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REH Phase 1 Subhub Limited

Report and Financial statements
For the year ended 31 March 2018

Company No. SC483130

Officers and professional advisers

Company registration number	SC483130
Registered office	Atholl House 51 Melville Street Edinburgh EH3 7HL
Directors	K Bradley A McCrorie P McGirk C Campbell N Gemmell G Sheret R Christie P McVey R Park L Simmons
Company Secretary	Galliford Try Secretariat Services Limited
Bankers	Barclays Bank plc PALL MALL 2 Leicestershire LE87 2BB
Auditor	Scott-Moncrieff Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

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Strategic Report

The directors submit their Strategic Report, Report of the Directors and the audited financial statements for the year ending on 31 March 2018.

Principal activities and business review

The Company has been established to enter into a Design, Build, Finance and Maintain ("DBFM") concession contract with NHS Lothian. The DBFM contract involves the design, build and financing of phase 1 of the new Royal Edinburgh Hospital together with the provision of certain facilities management services within the building. The Project Agreement between REH Phase 1 Subhub Limited and NHS Lothian was signed on 18 December 2014.

As part of this contract, the Company has entered into a fixed-price sub-contract with Galliford Try Building Limited t/a Morrison Construction to design and build the facility. The construction of the hospital was completed in December 2016.

The Company has also entered into a sub-contract with Galliford Try Building Limited t/a Galliford Try Facilities Management for the provision of facilities management services within the building.

The DBFM project was being financed by a combination of senior and subordinated debt. Senior debt facilities of £43.9m, provided by Nord/LB and £4.2m of subordinated debt provided by equity shareholders will fund the construction of the campus.

The hospital was handed over to NHS Lothian in December 2016 and the operating term of the DBFM contract is 25 years from the completion. Monthly service payments from NHS Lothian commenced from the date of Practical Completion when the building became available. The construction and other related costs of building have been treated as an asset which will be repaid over the life of the contract.

Results and dividends

The results for the year are set out on page 10. The profit for the year amounted to £27,191 (2017: £283,481). The directors do not recommend payment of a dividend in respect of the year.

Other comprehensive income for the year was £1,089,438 (2017: (£869,878)) after accounting for the movements in the cashflow hedge and deferred tax asset. The fair value of the cash flow hedge at 31 March 2018 was (£4,251,947) (2017: (£5,701,919)).

Principal risks and uncertainties

NHS Lothian (the "Authority") is the sole client of the Company, but the directors consider that no risk arises from such a small client base since the Scottish Government has implicitly underwritten the Authority's obligations.

Most of the performance risk under the DBFM Agreement and related contracts is passed on to the subcontractors Morrison Construction and Galliford Try Facilities Management. The obligations of the building subcontractor and service provider are underwritten by respective Parent Company guarantees. The Company is exposed to the risk of non-performance by its subcontractors; however, penalties imposed by the Authority will be passed onto the subcontractor at fault under the terms of the subcontracts.

The life-cycle risk on the project is passed down to the service provider, Galliford Try Facilities Management.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Long-term project financing is in place for the duration of the concession. The funding fully amortises over the concession period leaving no refinancing risk.

Financial risk management

In order to ensure stability of cash flows and hence manage interest rate risk, the Company has a policy of maintaining all its bank debt at a variable rate and also entering into interest rate swaps, the purpose of which is to manage the interest rate risk arising from these borrowings.

The Company receives the bulk of its revenue from the Authority and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Key Performance Indicators

The key performance of the Company is monitored from a cash perspective. The cash position at the year end is considered adequate. Performance is assessed on a six-monthly basis by the testing of the covenants of the senior debt provider. The key indicators are the debt service cover ratio and loan life cover ratio.

The Company has interest rate swaps in place which have resulted in a liability being included in the Balance Sheet. The swaps have been effected to minimise interest rate risk to the Company over the life of the senior debt loans. The swap profiles follow the loan drawdowns and are therefore fully effective. As such the Company has adopted hedge accounting and the movements are presented in the Statement of Total Comprehensive Income rather than the Income Statement. The profiles are monitored regularly to ensure they do not deviate from this profile and that hedge accounting continues to be permissible.

Future developments

The directors do not anticipate any changes in the Company's activities.

This report has been approved by the board on 4 September 2018 and signed on its behalf by:

Paul McGirk

P McGirk
Director

Report of the directors

The directors submit their report and the audited financial statements for the year ending on 31 March 2018.

Directors and their interests

The directors of the Company who held office during the year and to date are as follows:

K Bradley	
A McCrorie	
P McGirk	
G Sheret	
R Christie	
P McVey	
R Park	
C Campbell	
L Simmons	(appointed 24 October 2017)
N Gemmell	(appointed 22 November 2017)
B Love	(resigned 24 October 2017)
J Hope	(resigned 31 July 2017)

In accordance with the Company's Articles of Association, none of its directors are required to retire.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

Report of the directors (continued)

Disclosure of information to the auditor

To the knowledge and belief of each of the persons who are directors at the time the report is approved:

- So far as each director is aware, there is no relevant information of which the auditor is unaware; and
- He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information, and to establish that the auditor is aware of the information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487(2) of the Companies Act 2006.

This report has been approved by the board on 4 September 2018 and signed on its behalf by:

Paul McGirk

P McGirk
Director

Independent Auditor's Report to the Members of REH Phase 1 Subhub Limited

Opinion

We have audited the financial statements of REH Phase 1 Subhub Limited for the year ended 31 March 2018, which comprise the Income Statement, Statement of Total Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the Members of REH Phase 1 Subhub Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the directors.

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

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

Independent Auditor's Report to the Members of REH Phase 1 Subhub Limited (continued)

Responsibilities of the directors

As explained more fully in the Statement of directors' responsibilities on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. The description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members, as a body, 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.

Nick Bennett

Nick Bennett (Senior Statutory Auditor)
For and on behalf of Scott-Moncrieff,
Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 4 September 2018

Income Statement for the year ended 31 March 2018

	Note	**Year ended 31 March 2018 £**	Year ended 31 March 2017 £
Turnover	3a	**1,479,335**	13,693,629
Cost of sales		**(1,323,832)**	(13,488,041)
Gross profit		**155,503**	205,588
Administration expenses		**(121,839)**	(64,261)
Operating profit	3b	**33,664**	141,327
Interest payable	4	**(2,341,608)**	(1,959,770)
Interest receivable	4	**2,341,513**	2,172,794
Profit on ordinary activities before taxation		**33,569**	354,351
Taxation	5	**(6,378)**	(70,870)
Retained profit for the year		**27,191**	283,481

Statement of Total Comprehensive Income for the year ended 31 March 2018

	Note	**Year ended 31 March 2018 £**	Year ended 31 March 2017 £
Retained profit for the year		**27,191**	283,481
Cash flow hedge – fair value movement	17	**684,715**	(1,718,094)
Cash flow hedge – recycled to profit	17	**765,257**	702,020
Cash flow hedge – deferred tax credit	5	**(360,534)**	146,196
Other comprehensive income for the year		**1,089,438**	(869,878)
Total comprehensive income for the year		**1,116,629**	(586,397)

Balance Sheet as at 31 March 2018

	Note	2018 £	2017 £
Non-current assets			
Financial asset due in more than one year	6	**38,569,664**	39,780,743
Deferred tax asset due in more than one year	18	**623,621**	937,966
Current assets			
Financial asset due in less than one year	6	**3,566,107**	3,566,295
Deferred tax asset due in less than one year	18	**99,210**	145,399
Debtors	7	**-**	20,401
Cash at bank in hand	8	**641,616**	526,591
		4,306,933	4,258,686
Current liabilities			
Creditors – amounts falling due within one year	9	**(2,416,089)**	(2,469,194)
Net current assets		**1,890,844**	1,789,492
Total assets less current liabilities		**41,084,129**	42,508,201
Creditors – amounts falling due after more than one year	10	**(43,922,740)**	(46,463,441)
Net Liabilities		**(2,838,611)**	(3,955,240)
Capital and reserves			
Called-up share capital	12	**100**	100
Cash flow hedge reserve	13	**(3,529,116)**	(4,618,554)
Profit and loss account	13	**690,405**	663,214
Equity shareholders' funds		**(2,838,611)**	(3,955,240)

The financial statements were authorised for issue by the board of directors on 4 September 2018 and signed on its behalf by:

Paul McGirk

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P McGirk
Director

Registered Number: SC483130

Statement of Changes in Equity for the year ended 31 March 2018

	Called up share capital £	Profit and loss account £	Cash flow hedge reserves £	Total Equity £
Balance at 1 April 2017	**100**	**663,214**	**(4,618,554)**	**(3,955,240)**
Profit for the year	-	**27,191**	-	**27,191**
Other comprehensive income	-	-	**1,089,438**	**1,089,438**
Balance at 31 March 2018	**100**	**690,405**	**(3,529,116)**	**(2,838,611)**

Statement of Changes in Equity for the year ended 31 March 2017

	Called up share capital £	Profit and loss account £	Cash flow hedge reserves £	Total Equity £
Balance at 1 April 2016	100	379,733	(3,748,676)	(3,368,843)
Profit for the year	-	283,481	-	283,481
Other comprehensive income	-	-	(869,878)	(869,878)
Balance at 31 March 2017	100	663,214	(4,618,554)	(3,955,240)

The notes form part of these financial statements

Statement of Cash Flows for the year ended 31 March 2018

	2018	2017
	£	£
Cash flows from operating activities		
Profit for the financial year	**27,191**	283,481
Adjustments for:		
Non-cash revenue	**(584,196)**	(13,132,303)
Unitary charge received	**4,136,976**	1,323,901
Interest paid	**2,341,608**	1,959,770
Interest received	**(2,341,513)**	(2,172,794)
Taxation	**6,378**	70,870
Decrease in trade and other debtors	**20,401**	373,447
Decrease in trade and other creditors	**(23,298)**	(2,491,225)
Cash from operations	**3,583,547**	(13,784,853)
Income taxes paid	**(36,038)**	(80,204)
Net cash generated from operating activities	**3,547,509**	(13,865,057)
Cash flows from investing activities		
Interest received	-	926
Cash flows from financing activities		
Bank loans drawn	-	10,799,188
Shareholder loans drawn	-	2,585,675
Repayment of bank loans	**(1,315,518)**	(2,994,294)
Repayment of shareholder loans	**(2,046)**	-
Interest paid	**(2,092,359)**	(1,636,810)
Capital contribution from NHS Lothian	-	2,756,000
Loan arrangement and commitment fees paid	**(22,561)**	(55,013)
Net cash used in financing activities	**(3,432,484)**	11,454,746
Net increase in cash and cash equivalents	**115,025**	(2,409,385)
Cash and cash equivalents at the beginning of the year	**526,591**	2,935,976
Cash and cash equivalents at the end of the year	**641,616**	526,591

Notes to the Financial Statements

1 Principal accounting policies

(a) General information

The financial statements are presented in Pounds Sterling (GBP) and are rounded to the nearest whole pound. The financial statements cover the results for the year ended 31 March 2018. The continuing activities of the Company continue to be to Design, Build and Finance Phase 1 of the new Royal Edinburgh Hospital together with the provision of certain facilities management services.

The Company is a private Company limited by shares and was incorporated in Scotland. The registered office is:

Atholl House
51 Melville Street
Edinburgh
EH3 7HL

The Company's registered number is SC483130

(b) Basis of preparation

These financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The preparation of the financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

A summary of the more important accounting policies is set out below.

Notes to the Financial Statements

1 Principal accounting policies (continued)

(c) Going concern

During the year, the Company made a profit of £27,191(2017: £283,481) but at the Balance Sheet date, its liabilities exceeded its assets by £2,838,611 (2017: £3,955,240). This was due to the fair value of the interest rate swap of £4,251,947 (2017: £5,701,919) at the year end. The financial statements have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future, being at least 12 months from the date of approval of these financial statements, for the following reasons:

- the hospital is now operational (from December 2016) with monthly service payments, in line with the DBFM agreement now being received. These will continue over the life of the 25 year service concession until the expiry date of 5 December 2041.

- The directors have prepared and approved cash flow forecasts for the full service concession term and based on this information the directors believe the Company will be able to meet all liabilities as they fall due.

The directors have thus formed the view that, at the time of approving the financial statements, the Company will have adequate resources to continue in existence for the foreseeable future. Therefore, the directors consider the adoption of the going concern basis in preparing the financial statements to be appropriate.

If the Company were unable to continue in operation for the foreseeable future, adjustments would have to be made to reduce the Balance Sheet values of assets to their recoverable amounts and to provide for further liabilities that might arise.

(d) Consolidation

REH Phase 1 Subhub Holdings Limited and REH phase 1 Subhub Limited are included within the Group accounts prepared by the immediate Parent Company, REH Phase 1 Subhub Holdings Limited.

(e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the Company will receive the consideration due under the contract;
- The stage of completion of the contract at the end of the reporting period can be measured reliably; and
- The costs incurred and the costs to complete the contract can be measured reliably.

Notes to the Financial Statements

1 Principal accounting policies (continued)

(f) Interest

Interest and other costs of funding are charged to the Statement of Comprehensive Income.

Interest receivable on the financial asset is credited to the Statement of Comprehensive Income during the construction and operational phase of the project.

(g) Current and deferred taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. Deferred taxation has been recognised as a liability or asset if transactions have incurred at the Balance Sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. A deferred tax asset has been recognised in respect of the fair value of the cash flow hedge which has been recognised through the Statement of Total Comprehensive Income. Deferred tax assets and liabilities recognised have not been discounted.

(h) Financial asset

Construction and related costs of building the school excluding interest costs and other costs of funding, are being treated as a financial asset (contract debtor) under the terms of FRS 102. The financial asset will be repaid over the life of the contract as service income is received from NHS Lothian.

Upon becoming operational, the income derived from the DBFM contract is allocated between the provision of the asset and the provision of the subsequent services. Upon acceptance of the constructed asset by NHS Lothian, the financial asset is amortised over the life of the contract against the relevant portion of the contracted income. The proportion of the financial asset to be amortised against contracted income receivable within one year is classified as a current asset and the remainder non-current.

(i) Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

(j) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

(k) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans and amounts due to the immediate Parent Company are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Notes to the Financial Statements

1 Principal accounting policies (continued)

(l) Financial liabilities

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. Finance costs and gains or losses relating to financial liabilities are charged to the Statement of Comprehensive Income. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

(m) Financial Instruments

The Company, except for the derivative financial instruments noted below, only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not the market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

(n) Derivative financial instrument and hedging activities

The Company uses derivative financial instruments to manage exposures to interest rate risks. Interest rate swaps have been taken alongside the senior debt loans to provide a fixed interest rate over the life of the debt. These are measured at fair value on a mid-market basis and recognised in the Balance Sheet as a liability. The mark-to-market-value is the result of the valuation of the current interest coupons on market rates as well as the interest accrued as of the evaluation date. All values are discounted from the payment date to the evaluation date.

Hedging

Where transactions meet the specified criteria, hedge accounting is used for the related financial instrument. At the time an instrument is designated as a hedge, the Company formally documents the relationship between the hedging instrument and the hedged item. Documentation ensures that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument. Accordingly, the Company formally assessed, both at inception of the hedge and on an ongoing basis whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair values or cash flows of the hedged item.

Notes to the Financial Statements

1 Principal accounting policies (continued)

(n) Derivative financial instrument and hedging activities (continued)

For a hedge of variable interest rate risk of a recognised financial instrument the portion of the change in fair value of the hedging instrument that was effective is recognised in other comprehensive income within the Statement of Total Comprehensive Income. Any excess cumulative change in fair value is recognised in the Income Statement. The hedging gain or loss recognised in other comprehensive income is reclassified to the Income Statement when the hedged item is recognised in the Income Statement or when the hedging relationship ends. The treatment is discontinued if the hedging instrument expires or is sold or terminated, the entity revokes the designation or the hedge no longer meets the criteria for hedge accounting.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

The directors are satisfied that accounting policies are appropriate and consistently applied. There are no accounting estimates.

3a Turnover

All turnover arose within the United Kingdom and is attributable to the principal activity as disclosed within the Strategic report. Turnover is analysed as follows:

	2018	2017
	£	£
Turnover		
Construction revenue	-	12,925,713
Service Revenue	**584,196**	206,590
Pass through/other income	**895,139**	561,326
	1,479,335	13,693,629

3b Operating profit

None of the directors received any remuneration as directors from the Company during the year (2017: £nil). The Company has no directly employed personnel (2017: none). The profit on ordinary activities is stated after charging auditor's remuneration of £5,150 (2017: £5,000) in respect of the audit of the company and its immediate parent, REH Phase 1 Subhub Holdings Limited. The auditor also received remuneration in respect of tax services of £1,585 (2017: £1,550).

4 Interest payable and receivable

	2018	2017
	£	£
Interest payable		
Bank loan interest payable and charges	**(1,112,005)**	(1,085,662)
Interest on loans from parent undertaking	**(464,346)**	(172,088)
Finance costs – recycled cashflow hedge	**(765,257)**	(702,020)
	(2,341,608)	(1,959,770)
Interest receivable		
Interest receivable on financial asset	**2,341,513**	2,171,868
Bank interest receivable	-	926
	2,341,513	2,172,794

Notes to the Financial Statements

5 Taxation

The current tax charge the same (2017: the same) as the amount calculated by applying the standard rate of UK corporation tax.

	2018	2017
	£	£
Profit on ordinary activities before tax	**33,569**	354,351
Profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 19% (2017: 20%)	**6,378**	70,870
Overprovision in prior year	-	-
Taxation charge to profit	**6,378**	70,870

	2018	2017
	£	£
Reconciliation of corporation tax liability		
Opening balance	**36,731**	46,065
Payment on account in the year	**(36,038)**	(80,204)
Release of over provision for prior year	-	-
Tax charge for the year	**6,378**	70,870
Closing balance	**7,071**	36,731

Deferred tax credit

Fair value of cash flow hedge at the year end	**4,251,947**	5,701,919
Deferred tax asset at year end at 17% (2017: 19%)	**722,831**	1,083,365
Deferred tax credit in year	**(360,534)**	146,196

This deferred tax credit has been recognised through the Statement of Total Comprehensive Income.

Factors that may affect future tax charges
The gradual reduction in the corporation tax rate to 17% was announced in The Budget on 16 March 2016, and was subsequently enacted on 15 September 2016. This will reduce the Company's future tax charge accordingly.

Notes to the Financial Statements

6 Financial asset

	2018	2017
	£	£
Cost		
At 1 April 2017	**47,220,349**	32,122,768
Additions during the year:		
Net interest receivable	**2,341,513**	2,171,868
Construction and related costs	**-**	12,925,713
At 31 March 2018	**49,561,862**	47,220,349
Repayment		
At 1 April 2017	**(3,873,311)**	-
Capital contribution received	**-**	(2,756,000)
Unitary charge income	**(4,136,976)**	(1,323,901)
Operational revenue recognised	**584,196**	206,590
At 31 March 2018	**(7,426,091)**	(3,873,311)
Closing balance at 31 March 2018	**42,135,771**	43,347,038
Financial asset – due for amortisation within one year	**3,566,107**	3,566,295
Financial asset – due for amortisation after one year	**38,569,664**	39,780,743
	42,135,771	43,347,038

Variable economic and market conditions are mitigated by the hedging of income and costs through the payment mechanism agreement. Any performance deductions which may be incurred against future unitary payments are passed on to the service provider leaving no net effect in the Company.

7 Debtors

	2018	2017
	£	£
Amounts falling due within one year		
Accrued income	**-**	20,401
	-	20,401

8 Cash at bank and in hand

	2018	2017
	£	£
Cash and cash equivalents	**641,616**	526,591

Notes to the Financial Statements

9 Creditors - amounts falling due within one year

	2018	2017
	£	£
Amounts falling due within one year		
Bank loan	**1,265,230**	1,184,432
Amounts owed to immediate Parent Company - subordinated loan notes	**31,004**	16,436
Amounts owed to immediate Parent Company - accrued subordinated interest	**229,621**	143,463
Trade creditors	**-**	10,415
Amounts owed to related parties	**70,707**	113,643
Accruals	**36,568**	51,317
VAT liability	**192,302**	147,500
Corporation tax creditor	**7,071**	36,731
Current derivative financial liabilities (note 17)	**583,586**	765,257
	2,416,089	2,469,194

10 Creditors - amounts falling due after more than one year

	2018	2017
	£	£
Amounts falling after more than one year		
Bank loan	**35,977,964**	37,233,749
Amounts owed to immediate Parent Company - subordinated loan notes	**4,276,415**	4,293,030
Non-current derivative financial liabilities (note 17)	**3,668,361**	4,936,662
	43,922,740	46,463,441

The term loan facility is provided by Nord/LB. The full facility is £43,953,930 which has been drawn over the construction period of the school. The term loan is repayable in instalments commencing on 5 December 2016 and ending on 30 April 2041.

Interest is charged on the term loan and equity bridge loan at LIBOR plus a margin. There is an interest rate swap in place to give a fixed rate of interest. The loan is disclosed net of unamortised issue costs of £850,223 (2017: £990,753).

The term loan is secured by way of a fixed and floating charges over the assets of the company and security over the company's interest in the lease to NHS Lothian in favour of Nord/LB (as security trustee).

The Company has received £4,309,466 (2017: £4,309,466) in the form of fixed rate subordinated loan notes from REH Phase 1 Holdings Limited of which £4,307,420 (2017: £4,309,466) is due at the year end. The loan is stated at amortised cost, using the effective interest rate method. Interest is payable at a rate of 10.5%. The loan notes are unsecured, fully subordinated to the term loan and are repayable in instalments commencing on 31 March 2018 and ending on 5 December 2041. Loan interest of £464,346 (2017: £172,088) was charged in the year. Included within creditors is £229,621 (2017: £143,463) of accrued interest due to REH Phase 1 Subhub Holdings Limited which has been paid post year end.

Notes to the Financial Statements

10 Creditors - amounts falling due after more than one year (continued)

The term loan, subordinated loan notes and other creditors are repayable as follows:

	2018	2017
	£	£
Less than one year	**1,422,811**	1,331,954
Between one and two years	**1,417,362**	1,408,420
Between two and five years	**4,453,761**	4,309,540
After 5 years	**35,106,902**	36,668,486
	42,400,836	43,718,400
Capital instrument charges < 1 year	**(126,577)**	(131,086)
Capital instrument charges > 1 year	**(723,646)**	(859,667)
	41,550,613	42,727,647

The derivative financial liabilities are repayable as follows:

	2018	2017
	£	£
Less than one year	**583,586**	765,257
Between one and two years	**442,113**	676,990
Between two and five years	**953,977**	1,553,505
After 5 years	**2,272,271**	2,706,167
	4,251,947	5,701,919

The hedging gain or loss (i.e. the movement in the fair value of the interest rate swap) that has previously been recognised in Other Comprehensive Income relating to the current year is recycled (i.e. reclassified) to profit or loss in the current year from Other Comprehensive Income as this part of the interest rate swap has been exercised in the year.

11 Financial Instruments

	2018	2017
	£	£
Financial assets		
Cash at bank and in hand	**641,616**	526,591
Financial assets measured at amortised cost	**42,135,771**	43,367,439
	42,777,387	43,894,030
Financial liabilities		
Financial liabilities measured at amortised cost	**41,887,509**	43,046,485

Financial assets held at amortised cost include accrued income and the financial asset in respect of the service concession arrangement.

Financial liabilities measured at amortised cost include bank loans, amounts owed to immediate parent company – subordinated loan notes and accrued subordinated interest, trade creditors, accruals and amounts owed to related parties.

The interest rate swaps are held at fair value – see note 17.

Notes to the Financial Statements

12 Called up share capital

	2018	2017
	£	£
Allotted, issued and fully paid		
100 ordinary shares of £1 each	**100**	100

All issued shares rank pari passu with each other, with one vote for each share and an equal right to dividends.

13 Reserves

Profit and Loss Reserve

The profit and loss reserves includes all current and prior year retained profit and losses.

Cash Flow Hedge Reserve

The movements in the fair value of the cash flow hedge less the deferred tax credit are included in this reserve.

14 Related party transactions

The Company's related parties, and the extent of transactions with them during the year ended 31 March 2018 are set out below.

	Purchases from related parties 2018	**Amounts owed to related parties 2018**	Purchases from related parties 2017	Amounts owed to related parties 2017
	£	**£**	£	£
Galliford Try Investments Limited	**13,034**	**-**	39,102	13,034
Galliford Try Building Limited t/a Morrison Construction	**910,803**	**41,330**	12,922,718	84,836
Galliford Try Investments Consultancy Limited	**75,851**	**-**	126,639	-
Dormy Hub Investments LLP	**2,764**	**15,100**	12,337	12,337
Galliford Try Building Limited t/a Galliford Try Facilities Management	**386,110**	**14,277**	149,742	3,436
Total	**1,388,562**	**70,707**	13,250,538	113,643

Galliford Try Investments Limited is a wholly owned subsidiary of Galliford Try Plc, and owns a stake in the joint venture, SPACE Scotland Limited. Space Scotland Limited owns 60% of REH Phase 1 Subhub Holdings Limited. Galliford Try Investments Limited provides operational and financial concession management services to the Company.

Notes to the Financial Statements

14 Related party transactions (continued)

Galliford Try Building Limited is a wholly owned subsidiary of Galliford Try Plc and has entered into a building sub-contract with the Company t/a Morrison Construction.

Galliford Try Facilities Management is a trading name of Galliford Try Building Limited, which is owned by Galliford Try Plc.

PPDI Assetco Limited owns Dormy Hub Investments LLP which owns a stake in Hub South East Scotland Limited via SPACE Scotland Limited.

During the year until 31 March 2018 the Company incurred an interest charge of £464,346 (2017: £172,089) in respect of subordinated loans totalling £4,309,466 (2017: £4,309,466) received from its immediate parent REH Phase 1 Subhub Holdings Limited of which £4,307,419 (2017: £4,309,466) was outstanding at the year end.

Included within creditors is £229,621 (2017: £143,463) of accrued interest due to REH Phase 1 Subhub Holdings Limited which has been paid post year end.

15 Immediate and ultimate parent undertaking

The Company is a wholly owned subsidiary of REH Phase 1 Subhub Holdings Limited which is incorporated in Great Britain and registered in Scotland. Copies of REH Phase 1 Subhub Holdings Limited's financial statements can be obtained from 51 Melville Street, Edinburgh, EH3 7HL.

REH Phase 1 Subhub Holdings Limited is a joint venture in which Space Scotland Limited holds 60% of the share capital. The Directors consider there to be no ultimate controlling party.

16 Committed expenditure

As at 31 March 2018, the Company has committed to expenditure of £nil (2017: £nil) in respect of the Royal Edinburgh Hospital.

Notes to the Financial Statements

17 Financial liabilities measured at fair value through other comprehensive income

	2018	2017
	£	£
Current derivative financial liabilities (note 9)	**583,586**	765,257
Non-current derivative financial liabilities (note 10)	**3,668,361**	4,936,662
Total financial liabilities measured at fair value through other comprehensive income	**4,251,947**	5,701,919

The movement in the fair value was £684,715 (2017: (£1,718,094)). £765,257 (2017: £702,020) of the fair value at the prior year end was recycled to profit in the year.

The full value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months from the reporting date, and as a current asset or liability if the maturity of the hedged item is less than twelve months from the reporting date.

Interest rate swaps
The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2018 £39,817,556 (2017: £39,817,556).

At 31 March 2018, the fixed interest rates vary from 0.975% to 2.51% and the main floating rates are LIBOR. Gains and losses recognised in the hedging reserve within equity on interest rate swap contracts as of 31 March 2018 will be continuously released to the Income Statement until the related bank borrowings are repaid.

18 Deferred Tax

	2018	2017
	£	£
Deferred tax asset (note 5)	**722,831**	1,083,365

The deferred tax asset is in respect of the fair value of the cash flow hedge. £99,210 (2017: £145,399) is included in current assets with £623,621 (2017: £937,966) included within non-current assets, in line with the ageing of the fair value of the hedging derivative.