

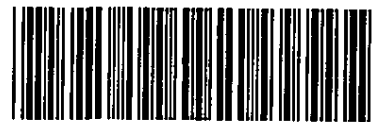
## **Central Nottinghamshire Hospitals Plc**

### **Annual report and financial statements**

For the year ended 31 December 2013

Registered number 05462512

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## **Company information**

### **Independent Chairman**

M Davis

### **Directors**

G Birley-Smith  
R Sheehan

### **Secretary**

P Beardsmore (resigned 3 February 2014)  
HCP Social Infrastructure (UK) Limited (appointed 3 February 2014)

### **Registered office**

8 White Oak Square  
London Road  
Swanley  
Kent  
BR8 7AG

### **Auditor**

KPMG LLP  
100 Temple Street  
Bristol  
BS1 6AG

### **Registered number**

05462512

## Strategic report

The Directors present their strategic report for the year ended 31 December 2013

### Business review

The Company has entered into a Project Agreement with the Sherwood Forest Hospitals NHS Foundation Trust (the "Trust"), together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements. The Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain non-clinical services within the new Kings Mill Hospital, Mansfield Community Hospital and Newark General Hospital for a primary term of thirty seven years and five months from 4 November 2005 being the date of signing of the Project Agreement.

The Company is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed with Assured Guaranty (UK) Limited ("The Deed"). To the best of the Directors' knowledge the Company has met all of the obligations contained within these Deeds and there have been no Events of Default, Potential Event of Defaults or Trigger Events with regard to the Collateral Deed.

### Financial performance and financial position

Turnover for the year is £36,964,000 (2012 £30,519,000), of which the main component is service fee income (net of deductions) of £32,892,000 (2012 £28,834,000).

The result before tax for the year is a loss of £466,000 (2012 £2,261,000). The operating profit margin has remained consistent on the increased turnover this year, and there was unscheduled early redemption interest paid of £1,372,000 on the subordinated loan stock last year, hence the reduction in the loss before tax for the year.

The loss after tax for the year is £447,000 (2012 £1,679,000). Impending reductions to the rate of UK corporation tax continue to impact on the valuation of the Company's deferred tax asset, resulting in a change in rate charge of £89,000 (2012 £38,000).

Financial penalties are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the relevant service provider but the quantum is an indication of satisfactory performance. During the year deductions of £12,000 (2012 £19,000) and £16,000 (2012 £16,000) were levied by the Trust in respect of the performance of the Hard FM service provider and the Soft FM service provider respectively, and passed onto the service providers accordingly. These deductions relate to only 0.21% (2012 0.37%) of the Hard FM and 0.13% (2012 0.14%) of the Soft FM total fees charged by the service providers. These low levels of deduction in the current year, and in the prior year, were considered satisfactory.

The Directors have modelled the anticipated financial outcome of the Project across its full term. The Directors monitor actual financial performance against this anticipated performance. Financial covenants have been met during the year and, having considered the anticipated future performance and position of the Company, the Directors are of the opinion that the covenants will continue to be met in the future, and the Company will therefore continue in business.

During the year, the Company has repaid £11,770,000 (2012 £11,225,000) of the guaranteed secured bonds as scheduled, with repayment dates set for 31 March and 30 September each year, or the first business day thereafter.

The Directors believe the FRS5 finance debtor to be recoverable over the life of the Concession Agreement.

### Principal risks and uncertainties

The Trust is the sole client of the company but the directors consider that no risk arises from such a small client base since the Secretary of State for Health has underwritten the Trust's obligations.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor where possible. The Company is exposed to the risk that sub-contractor non-performance is sufficient to allow the Trust to require a change in subcontractor, however, the Board consider that this risk is mitigated by enhanced monitoring of subcontractor performance which is reported to the Board. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

Details relating to interest rate risk and liquidity risk are set out in note 14 to the accounts.

**Strategic report (continued)**

By order of the Board



P Beardsmore  
for and on behalf of,  
HCP Social Infrastructure (UK) Limited  
Company Secretary

8 White Oak Square  
London Road  
Swanley  
Kent  
BR8 7AG

22 May 2014

**Registered number:** 05462512

## **Directors' report**

The Directors present their annual report and the audited financial statements for the year ended 31 December 2013

### **Financial instruments**

The Company's principal financial instruments comprise short term bank deposits, guaranteed index linked bonds, and subordinated loan stock. Further details of the financial risk management policies and objectives are given in note 14 to the accounts.

### **Financial reporting**

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

### **Dividends**

The Directors do not recommend the payment of a dividend (2012 £Nil)

### **Directors**

The Directors who held office during the year were as follows

G Birley-Smith  
R. Sheehan  
N Crowther (resigned 5 December 2013)  
M Edwards (resigned 20 November 2013)

### **Employees**

There were no employees during the year (2012 Nil)

### **Political contributions**

The Company made no political contributions during the year (2012 £Nil)

### **Disclosure of information to auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the 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 Company's auditor is aware of that information.


### **Auditor**

KPMG Audit Plc resigned as auditor on 15 January 2014 pursuant to section 516 of the Companies Act 2006. On 23 January 2014 the Directors appointed KPMG LLP as auditor of the company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006.

KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next annual general meeting.

**Directors' report (*continued*)**

By order of the Board



P Beardsmore  
for and on behalf of,  
HCP Social Infrastructure (UK) Limited  
Company Secretary

8 White Oak Square  
London Road  
Swanley  
Kent  
BR8 7AG

22 May 2014

**Registered number:** 05462512

## **Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **Independent auditor's report to the members of Central Nottinghamshire Hospitals Plc**

We have audited the financial statements of Central Nottinghamshire Hospitals Plc for the year ended 31 December 2013 set out on pages 8 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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



**Huw Brown, Senior Statutory Auditor**  
For and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
100 Temple Street  
Bristol  
BS1 6AG

28 May 2014

**Profit and loss account**  
*for the year ended 31 December 2013*

	<i>Note</i>	<b>2013</b> <b>£000</b>	<b>2012</b> <b>£000</b>
Turnover	<b>3</b>	<b>36,964</b>	<b>30,519</b>
Net operating costs	<b>4</b>	<b>(33,703)</b>	<b>(27,754)</b>
<b>Operating profit</b>		<b>3,261</b>	<b>2,765</b>
Interest payable and similar charges	<b>6</b>	<b>(23,650)</b>	<b>(26,300)</b>
Other interest receivable and similar income	<b>7</b>	<b>19,923</b>	<b>21,274</b>
<b>Loss on ordinary activities before taxation</b>		<b>(466)</b>	<b>(2,261)</b>
Tax credit on ordinary activities	<b>8</b>	<b>19</b>	<b>582</b>
<b>Loss for the financial year</b>	<b>16</b>	<b>(447)</b>	<b>(1,679)</b>

There were no other recognised gains and losses for the periods above other than the loss stated above

There is no difference between the historical cost loss and the loss stated above. All of the results relate to continuing activities.

Movements in reserves are shown in Note 16

The notes on pages 11 to 20 form an integral part of these financial statements

## Balance sheet

as at 31 December 2013

	<i>Note</i>	<b>2013</b> <b>£000</b>	<b>2012</b> <b>£000</b>
<b>Current assets</b>			
Debtors amounts falling due within one year	<b>9</b>	<b>45,454</b>	42,104
Debtors amounts falling due in more than one year	<b>10</b>	<b>334,937</b>	340,148
		<b>380,391</b>	382,252
Cash at bank and in hand	<b>11</b>	<b>30,050</b>	27,718
		<b>410,441</b>	409,970
<b>Current liabilities</b>			
Creditors amounts falling due within one year	<b>12</b>	<b>(22,843)</b>	(22,338)
<b>Net current assets</b>		<b>387,598</b>	387,632
Creditors amounts falling due after more than one year	<b>13</b>	<b>(388,784)</b>	(388,371)
<b>Net liabilities</b>		<b>(1,186)</b>	(739)
<b>Capital and reserves</b>			
Called up share capital	<b>15</b>	<b>50</b>	50
Reserves	<b>16</b>	<b>(1,236)</b>	(789)
<b>Equity shareholders' deficit</b>		<b>(1,186)</b>	(739)

The notes on pages 11 to 20 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 22 May 2014 and were signed on its behalf by



R. Sheehan

Director

**Reconciliation of movements in equity shareholders' deficit**  
*for the year ended 31 December 2013*

	2013 £000	2012 £000
Opening equity shareholders' (deficit) / funds	(739)	940
Loss for the financial year	<u>(447)</u>	<u>(1,679)</u>
Closing equity shareholders' deficit	<u>(1,186)</u>	<u>(739)</u>

The notes on pages 11 to 20 form an integral part of these financial statements

## Notes

*(forming part of the financial statements)*

### 1. Basis of preparation of the financial statements

The financial statements have been prepared in accordance with applicable accounting standards and under historical accounting rules

The shareholders' funds for the period ending 31 December 2013 show a deficit of £1,186,000 (2012 £739,000)

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

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As the Company is a subsidiary of Central Nottinghamshire Hospitals (Holdings) Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Central Nottinghamshire Hospitals (Holdings) Limited, within which this Company is included, can be obtained from the address given in note 19

### 2. Accounting policies

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

#### (i) *Finance debtor and service contract*

The Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be a fixed asset of the Company under FRS 5 Application Note F because the risks and rewards of ownership as set out in the standard are deemed to lie principally with the Trust

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts and turnover Upon becoming operational, the costs are 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 5 Application Note G The company 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 an incurred basis and the revenue receivable in respect of these services is recognised when these services are performed

#### (ii) *Taxation*

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

## Notes (continued)

### 2. Accounting policies (continued)

#### (iii) Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

##### *Trade debtors*

Trade receivables are initially recognised at fair value and then are stated at amortised cost.

##### *Cash at bank and Guaranteed Investment Contracts (GICs)*

Cash at bank is carried in the balance sheet at nominal value.

GICs are readily convertible into known amounts of cash at or close to their carrying values and are classified as cash. They are treated as held-to-maturity instruments as defined in paragraph 9 of FRS 26, which are initially recognised at fair value and then are stated at amortised cost.

##### *Trade creditors*

Trade payables are initially recognised at fair value and then are stated at amortised cost.

##### *Bank and other borrowings*

Interest-bearing bank and other borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

##### *Finance debtor and contract receivables*

Finance debtor and contract receivables are classified as loans and receivables as defined in paragraph 9 of FRS 26, which are initially recognised at fair value and then are stated at amortised cost.

#### (iv) Turnover

Turnover is recognised in accordance with the finance debtor and service contract accounting policies above. Turnover represents value of work done entirely in the UK and excludes value added tax.

### 3. Analysis of turnover

	2013 £000	2012 £000
Recognised in the profit and loss account		
Construction income	3,880	1,500
Services income	32,892	28,834
Other income	192	185
	<u>36,964</u>	<u>30,519</u>

Services income relates to the provision of non-clinical services at the Kings Mill Hospital, Mansfield Community Hospital, and Newark General Hospital.

## Notes (continued)

### 4. Net operating costs

	2013 £000	2012 £000
Materials site and production costs	3,880	1,500
Services costs	27,423	23,995
Auditor's remuneration – audit of these financial statements	17	16
– taxation services	8	8
Other charges	2,375	2,235
	<b>33,703</b>	<b>27,754</b>

The 2012 auditors' remuneration for statutory audit services and non-audit services relate solely to amounts paid to KPMG Audit Plc. The 2013 amounts relate solely to amounts payable to KPMG LLP.

### 5 Directors and staff costs

The Company had no employees during the year (2012 Nil). The Directors' fees were paid to the shareholders of the Company's parent Company for provision of the Directors' services. During the year, the total amount paid to the shareholders for these services was £77,000 (2012 £79,000). The Company does not operate a pension scheme for its Directors.

### 6. Interest payable and similar charges

	2013 £000	2012 £000
Interest payable and indexation on bonds	19,313	20,502
Interest payable on loan stock	3,489	4,948
Amortisation of finance costs	848	850
	<b>23,650</b>	<b>26,300</b>

### 7. Other interest receivable and similar income

	2013 £000	2012 £000
Finance debtor interest receivable	19,868	21,229
Interest receivable on bank deposits	52	45
Interest receivable on tax paid	3	-
	<b>19,923</b>	<b>21,274</b>

## Notes (continued)

### 8. Taxation

#### (i) Analysis of tax credit in the year

	2013 £000	2012 £000
Current tax		
UK Corporation tax charge for the year	-	-
Adjustment in respect of prior periods	-	(364)
Total current tax	-	(364)
Deferred tax		
Tax losses carried forward	(108)	(554)
Adjustment following change in corporation tax rate	89	38
Adjustment in respect of prior periods	-	298
Total deferred tax	(19)	(218)
Tax credit on loss on ordinary activities	(19)	(582)

#### (ii) Factors affecting the tax charge for the year

	2013 £000	2012 £000
Loss on ordinary activities before tax	(466)	(2,261)
Current tax credit at 23.25% (2012 24.5%)	(108)	(554)
Effects of		
Tax losses carried forward	108	554
Adjustment in respect of prior periods	-	(364)
	-	(364)

#### (iii) Factors that may affect future tax charges

The Company has tax losses of £2,943,000 (2012 £2,477,000) which have been carried forward and will be offset against future trading profits

A reduction in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012, and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 5 December 2012 and 2 July 2013 respectively

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date



**Notes (continued)**

**9. Debtors: amounts falling due within one year**

	2013 £000	2012 £000
Finance debtor (see note 10)	5,211	4,954
Trade debtors	401	1,041
Corporation tax	-	453
Deferred taxation asset (see note 17)	589	570
Prepayments and accrued income	644	615
Unitary charge control account	38,609	34,471
	<u>45,454</u>	<u>42,104</u>

**10 Debtors: amounts falling due after more than one year**

	2013 £000	2012 £000
Finance debtor		
Due within one year	5,211	4,954
Due after more than one year	334,937	340,148
	<u>340,148</u>	<u>345,102</u>
Less Amount due within one year	(5,211)	(4,954)
	<u>334,937</u>	<u>340,148</u>

**11. Cash at bank and in hand**

	2013 £000	2012 £000
Cash at bank	30,050	27,718
	<u>30,050</u>	<u>27,718</u>

**12. Creditors: amounts falling due within one year**

	2013 £000	2012 £000
Bond instalments due within one year (note 13)	12,216	11,770
Trade creditors	5,112	4,984
Accruals and deferred income	5,087	5,158
Other creditors	428	426
	<u>22,843</u>	<u>22,338</u>

**Notes (continued)**

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

	2013 £000	2012 £000
Bond proceeds		
At the beginning of the year	383,320	381,335
Inflation on the bond	12,173	13,385
Adjustment on effective interest rate *	(155)	(175)
Redemption of bonds during the year	(11,770)	(11,225)
At the end of the year	383,568	383,320
Finance arrangement costs capitalised	(19,802)	(19,802)
Less amortisation of finance arrangement costs capitalised	5,559	4,854
At the end of the year	369,325	368,372
Unsecured Subordinated 12% Loan Stock 2043		
At the beginning of the year	29,073	29,873
Repaid during the year	-	(800)
At the end of the year	29,073	29,073
Finance arrangement costs capitalised	(4,501)	(4,501)
Less amortisation of finance arrangement costs capitalised	393	250
At the end of the year	24,965	24,822
Accruals and deferred income	6,710	6,947
	401,000	400,141
Less amounts due within one year	(12,216)	(11,770)
	388,784	388,371

\* This represents the difference between the interest charged at the effective interest rate and actual interest payable based upon the coupon rate

**Index Linked Guaranteed Secured Bonds 2042**

The Company has created £351,900,000 of 1 8768% Index Linked Guaranteed Secured Bonds 2042 pursuant to a Trust Deed and Collateral Deed dated 4 November 2005, of which £319,900,000 were issued for cash on 4 November 2005 at par

The bonds bear interest at 1 8768% which together with their principal repayment is subject to indexation in accordance with the terms of the Bond Trust Deed. The interest is payable semi-annually in arrears on 31 March and 30 September each year. The bonds are repayable in instalments which commenced in September 2011 and will end in September 2042. At 31 December 2013, bonds totalling £29,176,000 (2012 £17,406,000) had been redeemed.

The Company retained £32,000,000 of bonds (the "variation bonds") which it may sell, subject to certain restrictions in the Collateral Deed, to fund variations to the project. The bonds, excluding the variation bonds, have the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (UK) Limited in favour of Deutsche Trustee Company Limited as security trustee over all of the undertaking and assets of the Company.

## Notes (continued)

### 13. Creditors: amounts falling due after more than one year (continued)

#### **Unsecured 12% Subordinated Debt 2043**

The Shareholders of the ultimate parent Company undertook to subscribe equally for £29,873,000 of Unsecured Debt as constituted by a deed poll (the "Deed") dated 21<sup>st</sup> April 2006 and made by the Company. Each Shareholder has issued standby letters of credit in favour of the Company for the full amount of the debt. There is an agreed schedule of subscription dates and amounts and as each amount is subscribed the value of the standby letter of credit may be reduced. This amount had been fully subscribed for by 31 December 2010.

On 18 April 2012, the assets in Innisfree PFI Fund III were transferred to Innisfree PFI Secondary Fund (32%) and Innisfree PFI Secondary Fund 2 LP (68%). On 28 September 2012, Innisfree PFI Secondary Fund bought all of the shares and loan stock owned by Skanska Infrastructure Investment UK Limited so that at the end of last year the parent Company was owned by Innisfree PFI Secondary Fund (66%) and Innisfree PFI Secondary Fund 2 LP (34%).

The Debt bears interest at 12% which is payable semi-annually in arrears on 31 March and 30 September each year. Interest on the debt accrues from the Actual Completion Date of the building works which was 31 March 2011. The debt is repayable in 3 instalments in 2042 and 2043 but the Company has the option to redeem the debt at any time subject to consent by Assured Guaranty (UK) Limited. An amount of £800,000 was redeemed in March 2012.

### 14. Financial Instruments

#### *Financial risk management policies and objectives*

The Company's principal financial instruments comprise short term bank deposits, guaranteed index linked bonds, and subordinated loan stock. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements.

Exposure to liquidity, credit and interest rate risks arise in the normal course of the Company's business.

#### *Liquidity risk*

Repayment of index linked bonds and fixed rate subordinated loans are not required until the hospitals are fully operational and revenue is receivable under the terms of the Project Agreement.

#### *Credit risk*

Although the Sherwood Forest Hospitals National Health Service Foundation Trust is the only client of the Company, the directors are satisfied that the Trust will be able to fulfil its obligations under the PFI contract which are also underwritten by the Secretary of State for Health.

The carrying amount of financial assets represents the maximum credit exposure.

	2013 £000	2012 £000
Finance Debtor	340,148	345,102
Trade debtors	401	1,041
Prepayments and accrued income	644	615
Unitary charge control account	38,609	34,471
	<b>379,802</b>	<b>381,229</b>

## Notes (continued)

### 14. Financial Instruments (continued)

#### Interest rate risk

##### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheet dates and the periods in which they mature, or, if earlier, are repriced

#### Balance sheet date 31 December 2013

	Effective Interest Rate	Total £000	1 year or less £000	1-2 years £000	2-5 years £000	5+ years £000
Bank balances*	0.11%	30,050	30,050	-	-	-
Finance debtor*	5.76%	340,148	5,211	5,481	18,207	311,249
Subordinated loan stock	12.00%	(29,073)	-	-	-	(29,073)
Guaranteed index linked bonds*	1.98%	(369,325)	(12,216)	(12,668)	(41,814)	(302,627)
Trade debtors	-	401	401	-	-	-
Trade creditors	-	(5,112)	(5,112)	-	-	-
<b>Total</b>		<b>(32,911)</b>	<b>18,334</b>	<b>(7,187)</b>	<b>(23,607)</b>	<b>(20,451)</b>

\* Floating rate

#### Balance sheet date 31 December 2012

	Effective Interest Rate	Total £000	1 year or less £000	1-2 years £000	2-5 years £000	5+ years £000
Bank balances*	0.13%	27,718	27,718	-	-	-
Finance debtor*	6.11%	345,102	4,954	5,211	17,310	317,627
Subordinated loan stock	12.00%	(29,073)	-	-	-	(29,073)
Guaranteed index linked bonds*	2.36%	(368,372)	(11,770)	(12,179)	(39,915)	(304,508)
Trade debtors	-	1,041	1,041	-	-	-
Trade creditors	-	(4,984)	(4,984)	-	-	-
<b>Total</b>		<b>(28,568)</b>	<b>16,959</b>	<b>(6,968)</b>	<b>(22,605)</b>	<b>(15,954)</b>

\* Floating rate

## Notes (continued)

### 14. Financial Instruments (continued)

The fair values together with the carrying amounts shown in the balance sheet of all financial assets and liabilities are as follows

	2013		2012	
	Carry Value £000	Fair Value £000	Carry Value £000	Fair Value £000
Bank balances	30,050	30,050	27,718	27,718
Finance debtor	340,148	341,351	345,102	348,420
Subordinated loan stock	(29,073)	(57,749)	(29,073)	(60,841)
Guaranteed index linked bonds	(369,325)	(362,599)	(368,372)	(267,667)
Trade debtors	401	401	1,041	1,041
Trade creditors	(5,112)	(5,112)	(4,984)	(4,984)
	(32,911)	(53,658)	(28,568)	43,687

#### Fair values

The fair value of the Guaranteed index linked bonds is based on the quotes received from the bank

The fair value of the finance debtor is calculated by discounting future cash flows at an appropriate discount rate. The discount rate used is calculated by taking a weighted average cost of capital, which includes the bonds, subordinated debt and share capital. The cost of the bonds are at an index linked 1.8768% and the cost of the subordinated debt and share capital is the internal rate of return taken from the latest financial operating model. The discount rate that has been applied to the finance debtor at 31 December 2013 is 5.15% (2012 5.10%).

The fair value of the subordinated loan stock is calculated by discounting future cash flows at an appropriate discount rate. The discount rate used is calculated by adding an appropriate premium to the relevant gilt yield for the project. The gilt yield reflects the unexpired term of the project agreement and the premium reflects market spread that would be required by investors in loans issued by the PFI project companies with similar risk profiles, plus the market wrapping fee that would normally be charged to enhance the project cash flows to investment grade. The discount rate that has been applied to the subordinated loan stock at 31 December 2013 is 5.39% (2012 5.04%).

#### Sensitivity analysis

Since the Company has significant fixed rate financial assets and liabilities, a general increase of one percentage point in interest rates is not expected to significantly impact the profits of the Company. This is because the guaranteed secured bond is index linked and is thus not affected by changes in interest rates.

## Notes (continued)

### 15. Called up share capital

	2013 £000	2012 £000
<b>Equity</b>		
Authorised		
50,000 shares of £1 each	50	50
Called up and fully paid		
50,000 shares of £1 each	50	50

### 16. Reserves

	2013 £000	2012 £000
<b>Profit and loss account</b>		
At the beginning of the year	(789)	890
Loss for the financial year	(447)	(1,679)
At the end of the year	(1,236)	(789)

### 17. Deferred tax asset

	2013 £000	2012 £000
At the beginning of the year	570	352
Losses utilised in a prior period	-	(298)
Tax losses for the current year	108	554
Adjustment following change in corporation tax rate	(89)	(38)
At the end of the year	589	570

### 18. Contingent Liabilities

There are no contingent liabilities in either the current or the prior years

### 19. Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Central Nottinghamshire Hospitals (Holdings) Limited incorporated in the United Kingdom

The largest and smallest group in which the results of the Company are consolidated is that headed by Central Nottinghamshire Hospitals (Holdings) Limited, a company registered and incorporated in England and Wales. The consolidated accounts of the group are available to the public and may be obtained from 8 White Oak Square, London Road, Swanley, Kent BR8 7AG, United Kingdom