Company Registration No. 05603623 (England and Wales)

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

COMPANY INFORMATION

Directors	Mr N Crowther Mr D Brooking
Secretary	HCP Social Infrastructure (UK) Limited
Company number	05603623
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

CONTENTS

The directors present the strategic report for the year ended 31 March 2017.

Business Review

The Company's principal activity is that of the financing, design, construction and maintenance of two new hospital facilities at the Whiston and St Helens sites, together with the operation of certain non-clinical services within the existing and new hospital facilities, as part of the strategic redevelopment scheme for the St Helens and Knowsley Teaching Hospitals NHS Trust ("the Trust") under the Government's Private Finance Initiative ("PFI").

The Company was incorporated on 26 October 2005 and commenced trading on 7 June 2006.

On 7 June 2006, NewHospitals (St Helens and Knowsley) Finance Plc, a fellow subsidiary undertaking of NewHospitals (St Helens and Knowsley) Holdings Limited, authorised the creation of £178,300,000 of 1.7774% Index-Linked Guaranteed Secured Bonds due 2047 of which £153,000,000 were issued. It also entered into a loan agreement with European Investment Bank (the "EIB") under which the EIB granted it £149,186,000 of a 1.743% index-linked guaranteed secured bank loan due 2038. The proceeds from both the bond issue and bank loan were onward loaned to the Company with identical terms for payment of interest and principal. The bonds and bank loan have the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by the monoline insurer Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited).

On 26 May 2009 the shareholders of the Company's immediate parent company commenced subscription for tranches of unsecured 11.96% fixed interest subordinated loan stock created, constituted and issued by NewHospitals (St Helens and Knowsley) Finance Plc, a fellow subsidiary undertaking, on 7 June 2006. This subordinated loan stock totalled £29,490,000 and was fully subscribed as at 31 March 2011. During the year to 31 March 2017 two loan stock redemptions were paid to the Company's shareholders leaving a balance of subordinated loan stock as at 31 March 2017 totalling £20,228,000.

Key performance indicators

Financial performance and financial position

The profit for the year, after taxation, amounted to £217,000 (2016: Loss of £1,788,000). The Directors are unable to recommend the payment of a dividend (2016: £nil). Financial penalties are levied by the St Helens and Knowsley Teaching Hospitals NHS Trust (the "Trust") in the event of performance standards not being achieved in accordance with the detailed criteria as set out in the Project Agreement. All deductions are passed on to the contracted service providers and the quantum of the penalties is an indication of the level of performance. During the year ended 31 March 2017 service performance deductions totalling £21,345 were levied for Steady State services (2016: £38,683). This represents 0.12% (2016: 0.19%) of the total costs from the service providers for the provision of the services.

The Group had net liabilities of £36,732,000 as at 31 March 2017 (2016: £36,949,000). Finance debtor amortisation in the year amounted to £678,000 (2016: £683,000).

Cash balances of £19,890,000 (2016: £21,274,000) included reserve account balances of £17,763,000 (2016: £18,873,000), in line with contractual requirements.

The Directors have modelled the anticipated financial outcome of the Project over the 41 year concession term and this has shown the project to be profitable and cash generative. 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. Whilst the Company is currently in a cumulative loss making position the current financial model forecasts this will reverse in 2036 with profit and loss reserves then remaining positive overall until the end of the concession.

Key performance indicators (Continued)

Historical performance
The Group is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed with Assured Guaranty, European Investment Bank and Deutsche Trustee Company Limited. To the best of the Directors' knowledge the Group have met all of the obligations contained within these Deeds and there have been no Events of Default, Potential Events of Default or Trigger Events with regard to the Collateral Deed in the year to 31 March 2017.

Principal risks and uncertainties
The risk management policy of the Company is designed to identify and manage risk at the earliest possible point. The Company maintains a detailed risk register which is formally reviewed by the Board on a quarterly basis. The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the PFI contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil the Company's contractual obligations.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation under the contract giving rise to the financial instrument. The Group's long term exposure to credit risk, which exists predominantly until the end of the Project Agreement, is principally dependent on the credit worthiness of the account bank, Lloyds Bank Plc ("Lloyds"), which holds the group's cash balances. Lloyds must hold a minimum short term debt rating of A-1 (or better) issued by Standard & Poor's Financial Services LLC and P-1 (or better) issued by Moody's Investors Services Inc. Should the ratings fall below these levels the Company and its senior lenders each have the right to request that an acceptable replacement bank be appointed. The Group actively monitors the credit ratings of its account bank and reports are issued to the Board on a monthly basis. The Group's maximum credit risk exposure relating to its financial assets is represented by their carrying value at the balance sheet date.

The Group's other long term exposure to credit risk is principally dependent on the creditworthiness of the Trust as the Group's sole client. The risk associated with this is mitigated as the cash flows are secured under the Project Agreement, which is a long term contract with the Trust, whose obligations and liabilities are effectively underwritten by UK Government.

Interest rate risk/inflation risk
All borrowings are at a fixed rate other than index-linking, and therefore no interest rate risk arises on them. Interest rate risk arises on the company's cash and short term deposits. The majority of the Company's borrowings comprise an index-linked secured bond and an index-linked secured loan. Repayment of these loans, and meeting operational expenditure commitments, will be made from income which is itself subject to indexation. The Company thereby mitigates any non-operating exposure to movements in the UK All Items Retail Prices Index.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with its financial liabilities. The Group's liquidity risk is principally managed through financing the Group by means of long term borrowings which are tailored to match the expected cash flows arising from the Trust. In addition the Group maintains a debt service reserve bank account to provide short term liquidity against future debt service requirements.

Principal risks and uncertainties (Continued)

Contractual relationships
The Company operates within a contractual relationship with its primary client, the Trust. Failure to perform obligations under this contract could have a direct and detrimental effect on the Company's result and could result in termination of the concession. To manage this risk the Company has regular meetings with the Trust including discussions on performance, project progress, future plans and customer requirements. The Group's price risk is principally managed through a 41 year Project Agreement with the Trust providing for payments that are fixed, subject to performance and movements in the UK All Items Retail Price Index (the "UK RPI"), and through sub-contracts with suppliers that largely mirror the provisions of the Project Agreement. The PFI hospital concession assets produce revenues which are index-linked to movements in the UK RPI. These revenues generate the cash flows with which the Group funds its operating costs, finance costs and repayments due on its financial liabilities.

On behalf of the board

Mr N Crowther
Director

25 September 2017

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The directors present their annual report and financial statements for the year ended 31 March 2017.

Principal activities

The principal activity of the company continued to be that of the financing, design, construction and maintenance of two new hospital facilities at the Whiston and St Helens sites. The directors do not foresee any change in the activities of the company

Directors

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

Mr N Crowther
Mr D Brooking

Results and dividends

The results for the year are set out on page 9.

Qualifying third party indemnity provisions

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

Auditor

The auditor, KPMG LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006

Statement of disclosure to auditor

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

Going Concern

The Directors have reviewed the Company's projected cashflows contained in the financial model covering accounting periods up to 31 March 2048. The Directors have also examined the current status of the Company's principal contracts and likely developments in the foreseeable future. Having reviewed the forecast cashflows and financial facilities available to the Company, the Directors consider the Company will be able to meet its loan covenant requirements and settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

Financial reporting, risk and internal controls

The company has outsourced the financial reporting function to HCP Management Services/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.

Employee Involvement
The Company operates through sub-contracting services and does not directly employ any staff.

Registered office
The Company's registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

On behalf of the board

....
Mr N Crowther
Director

25 September 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

The directors are responsible for preparing the Annual 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They 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

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

We have audited the financial statements of NewHospitals (St Helens and Knowsley) Limited for the year ended 31 March 2017 set out on pages 9 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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.

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 March 2017 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
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, 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
66 Queen Square
Bristol
BS1 4BE

28 September 2017

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Turnover	3	36,642	35,072
Cost of sales		(30,643)	(30,076)
Gross profit		5,999	4,996
Operating costs		(2,105)	(1,642)
Operating profit		3,894	3,354
Interest receivable and similar income	7	13,781	11,598
Interest payable and similar expenses	8	(16,914)	(16,214)
Profit/(loss) before taxation		761	(1,262)
Taxation	9	(544)	(526)
Profit/(loss) for the financial year		217	(1,788)

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

There are no items of comprehensive income other than that shown above.

The notes on pages 12 to 22 form part of these financial statements.

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

BALANCE SHEET

AS AT 31 MARCH 2017

		2017		2016	
	Notes	£'000	£'000	£'000	£'000
Current assets					
Debtors falling due after one year	10	294,125		300,185	
Debtors falling due within one year	10	13,307		11,797	
Cash at bank and in hand		19,890		21,274	
		327,322		333,256	
Creditors: amounts falling due within one year	12	(21,483)		(22,285)	
Net current assets			305,839		310,971
Creditors: amounts falling due after more than one year	13		(342,571)		(347,920)
Net liabilities			(36,732)		(36,949)
Capital and reserves					
Called up share capital	15		10		10
Profit and loss reserves			(36,742)		(36,959)
Total equity			(36,732)		(36,949)

The notes on pages 12 to 22 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 25 September 2017 and were signed on its behalf by:

Mr N Crowther
Director

Company Registration No. 05603623

NEWHOSPITALS (ST HELENS AND KNOWSLEY) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 April 2015	10	(35,171)	(35,161)
Total comprehensive income for the year	-	(1,788)	(1,788)
Balance at 31 March 2016	10	(36,959)	(36,949)
Total comprehensive income for the year	-	217	217
Balance at 31 March 2017	10	(36,742)	(36,732)

1 Accounting policies

Company information

NewHospitals (St Helens and Knowsley) Limited ("The Company") is a limited company incorporated, domiciled and registered in England and Wales, in the UK. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006. There were no material departures either from FRS 102 or from the Companies Act.

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

The Company's parent undertaking, NewHospitals (St Helens and Knowsley) Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of NewHospitals (St Helens and Knowsley) Holdings Limited are prepared in accordance with FRS102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

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

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

The financial statements are prepared in sterling, which is the functional currency of the company. All amounts in the financial statement have been rounded to the nearest £1,000.

The financial statements have been prepared under the historical cost convention. The principal accounting

1.2 Going concern

The directors have reviewed the cash flow forecast and taking into account reasonable 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 they 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.

1 Accounting policies (Continued)

1.3 Turnover

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue represents the value of services performed or goods sold entirely in the UK and is measured at the fair value of the consideration received, excluding discounts, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Facilities management services - operational phase following completion
Revenue from the provision of the facilities management services to the new hospitals is recognised as contract activity progresses at a mark-up on related costs to reflect the fair value of work performed. Revenue from these services are recognised in accordance with the service concession contract accounting policy.

Interest receivable on finance debtor
Revenue in relation to the finance debtor is recognised as finance income at a project specific rate commencing when each new hospital becomes operational.

Pass Through Income
Revenue in relation to pass through is received monthly from the Trust and relates to volume based activities over and above the contractual services provided by both the hard and soft facilities management service providers. Corresponding pass through cost invoices are received monthly from both service providers.

Medical Equipment Supplies Income
Revenue is received quarterly in advance from the Trust, both income from the Trust and expenditure from the MES supplier are recognised monthly in the financial statements in line with service delivery.

1.4 Deferred revenue

Revenue received relating to the hospitals during the construction phase was deferred until the year ended 31 March 2010. During the year to 31 March 2011 this income started to be released on an annual basis over the remaining life of the contract as full occupation of the main Whiston hospital site occurred on 14 April 2010.

1.5 Financial instruments

The Company has elected to apply the provisions of Section 11 "Basic Financial Instruments" of FRS 102 to all of its financial instruments. Financial instruments are recognised in the Company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset with the net amounts presented in the financial statements, when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Basic Financial assets
Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

1 Accounting policies (Continued)

1.5 Financial instruments (Continued)

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

Cash and cash equivalents
Cash and cash equivalents included cash balances held in current accounts, deposits held at call with banks, other short term investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Restricted cash
Included within cash is £17,763,000 (2016: £18,873,000), the distribution of which is subject to restrictions in accordance with the Company's financing agreements.

Finance debtor
The finance debtor is classified as a debt instrument, which is initially measured at transaction price including transaction costs and subsequently carried at amortised cost. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Other financial assets
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

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

1 Accounting policies (Continued)

1.5 Financial instruments (Continued)

Classification of financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities
Basic financial liabilities, including trade and other creditors, bank loans and unsecured subordinated loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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

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

Other financial liabilities
Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

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

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

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

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

1 Accounting policies (Continued)

1.6 Taxation (Continued)

Deferred tax

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

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

1.7 Service Concession Contract Accounting

The company is an operator of a Public Finance Initiative ("PFI") contract. As the company entered into the contract prior to the date of transition to FRS 102, the company has taken advantage of the exemption in section 35.10(i) of FRS102, which permits it to continue to account for the service concession under the accounting policy applied under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the company under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The 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 a contractual basis and the revenue in respect of these services is recognised when these services are performed.

1.8 Deferred revenue

Revenue received relating to the hospitals during the construction phase was deferred until the year ended 31 March 2010. During the year to 31 March 2011 this income started to be released on an annual basis over the remaining life of the contract as full occupation of the main Whiston hospital site occurred on 14 April 2010.

1.9 Interest Receivable and Payable

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

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

2 Judgements and key sources of estimation uncertainty

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

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

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Finance debtor accounting

The company has elected to continue to apply its previous accounting treatment in respect of service concession arrangements entered into prior to the date of transition to FRS 102. This has resulted in the measurement of the finance debtor being different from that which would have resulted had the requirements of FRS 102 Section 34 been fully adopted. The accounting for service concession contracts and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile s which are based on the forecast results of the PFI contracts over the respective concession length. See note 9 for the carrying value of the finance debtor.

3 Turnover and other revenue

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

	2017 £'000	2016 £'000
Turnover		
Operating income	23,686	22,031
Medical equipment supplies income	3,368	3,328
Pass through income	9,588	9,713
	36,642	35,072

All turnover related to the provision of services rendered in the UK.

4 Auditor's remuneration

Fees payable to the company's auditor:	2017 £'000	2016 £'000
Audit of the financial statements	18	17
Tax services	-	9
	18	26

The above audit fee includes £5,000 (2016: £5,000), borne on behalf of NewHospitals (St Helens and Knowsley) Finance Plc, and £1,000 (2016: £1,000) each on behalf of NewHospitals (St Helens and Knowsley) Nominee Limited and NewHospitals (St Helens and Knowsley) Holdings Limited.

5 Employees

The company had no employees during the year (2016: nil).

6 Directors' remuneration

	2017 £'000	2016 £'000
Sums paid to related parties for directors' services	132	130

Apart from the fee paid to M Davis of £28,000 (2016: £28,000), the directors fees were paid to Innisfree Limited. M Davis is non-executive Chairman and Chair of the Audit Committee.

7 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest income		
Interest on bank deposits	188	182
Interest on finance debtor	13,593	11,416
	13,781	11,598

8 Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	6,053	4,763
Interest on bonds	6,526	5,106
Interest on subordinated loans	3,657	5,662
Amortisation of finance arrangement costs	678	683
	16,914	16,214

9 Taxation

	2017 £'000	2016 £'000
Current tax		
UK corporation tax on profits for the current period	38	(252)
Deferred tax		
Changes in tax rates	506	778
Total tax charge	544	526

9 Taxation (Continued)

	2017 £'000	2016 £'000
Profit/(loss) before taxation	761	(1,262)
Expected tax charge based on a corporation tax rate of 20% (2016 - 20%)	38	(252)
Effect of change in corporation tax rate	506	778
Tax expense for the year	544	526

The total tax charge as stated above has been recorded in the statement of comprehensive income.

Factors affecting the tax charge for the year
The current tax charge is higher than (2016: higher than) the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are detailed above.

Factors that may affect future tax charges
On 26 October 2015, the reduction in the UK rate of corporation tax to 19% from 1 April 2017 was substantively enacted. On 15 September 2016 a further reduction in corporation tax to 17% in April 2020 was enacted.

10 Debtors

Amounts falling due within one year:	Notes	2017 £'000	2016 £'000
Trade debtors		3	-
Other debtors		-	106
Finance debtor		5,858	3,650
Prepayments and accrued income		1,177	1,266
		7,038	5,022
Deferred tax asset	14	6,269	6,775
		13,307	11,797

Amounts falling due after more than one year:	2017 £'000	2016 £'000
Unitary charge control account	21,546	19,969
Finance debtor	272,579	280,216
	294,125	300,185
Total debtors	307,432	311,982

The finance debtor and unitary charge control account balances reflect the value of the amount receivable under the PFI contract with the Trust, less the value of the services that have been delivered to date, in line with accounting policy 1.6. All financial assets are held at amortised cost.

11 Interest-bearing loans and borrowings

	2017 £'000	2016 £'000
Bank loans	161,608	164,561
Bonds	170,427	172,449
Subordinated loans	19,535	20,197
	351,570	357,207
Payable within one year	11,952	12,500
Payable between two and five years	45,997	43,937
Payable after five years	293,621	300,770

Terms and debt repayment schedule:

	Nominal interest rate	Year of maturity	Repayment schedule	2017 £000	2016 £000
Bond	1.7774%	2047	Semi-annual	170,427	172,449
Bank loan	1.7430%	2038	Semi-annual	161,608	164,561
Subordinated loan stock	11.96%	2047	Semi-annual	19,535	20,197
				351,570	357,207

Subordinated loan stock is held by NewHospitals (St Helens and Knowsley) Finance Plc (Registered Office: 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG). The secured borrowings are secured by fixed and floating rate charges on the assets if the Company.

12 Creditors: amounts falling due within one year

	Notes	2017 £'000	2016 £'000
Bank loans and overdrafts	11	11,952	12,500
Trade creditors		3,211	3,331
Corporation tax		51	16
Other taxation and social security		694	726
Accruals and deferred income		5,575	5,712
		21,483	22,285

All financial liabilities are held at amortised cost.

13 Creditors: amounts falling due after more than one year

	Notes	2017 £'000	2016 £'000
Bank loans and overdrafts	11	339,618	344,707
Amounts due to parent undertakings		50	50
Accruals and deferred income		2,903	3,163
		342,571	347,920

Bank loans and overdrafts are repayable as follows

	2017	2016
Payable between two and five years	45,997	43,937
Payable after five years	293,621	300,770

All financial liabilities are held at amortised cost.

14 Deferred taxation

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

Balances:	Assets 2017 £'000	Assets 2016 £'000
Tax losses	6,269	6,775

Movements in the year:	2017 £'000
Asset at 1 April 2016	6,775
Effect of change in tax rate – profit or loss	(506)
Asset at 31 March 2017	6,269

15 Share capital

	2017 £'000	2016 £'000
Equity		
Allotted, called up and fully paid		
10,000 ordinary shares of £1 each	10	10

16 Related party transactions

On 7 June 2006 the Company entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited (formerly Health Care Projects Limited). HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited is invested with funds under the management of Innisfree Limited, who also manage the funds invested in NewHospitals (St Helens and Knowsley) Holdings Limited. During the year the group incurred costs totalling £713,000 (2016: £1,076,000) in respect of project management and other associated services to HCP Social Infrastructure (UK) Limited and also HCP Management Services Limited (a subsidiary undertaking of HCP Holdings Limited). As at 31 March 2017, £3,000 (2016: £nil) was due to HCP Social Infrastructure (UK) Limited and HCP Management Services Limited.

During the year ended 31 March 2017, the Company incurred £159,000 (2016: £156,000) in respect of Directors' services from Innisfree Limited.

17 Controlling party

As at 31 March 2017, the Company's immediate parent undertaking was NewHospitals (St Helens and Knowsley) Holdings Limited. NewHospitals (St Helens and Knowsley) Holdings Limited was owned 74.4% by Innisfree PFI Secondary Fund 2 LP and 25.6% by Innisfree PFI Secondary Fund (through its nominee Innisfree Nominees Limited). All entities are registered in England and Wales.

The largest and smallest group in which the results of the Company are consolidated is NewHospitals (St Helens and Knowsley) Holdings Limited, a company registered and incorporated in England and Wales. The consolidated financial statements 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, which is the registered address of NewHospitals (St Helens and Knowsley) Holdings Limited.

In the Directors' opinion, the Company's ultimate parent undertaking and controlling party was Innisfree PFI Secondary Fund 2 LP, a limited partnership registered in England and Wales.

The registered office of Innisfree PFI Secondary Fund 2 LP, Innisfree PFI Secondary Fund and Innisfree Nominee Limited is 1st Floor, Boundary House, 91-93 Charterhouse Street, London EC1M 6HR, United Kingdom..