Registration number: 03693524

Mercia Healthcare Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2017

Mercia Healthcare Limited

Contents

Mercia Healthcare Limited

Company Information

Directors	J N E Cowdell
	P J Dodd
	H J W Pownall
	A C M Rhodes
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 2017

The directors present their strategic report for the year ended 31 March 2017.

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.

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.

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.

Approved by the Board on 5 June 2017 and signed on its behalf by:

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Semperian Secretariat Services Limited
Company secretary

14 JUN 2017

Mercia Healthcare Limited

Directors' Report for the Year Ended 31 March 2017

Registration number: 03693524

The directors present their report and the audited financial statements for the year ended 31 March 2017.

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 £3,182,000 (£3,182.09 per ordinary share) was paid during the year (2016: £2,324,000, £2,324.29 per ordinary share).

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

A E Birch (resigned 1 April 2017)

P J Dodd

H J W Pownall

P Fisher (Alternate) (resigned 2 February 2017)

A C M Rhodes (Alternate) (appointed 2 February 2017 and resigned 1 April 2017)

The following director was appointed after the year end:

A C M Rhodes (appointed 1 April 2017)

Mercia Healthcare Limited

Directors' Report for the Year Ended 31 March 2017 (continued)

Statement of directors' responsibilities

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

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

Under company law the directors must not approve the 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 UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 5 June 2017 and signed on its behalf by:

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Semperian Secretariat Services Limited
Company secretary

14 JUN 2017

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 2017 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 2017;
- 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

Mercia Healthcare Limited

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

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

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

Date: 11th July 2017

Mercia Healthcare Limited

Profit and Loss Account for the Year Ended 31 March 2017

	Note	2017 £ 000	2016 £ 000
Turnover	4	13,796	13,116
Cost of sales		(11,275)	(10,463)
Gross profit		2,521	2,653
Administrative expenses		(656)	(659)
Operating profit	5	1,865	1,994
Interest receivable and similar income	6	5,585	5,739
Interest payable and similar charges	7	(3,564)	(3,846)
Profit on ordinary activities before taxation		3,886	3,887
Tax on profit on ordinary activities	8	(58)	(103)
Profit for the financial year		3,828	3,784

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 March 2017

	Note	2017 £ 000	2016 £ 000
Profit for the financial year		3,828	3,784
Other comprehensive income:			
Change in value of hedging instrument		(476)	(959)
Reclassifications to profit and loss		1,475	1,582
Deferred tax arising on unrealised loss on cash flow hedges	8	(233)	(250)
Other comprehensive income for the year, net of tax		766	373
Total comprehensive income for the year		4,594	4,157

The notes on pages 10 to 23 form an integral part of these financial statements.

Mercia Healthcare Limited

Balance Sheet as at 31 March 2017

	Note	2017 £ 000	2016 £ 000
Current assets			
Debtors: Amounts falling due after more than one year	9	63,160	65,528
Debtors: Amounts falling due within one year	10	3,572	3,745
Cash at bank and in hand		12,407	12,050
		79,139	81,323
Creditors: Amounts falling due within one year	11	(8,236)	(7,910)
Total assets less current liabilities		70,903	73,413
Creditors: Amounts falling due after more than one year	11	(50,014)	(54,227)
Provisions for liabilities	13	(6,057)	(5,766)
Net assets		14,832	13,420
Capital and reserves			
Called up share capital	14	1	1
Cash flow hedge reserve		(4,388)	(5,154)
Profit and loss account		19,219	18,573
Total equity		14,832	13,420

Approved and authorised by the Board on 5 June 2017 and signed on its behalf by:

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P J Dodd

Director

The notes on pages 10 to 23 form an integral part of these financial statements.

Mercia Healthcare Limited

Statement of Changes in Equity for the Year Ended 31 March 2017

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

	Note	Called up Share capital £ 000	Cash flow hedge reserve £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 April 2016		1	(5,154)	18,573	13,420
Profit for the financial year		-	-	3,828	3,828
Other comprehensive income		-	766	-	766
Total comprehensive income		-	766	3,828	4,594
Dividends	15	-	-	(3,182)	(3,182)
At 31 March 2017		1	(4,388)	19,219	14,832

The notes on pages 10 to 23 form an integral part of these financial statements.

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 in note 3.

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.

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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

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.

2 Accounting policies (continued)

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.

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

2 Accounting policies (continued)

(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. The exemptions which the company has taken 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.

3 Critical accounting judgements and estimation uncertainty

Judgements, 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 10 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.

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 (2016: 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 £101,833 (2016: £100,429) to the company in respect of these services.

The audit fee in respect of the company was £7,670 for the year (2016: £7,483). Fees payable to the auditors for non-audit services were £nil (year ended 31 March 2016: £nil). The company also bore the audit fees of its immediate parent undertaking of £2,185 (year ended 31 March 2016: £2,132), during the year.

6 Interest receivable and similar income

	2017 £ 000	2016 £ 000
Imputed interest receivable on finance debtor	5,531	5,680
Interest income on bank deposits	54	59
	5,585	5,739

7 Interest payable and similar charges

	2017 £ 000	2016 £ 000
Interest on bank borrowings	587	660
Interest rate swap costs	1,475	1,582
Interest payable on loans from group undertakings	1,502	1,585
Interest on other loans	-	19
	3,564	3,846

8 Tax on profit on ordinary activities

(a) Tax expense included in profit or loss

	2017 £ 000	2016 £ 000
Current taxation		
UK corporation tax	-	-
Total current income tax	-	-
Deferred taxation		
Arising from origination and reversal of timing differences	441	782
Arising from changes in tax rates and laws	(383)	(679)
Total deferred taxation	58	103
Tax on profit on ordinary activities	58	103

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

	2017 £ 000	2016 £ 000
Deferred tax		
Arising from origination and reversal of timing differences	170	112
Arising from changes in tax rates and laws	63	138
	233	250

(c) Reconciliation of tax charge

The tax on profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK (2016: lower than the standard rate of corporation tax in the UK) of 20% (2016: 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit on ordinary activities before taxation	3,886	3,887
Corporation tax at standard rate	777	777
Expenses not deductible for tax purposes	111	92
Re-measurement of deferred tax - change in UK tax rates	(461)	(766)
(Over)/under provision	(369)	-
Total tax charge	58	103

8 Taxation (continued)

(d) Tax rate changes

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9 Debtors: Amounts falling due after more than one year

	2017 £ 000	2016 £ 000
Finance debtor	63,160	65,528

10 Debtors: Amounts falling due within one year

	2017 £ 000	2016 £ 000
Trade debtors	183	1,327
Finance debtor	2,368	2,002
Prepayments and accrued income	1,021	416
	3,572	3,745

11 Creditors

	Note	2017 £ 000	2016 £ 000
Amounts falling due within one year			
Senior debt	12	3,091	2,894
Trade creditors		1,069	1,477
Amounts owed to group undertakings		717	388
Other taxation and social security		339	514
Other payables		-	2
Accruals and deferred income		3,020	2,635
		8,236	7,910
Amounts falling due after more than one year			
Senior debt	12	29,566	32,657
Subordinated debt	12	9,756	9,756
Accruals and deferred income		5,405	5,529
Derivative financial instruments	17	5,287	6,285
		50,014	54,227

12 Loans and borrowings

	2017 £ 000	2016 £ 000
Loans and borrowings falling due within one year		
Senior debt	3,091	2,894

	2017 £ 000	2016 £ 000
Loans and borrowings falling due between one and five years		
Senior debt	16,592	15,068

	2017 £ 000	2016 £ 000
Loans and borrowings falling due after more than five years		
Senior debt	12,974	17,589
Subordinated debt	9,756	9,756
	22,730	27,345

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.

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.

13 Provisions for liabilities

	Deferred tax £ 000
At 1 April 2016	5,766
Additions dealt with in profit or loss	58
Additions dealt with in other comprehensive income	233
At 31 March 2017	6,057

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

	2017 £ 000	2016 £ 000
Accelerated capital allowances	4,172	4,472
Other timing differences	3,098	3,087
Tax losses recognised	(314)	(662)
Fair value of financial instruments	(899)	(1,131)
	6,057	5,766

The net deferred tax liability is expected to decrease in the next 12 months by £203,000.

14 Share capital

Allotted, called up and fully paid shares

	2017		2016	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	1	1	1	1

15 Dividends

	2017 £ 000	2016 £ 000
Dividends paid of £3,182.09 (2016: £2,324.29) per ordinary share	3,182	2,324

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 No.2 Limited
Semperian Capital Management Limited.

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

16 Related party transactions (continued)

	Type of (income)/expense	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Sodexo Investment Services Limited	Support Services and loan interest	**401**	441
Sodexo Limited	Facilities Management	**7,016**	5,163
Sodexo Limited	Rent and support services	**(30)**	(27)
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited	Facilities Management	**3,793**	2,908
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited	Support services	**(20)**	(24)
Semperian Senior Funding PLC	Senior Loan interest	**587**	660
Semperian PPP Investment Partners No2 Limited	Support Services and loan interest	**1,203**	1,264
Semperian Asset Management Limited	Management Services	**477**	473
Semperian Capital Management Limited	Support Services	**7**	62

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

Amounts owed to/(from) at:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Sodexo Investment Services Limited	**2,615**	2,528
Sodexo Limited	**(1)**	-
Sodexo Limited	**1,207**	542
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited	**(10)**	(29)
Sodexo Property Solutions Limited (formerly Atkins Facilities Management Limited	**871**	1,561
Semperian Senior Funding PLC	**32,913**	35,861
Semperian PPP Investment Partners No2 Limited	**7,845**	7,584
Semperian Asset Management Limited	**13**	16
Semperian Capital Management Limited	**-**	15

17 Financial instruments

Fair value of derivatives used for hedging in the Balance Sheet

	Note	2017 £ 000	2016 £ 000
Creditors: due after one year - Fair value of swaps	11	(5,287)	(6,285)
Net Fair value of swaps in the Balance Sheet		(5,287)	(6,285)

Movement in Fair value of derivatives used for hedging

	2017 £ 000	2016 £ 000
Recognised through Other Comprehensive Income	999	623
	999	623

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 2017 is £(5,286,607) (2016: £(6,285,323)).

Cash flows on both the loan and the interest rate swaps are paid six monthly until April 2024. During 2017, a hedging loss of £476,000 (2016: £959,000 loss) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £1,475,000 (2016: £1,582,000) 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.