

# **Sandwell Fundco 1 Limited**

Directors' Report and Financial Statements

Year Ended

31 March 2020

Company Number 04772219

WEDNESDAY



\*A9KIRTNK\*

A46

23/12/2020

#69

COMPANIES HOUSE

# Sandwell Fundco 1 Limited

## Contents

---

	Page
<b>Company Information</b>	
<b>Directors' Report</b>	1 - 3
<b>Independent Auditors' Report</b>	4 - 6
<b>Statement of Comprehensive Income</b>	7
<b>Balance Sheet</b>	8
<b>Statement of Changes in Equity</b>	9 - 10
<b>Notes to the Financial Statements</b>	11 - 26

## Company Information

---

<b>Directors</b>	M W Grinonneau S F Murphy C S E Douglass D M Vermeer J D Sutcliffe
<b>Registered number</b>	04772219
<b>Registered office</b>	9th Floor Cobalt Square 83-85 Hagley Road Birmingham B16 8QG
<b>Independent auditors</b>	BDO LLP Two Snowhill Birmingham B4 6GA

# **Sandwell Fundco 1 Limited**

## **Directors' Report For the Year Ended 31 March 2020**

---

The directors present their annual report and the audited financial statements for the year ended 31 March 2020.

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption and the company has taken advantage of the exemption from the requirement to prepare a strategic report.

### **Principal activities**

The company manages four health centres under the Government's LIFT Initiative.

### **Dividends**

The profit for the year, after taxation, amounted to £510,000 (2019 as restated - £339,000).

The directors do not recommend the payment of a dividend (2019 - £Nil).

### **Directors**

The directors who served during the year and to the date of this report were:

M W Grinonneau  
G W Mackinlay (resigned 22 May 2019)  
S F Murphy  
C S E Douglass  
D M Vermeer  
J D Sutcliffe (appointed 22 May 2019)

### **Going concern**

At the year-end, the company had net assets of £3,374,000 (2019 as restated - £2,567,000), which includes the negative fair value of interest rate and RPI swaps, net of related deferred tax, of £3,187,000 (2019 - £3,484,000), which are on long-term agreements as part of the overall financial model of the business. The company has net current assets (excluding debtors due after more than one year) of £1,230,000 (2019 - £1,419,000), including cash of £2,003,000 (2019 - £1,902,000).

The COVID 19 pandemic is unprecedented in its scale and is having significant impact on the UK economy, the full extent of which is unknown at this time. This creates uncertainty in respect of all future business plans, but at the time of writing the Directors do not believe there is any going concern risk to the company, as its major Tenant, Community Health Partnerships (CHP) has formally written to all LIFT Companies on 27 March 2020, to confirm that it will be following the Government's 'Procurement Policy Note 02/20: Supplier relief due to COVID 19' (published on 20 March 2020), by ensuring that all lease payments will be paid as due.

One possible area of risk is that the FM service provider struggles to comply with its contractual obligations as a result of the pandemic leading to a shortage of maintenance staff or creating associated issues in their supply chain. This situation is being closely monitored to ensure that we are fully up to date with any developments that may impact on their service delivery and that their Business Continuity Plan is regularly reviewed and updated as necessary. To assist with reducing maintenance visits to LIFT facilities and to support the Government's social distancing objective, CHP have requested that only those maintenance tasks that are critical to the continuity of clinical service provision should be prioritised and other non essential tasks can be rescheduled (without applying any deductions or accruing any service failure points for these non essential services). Furthermore, CHP have confirmed that they will relax any contractual obligations / performance failures that could be incurred as a result of a COVID 19 outbreak at any LIFT facility.

# **Sandwell Fundco 1 Limited**

## **Directors' Report (continued) For the Year Ended 31 March 2020**

---

### **Going concern (continued)**

The directors have reviewed the future liquidity requirements and have considered the cash flow forecasts of the company. The company produces long term financial forecasts which show the company is able to operate and meet its financial obligations as they fall due, including compliance with all loan covenants. Based on this review and the future business prospects of the company, the directors believe the company will be able to meet its liabilities as they fall due.

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

### **Qualifying third party indemnity provisions**

The directors of the company have qualifying third party indemnity provisions put in place through other companies of which they are also directors.

### **Directors' responsibilities statement**

The directors are responsible for preparing 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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.

# **Sandwell Fundco 1 Limited**

## **Directors' Report (continued) For the Year Ended 31 March 2020**

---

### **Disclosure of information to auditors**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board on 30 November 2020 and signed on its behalf.



**C S E Douglass**  
Director

# **Sandwell Fundco 1 Limited**

## **Independent Auditors' Report to the Members of Sandwell Fundco 1 Limited**

---

### **Opinion**

We have audited the financial statements of Sandwell Fundco 1 Limited ("the Company") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the notes to the financial statements, including a summary of 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 (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

### **Other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# **Sandwell Fundco 1 Limited**

## **Independent Auditors' Report to the Members of Sandwell Fundco 1 Limited (continued)**

---

### **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 the 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 prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

### **Respective responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

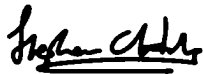
# Sandwell Fundco 1 Limited

## Independent Auditors' Report to the Members of Sandwell Fundco 1 Limited (continued)

---

### Use of our report

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



**Stephen Hale** (Senior Statutory Auditor)  
For and on behalf of **BDO LLP**, Statutory Auditor  
Birmingham  
United Kingdom

1 December 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



# Sandwell Fundco 1 Limited

## Statement of Comprehensive Income For the Year Ended 31 March 2020

			As restated - note 23
	Note	2020 £000	2019 £000
Revenue	4	889	798
Cost of sales		(474)	(468)
<b>Gross profit</b>		<b>415</b>	<b>330</b>
Administrative expenses		(186)	(309)
<b>Operating profit</b>	5	<b>229</b>	<b>21</b>
Interest receivable and similar income	7	1,222	1,233
Interest payable and similar charges	8	(787)	(857)
<b>Profit before tax</b>		<b>664</b>	<b>397</b>
Tax on profit	9	(154)	(58)
<b>Profit for the financial year</b>		<b>510</b>	<b>339</b>
<b>Other comprehensive income for the year</b>			
Movement in cash flow hedge		264	16
Taxation in respect of items of other comprehensive income	9	33	(2)
<b>Other comprehensive income for the year</b>		<b>297</b>	<b>14</b>
<b>Total comprehensive income for the year</b>		<b>807</b>	<b>353</b>

The results for the current and previous financial year derive from continuing operations.

The notes on pages 11 to 26 form part of these financial statements.

# Sandwell Fundco 1 Limited

Registered number:04772219

## Balance Sheet As at 31 March 2020

				As restated - note 23	As restated - note 23
	Note	2020 £000	2020 £000	2019 £000	2019 £000
<b>Current assets</b>					
Debtors: amounts falling due within one year	10	276		526	
Debtors: amounts falling due after more than one year	10	16,597		16,549	
Cash at bank and in hand	2.3,13	2,003		1,902	
		<u>18,876</u>		<u>18,977</u>	
Creditors: amounts falling due within one year	14	(1,049)		(1,009)	
<b>Net current assets</b>			<u>17,827</u>		<u>17,968</u>
<b>Total assets less current liabilities</b>			<u>17,827</u>		<u>17,968</u>
Creditors: amounts falling due after more than one year	15		(14,298)		(15,146)
Provision for liabilities	17		(155)		(255)
<b>Net assets</b>			<u><u>3,374</u></u>		<u><u>2,567</u></u>
<b>Capital and reserves</b>					
Called up share capital	18		-		-
Cash flow hedge reserve			(3,187)		(3,484)
Profit and loss account			6,561		6,051
			<u><u>3,374</u></u>		<u><u>2,567</u></u>

The company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 November 2020.



**C S E Douglass**  
Director

The notes on pages 11 to 26 form part of these financial statements.

# Sandwell Fundco 1 Limited

## Statement of Changes in Equity For the Year Ended 31 March 2020

	Called up share capital	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 April 2019 (as previously stated)	-	(3,484)	3,094	(390)
Prior year adjustment - note 23	-	-	2,957	2,957
At 1 April 2019 (as restated - note 23)	-	(3,484)	6,051	2,567
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	510	510
Hedge effective portion of change in fair value of designated hedging instrument	-	264	-	264
Taxation in respect of items of other comprehensive income	-	33	-	33
<b>Other comprehensive income for the year</b>	-	297	-	297
<b>Total comprehensive income for the year</b>	-	297	510	807
<b>At 31 March 2020</b>	-	(3,187)	6,561	3,374

The notes on pages 11 to 26 form part of these financial statements.

# Sandwell Fundco 1 Limited

## Statement of Changes in Equity For the Year Ended 31 March 2019

	Called up share capital	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 April 2018 (as previously stated)	-	(3,498)	3,095	(403)
Prior year adjustment - note 23	-	-	2,617	2,617
At 1 April 2018 (as restated - note 23)	-	(3,498)	5,712	2,214
<b>Comprehensive income for the year</b>				
Profit for the year (as restated - note 23)	-	-	339	339
Hedge effective portion of change in fair value of designated hedging instrument	-	16	-	16
Taxation in respect of items of other comprehensive income	-	(2)	-	(2)
<b>Other comprehensive income for the year</b>	-	14	-	14
<b>Total comprehensive income for the year</b>	-	14	339	353
<b>At 31 March 2019</b>	-	(3,484)	6,051	2,567

The notes on pages 11 to 26 form part of these financial statements.

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

---

### 1. General information

Sandwell Fundco 1 Limited is a private company limited by shares incorporated in England and Wales. The address of the registered office of the company is given on the company information page and the nature of the company's operations and its principal activities are set out in the directors' report.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

### 2. Accounting policies

#### 2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies.

The functional currency is pounds sterling and rounded to the nearest £'000.

In preparing the separate financial statements, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented for the company;
- The company has taken advantage of exemption, not to disclose related party transactions between members wholly owned members of the group.

#### 2.2 Going concern

At the year-end, the company had net assets of £3,374,000 (2019 as restated - £2,567,000), which includes the negative fair value of interest rate and RPI swaps, net of related deferred tax, of £3,187,000 (2019 - £3,484,000), which are on long-term agreements as part of the overall financial model of the business. The company has net current assets (excluding debtors due after more than one year) of £1,230,000 (2019 - £1,419,000), including cash of £2,003,000 (2019 - £1,902,000).

The COVID 19 pandemic is unprecedented in its scale and is having significant impact on the UK economy, the full extent of which is unknown at this time. This creates uncertainty in respect of all future business plans, but at the time of writing the Directors do not believe there is any going concern risk to the company, as its major Tenant, Community Health Partnerships (CHP) has formally written to all LIFT Companies on 27 March 2020, to confirm that it will be following the Government's 'Procurement Policy Note 02/20: Supplier relief due to COVID 19' (published on 20 March 2020), by ensuring that all lease payments will be paid as due.

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

---

### 2. Accounting policies (continued)

#### 2.2 Going concern (continued)

One possible area of risk is that the FM service provider struggles to comply with its contractual obligations as a result of the pandemic leading to a shortage of maintenance staff or creating associated issues in their supply chain. This situation is being closely monitored to ensure that we are fully up to date with any developments that may impact on their service delivery and that their Business Continuity Plan is regularly reviewed and updated as necessary. To assist with reducing maintenance visits to LIFT facilities and to support the Government's social distancing objective, CHP have requested that only those maintenance tasks that are critical to the continuity of clinical service provision should be prioritised and other non essential tasks can be rescheduled (without applying any deductions or accruing any service failure points for these non essential services). Furthermore, CHP have confirmed that they will relax any contractual obligations / performance failures that could be incurred as a result of a COVID 19 outbreak at any LIFT facility.

The directors have reviewed the future liquidity requirements and have considered the cash flow forecasts of the company. The company produces long term financial forecasts which show the company is able to operate and meet its financial obligations as they fall due, including compliance with all loan covenants. Based on this review and the future business prospects of the company, the directors believe the company will be able to meet its liabilities as they fall due.

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

#### 2.3 Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial assets measured at amortised cost comprise cash at bank, trade debtors, finance debtors, other debtors and amounts owed by group undertakings.

#### 2.4 Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Financial liabilities measured at amortised cost comprise bank and other loans, trade creditors, other creditors, amounts owed to group undertakings and accruals.

#### 2.5 Hedge accounting

The company has entered into variable to fixed rate interest swaps to manage its exposure to interest rate cash flow risk on its variable rate debt. The company has also entered into RPI swaps to hedge the potential variability in future revenue cash flows arising from movements in RPI. These derivatives are measured at fair value at each reporting date. To the extent the hedge is effective; movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

---

### 2. Accounting policies (continued)

#### 2.6 Revenue

##### 2.6.1 Public to private concession arrangements

A substantial portion of the company's assets are used within the framework of concession contracts granted by public sector customers ('grantors'). Under these contracts, the company constructs primary care centres that are leased to the NHS on 25 year leases.

In order to fall within the scope of FRS 102 s34. 12, a contract must satisfy the following two criteria:

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to FRS 102 s34. 14, such infrastructures are not recognised in assets of the operator as property, plant and equipment but in financial assets ('financial asset model').

##### 2.6.2 'Financial asset model'

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor.

In the case of concession services, the operator has such an unconditional right if the grantor contractually guarantees the payment of;

- amounts specified or determined in the contract; or
- the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract.

Financial assets resulting from the application of FRS 102 s34. 14 are recorded in the balance sheet under the heading finance debtors and measured at amortised cost.

Pursuant to section 23 of FRS 102, revenue associated with this financial asset model comprises service remuneration which relates to facilities management, lifecycle maintenance and ad hoc property related income. Service remuneration is recognised as services are delivered.

Costs recognised in respect of service remuneration activities in advance of the work being undertaken are recognised as an asset within 'Other debtors' where the asset can be reliably measured and it is considered probable that those costs give rise to future revenue under the concession arrangements.

##### 2.6.3 Other revenue items

Cost recoveries income is recognised to off-set costs as those costs are incurred.

Rental income from operating leases is recognised in income on a straight-line basis over the lease term.

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

---

### 2. Accounting policies (continued)

#### 2.7 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have been originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

#### 2.8 Provisions

The company has recognised provisions for liabilities of uncertain timing or amount in respect of lifecycle obligations existing at the reporting date. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. Discounting, to reflect current market assessments of the time value of money and risks specific to the liability, is considered immaterial given the company expects to settle the obligations within the next financial year.

#### 2.9 Reserves

The company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- Cash flow hedge reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective, net of relevant tax charges.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.



# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

---

### 3. Accounting estimates and judgments

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are as follows:

#### 3.1 Key sources of estimation uncertainty

Financial asset (note 11 and 23) – The calculation of the amortised cost of finance receivables requires an estimate of the residual value of the property at the end of the lease term. This estimate is based on the residual value allocated to the property in the financial models, which form the basis for the calculation of rent charged to the lessee and which were assessed at financial close.

The directors have applied their judgement in determining the valuation policy and estimate, and are of the opinion that the values and assumptions currently used in the financial model continue to be appropriate. They continue to take a regular review of these assumptions, and will review and update this assessment as the position becomes less uncertain in future periods.

Financial asset interest rate (note 7 and 11) – The financial asset interest income is based on the weighted average cost of debt of the project and is applied to the carrying value of the financial asset on a quarterly basis. The interest rate used in 2020 is 7.59% (2019: 7.59%) per annum.

RPI index (note 11) - The finance debtors predict a level of RPI increases for future receipts and expenditure. This represents a degree of judgement and uncertainty given the nature of RPI. Where RPI differs from the estimated rate of 2.5%, this will impact future receipts/expenditure and thus increase/reduce the service margin (see below), which affects the amount of revenue recognised in any given period.

Service margin (notes 4, 11 and 23) - After the property is constructed, the company provides property management services. The remuneration for these services is recognised at cost plus an estimated mark up for profit on property management services. The service margin rate used in 2020 is 50.65% (2019 as restated: 46.99%) per annum. It is the policy of the directors that the service margin is reviewed annually on 1 January each year to generate a new service margin rate, which is to be applied in the proceeding financial year.

Lifecycle provision (note 17) - Provision is made in respect of lifecycle repairs/replacements required as at the reporting date, which the company is obligated to carry out under its lease agreements. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Derivative valuations (note 19) - Derivatives are professionally valued annually. The estimated value of derivative transactions is the valuation at the statement of financial position date and this valuation can change significantly even over a very short space of time. The valuation of derivative transactions is complex and such transactions can be calculated in a number of different ways and using a variety of methods. There are a number of factors that can affect the value of a transaction and which may not be taken into account in the valuation estimate provided. This may result in the transaction having an actual value which is higher or lower than the estimate included in these financial statements.

#### 3.2 Critical judgements

Concession arrangements - The concession arrangements undertaken by the company are considered to fall within the scope of section 34 of FRS 102 "Service Concession Arrangements", as described in the turnover note. This judgement has been based on a consideration of the nature and terms of the agreements and, in all contracts, the existence of an option for the grantor to purchase the properties at the end of the contract.

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 4. Revenue

An analysis of turnover by class of business is as follows:

		As restated - note 23
	2020	2019
	£000	£000
Service remuneration	720	613
Cost recoveries	108	124
Rental income (third party)	61	61
	<u>889</u>	<u>798</u>

### 5. Operating profit

The operating profit is stated after charging:

	2020	2019
	£000	£000
Fees payable to the company's auditor for the audit of the company's annual financial statements	3	3
	<u>3</u>	<u>3</u>

The company had no employees during the year or the prior year.

### 6. Directors' remuneration

The directors did not receive any remuneration from the company for their services to the company during the year or the previous year. The directors are remunerated by the shareholding companies for their services to the group as a whole. It is not practicable to apportion their remuneration for their services to this company.

### 7. Interest receivable and similar income

		As restated - note 23
	2020	2019
	£000	£000
Bank interest receivable	15	16
Financial asset interest receivable	1,207	1,217
	<u>1,222</u>	<u>1,233</u>

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 8. Interest payable and similar expenses

	2020 £000	2019 £000
Bank interest payable	618	643
Amortisation of loan issue costs	3	3
Loan note interest payable	166	211
	<u>787</u>	<u>857</u>

### 9. Taxation

	2020 £000	As restated - note 23 2019 £000
<b>Deferred tax</b>		
Origination and reversal of timing differences - current year	197	58
Effect of tax rate change on opening balance	(43)	-
<b>Taxation on profit on ordinary activities</b>	<u>154</u>	<u>58</u>
<b>Taxation in respect of other comprehensive loss</b>		
Cash flow hedge reserve	(33)	2
<b>Total taxation in respect of other comprehensive loss</b>	<u>(33)</u>	<u>2</u>

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 9. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	As restated - note 23 2019 £000
Profit on ordinary activities before tax	664	397
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	126	75
<b>Effects of:</b>		
Expenses not deductible	38	32
Non-taxable income	(53)	(49)
Change in tax rate	43	-
<b>Total tax charge for the year</b>	<b>154</b>	<b>58</b>

#### Factors that may affect future tax charges

The main rate of corporation tax in force at the balance sheet date was 19%. A resolution to retain the corporation tax rate from 1 April 2020 at 19% was passed on 17 March 2020, and is enacted from this date.

The deferred taxation liability has therefore been calculated at 19%, being the rate substantively enacted at the balance sheet date.

### 10. Debtors

	2020 £000	As restated - note 23 2019 £000
<b>Due after more than one year</b>		
Finance debtors (note 11)	16,537	16,368
Deferred taxation (note 12)	60	181
	<b>16,597</b>	<b>16,549</b>

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 10. Debtors (continued)

	2020 £000	2019 £000
<b>Due within one year</b>		
Trade debtors	64	31
Finance debtors (note 11)	-	139
Amounts owed by group undertakings	14	64
Amounts owed by related parties	21	26
Other debtors	167	255
Prepayments and accrued income	10	11
	<u>276</u>	<u>526</u>

Other debtors of £155,000 (2019: £255,000) represent costs which give rise to future revenue under the concession arrangements.

### 11. Financial assets

	2020 £000	As restated - note 23 2019 £000
Balance at 1 April	16,507	16,527
<b>Income recognised in the income statement</b>		
- service remuneration (note 4)	720	613
- interest income (note 7)	1,207	1,217
	<u>1,927</u>	<u>1,830</u>
<b>Other movements</b>		
- cash payments on RPI Swap	48	48
- cash received	(1,945)	(1,898)
	<u>(1,897)</u>	<u>(1,850)</u>
<b>Balance at 31 March</b>	<u>16,537</u>	<u>16,507</u>

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 11. Financial assets (continued)

		As restated - note 23
	2020	2019
	£000	£000
<b>Analysis of expected net receipts timing:</b>		
Within one year	-	139
After more than one year	16,537	16,368
<b>Balance at 31 March</b>	<b>16,537</b>	<b>16,507</b>

### 12. Deferred tax asset

		As restated - note 23
	2020	2019
	£000	£000
At beginning of year	181	241
Charged to profit or loss	(154)	(58)
Credited to other comprehensive income	33	(2)
<b>At end of year</b>	<b>60</b>	<b>181</b>

The deferred tax asset is made up as follows:

		As restated - note 23
	2020	2019
	£000	£000
Fixed asset timing differences	(870)	(789)
Losses and other deductions	183	256
Cash flow hedge reserve	747	714
	<b>60</b>	<b>181</b>

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 13. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	2,003	1,902

Included in cash at bank and in hand are bank balances totalling £1,627,000 (2019: £1,726,000) which are restricted for use in pre-described circumstances by the bank.

### 14. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Bank loans (note 16)	600	469
Trade creditors	127	68
Amounts owed to group undertakings	41	6
Amounts owed to related parties (note 16)	121	162
Other taxation and social security	71	125
Other creditors	-	8
Accruals and deferred income	89	171
	<b>1,049</b>	<b>1,009</b>

### 15. Creditors: Amounts falling due after more than one year

	2020 £000	2019 £000
Bank loans (note 16)	8,661	9,260
Amounts owed to related parties (note 16)	1,703	1,688
Derivative financial instruments (note 19)	3,934	4,198
	<b>14,298</b>	<b>15,146</b>

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 16. Loans payable

#### (a) Bank loans

	2020 £000	2019 £000
<b>The bank loans are repayable as follows</b>		
Within one year	600	472
Between one and two years	631	600
Between two and five years	1,733	1,787
After more than five years	6,330	6,906
	<b>9,294</b>	<b>9,765</b>

Bank loans relate to a Senior Debt Facility. £2,358,000 of the facility is repayable at the end of the term (2030-2031). The remaining amounts drawn under the Facility are repayable on an agreed repayment profile of six monthly instalments that commenced on 15 January 2004 and are due to end in July 2032.

Interest charges on amounts drawn down under both the current and previous facility are based on floating LIBOR. The company has entered into an interest rate swap agreement whereby it pays fixed rates of 5.18% and 5.16% per annum in respect of amounts drawn under the Amortising Senior Debt Facility, and receives LIBOR. The company has also entered into an interest rate swap agreement whereby it pays fixed rates of 5.13% and 5.11% per annum in respect of amounts drawn under the Bullet Senior Debt Facility, and receives LIBOR.

The swaps expire on 31 March 2031, 30 September 2030, 30 September 2030, 30 September 2030 and 30 September 2029 respectively.

The Senior Facility is secured by a first floating charge over the assets of the company.

Issue costs of £33,000 (2019 - £36,000) are offset against the bank loans and will be amortised over the duration of the facilities.

#### (b) Subordinated loan notes due to related parties

	2020 £000	2019 £000
<b>The loan notes are repayable as follows</b>		
Within one year	-	43
Between one and two years	156	-
Between two and five years	381	439
After more than five years	494	544
	<b>1,031</b>	<b>1,026</b>

The loan notes carry a coupon of 12% and are repayable in the quarter ending December 2030. The loan notes are unsecured.



# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 16. Loans payable (continued)

#### (c) Mezzanine loans due to related parties

	2020 £000	2019 £000
<b>The loans are repayable as follows</b>		
Within one year	39	39
Between one and two years	43	39
Between two and five years	158	143
After more than five years	471	523
	<b>711</b>	<b>744</b>

The loan notes carry a coupon of LIBOR plus 4.75% and are repayable in the predetermined semi-annual instalments ending June 2030. The company has entered into an interest rate swap agreement whereby it pays fixed rates of 5.14% and 5.16% per annum in respect of amounts drawn under the Mezzanine Debt Facility. The aforementioned swaps on the Mezzanine Debt Facility, means the effective interest paid on the two tranches of this loan are 9.96% and 9.98 per annum. The loan is unsecured.

### 17. Provisions

	Lifecycle provision £000
At 1 April 2019	255
Credited to profit or loss	(100)
<b>At 31 March 2020</b>	<b>155</b>

Lifecycle provision is made in respect of lifecycle repairs/replacements required as at the reporting date, which the company is obligated to carry out under its lease agreements. The provision represents management's best estimate of the repair and replacement cost of all items identified as requiring upgrades as at the year-end. Management, having explored alternative ways of upgrading the facility to remedy the defects identified, have reduced the provision in the year to align to their revised best estimate of the cost of the works to be carried out.

### 18. Share capital

	2020 £	2019 £
<b>Allotted, called up and fully paid</b>		
1 Ordinary shares of £1 each	1	1

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 19. Financial instruments

		As restated - note 23
	2020	2019
	£000	£000
<b>Financial assets</b>		
Financial assets measured at amortised cost	<b>18,806</b>	18,646
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<b>11,359</b>	11,868
Derivative financial instruments designated as hedges of variable interest rate and RPI risk	<b>3,934</b>	4,198
	<b>15,293</b>	16,066

Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps and RPI swaps.

The fair values of the interest rate swaps have been determined by reference to prices available from the markets on which the instruments involved are traded.

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the company has entered into floating to fixed interest rate swaps with a nominal value equal to that initial borrowings, the same term as the loans and interest re-pricing dates identical to those of the variable rate loans. These result in the company paying 5.18%, 5.16%, 5.13%, 5.11%, 5.21% and 5.23% per annum, for the Amortising, Bullet and Mezzanine loans (see note 17), respectively, and receiving LIBOR (though cash flows are settled on a net basis). The company pays LIBOR, plus margins of 1% and 1.15%, on the Amortising and Bullet loans, respectively, effectively fixing the total interest cost on loans and interest rates swaps at 6.18% and 6.16% per annum on the Amortising loan and 6.28% and 6.26% per annum on the Bullet loans. The Mezzanine swaps, the loans of which are in two separate tranches, both with margins of 4.75%, have effectively fixed the interest rates at 9.96% and 9.98% per annum.

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a negative fair value of £3,041,000 (2019: £2,941,000) at the reporting date. The cash flows arising from the interest rate swaps will continue until their maturity in 2031, coincidental with the repayment of the term loans. The swaps were 100% effective hedges.

Between 2004 and 2005, the company entered into eight LPA agreements having fixed contractual terms which caused their turnover to increase with RPI on a yearly basis.

To hedge the potential volatility in future revenue cash flows arising from movements in RPI, the company has entered into RPI swaps with a nominal value below that of the LPA contract but having the same term as the loans and RPI re-pricing dates identical to those of the LPA contract. These result in the company paying 2.60% and 2.86% per annum and receiving actual RPI and effectively fixing the inflation on a determined portion of the LPA contract.

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 19. Financial instruments (continued)

The derivatives are accounted for as a hedge of variable rate RPI rate risks, in accordance with FRS 102 and had a negative fair value of £893,000 (2019: £1,257,000) at the reporting date. The cash flows arising from the RPI swaps will continue until their maturity in 2031, coincidental with the LPA contractual terms. The swaps were 100% effective hedges.

### 20. Ultimate parent company and controlling party

The company is controlled by Sandwell Estates Partnership Limited, a company registered in England and Wales. As at 31 March 2020, Sandwell Estates Partnership Limited was owned by Primary Plus Holdings Limited (60%) and Community Health Partnerships Limited (40%), which are both registered in England and Wales.

The directors are of the opinion that there is no ultimate parent undertaking or controlling party by virtue of the company's joint ownership and control.

### 21. Related party transactions

The company has taken advantage of the exemption provided in FRS 102 not to disclose transactions with companies within the group of which it is a member, where the transactions occur between entities which are wholly owned members of that group.

Key management personnel include all directors who together have authority and planning, directing and controlling the activities of the company. See note 6 for details of directors' remuneration.

The directors consider the material transactions undertaken by the company during the year with related parties were as follows:

	2020 £000	2019 £000
<b>Sales to:</b>		
Community Health Partnerships Limited	1,933	1,934
<b>Balances due to:</b>		
Community Health Partnerships Limited	411	740
Primary Plus Holdings Limited	647	1,110
<b>Interest charged by:</b>		
Community Health Partnerships Limited	66	84
Primary Plus Holdings Limited	100	127

# Sandwell Fundco 1 Limited

## Notes to the Financial Statements For the Year Ended 31 March 2020

### 22. Other commitments

On completion of the buildings, under terms of contracts made, the company is committed to fixed payments, which increase by indexation, for Facilities Management for a 25 year period. The current year payment for these services amounted to £143,000 (2019: £140,000).

Under the terms of management agreements with its parent company, the company is committed to the payment of fixed and variable fees based on services provided in the contract term. The current year payment for these services amounted to £84,000 (2019: £67,000).

### 23. Prior year adjustment

An issue was identified in respect of the calculation of the service concession arrangement residual value, and, consequently, the margin for calculating the service remuneration. On adoption of FRS 102 in 2015, the directors adopted a policy of reducing the estimated residual value(s) by the service margin so as to adopt a prudent position in respect of revenues, and profits, recognised during the concession period. However, this resulted in a material understatement of the fair value of revenues generated to date. As such, the directors' best estimate of the residual values has been fully reflected in the financial statements, which has resulted in a higher margin being calculated and, consequently, additional service remuneration, and additional finance asset interest, being recognised. An adjustment has been processed to correct the historic position. The impact is as follows:

	Equity as at 1 April 2018 £000	Equity as at 31 March 2019 £000	Profit for year ended 31 March 2019 £000
As previously stated	(403)	(390)	(1)
Prior year restatement:			
Debtors: due after more than one year - Financial assets	2,768	3,127	-
Debtors: due after more than one year - Deferred taxation	(151)	(170)	-
Revenue	-	-	155
Financial asset interest receivable	-	-	204
Deferred taxation charge	-	-	(19)
<b>As restated</b>	<b>2,214</b>	<b>2,567</b>	<b>339</b>