Integrated Care Solutions (East Kent) Holdings Limited

Annual report and consolidated financial statements

Registered number 04885191

31 December 2018

Contents

Company Information

The Board of Directors	P Would B D Adams F D'Alonzo A Irwin
Company secretary	Imagile Secretariat Services Limited
Registered office	Third Floor Broad Quay Prince Street Bristol United Kingdom BS1 4DJ
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU

Directors' Report
for the year ended 31 December 2018

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of Integrated Care Solutions (East Kent) Holdings Limited (the "Group") for the year ended 31 December 2018.

Principal activity
The principal activity of the Integrated Care Solutions (East Kent) Holdings Limited during the year was that of a holding Company with a single subsidiary, Integrated Care Solutions (East Kent) Limited. The principal activities of Integrated Care Solutions (East Kent) Limited are the provision and maintenance of social and healthcare centres under a 28 year Private Finance Initiative (PFI) contract term in Tenterden and Margate with Kent County Council.

The Group has closely monitored the performance of the business during the year together with its technical advisors and the contract has been carried out in line with expectations.

Integrated Care Solutions (East Kent) Holdings Limited, during the coming year, will continue to act as the holding Company for its single subsidiary, Integrated Care Solutions (East Kent) Limited.

Key performance indicators
The key performance indicators for the Group are performing in line with the financial model and compliance with banking covenants. As at 31 December 2018 the Group's financial performance and financial position was in line with that anticipated by the financial model and the Group was not in breach of any banking covenants imposed by the lenders.

Principal risks and uncertainties
The Group is subject to certain risks during the operational phase of the contract. These risks wherever possible have been mitigated by passing the risk down to sub-contractors or by using interest rate and retail price swap instruments.

Liquidity risk
The Group builds up sufficient cash balances to ensure it is able to meet its loan obligations and other liabilities.

Credit risk
The Group's principal financial assets are its long-term debtors. The Directors consider that credit risk is mitigated by the fact that Kent County Council is the Group's sole counterparty and debtor. The Directors consider Kent County Council is a financially secure counterparty. Clauses in the concession agreement ensure that the Group will be sufficiently compensated by Kent County Council in the event of default or voluntary termination.

Interest rate cash flow risk
The Group has in place hedging arrangements to eliminate risk from interest rate movements and fluctuations in retail prices indices. In order to ensure stability of cash flows and hence manage interest rate risk, the Group has a policy of maintaining all of its bank debt at a fixed rate.

Employees
The Company has no employees (2017: Nil).

Results and dividends
The profit for the year after taxation amounted to £354,000 (2017: £494,000). The Company paid an interim dividend of £372,000 (2017: £910,000) during the year. The directors do not recommend a final dividend (2017: £nil).

Directors' Indemnity Insurance
The Company did not provide indemnity insurance for the directors during the year (2017: £nil).

Directors' Report *(continued)*
For the year ended 31 December 2018

Going Concern

In light of the net liabilities of £4,506,000 (2017: £5,226,000), primarily caused by the fair value liability of the interest rate and RPI swap contracts, the Directors have reviewed the Group's projected profits and cash flows by reference to a financial model covering accounting periods up to March 2033. Having examined the current status of the Group's principal contracts and likely developments in the foreseeable future, the Directors consider that the Group will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Directors

The Directors who served the Group during the year and to the date of signing these financial statements are as follows:

M D Canham	(resigned 18 December 2018)
N Poupard	(resigned 18 December 2018)
P Would	
B D Adams	
F D'Alonzo	(appointed 18 December 2018)
A Irwin	(appointed 18 December 2018)

Strategic Report exemption

The Directors' Report has been prepared in accordance with the special provisions relating to small companies under Section 415 of the Companies Act 2006. As such the Group is exempt from preparing a Strategic Report.

Political and charitable contributions

The Group made no political or charitable contributions during the current year (2017: £nil).

Disclosure of information to auditor

In so far as the Directors are aware:

- there is no relevant audit information of which the Group and Company's auditor is unaware; and
- each Director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418(2) of the Companies Act 2006.

Auditor

BDO LLP are deemed to be reappointed under Section 487 of the Companies Act 2006 and will therefore continue in office.

Approved by the Directors on 24 APRIL 2019

B D Adams
Director

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

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 Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the group for that period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Integrated Care Solutions (East Kent) Holdings Limited

Opinion

We have audited the financial statements of Integrated Care Solutions (East Kent) Holdings Limited ("the parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the Consolidated Profit and Loss Account and Statement of Other Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity and 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 Group's and 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 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 Group and the parent 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 Group or the parent 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 Annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise 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.

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 year ended 31 December 2018 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.

Independent auditor's report to the members of Integrated Care Solutions (East Kent) Holdings Limited *(continued)*

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Director's 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 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.; or
- the Directors were not entitled to prepare the financial statements and the Director's Report in accordance with the small companies regime and to take exemption from the requirement to prepare a Strategic Report.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, 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 determines 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 Group's 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 the Directors 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 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. This description forms part of our auditor's report.

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.

BDO LLP

Paul Bailey *(Senior Statutory Auditor)*
For and on behalf of BDO LLP, statutory auditor
55 Baker Street, London, W1U 7EU

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

25 April 2019

Consolidated Profit and Loss account and Statement of Other Comprehensive Income

for year ended 31 December 2018

	Notes	2018	2017
		£'000	£'000
Turnover	2	**2,931**	3,300
Cost of sales		**(2,147)**	(2,408)
Gross profit		**784**	892
Administrative expenses		**(220)**	(178)
Operating profit	3	**564**	714
Interest receivable	5	**1,166**	1,195
Interest payable and similar charges	6	**(1,293)**	(1,297)
Profit on ordinary activities before taxation		**437**	612
Tax on profit on ordinary activities	7	**(83)**	(118)
Profit for the financial year		**354**	494
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Effective portion of fair value changes in cash flow hedge:	14	**889**	727
Tax recognised in relation to change in fair value cash flow hedges	7	**(151)**	(124)
Other comprehensive income for the year		**738**	603
Total comprehensive income for the year		**1,092**	1,097

All amounts relate to continuing activities.

The notes on pages 13 to 26 form an integral part to these financial statements.

Consolidated Balance Sheet
at 31 December 2018

	Notes	2018 £'000	2017 £'000
Current assets			
Debtors due after more than one year	*9*	**18,080**	18,625
Debtors due less than one year	*9*	**1,012**	1,025
Cash at bank and in hand		**2,167**	1,989
Total current assets		**21,259**	21,639
Current liabilities			
Creditors: amounts falling due within one year	*10*	**(2,617)**	(2,310)
Net current assets		**18,642**	19,329
Creditors: amounts falling due after more than one year	*11*	**(23,148)**	(24,555)
Net liabilities		**(4,506)**	(5,226)
Capital and reserves			
Called up share capital	*14*	**130**	130
Profit and loss account	*14*	**811**	829
Cash flow hedge reserve	*14*	**(5,447)**	(6,185)
Total shareholder's deficit		**(4,506)**	(5,226)

The financial statements have been prepared in accordance with the special provisions of section 415 of the Companies Act 2006 relating to small companies.

The notes on pages 13 to 26 form an integral part to these financial statements.

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

BeAdams

B D Adams
Director

Company registered number: 04885191

Company Balance Sheet

as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Non current assets			
Investments	*8*	**130**	130
Net assets		**130**	130
Capital and reserves			
Called up share capital	*14*	**130**	130
Profit and loss account	*19*	-	-
Total shareholder's funds		**130**	130

The Company made a profit during the year of £372,000 (2017: £910,000) of which all retained profit was distributed, and the position represents the investment in the subsidiary.

The notes on pages 13 to 26 form an integral part to these financial statements.

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

B D Adams
Director

Company registered number: 04885191

Consolidated Statement of Changes in Equity

		Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 January 2017		130	(6,788)	1,245	(5,413)
Total comprehensive income for the period					
Profit for the financial year		-	-	494	494
Other comprehensive income		-	603	-	603
Total comprehensive income for the period		-	603	494	1,097
Dividends	18	-	-	(910)	(910)
Total contributions by and distributions to owners		-	-	(910)	(910)
Balance at 31 December 2017		130	(6,185)	829	(5,226)

		Called up share capital £'000	**Cash flow hedge reserve £'000**	**Profit and loss account £'000**	**Total Equity £'000**
Balance at 1 January 2018		**130**	**(6,185)**	**829**	**(5,226)**
Total comprehensive income for the period					
Profit for the financial year		-	-	354	354
Other comprehensive income		-	738	-	738
Total comprehensive income for the period		-	**738**	**354**	**1,092**
Dividends	18	-	-	(372)	(372)
Total contributions by and distributions to owners		-	-	**(372)**	**(372)**
Balance at 31 December 2018		**130**	**(5,447)**	**811**	**(4,506)**

The notes on pages 13 to 26 form an integral part to these financial statements.

Company Statement of Changes in Equity

		Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 January 2017		130	-	130
Total comprehensive income for the period				
Profit for the financial year		-	910	910
Total comprehensive income for the period		-	910	910
Dividends	18	-	(910)	(910)
Total contributions by and distributions to owners		-	(910)	(910)
Balance at 31 December 2017		130	-	130

		Called up share capital £'000	**Profit and loss account £'000**	**Total Equity £'000**
Balance at 1 January 2018		130	-	130
Total comprehensive income for the period				
Profit for the financial year		-	372	372
Other comprehensive income				
Total comprehensive income for the period		-	**372**	**372**
Dividends	18	-	(372)	(372)
Total contributions by and distrubted to owners		-	-	-
Total contributions by and distributions to owners		-	**(372)**	**(372)**
Balance at 31 December 2018		**130**	-	**130**

The notes on pages 13 to 26 form an integral part to these financial statements.

Consolidated Cash Flow Statement
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit for the year		**354**	494
Adjustments for:			
Interest receivable and similar income	5	**(1,166)**	(1,195)
Interest payable and similar charges	6	**1,293**	1,297
Taxation	7	**83**	118
		564	714
Increase/(decrease) in debtors		**406**	(308)
Increase in creditors		**153**	487
		1,123	893
Tax paid		**(118)**	(116)
Net cash inflow from operating activities		**1,005**	777
Cash flows from investing activities			
Interest received		**1,166**	1,195
Net cash from investing activities		**1,166**	1,195
Cash flows from financing activities			
Repayment of borrowings		**(329)**	(214)
Dividends paid	18	**(372)**	(910)
Interest paid		**(1,293)**	(1,297)
Net cash used in financing activities		**(1,994)**	(2,421)
Net decrease in cash		**178**	(449)
Cash and cash equivalents at 1 January		**1,989**	2,438
Cash and cash equivalents at 31 December		**2,167**	1,989

The notes on pages 13 to 26 form an integral part to these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Integrated Care Solutions (East Kent) Holdings Limited is a Company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") and the requirements of the Companies Act 2006. The presentation currency of these financial statements is sterling.

The parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Company financial statements have been applied:

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

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

Accounting estimates and judgements

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

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

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

The parent Company has taken the exemption under section 408 of Companies Act 2006 to not present a Company Profit and Loss and Statement of Other Comprehensive Income for the period.

1.1 Measurement convention

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern

In light of the net liabilities of £4,506,000 (2017: £5,226,000), primarily caused by the fair value liability of the interest rate and RPI swap contracts, the Directors have reviewed the Group's projected profits and cash flows by reference to a financial model covering accounting periods up to March 2033. Having examined the current status of the Group's principal contracts and likely developments in the foreseeable future, the Directors consider that the Group will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

1.3 Classification of financial instruments issued by the group

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

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

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

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

1.4 Basic financial instruments

Trade and other debtors / creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The Group is obligated to keep a separate cash reserve in respect of future major maintenance costs, change in law and change in FM provider. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £1,306,000 at the year end (2017: £1,253,000).

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other Comprehensive Income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in Other Comprehensive Income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in the profit or loss account the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in profit or loss immediately.

1.6 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

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

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

Accounting for the service contracts and finance receivables requires estimation of service margins, finance receivable interest rates and finance receivable amortisation profile which is based on forecasted results of the PFI contract.

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Turnover

The Group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Group under FRS 102, 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 FRS 102. The Group recognises income in respect of the services provided 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.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

1.8 Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable that is recognised in profit and loss.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

1.9 Taxation

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

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

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

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

1.10 Lifecycle costs

Costs relating to lifecycle expenditure are capitalised and expensed on the basis of a 30:70 ratio. This is based on the original profile modelled at financial close of spend on lifecycle costs.

Notes *(continued)*

2 Turnover

	2018 £'000	2017 £'000
Costs re-charged including mark up	**2,640**	3,023
Pass through income	**291**	277
Service Turnover	**2,931**	3,300

All turnover arose from operations within the United Kingdom

3 Operating Profit

The operating profit is stated after charging:

	2018	2017
Auditors remuneration:	**£'000**	£'000
Audit of these financial statements	**6**	6

The audit fee for the audit of these financial statements was borne by the subsidiary company.

4 Directors' remuneration

The Directors received no remuneration directly for their services during the year (2017: £nil). See note 16 for directors' fees charged by shareholder companies.

There were no employees under the period of review (2017: Nil)

5 Interest receivable and similar income

	2018 £'000	2017 £'000
Finance debtor interest receivable	**1,155**	1,191
Bank interest receivable	**11**	4
	1,166	1,195

Notes *(continued)*

6 Interest payable and similar charges

	2018 £'000	2017 £'000
Interest payable on bank loans	**1,048**	1,054
Interest payable on subordinated debt	**223**	221
Bank fees payable	**22**	22
	1,293	1,297

7 Taxation

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

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Current tax		**83**		118
Total current tax		**83**		118
Deferred tax				
Origination and reversal of timing differences	**151**		124	
Total deferred tax charge		**151**		124
Total Tax charge		**234**		242

	2018 Current tax £'000	2018 Deferred tax £'000	2018 Total tax £'000	2017 Current tax £'000	2017 Deferred tax £'000	2017 Total tax £'000
Recognised in Profit and loss account	**83**	**-**	**83**	118	-	118
Recognised directly in other comprehensive income	**-**	**151**	**151**	-	124	124
Total tax	**83**	**151**	**234**	118	124	242

Notes *(continued)*

7 Taxation *(continued)*

Reconciliation of effective tax rate

	2018 £'000	2017 £'000
Profit on ordinary activities after tax	**354**	494
Total tax expense	**83**	118
Profit excluding taxation	**437**	612
Taxation using the UK corporation tax rate of 19% (2017: 19.25%)	**83**	118
	83	118

A reduction in the rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly.

8 Fixed Asset Investments

Company	31 December 2018 £'000	31 December 2017 £'000
Cost		
At 1 January and 31 December	**130**	130

The undertakings in which the Company's interest at the year-end is more than 20% are as follows:

Company	Country of registeration or incorporation	Class	%	Principal activity
Participating interests				
Integrated Care Solutions (East Kent) Limited	England and Wales	Ordinary	100	PFI Contract operator

The registered address of Integrated Care Solutions (East Kent) Limited is the same as that of the parent Company.

Notes *(continued)*

9 Debtors

	Group 2018 £'000	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
Finance debtor	**17,579**	17,920	-	-
Other receivables	**398**	405	-	-
Prepayments and accrued income	-	58	-	-
Deferred Tax Asset (note 13)	**1,115**	1,267	-	-
	19,092	19,650	-	-
Due within one year	**1,012**	1,025	-	-
Due after more than one year	**18,080**	18,625	-	-
	19,092	19,650	-	-

Debtors include finance debtor of £16,965,000 (2017: £17,359,000) due after more than one year.

10 Creditors: amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
Bank loan (note 12)	**518**	329	-	-
Trade creditors	-	58	-	-
Amounts payable to related parties	**55**	56	-	-
Corporation tax	**83**	118	-	-
Other taxation	**109**	112	-	-
Accruals and deferred income	**1,852**	1,637	-	-
	2,617	2,310	-	-

11 Creditors: amounts falling due after more than one year

	Group 2018 £'000	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
Bank loan (note 12)	**14,435**	14,953	-	-
Subordinated debt (note 12)	**1,976**	1,976	-	-
Accruals and deferred income	**175**	175	-	-
Other financial liabilities (note 15)	**6,562**	7,451	-	-
	23,148	24,555	-	-

Notes *(continued)*

12 Interest-bearing loans and borrowings

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

	2018	2017
	£'000	£'000
Creditors falling due more than one year		
Bank loan	14,435	14,953
Subordinated debt	1,976	1,976
Creditors falling due within less than one year		
Bank loan	518	329

Included within Bank loan is an amount repayable after five years of £11,937,000 (2017: £12,660,000) and included within subordinated debt are amounts repayable after five years of £1,976,000 (2017: £1,976,000) respectively.

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Debt can be analysed as falling due as follows:				
In one year or less, or on demand	518	329	-	-
Between one and two years	635	518	-	-
Between two and five years	1,863	1,775	-	-
In five years or more	13,913	14,636	-	-
	16,929	17,258	-	-

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of Maturity	Repayment schedule	2018	2017
Bank loan	GBP	LIBOR + 1.0514%	2031	Semi-annual	14,953	15,282
Subordinated debt	GBP	11.25%	2033	2033	1,976	1,976

Notes *(continued)*

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

There is one term loan facility drawn down at 31 December 2018. The tenure of the term loan from NIBC Bank NV was originally 28 years and is repayable in 52 semi-annual instalments commencing 31 March 2006. Interest charged on amounts drawn is based on LIBOR rate plus 1.0514%. All amounts drawn under the facilities are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the Group and by a floating charge over the Group's undertakings and assets. Details of all swap transactions can be found within note 15.

13 Deferred tax asset

Deferred tax asset is attributable to the following:

Group

	2018	2017
	£'000	£'000
Deferred Tax on revaluation of fair value of derivatives	**1,115**	1,267

Deferred tax asset is recognised on the revaluation of the swap derivatives on both the RPI and interest rate swap held by the Group. These are accounted for under cash flow hedges (see note 15).

Reversal of the deferred tax asset is shown through the cash flow hedge reserve and other comprehensive income.

14 Capital and reserves

Share capital

	2018	2017
Ordinary Shares	**No. ('000)**	No. ('000)
In issue at 1 January and 31 December	**130**	130
	£'000	£'000
Value of shares at £1 per share	**130**	130

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.

Profit and loss account

The profit and loss account comprises the cumulative distributable profits of the Company less any dividends paid to the parent Company.

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred net of any deferred tax provided on this.

Notes *(continued)*

15 Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2018	2017
	£'000	£'000
Assets measured at amortised cost		
- Finance debtor	17,579	17,920
	17,579	17,920
Assets measured at cost less impairment		
- Cash and cash equivalents	2,167	1,989
- Other receivables	-	58
- Accrued Income	382	366
	2,549	2,413
Liabilities measured at amortised cost		
- Trade and other payables	-	(58)
- Bank loan	(14,953)	(15,282)
- Subordinated debt	(1,976)	(1,976)
- Accruals	(2,027)	(1,812)
- Amounts payable to group companies	(55)	(56)
	(19,011)	(19,184)
Liabilities measured at fair value through profit and loss		
- Interest and RPI rate swaps	(6,562)	(7,451)

(b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate and RPI swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(c) Hedge accounting

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

To hedge the potential movement in the interest cash flows associated with the LIBOR rate used for the bank term loan described in note 12, the Group has entered into floating to fixed interest rate swaps with a nominal value equal to the initial borrowings with the same term as the loans and interest payment dates. These result in the Group paying 5.37% per annum and receiving LIBOR.

The derivatives are accounted for as a cash flow hedge in accordance with FRS 102 and have the fair values as described in note 15 (d). 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 change in fair value in the period was a decrease of £961,000 (2017: decrease of £626,000) with the entire charge being recognised in Other Comprehensive Income as the swaps were 100% effective.

Notes *(continued)*

15 Financial instruments *(continued)*

***(c) Hedge accounting** (continued)*

In addition, the Group has also entered into an RPI-linked swap deal to hedge against potential movements in future revenue cash flows arising from changes in RPI. The nominal value of the deal is below that of the contracted revenues of the Group, but the term and re-pricing dates are identical to those of the contracted revenue. These result in the Group effectively fixing the inflation on a determined portion of the concession period.

The derivatives are accounted for as a cash flow hedge in accordance with FRS 102 and have the fair values as described in note 15 (d). The cash flows arising from the RPI swaps will continue until their maturity in 2031. The change in fair value in the period was an increase of £72,000 (2017: decrease of £101,000) with the entire charge being recognised in other comprehensive income as the swaps were 100% effective.

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2018	2017
	£'000	£'000
Amounts falling due after more than one year		
Financial liabilities designated as fair value through profit or loss		
- Interest rate swap contract	**4,532**	5,493
- RPI Swap contract	**2,030**	1,958
	6,562	7,451

Notes *(continued)*

16 Related parties

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

	Transactions		Payables to	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Term Loan Principal				
- NIBC Bank N.V.	**329**	213	**14,435**	15,283
Term Loan interest & swap interest				
- NIBC Bank N.V.	**1,051**	1,054	**261**	264
Subordinated debt principal & interest				
- NIBC European Infrastructure Fund 1 C.V.	**111**	110	**-**	1,016
- Equitix Healthcare Limited	**111**	110	**2,031**	1,016
Commitment & agency fees				
- NIBC Bank N.V.	**23**	19	**(2)**	(1)
Directors' fees				
- Equitix Healthcare Limited	**40**	18	**10**	-
- NIBC European Infrastructure Fund 1 C.V.	**30**	18	**-**	-
Group relief				
- Equitix Capital Eurobond Limited	**-**	58	**58**	58
	1,695	1,600	**16,794**	17,636

The following companies, together with undertakings within their individual groups of companies, are considered to be related parties to the Group, as defined in FRS102 Related Party Disclosures.

During the year, NIBC European Infrastructure Fund 1 C.V transferred their interest in Integrated Care Solutions (East Kent) Holdings Limited to Kent Vanwall Limited, thereby making Kent Vanwall Limited the sole shareholder as at 31 December 2018. Prior to this transfer on 18 December 2018, NIBC European Infrastructure Fund 1 C.V. and Kent Vanwall Limited were 50% Joint Venture Partners. NIBC European Infrastructure Fund 1 C.V. is the 100% owner of NEIF Project Investments Limited. NIBC Bank N.V. is a lender to the project and is a limited partner (circa 28%) in NIBC European Infrastructure Fund 1 C.V

17 Ultimate parent Company and parent Company of larger group

Throughout the majority of the year, the Company is a joint venture between NIBC European Infrastructure Fund 1 C.V. (50%) a limited partnership registered in the Netherlands, and Kent Vanwall Limited (50%), a Company that is incorporated in the United Kingdom and registered in England and Wales. On 18 December 2018, NIBC European Infrastructure Fund 1 C.V. transferred their interest in Integrated Care Solutions (East Kent) Limited to Kent Vanwall Limited, thereby making Kent Vanwall Limited the sole shareholder as at 31 December 2018.

The Directors consider Equitix Fund I LP to be the ultimate controlling entity.

Notes *(continued)*

18 Dividends

	2018	2017
	£'000	£'000
Interim dividend of 286p per ordinary share (2017: 700p per ordinary share)	**372**	910

19 Result for the financial year

Integrated Care Solutions (East Kent) Holdings Limited has taken advantage of the exemption allowed under section 408 of the Companies Act (2006) and has not prepared its own profit and loss account in these financial statements. The Group profit for the year includes £372,000 (2017: £910,000) profit which is dealt within the financial statements of the Company.