

COMPANY REGISTRATION NUMBER: SC240996

Lochgilphead Healthcare Services Limited
Annual Report and Financial Statements
31 December 2022



Lochgilphead Healthcare Services Limited

Annual Report and Financial Statements

Year Ended 31 December 2022

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Lochgilphead Healthcare Services Limited

Officers and Professional Advisers

The Board of Directors

S Small
C Dix
J Cavill
K O'Brien

Company Secretary

Infrastructure Managers Limited

Registered Office

2nd Floor
11 Thistle Street
Edinburgh
EH2 1DF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Level 4
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Bankers

Bank of Ireland
Global Finance
Eastcheap Court
11 Philpot Lane
London
EC3M 8BA

Solicitors

CMS Cameron McKenna LLP
Mitre House
160 Aldersgate Street
London
EC1A 4DD

Lochgilphead Healthcare Services Limited

Directors' Report

Year Ended 31 December 2022

The directors present their report and the audited Annual Report and Financial Statements of Lochgilphead Healthcare Services Limited ("the Company") for the year ended 31 December 2022.

Principal Activities

The principal activity of the Company during the year is the provision of a hospital building and associated facilities management for Highland Health Board over a contract period of 30 years from 26 June 2006.

Performance Review

The profit for the financial year, after taxation, amounted to £618,614 (2021: £214,975).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the Group loan agreement.

Climate Change

The directors recognise that it is important to disclose their view of the impact of climate change on the Company. The Company's key operational contracts are long-term and with a small number of known counterparties. In most cases, the cashflows from these contracts can be predicted with reasonable certainty for at least the medium-term. Having considered the Company's operations, its contracted rights and obligations and forecast cash flows, there is not expected to be a significant impact upon the Company's operational or financial performance arising from climate change.

Going Concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons;

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period. Based on these forecasts the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In light of this, the Directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

J Cavill

Lochgilphhead Healthcare Services Limited

Directors' Report *(continued)*

Year Ended 31 December 2022

K O'Brien	
S Small	(Appointed 21 November 2022)
C Dix	(Appointed 2 February 2023)
D Vermeer	(Resigned 21 November 2022)
J Wrinn	(Resigned 2 February 2023)

Dividends

Particulars of dividends paid are detailed in note 10 to the financial statements.

Financial Instruments

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company are credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash flow and liquidity risk

Many of the cash flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings.

Qualifying Third Party Indemnity Provisions

During the year, and at the date of this report, the Company has in place qualifying third party indemnity provisions for the benefit of its directors.

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Lochgilphead Healthcare Services Limited

Directors' Report *(continued)*

Year Ended 31 December 2022

This report was approved by the board of directors on 28 April 2023 and signed by order of the board by:



Mike Forrest on behalf of Infrastructure Managers Limited
Company Secretary

Lochgilhead Healthcare Services Limited

Directors' Responsibilities Statement

Year Ended 31 December 2022

The directors are responsible for preparing the Directors' Report and the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and applicable law).

Under company law the directors must not approve the Annual Report and Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing the Annual Report and Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Financial Statements; and
- prepare the Annual Report and 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors' responsibilities were approved by the board on 28 April 2023 and signed on its behalf by:



Carl Dix
Director

Lochgilphead Healthcare Services Limited

Independent Auditors' Report to the Members of Lochgilphead Healthcare Services Limited

Year Ended 31 December 2022

Report on the Audit of the Financial Statements

Opinion

In our opinion, Lochgilphead Healthcare Services Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions Relating to Going Concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Lochgilphhead Healthcare Services Limited

Independent Auditors' Report to the Members of Lochgilphhead Healthcare Services Limited *(continued)*

Year Ended 31 December 2022

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

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

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

Lochgilphead Healthcare Services Limited

Independent Auditors' Report to the Members of Lochgilphead Healthcare Services Limited *(continued)*

Year Ended 31 December 2022

Auditors' Responsibilities for the Audit of the Financial Statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and the risk of management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding of management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on assumptions and judgements made in their significant accounting estimates, in particular in relation to the fair value of derivative financial instruments;
- Identifying and testing journal entries to assess whether any of the journals appeared unusual, for example impacting revenue and distributable reserves.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Lochgilphead Healthcare Services Limited

Independent Auditors' Report to the Members of Lochgilphead Healthcare Services Limited *(continued)*

Year Ended 31 December 2022

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of This Report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Required Reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Lochgilphead Healthcare Services Limited

Independent Auditors' Report to the Members of Lochgilphead Healthcare Services Limited *(continued)*

Year Ended 31 December 2022

Entitlement to Exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh

28 April 2023

Lochgilphed Healthcare Services Limited

Statement of Comprehensive Income

Year Ended 31 December 2022

	Note	2022 £	2021 £
Turnover	4	1,496,959	1,359,626
Cost of sales		<u>(437,666)</u>	<u>(423,956)</u>
Gross profit		1,059,293	935,670
Administrative expenses		<u>(165,788)</u>	<u>(141,536)</u>
Operating profit	5	893,505	794,134
Interest receivable and similar income	7	746,541	752,731
Interest payable and similar expenses	8	<u>(805,697)</u>	<u>(821,449)</u>
Profit before taxation		834,349	725,416
Tax on profit	9	<u>(215,735)</u>	<u>(510,441)</u>
Profit for the financial year		<u>618,614</u>	<u>214,975</u>
Fair value movements on cash flow hedging instruments, net of tax		1,330,590	948,469
Total comprehensive income for the year		<u>1,949,204</u>	<u>1,163,444</u>

All the activities of the Company are from continuing operations.

The notes on pages 14 to 24 form part of these Financial Statements.

Lochgilphhead Healthcare Services Limited

Statement of Financial Position

As at 31 December 2022

	Note	2022 £	2021 £
Current assets			
Debtors: amounts falling due within one year	11	892,807	945,755
Debtors: amounts falling due after more than one year	11	11,051,774	12,046,418
Cash at bank and in hand		3,017,761	2,557,533
		<u>14,962,342</u>	<u>15,549,706</u>
Creditors: amounts falling due within one year	12	<u>(1,210,854)</u>	<u>(1,101,142)</u>
Net current assets		<u>13,751,488</u>	<u>14,448,564</u>
Total assets less current liabilities		<u>13,751,488</u>	<u>14,448,564</u>
Creditors: amounts falling due after more than one year	13	(11,509,640)	(13,925,046)
Provisions for liabilities			
Taxation including deferred taxation	14	<u>(1,460,575)</u>	<u>(1,484,797)</u>
Net assets/(liabilities)		<u>781,273</u>	<u>(961,279)</u>
Capital and reserves			
Called up share capital	17	185	185
Hedging reserve	18	(286,213)	(1,616,803)
Retained earnings	18	<u>1,067,301</u>	<u>655,339</u>
Total shareholders' funds/(deficit)		<u>781,273</u>	<u>(961,279)</u>

The Financial Statements were approved by the board of directors and authorised for issue on 28 April 2023, and are signed on behalf of the board by:



Carl Dix
Director

Company registration number: SC240996

The notes on pages 14 to 24 form part of these Financial Statements.

Lochgilphead Healthcare Services Limited

Statement of Changes in Equity

Year Ended 31 December 2022

		Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 January 2021		185	(2,565,272)	1,032,364	(1,532,723)
Profit for the financial year				214,975	214,975
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		—	948,469	—	948,469
Total comprehensive income for the year		—	948,469	214,975	1,163,444
Dividends paid and payable	10	—	—	(592,000)	(592,000)
Total investments by and distributions to owners		—	—	(592,000)	(592,000)
At 31 December 2021		185	(1,616,803)	655,339	(961,279)
Profit for the financial year				618,614	618,614
Other comprehensive income for the year:					
Fair value movements on cash flow hedging instruments, net of tax		—	1,330,590	—	1,330,590
Total comprehensive income for the year		—	1,330,590	618,614	1,949,204
Dividends paid and payable	10	—	—	(206,652)	(206,652)
Total investments by and distributions to owners		—	—	(206,652)	(206,652)
At 31 December 2022		185	(286,213)	1,067,301	781,273

Included in the fair value movement on cash flow hedging instruments is £333,118 (2021: £486,097) that was recycled through Interest Payable in the Statement of Comprehensive Income.

The notes on pages 14 to 24 form part of these Financial Statements.

Lochgilphead Healthcare Services Limited

Notes to the Annual Report and Financial Statements

Year Ended 31 December 2022

1. General Information

Lochgilphead Healthcare Services Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in Scotland. The address of its registered office is 2nd Floor, 11 Thistle Street, Edinburgh, EH2 1DF.

The principal activity of the Company during the year is the provision of a hospital building and associated facilities management for Highland Health Board over a contract period of 30 years from 26 June 2006.

The Company's functional and presentation currency is the pound sterling.

2. Statement of Compliance

The individual financial statements of Lochgilphead Healthcare Services Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons;

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period. Based on these forecasts the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In light of this, the Directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Lochgilphead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

3. Accounting Policies *(continued)*

(c) Disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of BIIIF Holdco Limited which can be obtained from the Company Secretary at Cannon Place, 78 Cannon Street, London, EC4N 6AF. As such, advantage has been taken of the following disclosure exemptions available under FRS 102:

- (a) No cash flow statement has been presented for the Company.
- (b) Certain disclosures required by Sections 11 and 12 of FRS 102 (Basic Financial Instruments and Other Financial Instruments Issues respectively)

The company is wholly owned by Lochgilphead Healthcare Services (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost less any impairment losses, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compare that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Fair values for derivative contracts

Fair values for derivative contracts are based on mark-to-market valuations provided by the contract counterparty. Whilst these can be tested for reasonableness, the exact valuation methodology and forecast assumptions for future interest rates or inflation rates are specific to the counterparty.

Lochgilphhead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

3. Accounting Policies *(continued)*

iii) Service concession contract

Accounting for the service concession contract and finance debtor requires estimation of service margin, finance debtor interest rates and associated amortisation profile which is based on projected trading results to the end of the contract.

(e) Revenue recognition

Turnover represents the services' share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of the finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

Lochgilhead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

3. Accounting Policies *(continued)*

(g) Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

The Company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the Company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

The company is obligated to keep cash reserves as at the balance sheet date in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown within the "cash at bank and in hand" balance amounts to £1,340,291 (2021: £1,395,645).

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

(k) Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Lochgilphead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. 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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Lochgilphead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

3. Accounting Policies *(continued)*

(I) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps").

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

The UK Financial regulator (the FCA) legislated that sterling LIBOR would cease to be published after 31 December 2021. As described at Note 13, the Company's borrowings and hedge agreements have historically been linked to LIBOR.

The company completed negotiations with lender, effective from 1 March 2022, to agree an amendment to both the loan and swap agreement to provide for the replacement of LIBOR, with an interest rate based on the Compounded Reference Rate. The Compounded Reference Rate will be SONIA (sterling overnight index average) plus a 5 day credit adjustment spread. The use of the same LIBOR replacement rate for both the loan and swap agreement means that the LIBOR Transition Amendments are materially net cash neutral for the company and that the current hedge effectiveness continues

4. Turnover

Turnover arises from:

	2022	2021
	£	£
Rendering of services	<u>1,496,959</u>	<u>1,359,626</u>

The whole of the turnover is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

5. Operating Profit

Operating profit or loss is stated after charging:

	2022	2021
	£	£
Fees payable for the audit of the annual report and financial statements	<u>12,250</u>	<u>11,130</u>

Included in the fee above is £2,490 (2021: £2,260) for the audit of the immediate parent entity Lochgilphead Healthcare Services (Holdings) Limited.

Lochgilphhead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

6. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year amounted to nil (2021: nil). The directors are not employed by the Company and did not receive any remuneration from the Company during the year (2021: £nil).

7. Interest Receivable and Similar Income

	2022 £	2021 £
Interest on cash and cash equivalents	23,753	—
Interest receivable on finance debtor	720,461	752,731
Other interest receivable and similar income	2,327	—
	<u>746,541</u>	<u>752,731</u>

8. Interest Payable and Similar Expenses

	2022 £	2021 £
Interest on bank loans and overdrafts	592,912	609,824
Interest due to Group undertakings	204,000	202,874
Other interest payable and similar expenses	8,785	8,751
	<u>805,697</u>	<u>821,449</u>

9. Tax on Profit

Major components of tax expense

	2022 £	2021 £
Current tax:		
UK current tax expense	239,957	211,086
Deferred tax:		
Origination and reversal of timing differences	(24,222)	299,355
Tax on profit	<u>215,735</u>	<u>510,441</u>

Reconciliation of tax expense

The tax assessed on the profit for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%).

	2022 £	2021 £
Profit before taxation	834,349	725,416
Profit before taxation by rate of tax	158,526	137,829
Effect of expenses not deductible for tax purposes	40,833	38,450
Changes in tax rates	16,376	334,162
Total tax charge	<u>215,735</u>	<u>510,441</u>

Lochgilphhead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

10. Dividends

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2022 £	2021 £
Dividend of £11.17 (2021: £32.00) per ordinary share	<u>206,652</u>	<u>592,000</u>

11. Debtors

Debtors amounts falling due within one year are as follows:

	2022 £	2021 £
Trade debtors	–	7,020
Deferred tax asset	–	35,595
Prepayments and accrued income	271,024	245,997
Corporation tax repayable	34,544	–
Finance debtor	587,239	553,498
Other debtors	–	103,645
	<u>892,807</u>	<u>945,755</u>

Debtors amounts falling due after more than one year are as follows:

	2022 £	2021 £
Deferred tax asset	95,404	503,339
Finance debtor	<u>10,956,370</u>	<u>11,543,079</u>
	<u>11,051,774</u>	<u>12,046,418</u>

The movement in the finance debtor is analysed as follows:

	2022 £	2021 £
At beginning of year	12,096,577	12,617,276
Amortisation	(552,968)	(520,699)
At end of year	<u>11,543,609</u>	<u>12,096,577</u>

12. Creditors: amounts falling due within one year

	2022 £	2021 £
Bank loans and overdrafts	641,303	581,437
Trade creditors	102,033	102,407
Amounts owed to Group undertakings	50,875	50,875
Accruals and deferred income	292,868	252,726
Corporation tax	–	8,009
Taxation and social security	123,775	105,688
	<u>1,210,854</u>	<u>1,101,142</u>

Lochgilphead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

12. Creditors: amounts falling due within one year *(continued)*

Amounts owed to Group undertakings includes accrued interest of £50,875 (2021: £50,875), due within the year, in respect of loan notes issued by Lochgilphead Healthcare Services (Holdings) Limited.

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

	2022	2021
	£	£
Bank loans and overdrafts	9,575,400	10,216,686
Amounts owed to Group undertakings	1,552,623	1,552,623
Derivative financial liability	381,617	2,155,737
	<u>11,509,640</u>	<u>13,925,046</u>

Included within creditors: amounts falling due after more than one year is an amount of £8,139,671 (2021: £8,595,445) in respect of liabilities payable or repayable by instalments which fall due for payment after more than five years from the reporting date.

The bank term loan is repayable in semi-annual instalments commencing on 30 September 2006. The final repayment date of the bank loans is 2 February 2034.

Bank loans bear interest based on SONIA. As part of the interest rate management strategy the Company entered into an interest rate swap in respect of the majority of the debt maturing in February 2034. The loan bears interest at SONIA plus 1.0% however the Company has an interest rate swap arrangement receiving LIBOR and paying interest fixed at 5.2575% for the full amount of the loan drawn, hence fixing the total interest payable on the bank loan to 6.2575%. The full amount of loan drawdowns at at December 2022 is £10,197,695 (2021: £10,787,900). Bank loans are stated inclusive of finance costs of £19,008 (2021: £10,223). These costs are allocated to the Statement of Comprehensive Income over the term of the facility using the effective interest rate method following completion of the construction.

The company has agreed with the lenders to replace the LIBOR reference in the loan and swap agreements with SONIA, adjusted for a historic credit adjustment spread of 0.2766% per annum.

Bank loans are secured over the assets of the Company.

Amounts owed to Group undertakings relate to loan notes issued by the Company to Lochgilphead Healthcare Services (Holdings) Limited. The loan bears interest at 13% per annum and payment of capital falls due in the year 2036. The Coupon on the principal amount accrues daily and is payable in cash on 30 September and 31 March each year. Partial repayments are scheduled throughout the project however the Company is not contractually obliged to make future scheduled repayments and any future repayments are at the Company's discretion. The investment sum was advanced under a subordinated loan agreement and is therefore unsecured, and would rank alongside ordinary creditors in the case of a winding up.

Lochgilphhead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

14. Provisions for Liabilities

	Deferred tax (note 15) £
At 1 January 2022	1,484,797
Deferred tax	<u>(24,222)</u>
At 31 December 2022	<u>1,460,575</u>

15. Deferred Tax

The deferred tax included in the Statement of Financial Position is as follows:

	2022 £	2021 £
Included in debtors (note 11)	95,404	538,934
Included in provisions for liabilities (note 14)	<u>(1,460,575)</u>	<u>(1,484,797)</u>
	<u>(1,365,171)</u>	<u>(945,863)</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2022 £	2021 £
Accelerated capital allowances	1,666,563	1,706,978
Short term timing differences	(205,988)	(222,181)
Derivative financial instruments	<u>(95,404)</u>	<u>(538,934)</u>
	<u>1,365,171</u>	<u>945,863</u>

The net deferred tax liability expected to reverse in 2023 is £117,960 (2022: £92,484). This primarily relates to the reversal of timing differences on capital allowances.

	2022 £
Opening balance	945,863
Movement through the profit or loss	(24,222)
Movement through other comprehensive income	<u>443,530</u>
Closing balance	<u>1,365,171</u>

16. Financial Instruments

The fair values of the interest rate swap have been calculated by discounting the fixed cash flows at forecasted forward interest rates over the term of the financial instrument. The bank borrowing and finance debtor are both held at amortised cost.

Lochgilphead Healthcare Services Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2022

17. Called Up Share Capital

Issued, called up and fully paid

	2022		2021	
	No.	£	No.	£
Ordinary shares of £0.01 each	<u>18,500</u>	<u>185</u>	<u>18,500</u>	<u>185</u>

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and the repayment of capital.

18. Reserves

The hedging reserve records fair value movements on cash flow and net investment hedging instruments.

Retained earnings records retained earnings and accumulated losses.

19. Related Party Transactions

The Company is wholly owned by Lochgilphead Healthcare Services (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a Group.

The following disclosures are with related parties that are not part of the Group described above:

The Company paid £85,158 (2021: £91,152) to BIIF Bidco Limited and its subsidiaries for the provision of two directors and management services.

The Company paid £10,082 (2021: £9,296) to Equitix Infrastructure 4 Limited and its subsidiaries for the provision of two directors.

During the year Infrastructure Managers Limited, a fellow group company, provided management services to Lochgilphead Healthcare Services Limited.

20. Controlling Party

The immediate parent undertaking is Lochgilphead Healthcare Services (Holdings) Limited.

The share capital of Lochgilphead Healthcare Services (Holdings) Limited is held in the proportions of: PFI Infrastructure Finance Limited, 55%, and Lochgilphead Holdco Limited, 45%, the share capital of which is held by Equitix Infrastructure 4 Limited. Each of these Companies are registered in England and Wales.

The ultimate parent and controlling entity of Equitix Infrastructure 4 Limited is Equitix Fund IV LP. Equitix Fund IV LP is owned by a number of investors, with no one investor having individual control.

The ultimate parent and controlling entity of PFI Infrastructure Finance Limited is BIIF LP. BIIF LP is owned by a number of investors, with no one investor having individual control.