

Registration number: 03693524

Mercia Healthcare Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2016



Mercia Healthcare Limited

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Mercia Healthcare Limited

Company Information

Directors	J N E Cowdell A E Birch P Dodd H Pownall P Fisher (Alternate)
Company secretary	Semperian Secretariat Services Limited
Registered office	Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

Mercia Healthcare Limited

Strategic Report for the Year Ended 31 March 2016

The Directors present their strategic report for the year ended 31 March 2016.

Principal activity

The principal activity of the company is the design, construction and provision of certain non-clinical support services to an Acute Care Facility at Hereford County Hospital, under a 30 year contract, expiring in 2029, for Wye Valley NHS Trust (formerly Hereford Hospitals NHS Trust).

Results and review of business

The profit for the year is set out in the profit and loss account on page 7. The directors consider the performance of the company during the year and the financial position at the end of the year, to be in line with the long term expected performance of the project, and its prospects for the future to be satisfactory.

The results of the Company for the prior year were negatively impacted as the Company was in dispute with its customer regarding alleged defects associated with the construction and maintenance of the building, which resulted in the customer temporarily making availability deductions from its Unitary payments. In the prior year, the Company resolved the disputes through mediation, with its customer and subcontractors. Whilst the matters were being resolved any availability deductions being imposed were temporarily recovered from its subcontractors. On the conclusion of the Mediation Agreement, the customer paid the withheld deductions and resumed paying the unitary payments in full, with a settlement amount agreed as payable to the customer of £1.0m, of which £0.7m was contributed by the supply chain.

The monthly payments to the Hard FM provider were suspended until the resolution of the dispute. On the conclusion of the mediation, all amounts were paid in full. Additional funding was made available by the shareholders to cover working capital requirements whilst these matters were resolved. £1.0 million "E" loan notes were issued in April 2013, on which interest is charged at 10% per annum from 1 July 2013, and which only become repayable once the disputes have been satisfactorily resolved. Repayment was made in May 2015.

Principal risks and uncertainties

The company has taken on the activity, as detailed above, and is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts. In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations. The financial risks and the measures taken to mitigate them are as detailed in the Directors' report.

Transition to FRS 102

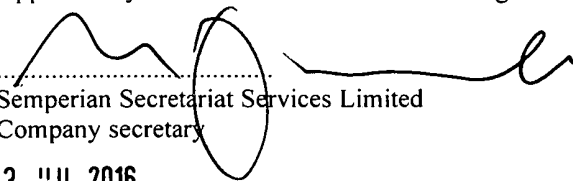
This is the first year that the company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014.

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities as managed by the sub-contractor. For this reason, the company's directors believe that further operational key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business. In addition the directors monitor compliance with debt covenant ratios as specified in the senior loan agreement, in particular the Debt Service Cover Ratio, and no non-compliance has been noted.

The key impact on the financial statements was the recognition of derivative financial instruments at fair value, together with deferred tax thereon.

Approved by the Board on **13 JUL 2016** and signed on its behalf by:


Semperian Secretariat Services Limited
Company secretary

13 JUL 2016

Mercia Healthcare Limited

Directors' Report for the Year Ended 31 March 2016

Registration number: 03693524

The Directors present their report and the audited financial statements for the year ended 31 March 2016.

Future developments

No significant changes are expected to the company's activities, as set out in the Strategic Report, in the foreseeable future.

Dividends

A dividend of £2,324,000 (£2,324.29 per ordinary share) was paid during the year (2015: £nil, £nil per ordinary share). On 30 June 2016, a further dividend of £1,367,000 was paid.

Financial risk management

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance. The directors have policies for managing each of these risks and they are summarised below:

Interest rate risk

The senior debt interest has been fixed through the use of fixed funding rates, plus a margin, as set out in note 12.

Inflation risk

The company's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

Credit risk

The company receives the majority of its revenue from Wye Valley NHS Trust (formerly Hereford Hospitals NHS Trust) and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Major maintenance replacement risk

The company takes the risk that its projections for ongoing major maintenance replacement of the building and relevant equipment are adequate. These projections have been agreed with third parties and are subject to regular review by the directors.

Directors of the Company

The directors who held office during the year were as follows:

J N E Cowdell

S P Hornby (resigned 7 July 2015)

T Ryan (resigned 7 July 2015)

A E Birch

P Dodd (appointed 7 July 2015)

H Pownall

P Fisher (Alternate) (appointed 7 July 2015)

Mercia Healthcare Limited

Directors' Report for the Year Ended 31 March 2016 (continued)

Directors' responsibilities statement

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

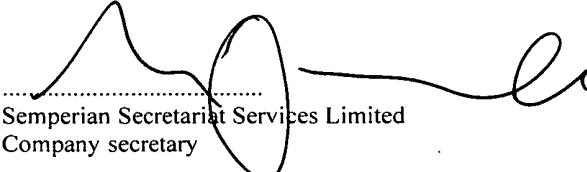
Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

The auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, have signified their willingness to continue in office.

Approved by the Board on 13 JUL 2016 and signed on its behalf by:


Semperian Secretariat Services Limited
Company secretary

13 JUL 2016

Mercia Healthcare Limited

Independent Auditors' Report to the members of Mercia Healthcare Limited

Report on the financial statements

Our opinion

In our opinion, Mercia Healthcare Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 March 2016;
- the Profit and Loss Account and Statement of Comprehensive Income for the year then ended; and
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Mercia Healthcare Limited

Independent Auditors' Report to the members of Mercia Healthcare Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Katharine Finn (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

Date: 25 July 2016

Mercia Healthcare Limited

Profit and Loss Account for the Year Ended 31 March 2016

	Note	2016 £ 000	2015 £ 000
Turnover	4	13,116	11,020
Cost of sales		<u>(10,463)</u>	<u>(8,728)</u>
Gross profit		2,653	2,292
Administrative expenses		<u>(659)</u>	<u>(1,474)</u>
Operating profit	5	1,994	818
Interest receivable and similar income	6	5,739	5,868
Interest payable and similar charges	7	<u>(3,846)</u>	<u>(4,608)</u>
Profit on ordinary activities before taxation		3,887	2,078
Taxation	8	<u>(103)</u>	<u>(491)</u>
Profit for the financial year		<u>3,784</u>	<u>1,587</u>

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 March 2016

	Note	2016 £ 000	2015 £ 000
Profit for the year		<u>3,784</u>	<u>1,587</u>
Other comprehensive income:			
Change in value of hedging instrument		(959)	(2,675)
Reclassifications to profit and loss		1,582	1,718
Deferred tax arising on unrealised gain/(loss) on cash flow hedges	8	<u>(250)</u>	<u>191</u>
Other comprehensive income for the year, net of tax		<u>373</u>	<u>(766)</u>
Total comprehensive income for the year		<u>4,157</u>	<u>821</u>

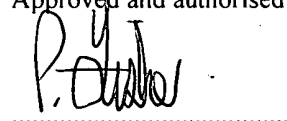
The notes on pages 10 to 25 form an integral part of these financial statements.

Mercia Healthcare Limited

Balance Sheet as at 31 March 2016

	Note	2016 £ 000	2015 £ 000
Current assets			
Debtors: Amounts falling due within one year	9	3,745	2,598
Debtors: Amounts falling due after more than one year	10	65,528	67,530
Cash at bank and in hand		<u>12,050</u>	<u>18,202</u>
		81,323	88,330
Creditors: Amounts falling due within one year	11	<u>(7,910)</u>	<u>(13,520)</u>
Total assets less current liabilities		73,413	74,810
Creditors: Amounts falling due after more than one year	11	(54,227)	(57,810)
Provisions for liabilities	13	<u>(5,766)</u>	<u>(5,413)</u>
Net assets		<u>13,420</u>	<u>11,587</u>
Capital and reserves			
Called up share capital	14	1	1
Retained earnings		18,573	17,113
Cash flow hedge reserve		<u>(5,154)</u>	<u>(5,527)</u>
Total equity		<u>13,420</u>	<u>11,587</u>

Approved and authorised by the Board on 13th April 2016 and signed on its behalf by:



P Fisher (Alternate)
Director

The notes on pages 10 to 25 form an integral part of these financial statements.

Mercia Healthcare Limited

Statement of Changes in Equity for the Year Ended 31 March 2016

	Note	Share capital £ 000	Retained earnings £ 000	Cash flow hedge reserve £ 000	Total £ 000
At 1 April 2014		1	15,526	(4,761)	10,766
Profit for the year		-	1,587	-	1,587
Other comprehensive income		-	-	(766)	(766)
Total comprehensive income		-	1,587	(766)	821
At 31 March 2015		1	17,113	(5,527)	11,587

	Note	Share capital £ 000	Retained earnings £ 000	Cash flow hedge reserve £ 000	Total £ 000
At 1 April 2015		1	17,113	(5,527)	11,587
Profit for the year		-	3,784	-	3,784
Other comprehensive income		-	-	373	373
Total comprehensive income		-	3,784	373	4,157
Dividends	15	-	(2,324)	-	(2,324)
At 31 March 2016		1	18,573	(5,154)	13,420

The notes on pages 10 to 25 form an integral part of these financial statements.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

1 General information

The principal activity of the company is the design, construction and provision of certain non-clinical support services to an Acute Care Facility at Hereford County Hospital, under a 30 year contract, expiring in 2029, for Wye Valley NHS Trust (formerly Hereford Hospitals NHS Trust).

The company is a private company limited by shares and is incorporated and domiciled in England.

The address of its registered office is:

Third Floor
Broad Quay House
Prince Street
Bristol
BS1 4DJ

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

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

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

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

2 Accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises income when it has fully fulfilled its contractual obligations. The company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs.

Where appropriate, income received under the PFI contract in respect of services provided during the operational phase of the contract is deferred to future periods in order to match those elements of income with the costs to which they relate. The turnover and cost of sales are recorded in the profit and loss account in the period in which the relevant costs are incurred.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

Finance debtor and interest receivable

The company has elected to take the exemption under FRS 102 paragraph 35.10 (i) to continue to apply its previous accounting treatment in respect of Service Concession Arrangements entered into prior to the date of transition to FRS 102. The costs incurred in constructing the assets have been treated as a finance debtor. This treatment arose from applying the guidance within previous UK GAAP which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer.

The finance debtor represents the costs arising on the construction of the assets including initial tender costs. During asset construction, finance debtor interest income is recognised on an accruals basis and is capitalised within the finance debtor receivable. Once the project reached its operational phase and was accepted by the customer a constant proportion of the planned net revenue arising from the project was allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term the finance debtor is expected to be fully repaid.

Fixed asset investments

Fixed asset investments are stated at historical cost less provision for any diminution in value.

Tax

The tax expense for the period comprises deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial Instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, finance debtors, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

2 Accounting policies (continued)

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

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

(iv) Derivatives and Hedging arrangements

Derivatives, which may include interest rate swaps and RPI swaps, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate, unless they are included in hedging arrangements.

The company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the profit and loss account in the same period in which the hedged transaction is recognised in the profit and loss account or when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. These exemptions are:

- (i) the requirement to prepare a statement of cash flows; and
- (ii) certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

3 Critical accounting judgements and estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may subsequently differ from these estimates.

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates made are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements, adopted by management, in applying the company's accounting policies are described below:

Finance Debtor

The company has elected to continue to apply its previous accounting treatment in respect of service concession arrangements entered into prior to the date of transition to FRS 102. This has resulted in the measurement of the finance debtor being different from that which would have resulted had the requirements of FRS 102 Section 34 been fully adopted. The Accounting for service concession contracts and finance debtors requires estimation of service margins, finance debtors interest rates and associated amortisation profile which are based on the forecast results of the PFI contracts over the respective concession length. See notes 9 and 10 for the carrying value of the finance debtor.

Impairment of debtors

Management makes an estimate of the likely recoverable value of trade and other debtors by considering factors including the current credit rating, the ageing profile and the historic experience of the respective debtor. See note 9 for the carrying value of the debtors.

Treatment and Measurement of derivatives

The directors have adopted a policy of cash flow hedge accounting for derivative financial instruments and have assessed that the company's interest rate swaps meet the criteria for hedge accounting under FRS 102. This allows unrealised gains and losses to be deferred in a cash flow hedge reserve and only recognised through the profit and loss account at the same time as the hedged cash flows.

The derivative financial instruments are recognised at fair value. The measurement of fair value is based on estimates of future market interest and inflation rates and will therefore be subject to change. The company has used a third party expert to assist with valuing such instruments.

Taxation

The assessment of the tax charge may include uncertain tax positions where the tax treatment has not yet been agreed with the taxation authorities. Management make an estimate of the taxation charge for the period and the value of balances, with reference to legislation, discussions with taxation authorities, advice from taxation advisors, and the determination of similar taxation cases.

Deferred tax is recognised at tax rates that are expected to be applicable when the timing differences reverse, to the extent that such rates have been substantially enacted. Given the phased reduction in future tax rates in the UK, the deferred tax asset or liability recognised is therefore dependent upon an estimate of the timing of such reversals.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

4 Turnover

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom.

5 Operating profit

The company had no employees, other than the directors, during the year (2015: none). The emoluments of the directors are paid by the controlling parties. The directors services to this company and to a number of fellow group companies are primarily of a non executive nature and their emoluments are deemed to be wholly attributable to the controlling parties. The controlling parties charged £100,429 (2015: £105,597) to the company in respect of these services.

The audit fee in respect of the company was £7,483 for the year (2015: £7,300). Fees payable to the auditors for non-audit services were £nil (year ended 31 March 2015: £nil). The company also bore the audit fees of its immediate parent undertaking of £2,132 (year ended 31 March 2015: £2,080), during the year.

6 Interest receivable and similar income

	2016 £ 000	2015 £ 000
Imputed interest receivable on finance debtor	5,680	5,803
Interest income on bank deposits	59	65
	<u>5,739</u>	<u>5,868</u>

7 Interest payable and similar charges

	2016 £ 000	2015 £ 000
Interest on bank borrowings	660	686
Interest rate swap costs	1,582	1,718
Interest payable on loans from group undertakings	1,585	2,091
Interest on other loans	19	113
	<u>3,846</u>	<u>4,608</u>

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

8 Taxation

(a) Tax expense included in profit or loss

	2016 £ 000	2015 £ 000
Deferred taxation		
Arising from origination and reversal of timing differences	782	491
Arising from changes in tax rates and laws	(679)	-
Total deferred taxation	103	491
Tax on profit on ordinary activities	103	491

(b) Tax relating to items recognised in other comprehensive income or equity

	2016 £ 000	2015 £ 000
Deferred tax		
Arising from origination and reversal of timing differences	112	(191)
Arising from changes in tax rates and laws	138	-
	250	(191)

(c) Reconciliation of tax charge

The tax on profit before tax for the year is lower than (2015: higher than) the standard rate of corporation tax of 20% (2015: 21%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit before tax	3,887	2,078
Corporation tax at standard rate	777	436
Expenses not deductible for tax purposes	92	79
Re-measurement of deferred tax - change in UK tax rates	(766)	(24)
Total tax charge	103	491

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

8 Taxation (continued)

(d) Tax rate changes

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £320,000.

In the March 2016 Budget the Government announced that from 1 April 2017 the amount of taxable profits that can be offset with carried forward tax losses will be restricted to 50% of those profits. As the proposed changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. It is not possible to accurately quantify what the effect of those proposed changes would be on these financial statements as no detailed rules have yet been published by the Government.

9 Debtors: Amounts falling due within one year

	2016 £ 000	2015 £ 000
Trade debtors	1,327	380
Finance debtor	2,002	1,670
Prepayments and accrued income	416	548
	<u>3,745</u>	<u>2,598</u>

10 Debtors: Amounts falling due after more than one year

	2016 £ 000	2015 £ 000
Finance debtor	<u>65,528</u>	<u>67,530</u>

11 Creditors

	Note	2016 £ 000	2015 £ 000
Due within one year			
Senior debt	12	2,894	2,650
Subordinated debt	12	-	1,406
Trade creditors		1,477	265
Amounts owed to group undertakings	16	388	5,970
Other taxation and social security		514	522
Other payables		2	-
Accruals and deferred income		<u>2,635</u>	<u>2,707</u>
		<u>7,910</u>	<u>13,520</u>

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

11 Creditors (continued)

	Note	2016 £ 000	2015 £ 000
Due after one year			
Senior debt	12	32,657	35,551
Subordinated debt	12	9,756	9,756
Accruals and deferred income		5,529	5,595
Derivative financial instruments		6,285	6,908
		<u>54,227</u>	<u>57,810</u>

12 Loans and borrowings

	2016 £ 000	2015 £ 000
Loans and borrowings falling due within one year		
Senior debt	2,894	2,650
Subordinated debt	-	1,406
	<u>2,894</u>	<u>4,056</u>

	2016 £ 000	2015 £ 000
Loans and borrowings falling due between one and five years		
Senior debt	<u>15,068</u>	<u>13,638</u>

	2016 £ 000	2015 £ 000
Loans and borrowings falling due after more than five years		
Senior debt	17,589	21,913
Subordinated debt	9,756	9,756
	<u>27,345</u>	<u>31,669</u>

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

12 Loans and borrowings (continued)

Senior debt - Term Loan Facility

The tenure of the Term Loan is 25 years and it is repayable in 43 semi-annual instalments commencing on 16th April 2003. Interest charged on amounts drawn under the facility is based on the floating LIBOR rate, plus a margin of 1.10%. The Term Loan Facility has been syndicated to a consortium of banks. All amounts drawn under the Term Loan Facility are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

Subordinated debt

On the 16th April 2002, the stockholders subscribed for £8,496,320 subordinated loan notes in the company. The loan notes are to mature in full in 2029. The loan notes are unsecured and bear interest at 15%. Interest was rolled up on the loan notes until 16th October 2003, and thereafter the interest is paid 6 monthly. Where interest is not paid on the due date, penalty interest of 15% is applied to the unpaid interest.

In addition, Sodexo Investment Services Limited subscribed for £541,666 subordinated loan notes in the company on 1st March 2006. The loan notes were unsecured and bear no interest. They were repaid in May 2015.

In addition, Sodexo Investment Services Limited subscribed for £1,000,000 of subordinated loan notes in the company on 10th April 2013. The loan notes were unsecured and bore interest, from 1 July 2013, at a rate of 10%. They were due for repayment by 10th April 2014, but were fully repaid in May 2015, along with all accrued interest thereon.

Swap arrangements

The company has entered into interest rate swap agreements under the Term Loan, with a fixed rate of 5.0605% plus margin, which expires on 10th April 2024. The only derivative financial instruments held are the interest rate swaps, which convert the borrowings from rates linked to LIBOR to the fixed rates above.

All other amounts owed to or owed by group undertakings are interest free, unsecured and repayable on demand.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

13 Provisions for liabilities

	Deferred tax £ 000
At 1 April 2015	5,413
Additions dealt with in profit or loss	103
Additions dealt with in other comprehensive income	250
At 31 March 2016	<u>5,766</u>

The provision for deferred tax consists of the following deferred tax liabilities/(assets):

	2016 £ 000	2015 £ 000
Accelerated capital allowances	4,472	4,996
Other timing differences	3,087	3,163
Tax losses recognised	(662)	(1,365)
Fair value movements on financial instruments	<u>(1,131)</u>	<u>(1,381)</u>
	<u>5,766</u>	<u>5,413</u>

The net deferred tax liability expected to increase in the next 12 months by £880,000. This primarily relates to unwinding of tax losses.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

14 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

15 Dividends

	2016 £ 000	2015 £ 000
Dividends paid of £2,324.29 (2015: £nil) per ordinary share	<u>2,324</u>	<u>-</u>

16 Related party transactions

The following companies are fellow group undertakings of the shareholders of the immediate parent undertaking and together with undertakings within the individual groups of companies, are considered to be related parties to the company, as defined in FRS 102 - paragraph 33.9.

Sodexo Investment Services Limited
Sodexo Limited
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited)
Semperian Asset Management Limited
Semperian Senior Funding PLC
Semperian PPP Investment Partners No2 Limited
Semperian Capital Management Limited.

The company incurred the following costs in respect of the provision of staff and support services:

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

16 Related party transactions (continued)

	Type of (income)/expense	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Sodexo Investment Services Limited	Support Services and loan interest	441	716
Sodexo Limited	Facilities Management	5,163	4,861
Sodexo Limited	Rent and support services	(27)	(26)
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited)	Facilities Management	2,908	3,072
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited)	Support services	(24)	(33)
Semperian Senior Funding PLC	Senior Loan interest	660	687
Semperian PPP Investment Partners No2 Limited	Support Services and loan interest	1,264	1,643
Semperian Asset Management Limited	Management Services	473	470
Semperian Capital Management Limited	Support Services	62	150

All transactions with Related Parties were carried out on arms length terms.

Amounts owed to/(from) at:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Sodexo Investment Services Limited	2,528	5,572
Sodexo Limited	-	(42)
Sodexo Limited	542	787
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited)	(29)	-
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited)	1,561	675
Semperian Senior Funding PLC	35,861	39,835
Semperian PPP Investment Partners No2 Limited	7,584	11,644
Semperian Asset Management Limited	16	13
Semperian Capital Management Limited	15	150

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

17 Financial instruments

Fair value of derivatives used for hedging in the Balance Sheet

	2016 £ 000	2015 £ 000
Creditors: due after one year - Fair value of swaps	(6,285)	(6,908)
Net Fair value of swaps in the Balance Sheet	(6,285)	(6,908)

Movement in Fair value of derivatives used for hedging

	2016 £ 000	2015 £ 000
Recognised through Other Comprehensive Income	623	(957)
	623	(957)

The company has entered into interest rate swap agreements under the Term Loan, with a fixed rate of 5.0605% plus margin, which expires on 10th April 2024. The only derivative financial instruments held are the interest rate swaps, which convert the borrowings from rates linked to LIBOR to the fixed rates above. The fair value of this class of derivative financial instruments at 31 March 2016 is £(6,285,323) (2015: £(6,908,477)).

Cash flows on both the loan and the interest rate swaps are paid six monthly until April 2024. During 2016, a hedging loss of £959,000 (2015: £2,675,000 loss) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £1,582,000 (2015: £1,718,000) was reclassified from the hedge reserve to profit and loss.

18 Parent and ultimate parent undertaking

The company's immediate parent undertaking is Mercia Healthcare (Holdings) Limited, registered in England and Wales. Mercia Healthcare (Holdings) Limited's shares are held by each of the following, both of which are registered in the United Kingdom:

	Percentage Holding (%)
Semperian PPP Investment Partners No.2 Limited	75
Sodexo Investment Services Limited	25

The ultimate parent undertaking and controlling party is Semperian PPP Investment Partners Holdings Limited which is registered in Jersey. The smallest group and largest group to consolidate these financial statements is Semperian PPP Investment Partners Holdings Limited.

Consolidated financial statements for Semperian PPP Investment Partners Holdings Limited can be obtained from the Company Secretary at Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

19 Transition to FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. There were no adjustments to the company profit and loss account for the year ended 31 March 2015 on transition to FRS 102. Accordingly, no reconciliation of the profit and loss account is presented.

Balance Sheet at 1 April 2014

	As originally reported £ 000	Remeasurement/ reclassification £ 000	As restated £ 000
Current assets			
Debtors: Amounts falling due within one year	3,673	-	3,673
Debtors: Amounts falling due after more than one year	69,200	-	69,200
Cash at bank and in hand	14,711	-	14,711
	87,584	-	87,584
Creditors: Amounts falling due within one year	(13,818)	(5,951)	(19,769)
Total assets less current liabilities	73,766	(5,951)	67,815
Creditors: Amounts falling due after more than one year	(51,936)	-	(51,936)
Provisions for liabilities	(6,303)	1,190	(5,113)
Net assets/(liabilities)	15,527	(4,761)	10,766
Capital and reserves			
Called up share capital	1	-	1
Retained earnings	15,526	-	15,526
Hedging reserve	-	(4,761)	(4,761)
Total equity	15,527	(4,761)	10,766

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2016 (continued)

19 Transition to FRS 102 (continued)

Balance Sheet at 31 March 2015

	As originally reported £ 000	Remeasurement/ reclassification £ 000	As restated £ 000
Current assets			
Debtors: Amounts falling due within one year	2,598	-	2,598
Debtors: Amounts falling due after more than one year	67,530	-	67,530
Cash at bank and in hand	18,202	-	18,202
	<u>88,330</u>	<u>-</u>	<u>88,330</u>
Creditors: Amounts falling due within one year	<u>(13,520)</u>	<u>-</u>	<u>(13,520)</u>
Total assets less current liabilities	74,810	-	74,810
Creditors: Amounts falling due after more than one year	(50,902)	(6,908)	(57,810)
Provisions for liabilities	<u>(6,794)</u>	<u>1,381</u>	<u>(5,413)</u>
Net assets/(liabilities)	<u>17,114</u>	<u>(5,527)</u>	<u>11,587</u>
Capital and reserves			
Called up share capital	1	-	1
Retained earnings	17,113	-	17,113
Hedging reserve	<u>-</u>	<u>(5,527)</u>	<u>(5,527)</u>
Total equity	<u>17,114</u>	<u>(5,527)</u>	<u>11,587</u>

Derivative financial instruments - FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the company did not recognise these instruments in the financial statements. The adjustments including the deferred tax thereon, are shown above.