Company Registration No. 04663025 (England and Wales)

DERBY HEALTHCARE (HOLDINGS) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

DERBY HEALTHCARE (HOLDINGS) LIMITED

COMPANY INFORMATION

Directors	Mrs G Birley-Smith Mr R Sheehan
Secretary	HCP Social Infrastructure (UK) Limited
Company number	04663025
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

DERBY HEALTHCARE (HOLDINGS) LIMITED

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DERBY HEALTHCARE (HOLDINGS) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

Derby Healthcare (Holdings) Limited is the owner of Derby Healthcare PLC and Derby Healthcare Nominee Limited. These three companies constitute the Derby Healthcare group of companies ('the group').

Business Review

The principal activity of the group is to design, build, finance and operate a Hospital in accordance with a forty year contract (the "Project Agreement") with Derby Teaching Hospitals NHS Foundation Trust (the "Trust"). Contract negotiations were successfully completed in September 2003 and construction commenced immediately. The project has been fully operational since 2008.

The directors do not foresee any change in the activities of the group.

Principal risks and uncertainties

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

Lifecycle

The principal risk borne by the group is that lifecycle costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by future estimates of lifecycle expenditure being prepared by maintenance experts on an asset by asset basis and by the periodic technical evaluations of the physical condition of the facilities. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

Availability

Investment in the project is funded primarily by the bonds and subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the bonds will be unitary charge received from the Trust under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the group's ability to make payments to bondholders. Deductions of £41,000 (2017: £50,000) were incurred in the year, these were recovered from the service provider, resulting in a net deduction of £nil (2017: £nil).

Service performance

Performance risk under the Project Agreement and related contracts are substantially passed on to the service providers. The obligations of these subcontractors are underwritten by parent company guarantees. Ultimately, poor performance may result in the Trust having the right to terminate the Project Agreement. As noted in the discussion of the group's KPIs, the levels of deductions levied in the year were low and are not considered to pose a risk to the project.

Service provider failure

The likelihood of this risk is assessed through the review of service provider financial statements and through discussions with the service providers. The company currently considers the likelihood of this risk as being low. However, as continuity of service delivery is of paramount importance, the company has a Business Continuity Plan which details how the company would deal with a service provider failure. This includes directly employing staff and sub-contractors until a replacement sub-contractor is in place.

In 2018 the site was affected by the clinical waste provider, Healthcare Environmental Services (HES), losing it contracts with NHS Trusts in England. HES were subcontracted by the Hard FM Provider, who implemented a number of contingency plans in the event of contractor failure. In December the contract was reverted to an alternative supplier with minimal disruption. Additional costs will not impact the company itself.

Brexit
The risks from Brexit are a result of the risk it poses to the sub-contracted service providers, rather than the company itself. This is therefore linked to the service performance and service provider failure risks discussed above. The company is insulated from these risks because non-performance will result in deductions being passed down to the service providers, however there remains a risk that in extreme circumstances non-performance may result in the Trust having the right to terminate the Project Agreement.

The service providers have performed a review of their respective exposure to Brexit. The relevant concerns relate to spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU.

While there will likely be some disruption, each service provider has a strategy in place to keep this to a minimum. This will result in higher costs to the service providers, however this will not impact the company itself. The company is comfortable that the increased costs and disruption will not threaten the services providers to such an extent as to put the project at risk.

Development and performance
Turnover in the year increased to £50,828,000 (2017: £47,931,000) largely due to higher service costs required in the period, resulting in higher services income (because a mark up is applied to these service costs). This is the key reason for the improved operating profit of £9,292,000 (2017: £8,503,000). Service costs were higher in the year predominantly due to the labour uplift agreed between the Trust and the Soft FM Provider following the 2018 NHS Agenda for Change agreement. Passthrough costs have increased marginally, these are incurred by service providers and paid for by the Trust through the company; the company does not apply a mark up to these costs.

Interest receivable and similar income has declined to £20,039,000 (2017: £20,254,000) mainly due to reduced interest receivable on the Finance Debtor. Interest receivable on the Finance Debtor has reduced in proportion with the reduction in the Finance Debtor balance.

Interest payable and similar expenses has increased to £29,159,000 (2017: £28,973,000) mainly due to increased interest on subordinated debt of £6,014,000 (2017: £5,677,000). The increase is due to not all of the subordinated debt interest being paid in 2016, 2017 and 2018. The unpaid interest has been added to the outstanding balance and hence the increased balance results in the increased interest payable. The subordinated debt balance as at 31 December 2018 was £45,372,000 (31st December 2017: £42,399,000).

The impact of these movements has resulted in a profit before taxation of £172,000 compared to the prior year loss before taxation of £216,000.

At 31 December 2018 the group had net liabilities of £35,296,000 (2017: net liabilities of £35,439,000).

Financial covenants have been met during the year and having considered the anticipated future performance and position of the company, the directors are of the opinion that the covenants will continue to be met in the future.

The Finance Debtor is being amortised over the life of the concession and the carrying value at the reporting date is £313,391,000 (2017: £318,484,000). The Finance Debtor amortisation during the year was £5,094,000 (2017: £4,791,000). The directors believe the Finance Debtor to be recoverable over the term of the Project Agreement.

During the year, the company has repaid £4,071,000 of the Secured Guaranteed Bonds. Scheduled loan repayment dates are 30 June and 31 December each year. In the previous financial year, the company repaid a total of £2,688,000.

During the year the company has not repaid any of the subordinated unsecured loan stock as scheduled repayments do not commence until 2041.

Key performance indicators
Financial penalties are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £41,000 (2017: £50,000) were levied by the Trust and passed onto the service providers to the fullest extent possible. This deduction amounts to only 0.18% (2017: 0.23%) of the total fees charged by the service providers. The directors consider this low level of deduction to be satisfactory.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As discussed above the group's performance as at 31 December 2018 against this measure was considered satisfactory.

The group is providing a full range of facilities management services as required under the Project Agreement at a satisfactory level.

On behalf of the board

....
Mr R Sheehan
Director
24 APRIL 2019

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

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mrs G Birley-Smith
Mr R Sheehan

Results and dividends

The results for the year are set out on page 10.

No interim dividends were paid (2017: Nil). The directors do not recommend payment of a final dividend.

Supplier payment policy

The group's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Trade creditors of the group at the year end were equivalent to 22 (2017: 23) day's purchases, based on the average daily amount invoiced by suppliers during the year.

Financial instruments

Treasury operations and financial instruments

The group's financial instruments result in the group's exposure to liquidity, credit and interest rate risks. Further information on the financial instruments employed by the group can be seen in the notes to these financial statements.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the group.

Interest rate risk

The group is exposed to interest rate risk on bank balances with floating interest rates, however the directors do not consider this exposure to be significant.

The guaranteed secured bonds and unsecured subordinated loan notes both have a fixed rate until 2041, thus there is no interest rate risk associated with these financial liabilities.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Trust is the sole client of the group. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trust will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trust's obligations. The carrying value of the financial asset of £313,391,000 (2017: £318,484,000) is the maximum credit exposure.

Financial reporting risk and internal control

The group has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the board members of the group. HCP reports regularly to the board of the group. The board receives monthly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the group is exposed to, and are pertinent to the industry in which the group operates. The board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the group and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

Auditor

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

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

Going Concern

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Significant shareholdings and special rights

The company is owned by Innisfree PFI continuation fund (75%), Innsifree PFI Secondary Fund (8%) and Innisfree PFI Secondary Fund 2 LP (17%). Each of the shareholders holds its shareholdings as a long term investment.

None of the company's ordinary shares carry any special rights with regard to the control of the company. There are no known arrangements under which financial rights are held by a person other than the beneficial owner of the shares and no known agreements on restrictions on share transfers (other than pre-emption rights between existing shareholders) or on voting rights.

Directors Appointment and Replacement, Allotments of Shares and Control Provisions

The rules about the appointment and replacement of directors are contained in the company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time. The powers of the directors and authority to issue and allot ordinary shares are determined by UK legislation and the Memorandum and Articles of Association of the company in force from time to time. Subject to UK legislation the directors are empowered by the Articles to authorise the company to purchase its own shares.

The company does not have agreements with any director that would provide compensation for loss of office or employment following a takeover.

On behalf of the board

Mr R Sheehan
Director
24 APRIL 2019

DERBY HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company intends to cease operations, or they have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

On behalf of the board

Richard Sheehan

Mr R Sheehan
Director
24 APRIL 2019

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF DERBY HEALTHCARE (HOLDINGS) LIMITED

Opinion

We have audited the financial statements of Derby Healthcare (Holdings) Limited (the 'company') for the year ended 31 December 2018 which comprise the Consolidated Statement of Total Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity and the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102 *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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement, set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our work and to whom we owe our responsibilities

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.

R Fitzpatrick

Robert Fitzpatrick (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
Statutory Auditor
66 Queen Square
Bristol
BS1 4BE

25 April 2019

DERBY HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Turnover	3	50,828	47,931
Administrative expenses		(41,536)	(39,428)
Operating profit		9,292	8,503
Interest receivable and similar income	7	20,039	20,254
Interest payable and similar expenses	8	(29,159)	(28,973)
Profit/(loss) before taxation		172	(216)
Taxation	9	(29)	30
Profit/(loss) for the financial year		143	(186)
Other comprehensive income		-	-
Total comprehensive income/(expense) for the year		143	(186)

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

DERBY HEALTHCARE (HOLDINGS) LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Current assets					
Debtors falling due after one year	**11**	315,259		320,722	
Debtors falling due within one year	**11**	57,814		54,182	
Cash at bank and in hand		32,875		30,853	
		405,948		405,757	
Creditors: amounts falling due within one year	**13**	(18,896)		(17,949)	
Net current assets			387,052		387,808
Creditors: amounts falling due after more than one year	**14**		(422,348)		(423,447)
Net liabilities			(35,296)		(35,639)
Capital and reserves					
Called up share capital	**16**		50		50
Profit and loss reserves			(35,346)		(35,489)
Total equity			(35,296)		(35,439)

The financial statements were approved by the board of directors and authorised for issue on 24 APRIL 2019 and are signed on its behalf by:

R. Sheehan

MR. R. SHEEHAN

Director

DERBY HEALTHCARE (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Investments	**10**		50		50
Current assets					
Debtors falling due after more than one year	**11**	46,733		43,815	
Debtors falling due within one year	**11**	1,446		2,048	
		48,179		45,863	
Creditors: amounts falling due within one year	**13**	(1,556)		(2,158)	
Net current assets			46,623		43,705
Total assets less current liabilities			46,673		43,755
Creditors: amounts falling due after more than one year	**14**		(46,633)		(43,715)
Net assets			40		40
Capital and reserves					
Called up share capital	**16**		50		50
Profit and loss reserves			(10)		(10)
Total equity			40		40

The financial statements were approved by the board of directors and authorised for issue on 24 APRIL 2019 and are signed on its behalf by:

MR. R. SHEEHAN
Director

Company Registration No. 04663025

DERBY HEALTHCARE (HOLDINGS) LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Profit and loss reserves	Total
	£000	**£000**	**£000**
Balance at 1 January 2017	50	(35,303)	(35,253)
Period ended 31 December 2017:			
Loss and total comprehensive loss for the year	-	(186)	(186)
Balance at 31 December 2017	50	(35,489)	(35,439)
Period ended 31 December 2018:			
Profit and total comprehensive income for the year	-	143	143
Balance at 31 December 2018	50	(35,346)	(35,296)

DERBY HEALTHCARE (HOLDINGS) LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Profit and loss reserves	Total
	£000	£000	£000
Balance at 1 January 2017	50	-	50
Period ended 31 December 2017:			
Loss and total comprehensive income for the year	-	(10)	(10)
Balance at 31 December 2017	50	(10)	40
Period ended 31 December 2018:			
Profit/(Loss) and total comprehensive loss for the year	-	-	-
Balance at 31 December 2018	50	(10)	40

DERBY HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017	
	Notes	**£000**	**£000**	**£000**	**£000**
Cash flows from operating activities					
Cash generated from operations	**20**		10,997		11,594
Income taxes paid			-		(116)
Net cash inflow from operating activities			10,997		11,478
Financing activities					
Interest received		20,039		20,254	
Interest paid		(25,082)		(25,504)	
Redemption of bonds		(4,071)		(2,709)	
Prior year variation bond redemption reimbursement		139		-	
Net cash used in financing activities			(8,975)		(7,959)
Net increase in cash and cash equivalents			2,022		3,519
Cash and cash equivalents at beginning of year			30,853		27,334
Cash and cash equivalents at end of year			32,875		30,853

1 Accounting policies

Company information

Derby Healthcare (Holdings) Limited ("the company") is a private company limited by shares incorporated in England and Wales and domiciled in the UK. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

In these financial statements, the company is considered a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of number of shares outstanding from the beginning to the end of the period; and
- Key management personnel compensation.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

1.2 Going concern

The directors, having reviewed a cash flow forecast covering the remainder of the group's contract period and taking into account reasonably possible risks in operations and the fact the obligations of the group's sole customer are underwritten by the Secretary of State for Health, believe that the group and parent company will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

The expected exposure to and implications of Brexit are described in the Strategic Report. The directors believe that a delay to or a no deal Brexit will not threaten the going concern status of the company in the short to medium term. Should one of these eventualities arise further analysis will be performed to determine the long term impact.

1.3 Turnover

Turnover in relation to service revenue is recognised in accordance with the service concession contract accounting policy. Turnover in relation to pass-through revenue is recognised when the services are performed.

1.4 Fixed asset investments

In the separate financial statements of the company, investments in subsidiaries are carried at cost less impairment.

1 Accounting policies **(Continued)**

1.5 Financial instruments

The group and parent 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 group's statement of financial position when the group 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.

Basic financial assets

Basic financial assets, which include trade and other debtors 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.

Trade and other debtors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The group is obligated to keep separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £29,679,000 at the year end (2017: £26,115,000).

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. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

1 Accounting policies **(Continued)**

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

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 group after deducting all of its liabilities.

Basic financial liabilities
Basic financial liabilities, including trade and other creditors, Bonds and subordinated loans, 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.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

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

Derecognition of financial liabilities
Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.6 Equity instruments
Equity instruments issued by the group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.7 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.8 Service concession accounting

The group is an operator of a Public Finance Initiative ("PFI") contract. As the group entered into the contract prior to the date of transition to FRS102, the group has taken advantage of the exemption in section 35.10(i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset was not deemed to be an asset of the group under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The group recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

1.9 Interest receivable and payable

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

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

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

Critical judgements
Service concession accounting
Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of concession increase by 5% the impact on revenue and profit in the year would be a decrease in revenue of £218k and a decrease in the profit of £218k.

3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2018	2017
	£000	£000
Turnover		
Services income	38,104	34,711
Pass through & variation income	12,586	13,086
Rental income	138	134
	50,828	47,931

4 Auditor's remuneration

	2018	2017
Fees payable to the company's auditor and associates:	£000	£000
For audit services		
Audit of the financial statements of the group and company	3	3
Audit of the company's subsidiaries	21	19
	24	22

5 Employees

The company had no employees during the year (2017: nil).

6 Directors' remuneration

	2018 £000	2017 £000
Sums paid by other group companies to related parties for directors' services	31	30

7 Interest receivable and similar income

	2018 £000	2017 £000
Interest income		
Interest on bank deposits	202	113
Interest on Finance Debtor	19,837	20,141
	20,039	20,254

8 Interest payable and similar expenses

	2018 £000	2017 £000
Interest on financial liabilities measured at amortised cost:		
Interest on bonds	22,279	22,425
Interest on subordinated loans	6,014	5,677
	28,293	28,102
Other finance costs:		
Amortisation of finance arrangement costs	866	871
	29,159	28,973

9 Taxation

	2018 £000	2017 £000
Current tax		
UK corporation tax on profits for the current period	2	10
Decrease/(Increase) in deferred tax asset	27	(40)
Total (credit)/expense charge for the year	29	(30)

9 Taxation **(Continued)**

All tax has been charged to the Profit and Loss Account with none charged through other comprehensive income.

A deferred tax asset in respect of tax losses has been recognised as the directors consider the balance to be recoverable over the life of the PFI contract.

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

	2018 £000	2017 £000
Profit/(loss) before taxation	172	(216)
Expected tax charge based on a corporation tax rate of 19.00% (2017 - 19.25%)	33	(42)
Adjustments in respect of prior years	(1)	10
Effect of differences in the corporation tax and the deferred tax rate	(3)	2
Tax (credit)/expense for the year	29	(30)

Factors that may affect the future tax charge
The group has tax losses of £42,375,000 (2017: £42,530,000) which have been carried forward and will be offset against future trading profits.

A reduction in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly. Deferred tax has been calculated based on these rates.

10 Fixed asset investments

		Group		Company	
	Notes	2018 £000	2017 £000	2018 £000	2017 £000
Investments in subsidiaries	19	-	-	50	50

10 Fixed asset investments (Continued)

Movements in fixed asset investments

Company	**Shares in group undertakings £000**
Cost or valuation	
At 1 January 2018 and 31 December 2018	50
Carrying amount	
At 31 December 2018	50
At 31 December 2017	50

11 Debtors

	Group 2018	**2017**	**Company 2018**	**2017**
Amounts falling due within one year:	**£000**	**£000**	**£000**	**£000**
Trade debtors	7,685	7,013	-	-
Accrued income	43,954	40,714	-	-
Amounts due from fellow group undertakings	-	-	1,446	2,048
Other debtors	-	1,094	-	-
Finance debtor	5,436	5,094	-	-
Prepayments	739	467	-	-
	57,814	54,382	1,446	2,048
Amounts falling due after one year:				
Amounts due from subsidiary undertakings	-	-	46,633	43,715
Finance debtor	307,955	313,391	-	-
	307,955	313,391	46,633	43,715
Deferred tax asset (note 15)	7,304	7,331	100	100
	315,259	320,722	46,733	43,815
Total debtors	373,073	375,104	48,179	45,863

All Financial assets above items are held at amortised cost

12 Loans and borrowings

	Group 2018 £000	2017 £000	Company 2018 £000	2017 £000
Bonds	381,796	385,119	-	-
Subordinated loans	45,372	42,399	46,633	43,715
	427,168	427,518	46,633	46,107
Payable within one year	4,820	4,071	-	-
Payable after one year	422,348	423,447	46,633	43,715
Amounts included above which fall due after five years:				
Payable by instalments	409,772	414,091	-	-

Guaranteed secured bonds 2041
Derby Healthcare Plc, a subsidiary of the company, has created £446,588,000 5.564% guaranteed secured bonds 2041 pursuant to a Trust Deed and Collateral Deed dated 9 September 2003 of which £411,588,000 were issued for cash on 9 September 2003 at an issue price of 99.993%.

The bonds bear interest at 5.564% which is payable semi-annually in arrears on 30 June and 31 December each year. The bonds are repayable in instalments which commenced in June 2009 and end in June 2041.

Derby Healthcare Plc retained £35,000,000 of bonds (the "variation bonds") which it may sell, subject to certain restrictions in the Collateral Deed, to fund the variations to the project. The bonds, excluding the variation bonds, have the benefit of an unconditional and irrevocable financial guarantee issued by MBIA Assurance S.A. in favour of BNP Paribas Trust Corporation UK Limited as security trustee over all of the undertaking and assets of the company Derby Healthcare Plc.

Unsecured subordinated 13.465% loan notes 2041
Under the terms of Deed Polls made on 9 September 2003 both the company and Derby Healthcare Plc, a subsidiary of the company, authorised and approved the issue of up to £39,070,000 unsecured subordinated loan notes 2041 on like terms. Under the terms of an Equity Subscription Agreement dated 9 September 2003 the shareholders of the company each agreed to subscribe in instalments between December 2003 and December 2008 for £39,070,000 of the loan notes in the company, which in turn agreed to subscribe for the £39,070,000 loan notes in Derby Healthcare Plc.

The company and Derby Healthcare Plc have each issued 39,070,000 of loan notes at par for cash. The loan notes bear interest at 13.465% which is payable semi - annually on 30 June and 31 December each year. The loan notes are repayable in instalments on 30 June and 31 December 2041.

13 Creditors: amounts falling due within one year

		Group		Company	
		2018	2017	2018	2017
	Notes	£000	£000	£000	£000
Guaranteed Secured 5.564% Bonds	12	4,820	4,071	-	-
Corporation tax payable		2	-	-	-
Other taxation and social security		872	1,141	-	-
Trade creditors		2,493	2,451	-	-
Amounts due to subsidiary undertakings		-	-	110	-
Amounts due to fellow group undertakings		-	-	-	110
Other creditors		-	-	1,446	2,048
Accruals and deferred income		10,709	10,286	-	-
		18,896	17,949	1,556	2,158

All Financial liabilities above are held at amortised cost.

14 Creditors: amounts falling due after more than one year

		Group		Company	
		2018	2017	2018	2017
	Notes	£000	£000	£000	£000
Loans and borrowings	12	422,348	423,447	46,633	43,715

All Financial liabilities above are held at amortised cost.

15 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets	Assets
	2018	2017
Group	£000	£000
Tax losses	7,304	7,331

	Assets	Assets
	2018	2017
Company	£000	£000
Tax losses	100	100

15 Deferred taxation **(Continued)**

	Group 2018	Company 2018
Movements in the year:	**£000**	**£000**
Liability/(Asset) at 1 January 2018	(7,231)	(100)
Charge to profit or loss	27	-
Liability/(Asset) at 31 December 2018	(7,204)	(100)

The deferred tax asset expected to be utilised in the forthcoming financial year is £nil.

16 Share capital

	Group and company 2018	2017
Ordinary share capital	**£000**	**£000**
Issued and fully paid		
50,000 Ordinary Shares of £1 each	50	50

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

17 Related party transactions

Transactions with related parties

	Management Services 2018	2017
	£000	**£000**
Group		
HCP Social Infrastructure (UK) Limited	872	837

In September 2003 the group entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited. HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited, is owned by Innisfree M&G PPP LP, a fund co-managed by Innisfree Limited and M&G Investment Management limited. Innisfree Limited also manages the funds invested in the company.

17 Related party transactions

The following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2018	2017
	£000	£000
Group		
Key management personnel	19	-
HCP Social Infrastructure (UK) Limited	87	83
	106	83

No guarantees have been given or received.

18 Controlling party

The company is owned by Innisfree PFI Continuation Fund (75%), Innisfree PFI Secondary Fund (8%) and Innisfree PFI Secondary Fund 2 LP (17%) through its nominee Innisfree Nominees Limited.

19 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held Direct	% Held Indirect
Derby Healthcare Nominee Limited, 8 White Oak Square, Lonodn Road, Swanley, Kent, BR8 7AG	Holding of Investments	Ordinary	100.00	
Derby Healthcare Plc, 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG	PFI Special Purpose Vehicle	Ordinary	100.00	

The aggregate capital and reserves and the profit for the year of the subsidiaries noted above was as follows:

Name of undertaking	Profit/(Loss)	Capital and Reserves
	£000	£000
Derby Healthcare Nominee Limited	-	-
Derby Healthcare Plc	143	(35,286)

20	**Cash generated from operations**	**2018**	**2017**
		£000	**£000**
	(Loss)/profit for the year	143	(186)
	Adjustments for:		
	Income tax expense recognised in profit or loss	29	(30)
	Finance costs recognised in profit or loss	29,159	28,973
	Interest income recognised in profit or loss	(20,039)	(20,254)
	Movements in working capital:		
	Decrease in debtors	907	2,594
	Increase in creditors	798	497
	Cash generated from operations	10,997	11,594