,678
Closing balance as at 31 March 2021	**(1,124,186)**

16. Financial instruments

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

Interest rate swaps

The Company has entered into interest rate swaps with third parties for the same notional amount as the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into with a base rate of 5.53% in October 2006 and expire in July 2031.

The directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

The Company's derivative financial instruments are carried at fair value. The net carrying value of the derivative financial instruments at 31 March 2021 amounted to net liabilities of £6,448,790 (2020: £7,360,741). All of the movements during the year in the fair value, net of deferred tax, of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £738,681 (2020: £44,980).

17. Called up share capital

Issued, called up and fully paid

	2021		2020	
	No.	**£**	No.	£
Ordinary shares of £1 each	**324,000**	**324,000**	324,000	324,000

18. Reserves

Fair value reserve - this reserve records fair value movements on cash flow hedging instruments.

Retained earnings - this reserve records retained earnings and accumulated losses.

19. Related party transactions

The Company is wholly owned by Elgin Health (St George's) Holdings Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

The following disclosures are with entities in the group that are not wholly owned:

Elgin Health (St George's) Holdings Limited is owned 70% by Elgin Infrastructure Limited. The Company paid £10,877 (2020: £14,156) to Elgin Infrastructure Limited for the provision of director services.

Elgin Health (St George's) Holdings Limited is owned 30% by Aberdeen Infrastructure (No.3) Limited. The Company paid £18,129 (2020: £14,156) to Aberdeen Infrastructure (No.3) Limited for the provision of director services. Of this amount £3,539 (2020: £3,539) was outstanding at the year end.

20. Controlling party

The immediate parent undertaking is Elgin Health (St George's) Holdings Limited, a limited Company incorporated in England.

The accounts of Elgin Health (St George's) Holdings Limited can be obtained from Cannon Place, 78 Cannon Street, London, EC4N 6AF.

Elgin Health (St George's) Holdings Limited is owned 70% by Elgin Infrastructure Limited, which is jointly owned between Cobalt Project Investments Limited and Ednaston Project Investments Limited, and 30% by Aberdeen Infrastructure (No.3) Limited. There is no ultimate controlling