

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

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NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mr N Crowther Mr D Brooking
Secretary	HCP Social Infrastructure (UK) Ltd
Company number	05603625
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditors	KPMG LLP 66 Queen Square Bristol BS1 4BE

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

CONTENTS

	Page
Strategic report	1 - 3
Directors' report	4 - 5
Directors' responsibilities statement	6
Independent auditor's report to the members of NewHospitals (St Helens & Knowsley) Holdings Limited	7 - 8
Profit and loss account and other comprehensive income	9
Group balance sheet	10
Company balance sheet	11
Group statement of changes in equity	12
Company statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the financial statements	15 - 27

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2016

The directors present the strategic report and financial statements for the year ended 31 March 2016.

Business Review

NewHospitals (St Helens & Knowsley) Holdings Limited is a holding company for a Group of Companies whose principal activities are 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") 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 subsidiary undertaking of NewHospitals (St Helens & 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 the 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 20 March 2008, £6,800,000 of the remaining £25,300,000 Index-Linked Guaranteed Secured Bonds created but not issued, the "Committed Variation Bonds", were cancelled as they expired on 31 December 2007 in accordance with the Terms of the Bond Trust Deed and Collateral Deed.

On 26 May 2009 the Group's shareholders 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 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 2016 two loan stock redemptions were paid to the Group's shareholders leaving a balance of subordinated loan stock as at 31 March 2016 totalling £20,914,000.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

Principal risks and uncertainties

The risk management policy of the Group is designed to identify and manage risk at the earliest possible point. The Group maintains a detailed risk register which is formally reviewed on a quarterly basis. The Group 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 Group'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 creditworthiness of the account bank, Lloyds Bank PLC, which hold the Group's cash balances. These banks must hold a minimum short term debt rating of A-1 (or better) issued by Standard & Poor's and P-1 (or better) issued by Moody's. Should the ratings of existing counterparties fall below these levels, the Company and its senior lenders each have the right to require that an acceptable replacement counterparty be appointed.

The Group actively monitors the credit ratings of its counterparty banks and reports are issued 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 the UK Government.

Interest rate risk/inflation risk

All borrowings are at fixed rate other than index-linking, and therefore no interest rate risk arises on them. Interest rate risk arises on the Group's cash and short-term deposits.

The majority of the Group'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 Group thereby mitigates any exposure to movements in the UK All Items Retail Price 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.

Contractual relationships

The Group 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 Group's result and could result in termination of the concession. To manage this risk the Group 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 Prices 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. The Group is exposed to interest rate risk in relation to its index-linked debt through movements in the UK RPI. This risk is mitigated as the majority of the cash flows generated from the PFI hospital concession assets increase in line with movements in the UK RPI.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

Key performance indicators

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 has been no Events of Default, Potential Events of Default or Trigger Events with regard to the Collateral Deed in the year to 31 March 2016.

Financial performance and financial position

The loss for the year, after taxation, amounted to £1,788,000 (2015: profit of £587,000). The directors are unable to recommend the payment of a dividend (2015: £nil). Financial penalties are levied by the St Helens & 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 2016 service performance deductions totalling £38,683 were levied for Steady State services (2015: £58,753). This represents 0.19% (2015: 0.29%) of the total costs from the service providers for the provision of the services.

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 Group, the directors are of the opinion that the covenants will continue to be met in the future, and the Group will therefore continue in business. Whilst the Company is currently in a cumulative loss making position the financial model forecasts year on year profitability commencing in the following financial year until the end of the concession.

On behalf of the board



Mr N Crowther
Director

21 September 2016

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

The directors present their annual report and financial statements for the year ended 31 March 2016.

Principal activities

The principal activity of the Company continued to be that of a holding company for a Group of Companies whose principal activities are 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").

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.

Directors' interests

No director had any share interest in the issued share capital of the Company or any Group Company at 31 March 2016 (2015: £nil)

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.

Employee involvement

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

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 Group's projected cash flows contained in the financial model covering accounting periods up to 31 March 2048. The directors have also examined the current status of the Group's principal contracts and likely developments in the foreseeable future. Having reviewed the forecast cash flows and financial facilities available to the Group, the directors consider the Group 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

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

Registered office

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

On behalf of the board

A handwritten signature in black ink, appearing to be 'N Crowther', written over a horizontal line.

Mr N Crowther
Director

21 September 2016

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2016

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing 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 United Kingdom Accounting Standards, including FRS 102 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 parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

We have audited the financial statements of NewHospitals (St Helens & Knowsley) Holdings Limited for the year ended 31 March 2016 set out on pages 9 to 27. 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 Financial Reporting Standard 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 group's and the parent company's affairs as at 31 March 2016 and of its loss 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 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.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

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 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.



Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square
Bristol
BS1 4BE

21 September 2016

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 £'000	2015 £'000
Turnover	3	35,072	33,247
Cost of sales		(30,076)	(27,899)
Gross (loss)/profit		4,996	5,348
Administrative expenses		(1,642)	(2,068)
Operating (loss)/profit		3,354	3,280
Interest receivable and similar income	5	11,598	16,092
Interest payable and similar charges	6	(16,214)	(18,621)
(Loss)/profit before taxation		(1,262)	751
Taxation	7	(526)	(164)
Total comprehensive (loss) / income for the year		(1,788)	587

The profit and loss has been prepared on the basis that all of the results relate to continuing operations.

There was no other comprehensive income recognised in either the current or previous year.

The notes on pages 15 to 27 form part of these financial statements.

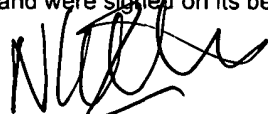
NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

GROUP BALANCE SHEET

AS AT 31 MARCH 2016

	Notes	2016 £'000	2015 £'000
Current assets			
Debtors falling due after one year	9	300,185	307,613
Debtors falling due within one year	9	11,797	11,511
Cash at bank and in hand		21,274	25,248
		<u>333,256</u>	<u>344,372</u>
Creditors: falling due within one year	11	(22,285)	(21,597)
		<u>310,971</u>	<u>322,775</u>
Net current assets			
		310,971	322,775
Creditors: amounts falling due after more than one year			
Bank loans and overdrafts	10	344,707	354,437
Other creditors	12	3,163	3,449
		<u>(347,870)</u>	<u>(357,886)</u>
Net liabilities		<u>(36,899)</u>	<u>(35,111)</u>
Capital and reserves			
Called up share capital	14	60	60
Profit and loss reserves		(36,959)	(35,171)
Total equity		<u>(36,899)</u>	<u>(35,111)</u>

The financial statements were approved by the board of directors and authorised for issue on 21 September 2016 and were signed on its behalf by:



Mr N Crowther
Director

The notes on pages 15 to 27 form part of these financial statements.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 31 MARCH 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments	8	60	60
Current assets			
Debtors	9	146	144
Creditors: falling due within one year	11	(146)	(144)
Net current assets		-	-
Total assets less current liabilities		60	60
Capital and reserves			
Called up share capital	14	60	60

The financial statements were approved by the board of directors and authorised for issue on 21 September 2016 and were signed on its behalf by:



Mr N Crowther
Director

Company Registration No. 05603625

The notes on pages 15 to 27 form part of these financial statements.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 April 2014	60	(35,758)	(35,698)
Loss and total comprehensive income for the year	-	587	587
Balance at 31 March 2015	60	(35,171)	(35,111)
Balance at 1 April 2015	60	(35,171)	(35,111)
Loss and total comprehensive income for the year	-	(1,788)	(1,788)
Balance at 31 March 2016	60	(36,959)	(36,899)

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 April 2014	60	-	60
	<hr/>	<hr/>	<hr/>
Loss and Total comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2015 and 1 April 2016	60	-	60
	<hr/>	<hr/>	<hr/>
Profit and total comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	<u>60</u>	<u>-</u>	<u>60</u>

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash generated from operations	17	9,954	6,540
Income taxes paid		(11)	-
Net cash outflow from operating activities		9,943	6,540
Investing activities			
Interest received		11,583	16,078
Net cash generated from investing activities		11,583	16,078
Financing activities			
Interest paid		(12,244)	(9,206)
Repayment of borrowings		(1,576)	(1,000)
Repayment of bank loans		(11,680)	(11,430)
Net cash used in financing activities		(25,500)	(21,636)
Net (decrease)/increase in cash and cash equivalents		(3,974)	982
Cash and cash equivalents at beginning of year		25,248	24,266
Cash and cash equivalents at end of year		21,274	25,248

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies

Company information

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

1.1 Accounting convention

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

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemption has been taken in these financial statements:

Service concession arrangements

The Company 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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £nil (2015 £nil).

The Company proposes to continue to adopt FRS 102 in its next financial statements.

1.2 Going concern

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

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies (continued)

1.3 Turnover

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance. Revenue 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.

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 FM 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.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.4 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1.5 Financial instruments

The Company has elected to apply the provisions of Section 11 "Basic Financial Instruments" of FRS102 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.

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.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies (continued)

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 £18,872,918 (2015: £19,350,184), the distribution of which is subject to restrictions in accordance with the Company's financing agreements.

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 group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

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

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

1.7 Finance debtor and service income

The Company is an operator of a Private Finance Initiative ("PFI") contract. 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. 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.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies (continued)

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.

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.

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

3 Turnover and other revenue

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

	2016 £'000	2015 £'000
Turnover		
Operating income	22,031	21,943
Medical equipment supplies income	3,328	3,275
Pass through income	9,713	8,029
	<u>35,072</u>	<u>33,247</u>

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

4 Auditor's remuneration

	2016 £'000	2015 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the group and company	1	1
Audit of the company's subsidiaries	22	19
Taxation services	8	8
	<u>31</u>	<u>28</u>

5 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest income		
Interest on bank deposits	182	172
Interest on Finance Debtor	11,416	15,920
	<u>11,598</u>	<u>16,092</u>

6 Interest payable and similar charges

	2016 £'000	2015 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	4,763	7,499
Interest on bonds	5,106	7,965
Interest on subordinated loans	5,662	2,468
Amortisation of finance arrangement costs	683	689
	<u>16,214</u>	<u>18,621</u>

7 Taxation

	2016 £'000	2015 £'000
Current tax		
UK corporation tax on profits for the current period	27	13
	<u>499</u>	<u>151</u>
Other adjustments		
	<u>526</u>	<u>164</u>

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

7 Taxation

The charge for the year can be reconciled to the loss per the profit and loss account as follows:

	2016	2015
	£'000	£'000
(Loss)/profit before taxation	(1,262)	752
Expected tax charge based on a corporation tax rate of 20% (2015 21%)	(252)	158
Effect of change in corporation tax rate	778	6
Tax expense for the year	526	164

The total tax charge as stated above has been recorded in the profit and loss account.

8 Fixed asset investments

		Group	2015	Company	2015
	Notes	2016	£'000	2016	£'000
		£'000		£'000	£'000
Investments in subsidiaries	16	-	-	60	60

Movements in fixed asset investments

Company	Shares
	£'000
Cost or valuation	
At 1 April 2014 & 31 March 2015	60
Carrying amount	
At 31 March 2016	60
At 31 March 2015	60

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

9 Debtors

	Group 2016 £'000	2015 £'000	Company 2016 £'000	2015 £'000
Amounts falling due within one year:				
Trade debtors	-	3	-	-
Other debtors	106	-	-	-
Finance debtor	3,650	3,473	-	-
Prepayments and accrued income	1,266	761	146	144
	<u>5,022</u>	<u>4,237</u>	<u>146</u>	<u>144</u>
Deferred tax asset (note 13)	6,775	7,274	-	-
	<u>11,797</u>	<u>11,511</u>	<u>146</u>	<u>144</u>
Amounts falling due after one year:				
Finance debtor	280,216	284,975	-	-
Amounts recoverable on contracts	19,969	22,638	-	-
	<u>300,185</u>	<u>307,613</u>	<u>-</u>	<u>-</u>
Total debtors	<u>311,982</u>	<u>319,124</u>	<u>146</u>	<u>144</u>

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

10 Interest-bearing loans and borrowings

	Group 2016 £'000	2015 £'000	Company 2016 £'000	2015 £'000
Bank loans and overdrafts	164,561	168,668	-	-
Bonds	172,449	175,791	-	-
Subordinated loans	20,197	21,749	-	-
	<u>357,207</u>	<u>366,208</u>	<u>-</u>	<u>-</u>
Payable within one year	12,500	11,771	-	-
Payable after one year	<u>344,707</u>	<u>354,437</u>	<u>-</u>	<u>-</u>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Repayment schedule	2016 £000	2015 £000
Bank loan	£	1.743%	2038	Semi-annual	164,561	168,668
Bond	£	1.7774%	2047	Semi-annual	172,449	175,791
Subordinated Loan stock	£	11.96%	2047	Semi-annual	20,197	21,749
					<u>357,207</u>	<u>366,208</u>

Index-Linked Guaranteed Secured Bank Loan due 2038

The Company has drawn £149,186,000 of a 1.743% Index-Linked Guaranteed Secured Bank Loan due 2038 pursuant to a Loan Agreement dated 1 June 2006 and a Collateral Deed dated 7 June 2006.

The loan has an interest rate of 1.743%, which together with its principal repayment, is subject to indexation based on movements in the UK RPI in accordance with the terms of the Loan Agreement. The interest is payable semi-annually in arrears on 31 March and 30 September each year. The loan principle is repayable in instalments which commenced on 30 September 2011 and end in June 2038.

The index linked bank loan has the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited) in favour of Deutsche Trustee Company Limited as security trustee over all of the undertakings and assets of the Company.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

10 Interest-bearing loans and borrowings

Index-Linked Guaranteed Secured Bonds due 2047

NewHospitals (St Helens & Knowsley) Finance Plc, a member of the group, has created £178,300,000 of 1.7774% Index-Linked Guaranteed Secured Bonds due 2047 pursuant to a Bond Trust Deed and Collateral Deed dated 7 June 2006, of which £153,000,000 were issued for cash on 7 June 2006 at a 99.99% of par.

On 20 March 2008, £6,800,000 of the remaining £25,300,000 Index-Linked Guaranteed Secured Bonds created but not issued, the "Committed Variation Bonds", were cancelled as they expired on 31 December 2007 in accordance with the Terms of the Bond Trust Deed and Collateral Deed.

The bonds bear interest at 1.7774%, which together with its principal repayment, is subject to indexation based on movements in the UK RPI 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 principle on the bonds is repayable in installments which commence on 31 March 2012 and end in February 2047.

The index-linked bonds created by the group have the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited) in favour of Deutsche Trustee Company Limited as security trustee over all of the undertakings and assets of the group.

Fixed rate unsecured subordinated loan stock due 2047

On 24 May 2006, NewHospitals (St Helens & Knowsley) Finance Plc, a member of the group, authorised and approved the issue of £30,090,000 unsecured 11.96% fixed interest loan notes which were constituted in a Deed Poll dated 7 June 2006. Under the terms of an Equity Subscription Agreement dated 7 June 2006, the Company's shareholders undertook to subscribe for the loan notes in separate tranches up to a total value of £30,090,000 over the period from 31 May 2009 to 31 March 2011. In the year ended 31 March 2011 the total amount of loan notes subscribed for by the Company's shareholders was £29,490,000. On the 30 March 2012 an early redemption payment of £5,000,000 (at par) was made to the Company's shareholders and during the year to 31 March 2016 two further redemptions of principal have been paid to the Company's shareholders, leaving the balance of subordinated loan stock as at the year-end of £20,914,000. The 11.96% fixed interest accrues from 1 April 2011 and interest is paid semi-annually in arrears every 30 September and 31 March thereafter.

Of the total £30,090,000 loan notes constituted, £600,000 relates to a commitment to subscribe for Contingent Equity Tranche loan notes as detailed in the Equity Subscription Agreement. The commitment to subscribe for this tranche of the loan notes is no longer required as the matching Committed Variation Bonds to which the amount relates were cancelled on 20 March 2008, as they expired on 31 December 2007, in accordance with the Terms of the Bond Trust Deed and Collateral Deed.

Under the terms of an Intra group Loan Agreement entered into on 7 June 2006, NewHospitals (St Helens and Knowsley) Finance plc undertook to onward loan the proceeds of the issue of the subordinated loan stock to NewHospitals (St Helens and Knowsley) Limited, on exactly the same payment terms for interest and principal.

The proceeds of the loan stock issue are being used by the group to finance its obligations under its Project Agreement with the Trust.

The loan notes are redeemable at any time in line with the provisions of Clause 3 of the Deed Poll Constituting Unsecured Subordinated Loan Notes for the Company and in accordance with condition 3 (Redemption) of the aforementioned Deed.

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

11 Creditors: falling due within one year

		Group	2015	Company	2015
		2016		2016	
		£'000	£'000	£'000	£'000
Bank loans and overdrafts	10	12,500	11,771	-	-
Corporation tax payable		16	-	-	-
Other taxation and social security		726	733	-	-
Trade creditors		3,331	2,858	-	-
Accruals and deferred income		5,712	6,235	146	144
		<u>22,285</u>	<u>21,597</u>	<u>146</u>	<u>144</u>

12 Creditors: amounts falling due after more than one year

		Group	2015	Company	2015
		2016		2016	
		£'000	£'000	£'000	£'000
Bank loans and overdrafts	10	344,707	354,437	-	-
Accruals and deferred income		3,163	3,449	-	-
		<u>347,870</u>	<u>357,886</u>	<u>-</u>	<u>-</u>

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

13 Deferred taxation

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

	Assets	Assets
	2016	2015
Group	£'000	£'000
Tax losses	6,775	7,274
	<u> </u>	<u> </u>
	Group	Company
	2016	2016
	£'000	£'000
Movements in the year:		
Liability/(Asset) at 1 April 2015	(2,130)	-
Charge to profit or loss	499	-
	<u> </u>	<u> </u>
Liability/(Asset) at 31 March 2016	(1,631)	-
	<u> </u>	<u> </u>

14 Share capital

	Group and company	
	2016	2015
	£'000	£'000
Ordinary share capital		
Allotted, called up and fully paid		
60,000 of £1 each	60	60
	<u> </u>	<u> </u>

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

15 Related party transactions

On 12 August 2013 Innisfree PFI Secondary Fund 2 LP purchased a 19.9% equity interest in NewHospitals (St Helens & Knowsley) Holdings Limited and a 19.9% Subordinated Debt Loan Stock interest in NewHospitals (St Helens & Knowsley) Finance Plc from Taylor Woodrow Construction Limited (T/A Vinci Construction (UK) Limited). The NewHospitals (St Helens & Knowsley) Group of Companies is 100% owned by Innisfree PFI Secondary Fund (25.6%) and Innisfree PFI Secondary Fund 2 LP (74.4%).

On 26 May 2009 Innisfree PFI Fund III LP and Taylor Woodrow Construction, the shareholders of the Company's immediate parent company at that date, 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 2016 two loan stock redemptions were paid to the Company's shareholders at that date, leaving the balance of subordinated loan stock as at the year-end of £20,914,000.

During the year ended 31 March 2016, the Group incurred £156,000 (2015: £153,000) in respect of directors' services from Innisfree Limited.

On 7 June 2006 the Group entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited (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 New Hospitals (St Helens and Knowsley) Holdings Limited. During the year the Group incurred costs of £1,076,000 (2015: £759,000) 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 2016, £nil (2015: £Nil) was due to HCP Social Infrastructure (UK) Limited and HCP Management Services Limited.

16 Subsidiaries

Details of the company's subsidiaries at 31 March 2016 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held	
			Direct	Indirect
NewHospitals (St Helens & Knowsley) Limited	PFI Operator	Ordinary	100.00	
NewHospitals (St Helens & Knowsley) Finance Plc	Financing Company	Ordinary	99.99	
NewHospitals (St Helens & Knowsley) Nominee Limited	Investment Company	Ordinary	100.00	

NEWHOSPITALS (ST HELENS & KNOWSLEY) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2016

17	Cash generated from operations	2016	2015
		£'000	£'000
	(Loss)/profit for the year	(1,788)	587
	Adjustments for:		
	Income tax expense recognised in profit or loss	526	164
	Finance costs recognised in profit or loss	16,214	18,621
	Investment income recognised in profit or loss	(11,416)	(16,092)
	Movements in working capital:		
	Decrease in debtors	6,760	2,902
	Increase in creditors	(342)	358
	Cash generated from operations	9,954	6,540
18	Controlling party		

At 31 March 2016 the Company 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 of these entities are registered in England and Wales. 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.