REH Phase 1 Subhub Limited

Annual Report and Financial statements
For the year ended 31 March 2022

Company No. SC483130

Officers and professional advisers

Company registration number	SC483130
Registered office	PO BOX 17452 2 Lochside View Edinburgh EH12 1LB
Directors	K Bradley P McGirk C Campbell N Gemmell M Templeton P McVey R Park L Simmons A Bone
Company Secretary	Galliford Try Secretariat Services Limited
Bankers	Barclays Bank plc Unit 2 10-15 Princes Street Edinburgh EH2 2AN
Auditor	Azets Audit Services Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

Contents page

Report of the directors

The directors submit their report and the audited financial statements for the year ending on 31 March 2022.

Directors and their interests

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

K Bradley	
P McGirk	
P McVey	
R Park	
C Campbell	
L Simmons	
N Gemmell	
M Templeton	
A Bone	(appointed 25 May 2021)

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

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 to design, build and finance phase 1 of the new Royal Edinburgh Hospital together with the provision of certain facilities management services within the building. The project is fully operational and the service concession runs until December 2041.

Future developments

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

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 an asset and 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 profile are monitored regularly to ensure they do not deviate from this profile and that hedge accounting continues to be permissible.

Report of the directors (continued)

Results and dividends

The results for the year are set out on pages 10 and 11. The profit for the year amounted to £34,251 (2021 restated: £71,197). The directors do not recommend payment of a dividend in respect of the year. Other comprehensive income for the year was £2,678,821 (2021: £2,166,138) after accounting for the movements in the cashflow hedge and deferred tax asset/provision. The fair value of the cash flow hedge at 31 March 2022 was a liability of (£1,846,625) (2021: (£4,995,361)) and an asset of £36,216 (2021: £nil).

Statement of directors' responsibilities

The directors are responsible for preparing 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 Generally Accepted Accounting Practice, including Section 1A of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice applicable to Small Entities). 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 for the Company's financial statements 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 of the directors is approved:

- So far as each director is aware, there is no relevant information of which the auditor is unaware; and
- Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information, and to establish that the Company's 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, Azets Audit Services, is deemed to be reappointed under section 487 (2) of the Companies Act 2006.

Small companies' exemptions

The above report has been prepared in accordance with the provisions applicable to companies subject to the small companies' regime within part 15 of the Companies Act 2006.

This report has been approved by the board on 21 September 2022 and signed on its behalf by:

Paul J McGirk

P McGirk
Director

Independent Auditors Report to the Members of REH Phase 1 Subhub Limited on the Financial Statements for the year ended 31 March 2022

Opinion

We have audited the financial statements of REH Phase 1 Subhub Limited ('the Company') for the year ended 31 March 2022, which comprise the Income Statement, the Statement of Total Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Section 1A of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice applicable to Small Entities).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Small Entities; 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 UK, including the FRC'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 opinion.

Conclusions relating to going concern

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

Independent Auditor's report to the members of REH Phase 1 Subhub Limited on the Financial Statements for the year ended 31 March 2022 (continued)

Other information (continued)

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; 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 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemptions in preparing the Report of the directors and from the requirement to prepare a Strategic Report.

Responsibilities of the directors

As explained more fully in the Statement of directors' responsibilities on page 4, 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.

Independent Auditor's report to the members of REH Phase 1 Subhub Limited on the Financial Statements for the year ended 31 March 2022 (continued)

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 is available on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

The extent to which the audit was considered capable of detecting irregularities including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the FRC's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the Company, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the Company is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the Company that were contrary to applicable laws and regulations, including fraud.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the Company through discussions with directors and other management, and from our commercial knowledge and experience of the construction sector;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the Company, including the Companies Act 2006 and taxation, data protection, anti-bribery, environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;

Independent Auditor's report to the members of REH Phase 1 Subhub Limited on the Financial Statements for the year ended 31 March 2022 (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- enquiring of management as to actual and potential litigation and claims; and
- reviewing correspondence with HMRC and the Company's legal advisors.

We assessed the susceptibility of the Company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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.

Azets Audit Services

James McBride (Senior Statutory Auditor)
For and on behalf of
Azets Audit Services, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 22 September 2022

Income Statement for the year ended 31 March 2022

	Note	Year ended 31 March 2022	Year ended 31 March 2021 (Restated)
		£	£
Turnover		**1,005,108**	909,912
Cost of sales		**(819,533)**	(753,654)
Gross profit		**185,575**	156,258
Administration expenses		**(132,362)**	(107,835)
Operating profit		**53,213**	48,423
Interest payable	3	**(2,060,350)**	(2,082,582)
Interest receivable	3	**2,049,414**	2,122,057
Profit on ordinary activities before taxation		**42,277**	87,898
Taxation	4	**(8,026)**	(16,701)
Retained profit for the year		**34,251**	71,197

Statement of Total Comprehensive Income for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £	Year ended 31 March 2021 (Restated) £
Retained profit for the year		**34,251**	71,197
Cash flow hedge – fair value movement in asset	13	**36,216**	-
Cash flow hedge - fair value movement in liability	13	**2,349,266**	2,005,252
Cash flow hedge – recycled to profit	13	**799,470**	668,992
Cash flow hedge – deferred tax liability	4	**(9,054)**	-
Cash flow hedge - deferred tax asset	4	**(497,077)**	(508,106)
Other comprehensive income for the year		**2,678,821**	2,166,138
Total comprehensive income for the year		**2,713,072**	2,237,335

Balance Sheet as at 31 March 2022

	Note	2022 £	2021 (Restated) £
Non-current assets			
Financial asset due in more than one year	5	**35,527,185**	36,712,913
Current assets			
Debtors due in more than one year		**457,818**	797,219
Financial asset due in less than one year	5	**1,140,620**	1,351,346
Debtors due in less than one year		**30,440**	151,900
Cash at bank in hand		**1,173,137**	950,007
		2,802,015	3,250,472
Current liabilities			
Creditors – amounts falling due within one year		**(2,108,809)**	(2,645,450)
Net current assets		**693,206**	605,022
Total assets less current liabilities		**36,220,391**	37,317,935
Creditors – amounts falling due after more than one year		**(36,437,689)**	(40,403,903)
Provisions - Lifecycle	8	**(273,169)**	(117,571)
Net liabilities		**(490,467)**	(3,203,539)
Capital and reserves			
Called-up share capital	9	**100**	100
Cash flow hedge reserve	10	**(1,367,422)**	(4,046,243)
Profit and loss account	10	**876,855**	842,604
Equity shareholders' funds		**(490,467)**	(3,203,539)

The financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

The financial statements were authorised for issue by the board of directors on 21 September 2022 and signed on its behalf by:

Paul J McGirk ....

P McGirk
Director

Registered Number: SC483130

The notes form part of these financial statements

Statement of Changes in Equity for the year ended 31 March 2022

	Called up share capital	**Profit and loss account**	**Cash flow hedge reserve**	**Total Equity**
	£	**£**	**£**	**£**
As at 1 April 2021 (as restated)	**100**	**842,604**	**(4,046,243)**	**(3,203,539)**
Profit for the year	**-**	**34,251**	**-**	**34,251**
Other comprehensive income	**-**	**-**	**2,678,821**	**2,678,821**
As at 31 March 2022	**100**	**876,855**	**(1,367,422)**	**(490,467)**

Statement of Changes in Equity for the year ended 31 March 2021

	Called up share capital	Profit and loss account	Cash flow hedge reserve	Total Equity
	£	£	£	£
As at 1 April 2020	100	771,407	(6,212,381)	(5,440,874)
Profit for the year as restated	-	71,197	-	71,197
Other comprehensive income	-	-	2,166,138	2,166,138
As at 31 March 2021 as restated	100	842,604	(4,046,243)	(3,203,539)

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 2022. 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 PO Box 17452, 2 Lochside View, Edinburgh, EH12 1LB. 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 Section 1A of the 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.

(c) Going concern

During the year, the Company made a profit of £34,251 (2021 restated: £71,197) but at the Balance Sheet date, its liabilities exceeded its assets by £490,467 (2021 restated: £3,203,539). This was due to the fair value of the interest rate swap of £1,810,409 (2021: £4,995,362) less the associated deferred tax asset of £452,042 (2021: £949,119) and deferred tax liability of £9,054 (2020: £nil) 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 operational with monthly service payments, in line with the DBFM agreement being received. These will continue over the life of the service concession until the expiry date of 5 December 2041.

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

Notes to the Financial Statements

1 Principal accounting policies (continued)

(c) Going concern (continued)

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.

The directors are satisfied that the Company will be able to trade for the 12 months following the signing of these financial statements. This is on the basis that construction has completed, the Company's sole customer is a public sector body, the annual service payment (cash being received) is per the underlying service concession arrangement, interest costs are fixed and the running costs of the Company are either fixed or are not expected to fluctuate significantly.

If the Company was 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

Consolidated accounts have not been prepared by the parent Company, REH Phase 1 Subhub Holdings Limited, as it has taken the exemption available to small groups.

(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.

(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.

Notes to the Financial Statements

1 Principal accounting policies (continued)

(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 hospital 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.

(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.

Notes to the Financial Statements

1 Principal accounting policies (continued)

(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 valuation date. All values are discounted from the payment date to the valuation 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.

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.

(o) Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Notes to the Financial Statements

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

There are assumptions included within the financial model in respect of the profit margin applied to the construction of the asset and the profit margin applied to the maintenance services provided during the operational phase. These assumptions are used to estimate the construction revenue and operational revenue with the revenue recognised being the costs incurred plus a reasonable market margin.

Interest receivable is also recognised based on a discount rate which causes the aggregate present value of all sums receivable to be equal to the fair value of the services to be provided over the service concession term. This discount rate is updated on an annual basis.

The Company has an interest rate swap. The fair value is estimated by calculating the present value of the cash flows of each leg of the swap. The expected cash flows of the fixed leg, based on the fixed interest rate, are discounted by an appropriate discount factor. The expected cashflows for the floating rate based on the interest yield curves are also discounted. The present value of the interest rate swap is the difference between the values of the two streams of cash flows.

The financial asset is a long term asset. The amount allocated to current assets is the expected net movement in the following year.

3 Interest payable and receivable

	2022	2021 (restated)
	£	£
Interest payable		
Bank loan interest payable and charges	**(802,985)**	(954,980)
Interest on loans from parent undertaking	**(457,895)**	(458,610)
Finance costs – recycled cashflow hedge	**(799,470)**	(668,992)
	(2,060,350)	(2,082,582)
Interest receivable		
Interest receivable on financial asset	**2,049,163**	2,121,868
Bank interest receivable	**251**	189
	2,049,414	2,122,057

Notes to the Financial Statements

4 Taxation

Factors affecting tax charge for the year
The current tax charge is lower (2021: the same) as the amount calculated by applying the standard rate of UK corporation tax.

	2022	2021 (restated)
	£	£
Profit on ordinary activities before tax	**42,277**	87,898
Profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 19% (2021: 19%)	**8,033**	16,701
Over provision in prior year	**(7)**	-
Taxation charge to profit	**8,026**	16,701

	2022	2021
	£	£
Reconciliation of corporation tax liability		
Opening balance	**16,738**	8,183
Payment on account in the year	**(14,803)**	(8,146)
Tax charge for the year	**8,033**	16,701
Over provision in prior year	**(7)**	-
Closing balance	**9,961**	16,738

	2022	2021
Deferred tax liability	£	£
Fair value of cash flow hedge asset at the year end	**36,216**	-
Deferred tax liability at year end	**9,054**	-
Deferred tax movement in year	**9,054**	-
Deferred tax credit		
Fair value of cash flow hedge at the year end	**1,846,625**	4,995,362
Deferred tax asset at year end (2021: 19%)	**452,042**	949,119
Deferred tax (charge)/credit in year	**497,077**	(508,106)

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

Factors that may affect future tax charges
The Chancellor announced in the Budget on 3 March 2021, that there would be an increase in the top rate of corporation tax to 25% for companies generated taxable profits of more than £250,000. A corporation tax rate of 19% will apply to companies generating taxable profits of less than £50,000. A marginal rate will be applied for profits between these taxable profit bandings. This change becomes effective from 1 April 2023.

Notes to the Financial Statements

5 Financial asset

	2022	2021 (restated)
	£	£
Cost		
At 1 April 2021	**56,157,699**	54,035,923
Additions during the year:		
Net interest receivable	**2,049,163**	2,121,868
Construction and related costs	**(3,863)**	(92)
At 31 March 2022	**58,202,999**	56,157,699
Repayment		
At 1 April 2021	**(18,093,440)**	(14,594,371)
Annual service payment income	**(4,255,724)**	(4,239,269)
Lifecycle recognised	**166,490**	125,801
Operational revenue recognised	**647,480**	614,399
At 31 March 2022	**(21,535,194)**	(18,093,440)
Closing balance at 31 March 2022	**36,667,805**	38,064,259
Financial asset – due for amortisation within one year	**1,140,620**	1,351,346
Financial asset – due for amortisation after one year	**35,527,185**	36,712,913
	36,667,805	38,064,259

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 annual service payments are passed on to the service provider leaving no net effect in the Company.

6 Debtors falling due after more than one year

Included within debtors falling due after more than one year are derivative financial assets receivable as follows:

	2022	2021
	£	£
Less than one year	**-**	-
Between one and two years	**-**	-
Between two and five years	**36,216**	-
After 5 years	**-**	-
	36,216	-

Notes to the Financial Statements

7 Loans

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 hospital. The term loan is repayable in instalments commencing on 5 December 2016 and ending on 30 April 2041. £1,550,700 of Debt Service Reserve Facility is available under certain circumstances but remains undrawn.

Interest is charged on the term loan at LIBOR plus a margin. From 1 April 2022 LIBOR has been replaced with SONIA. 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 £472,429 (2021: £573,209).

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 previously received fixed rate subordinated loan notes from REH Phase 1 Holdings Limited. The loan is stated at amortised cost, using the effective interest rate method. Interest is payable at a rate of 10.75%. 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.

The term loan and subordinated loan notes are repayable as follows:

	2022	2021
	£	£
Less than one year	**1,567,042**	1,473,062
Between one and two years	**1,608,372**	1,561,582
Between two and five years	**4,408,110**	4,577,813
After 5 years	**29,090,418**	30,529,089
	36,673,942	38,141,546
Capital instrument charges < 1 year	**(107,752)**	(112,735)
Capital instrument charges > 1 year	**(364,677)**	(460,474)
	36,201,513	37,568,337

The derivative financial liabilities are repayable as follows:

	2022	2021
	£	£
Less than one year	**160,213**	799,470
Between one and two years	**-**	657,767
Between two and five years	**333,765**	1,332,784
After 5 years	**1,352,646**	2,205,341
	1,846,624	4,995,362

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.

Notes to the Financial Statements

8 Provisions

	2022	2021 (restated)
	£	£
At 1 April	**117,571**	-
Additions	**155,598**	117,571
Amounts utilised	**-**	-
At 31 March	**273,169**	117,571

Lifecycle provision
As part of the project documents, the Company has an obligation to fund lifecycle works. The liability is created on an annual basis by applying indexation to the contract values less any works claimed to date. The liability is discharged when the works are completed or at the Expiry Date, whichever is earlier or at such other times as permitted under the contract.

9 Called up share capital

	2022	2021
	£	£
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.

10 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.

Notes to the Financial Statements

11 Related party transactions

The Company's related parties, and the extent of transactions with them during the year ended 31 March 2022 are set out below.

	Purchases from related parties 2022	**Amounts owed to related parties 2022**	Purchases from related parties 2021	Amounts owed to related parties 2021
	£	**£**	£	£
Galliford Try Construction Limited t/a Morrison Construction	**3,301**	**2,583**	-	-
Galliford Try Investments Consultancy Limited	**88,454**	**-**	84,344	-
Dormy Hub Investments LLP	**3,800**	**3,658**	2,874	752
Galliford Try Construction Limited t/a Galliford Try Facilities Management	**598,619**	**6,452**	593,925	5,531
Total	**694,174**	**12,693**	681,143	6,283

	Annual Service Payments 2022	**Pass through and other income 2022**	Annual Service Payments 2021	Pass through and other income 2021
	£	**£**	£	£
NHS Lothian	**4,255,724**	**195,001**	4,239,269	169,804

Galliford Try Investments Limited is a wholly owned subsidiary of Galliford Try Holdings 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 Consultancy Services Limited provides operational and financial concession management services to the Company and is a 100% subsidiary of Galliford Try Investments Limited.

Galliford Try Construction Limited is a wholly owned subsidiary of Galliford Try Holdings 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 Construction Limited, which is owned by Galliford Try Holdings 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 the Company incurred an interest charge of £457,894 (2021: £458,610) in respect of subordinated loans received from its immediate parent REH Phase 1 Subhub Holdings Limited of which £4,258,158 (2021: £4,265,128) was outstanding at the year end. Included within creditors is £228,249 (2021: £228,623) of accrued interest due to REH Phase 1 Subhub Holdings Limited which has been paid post year end.

NHS Lothian is a shareholder of the parent company REH Phase 1 Subhub Holdings Limited. The Company has a DBFM agreement with NHS Lothian and charges monthly service payments.

Notes to the Financial Statements

12 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 PO Box 17452, 2 Lochside View, Edinburgh, EH12 1lB.

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.

13 Financial assets and liabilities measured at fair value through other comprehensive income

	2022 £	2021 £
Current derivative financial assets	-	-
Non-current derivative financial assets	**36,216**	-
Total financial assets measured at fair value through other comprehensive income	**36,216**	-

	2022 £	2021 £
Current derivative financial liabilities	**160,213**	799,470
Non-current derivative financial liabilities	**1,686,412**	4,195,891
Total financial liabilities measured at fair value through other comprehensive income	**1,846,625**	4,995,361

The movement in the fair value of the financial liability was £2,349,266 (2021: £2,005,252). £799,470 (2021: £668,992) of the fair value at the prior year end was recycled to profit in the year.

The movement in the fair value of the financial asset was £36,216 (2021: £nil) and was recognised within other comprehensive income.

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 2022 £33,148,076 (2021: £34,570,692).

At 31 March 2022, the fixed interest rates vary from 0.0875% 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 2022 will be continuously released to the Income Statement until the related bank borrowings are repaid.

Notes to the Financial Statements

14 Deferred Tax

	2022	2021
	£	£
Deferred tax asset (note 4)	**452,042**	949,119
Deferred tax liability (note 4)	**9,054**	-

The deferred tax asset is in respect of the fair value of the cash flow hedge liability. £30,440 (2021: £151,900) is included in current assets with £421,602 (2021: £797,219) included within non-current assets, in line with the ageing of the fair value of the hedging derivative.

The deferred tax liability is in respect of the fair value of the cash flow hedge asset. £nil (2021: £nil) is included in current liabilities with (£9,054) (2021: £nil) included within non-current liabilities, in line with the ageing of the fair value of the hedging derivative.

15 Prior year adjustment

	note	Capital and reserves at 31 March 2021	Profit for the year ended 31 March 2021
		£	£
As previously stated		(3,211,629)	63,107
Prior year adjustment			
Recognition of lifecycle revenue	1	(117,571)	(117,571)
Recognition of lifecycle costs	1	125,801	125,801
Financial asset interest receivable	1	1,758	1,758
Corporation tax	1	(1,898)	(1,898)
		(3,203,539)	71,197

Notes

1. An adjustment has been made to account for the lifecycle in the year to 31 March 2021, representing the amount not yet paid to the FM provider but eligible to be drawn from the Lifecycle Account at the year end. This includes recognising the cost in the p&l and creating a lifecycle provision