

Sandwell Fundco 2 Limited

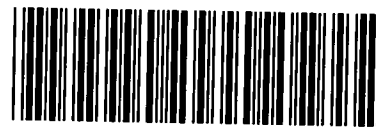
Directors' Report and Financial Statements

Year Ended

31 March 2019

Company Number 06746310

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Sandwell Fundco 2 Limited

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Company Information

Directors	M W Grinonneau S F Murphy C S Douglass D M Vermeer J D Sutcliffe
Registered number	06746310
Registered office	9th Floor Cobalt Square 83-85 Hagley Road Birmingham B16 8QG
Independent auditors	BDO LLP Two Snowhill Birmingham B4 6GA

Sandwell Fundco 2 Limited

Directors' Report For the Year Ended 31 March 2019

The directors present their annual report and the audited financial statements for the year ended 31 March 2019.

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption and the company has taken advantage of the exemption from the requirement to prepare a strategic report.

Principal activities

The company is a public private partnership business that was established under the NHS Local Improvement Finance Trust (LIFT) directive to engage in the provision of integrated health and social accommodation within Sandwell with the objective of promoting the improvement of health and social care services.

The company was established in 2009 and commenced the development of its first property, Glebefields Health Centre. This was completed in May 2011 and was fully operational by November 2011.

Results and dividends

The profit for the year, after taxation, amounted to £51,000 (2018 - £88,000).

The directors do not recommend the payment of a dividend (2018 - £Nil).

Directors

The directors who served during the year and to the date of this report were:

M W Grinonneau

G W Mackinlay (resigned 22 May 2019)

S F Murphy

P J Sheldrake (resigned 23 April 2018)

C S Douglass

D M Vermeer (appointed 24 April 2018)

R J Coates (appointed 1 October 2018, resigned 8 October 2018)

J D Sutcliffe (appointed 22 May 2019)

Going concern

At the year-end, the company had net liabilities of £2,252,000 (2018 - £2,113,000), which includes the negative fair value of interest rate and RPI swaps, net of related deferred tax, of £3,156,000 (2018 - £2,966,000), which are on long-term agreements as part of the overall financial model of the business. The company has net current assets (excluding debtors due after more than one year) of £574,000 (2018 - 286,000), including cash of £606,000 (2018 - £690,000).

The directors have reviewed the future liquidity requirements and have considered the cash flow forecasts of the company. The company produces long-term financial forecasts which show the company is able to operate and meet its financial obligations as they fall due, including compliance with all loan covenants. Based on this review and the future business prospects of the company, the directors believe the company will be able to meet its liabilities as they fall due.

Having regard to the above and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Sandwell Fundco 2 Limited

Directors' Report (continued) For the Year Ended 31 March 2019

Qualifying third party indemnity provisions

The directors of the company have qualifying third party indemnity provisions put in place through other companies of which they are also directors.

Directors' responsibilities statement

The directors are responsible for preparing 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 for the company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

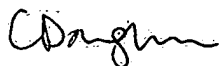
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies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

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board on 28th October 2019 and signed on its behalf.



C S Douglass
Director

Sandwell Fundco 2 Limited

Independent Auditors' Report to the Members of Sandwell Fundco 2 Limited

Opinion

We have audited the financial statements of Sandwell Fundco 2 Limited ("the Company") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Sandwell Fundco 2 Limited

Independent Auditors' Report to the Members of Sandwell Fundco 2 Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Respective responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. The description forms part of our auditor's report.

Sandwell Fundco 2 Limited

Independent Auditors' Report to the Members of Sandwell Fundco 2 Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Stephen Hale (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Birmingham
United Kingdom

4 November 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Sandwell Fundco 2 Limited

Statement of Comprehensive Income For the Year Ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	527	500
Cost of sales		(310)	(255)
Gross profit		217	245
Administrative expenses		(186)	(139)
Operating profit	5	31	106
Interest receivable and similar income	7	737	738
Interest payable and similar charges	8	(717)	(735)
Profit before tax		51	109
Tax on profit	9	-	(21)
Profit for the financial year		51	88
Other comprehensive income for the year			
Movement in cash flow hedge		(230)	747
Taxation in respect of items of other comprehensive income	9	40	(127)
Other comprehensive (loss)/income for the year		(190)	620
Total comprehensive (loss)/income for the year		(139)	708

The results for the current and previous financial year derive from continuing operations.

The notes on pages 9 to 24 form part of these financial statements.

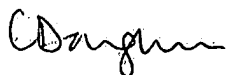
Sandwell Fundco 2 Limited
Registered number: 06746310

Balance Sheet
As at 31 March 2019

				(As restated - note 2.2)	(As restated - note 2.2)
	Note	2019 £000	2019 £000	2018 £000	2018 £000
Current assets					
Debtors: amounts falling due within one year	10	414		65	
Debtors: amounts falling due after more than one year	10	10,955		10,950	
Cash at bank and in hand	13	606		690	
		<u>11,975</u>		<u>11,705</u>	
Creditors: amounts falling due within one year	14	(446)		(469)	
Net current assets			11,529		11,236
Total assets less current liabilities			11,529		11,236
Creditors: amounts falling due after more than one year	15		(13,477)		(13,349)
Provision for liabilities	17		(304)		-
Net liabilities			(2,252)		(2,113)
Capital and reserves					
Called up share capital	18		10		10
Cash flow hedge reserve			(3,156)		(2,966)
Profit and loss account			894		843
			<u>(2,252)</u>		<u>(2,113)</u>

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
28 OCTOBER 2019



C S Douglass
Director

The notes on pages 9 to 24 form part of these financial statements.

Sandwell Fundco 2 Limited

Statement of Changes in Equity For the Year Ended 31 March 2019

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total equity £000
At 1 April 2017 (as previously stated)	10	(3,586)	817	(2,759)
Prior year adjustment (note 2.2)	-	-	(62)	(62)
At 1 April 2017 (as restated)	10	(3,586)	755	(2,821)
Comprehensive income for the year				
Profit for the year	-	-	88	88
Hedge effective portion of change in fair value of designated hedging instrument	-	747	-	747
Taxation in respect of items of other comprehensive income	-	(127)	-	(127)
Other comprehensive income for the year	-	620	-	620
Total comprehensive income for the year	-	620	88	708
At 1 April 2018	10	(2,966)	843	(2,113)
Comprehensive income for the year				
Profit for the year	-	-	51	51
Hedge effective portion of change in fair value of designated hedging instrument	-	(230)	-	(230)
Taxation in respect of items of other comprehensive income	-	40	-	40
Other comprehensive income for the year	-	(190)	-	(190)
Total comprehensive income for the year	-	(190)	51	(139)
At 31 March 2019	10	(3,156)	894	(2,252)

The notes on pages 9 to 24 form part of these financial statements.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

1. General information

Sandwell Fundco 2 Limited is a private company limited by shares incorporated in England and Wales. The address of the registered office of the company is given on the company information page and the nature of the company's operations and its principal activities are set out in the directors' report.

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

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

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

The functional currency is pounds sterling and rounded to the nearest £'000.

In preparing the separate financial statements, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented for the company;
- The company has taken advantage of exemption, not to disclose related party transactions between wholly owned members of the group.

2.2 Balance sheet re-statement and re-presentation

Prior year opening profit and loss account and deferred income balances have been restated to correct the release of deferred income in respect of a lease premium, which was incorrectly accelerated in prior years. The impact of this adjustment is to reduce the opening profit and loss account, and increase deferred income balances, by £62,000. There was no impact on the Statement of Comprehensive Income for the year ended 31 March 2018.

Finance debtors have been re-presented to show these as debtors, within current assets, split between amounts expected to be received within one year and amounts expected to be received after more than one year, rather than entirely within fixed assets to better represent the nature of the balance.

2.3 Going concern

At the year-end, the company had net liabilities of £2,252,000 (2018 - £2,113,000), which includes the negative fair value of interest rate and RPI swaps, net of related deferred tax, of £3,156,000 (2018 - £2,966,000), which are on long-term agreements as part of the overall financial model of the business. The company has net current assets (excluding debtors due after more than one year) of £574,000 (2018 - 286,000), including cash of £606,000 (2018 - £690,000).

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.3 Going concern (continued)

The directors have reviewed the future liquidity requirements and have considered the cash flow forecasts of the company. The company produces long-term financial forecasts which show the company is able to operate and meet its financial obligations as they fall due, including compliance with all loan covenants. Based on this review and the future business prospects of the company, the directors believe the company will be able to meet its liabilities as they fall due.

Having regard to the above and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2.4 Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial assets measured at amortised cost comprise cash at bank, trade debtors, finance debtors, other debtors and amounts owed by group undertakings.

2.5 Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Financial liabilities measured at amortised cost comprise bank and other loans, trade creditors, other creditors, amounts owed to group undertakings and accruals.

2.6 Hedge accounting

The company has entered into variable to fixed rate interest swaps to manage its exposure to interest rate cash flow risk on its variable rate debt. The company has also entered into RPI swaps to hedge the potential variability in future revenue cash flows arising from movements in RPI. These derivatives are measured at fair value at each reporting date. To the extent the hedge is effective; movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.7 Revenue

2.7.1 Public to private concession arrangements

A substantial portion of the company's assets are used within the framework of concession contracts granted by public sector customers ('grantors'). Under these contracts, the company constructs primary care centres that are leased to the NHS on 25 year leases.

In order to fall within the scope of FRS 102 s34. 12, a contract must satisfy the following two criteria:

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to FRS 102 s34. 14, such infrastructures are not recognised in assets of the operator as property, plant and equipment but in financial assets ('financial asset model').

2.7.2 'Financial asset model'

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor.

In the case of concession services, the operator has such an unconditional right if the grantor contractually guarantees the payment of;

- amounts specified or determined in the contract; or
- the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract.

Financial assets resulting from the application of FRS 102 s34. 14 are recorded in the balance sheet under the heading finance debtors and measured at amortised cost.

Pursuant to section 23 of FRS 102, revenue associated with this financial asset model comprises service remuneration which relates to facilities management, lifecycle maintenance and ad hoc property related income. Service remuneration is recognised as services are delivered.

Costs recognised in respect of service remuneration activities in advance of the work being undertaken are recognised as an asset within 'Other debtors' where the asset can be reliably measured and it is considered probable that those costs give rise to future revenue under the concession arrangements.

2.7.3 Other revenue items

Cost recoveries income is recognised to off-set costs as those costs are incurred.

Rental income from operating leases is recognised in income on a straight-line basis over the lease term.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

2. Accounting policies (continued)

2.8 Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred balances are recognised in respect of all timing differences that have been originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.9 Provisions

The company has recognised provisions for liabilities of uncertain timing or amount in respect of lifecycle obligations existing at the reporting date. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. Discounting, to reflect current market assessments of the time value of money and risks specific to the liability, is considered immaterial given the company expects to settle the obligations within the next financial year.

2.10 Reserves

The company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- Cash flow hedge reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective, net of relevant tax charges.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

3. Accounting estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are as follows:

3.1 Key sources of estimation uncertainty

Financial asset (note 11) – The calculation of the amortised cost of the financial asset requires an estimate of the residual value of the property at the end of the lease term. This estimate has been based on the residual value allocated to the contract in the financial models, which form the basis for the calculation of rent charged to the lessees.

Financial asset interest rate (notes 7 & 11) - The financial asset interest income is based on the WACC of the project and is applied to the carrying value of the financial asset on a quarterly basis. The interest rate used in 2019 is 7.36% (2018: 7.36%) per annum.

RPI index (note 11) - The finance debtors predict a level of RPI increases for future receipts and expenditure. This represents a degree of judgement and uncertainty given the nature of RPI. Where RPI differs from the estimated rate of 2.5%, this will impact future receipts/expenditure and thus increase/reduce the service margin (see below), which affects the amount of revenue recognised in any given period.

Service margin (notes 4 & 11) - After the property is constructed, the company provides property management services. The remuneration for these services is recognised at cost plus an estimated mark up for profit on property management services. The service margin rate used in 2019 is 27.05% (2018: 26.46%) per annum. It is the policy of the directors that the service margin is reviewed annually on 1 January each year to generate a new service margin rate, which is to be applied in the proceeding financial year.

Lifecycle provision (note 17) - Provision is made in respect of lifecycle repairs/replacements required as at the reporting date, which the company is obligated to carry out under its lease agreements. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Derivative valuations (note 18) - Derivatives are professionally valued annually. The estimated value of derivative transactions is the valuation at the statement of financial position date and this valuation can change significantly even over a very short space of time. The valuation of derivative transactions is complex and such transactions can be calculated in a number of different ways and using a variety of methods. There are a number of factors that can affect the value of a transaction and which may not be taken into account in the valuation estimate provided. This may result in the transaction having an actual value which is higher or lower than the estimate included in these financial statements.

3.2 Critical judgements

Concession arrangements - The concession arrangements undertaken by the company are considered to fall within the scope of section 34 of FRS 102 "Service Concession Arrangements", as described in the turnover note. This judgement has been based on a consideration of the nature and terms of the agreements and, in all contracts, the existence of an option for the grantor to purchase the properties at the end of the contract.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

4. Revenue

An analysis of revenue by class of business is as follows:

	2019 £000	2018 £000
Service remuneration	416	387
Cost recoveries	79	77
Other income	32	36
	<u>527</u>	<u>500</u>

5. Operating profit

The operating profit is stated after charging:

	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the company's annual financial statements	<u>3</u>	<u>3</u>

The company had no employees during the year or the prior year.

6. Directors' remuneration

The directors did not receive any remuneration from the company for their services to the company during the year or the previous year. The directors are remunerated by the shareholding companies for their services to the group as a whole. It is not practicable to apportion their remuneration for their services to this company.

7. Interest receivable and similar income

	2019 £000	2018 £000
Bank interest receivable	2	-
Financial asset interest receivable	735	738
	<u>737</u>	<u>738</u>

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

8. Interest payable and similar expenses

	2019 £000	2018 £000
Bank interest payable	559	571
Amortisation of loan issue costs	4	4
Loan note interest payable	154	160
	<u>717</u>	<u>735</u>

9. Taxation

	2019 £000	2018 £000
Deferred tax		
Origination and reversal of timing differences - current year	-	21
Taxation on profit on ordinary activities	<u>-</u>	<u>21</u>
Taxation in respect of other comprehensive income		
Cash flow hedge reserve	(40)	127
Total taxation in respect of other comprehensive income	<u>(40)</u>	<u>127</u>

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	51	109
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	10	22
Effects of:		
Expenses not deductible	-	2
Change in tax rate	(10)	(3)
Total tax charge for the year	-	21

Factors that may affect future tax charges

The Finance Act 2016, enacted on 15 September 2016, reduced the main rate of Corporation tax to 17% for the year commencing 1 April 2020. These changes have been reflected in the carrying value of the deferred tax liability at the balance sheet date.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

10. Debtors

	(As restated - note 2.2)	
	2019	2018
	£000	£000
Due after more than one year		
Finance debtors (note 11)	10,237	10,272
Deferred taxation (note 12)	718	678
	<u>10,955</u>	<u>10,950</u>
	2019	2018
	£000	£000
Due within one year		
Trade debtors	12	18
Finance debtors (note 11)	18	-
Amounts owed by related parties	17	-
Other debtors	304	-
Prepayments and accrued income	63	47
	<u>414</u>	<u>65</u>

Other debtors represent costs which give rise to future revenue under the concession arrangements.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

11. Financial assets

	2019 £000	2018 £000
Balance at 1 April	10,272	10,291
Income recognised in the income statement		
- service remuneration	416	387
- interest income	735	738
	<u>1,151</u>	<u>1,125</u>
Other movements		
- cash payments on RPI Swap	(8)	(24)
- cash received	(1,160)	(1,120)
	<u>(1,168)</u>	<u>(1,144)</u>
Balance at 31 March	<u><u>10,255</u></u>	<u><u>10,272</u></u>

	2019 £000	2018 £000
Analysis of expected net receipts timing:		
Within one year	18	-
After more than one year	10,237	10,272
	<u>10,255</u>	<u>10,272</u>
Balance at 31 March	<u><u>10,255</u></u>	<u><u>10,272</u></u>

12. Deferred tax asset

	2019 £000
At beginning of year	678
Charged to other comprehensive income	40
At end of year	<u><u>718</u></u>

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

12. Deferred tax asset (continued)

An analysis of the deferred tax asset included in the financial statements is as follows:

	2019 £000	2018 £000
Fixed asset timing differences	(472)	(446)
Losses and other deductions	543	517
Cash flow hedge reserve	647	607
	<u>718</u>	<u>678</u>

13. Cash at bank and in hand

Included in cash at bank and in hand are bank balances totalling £468,000 (2018: £519,000) which are restricted for use in pre-described circumstances by the bank.

14. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Bank loans (note 16)	115	141
Trade creditors	66	54
Amounts owed to group undertakings	6	-
Amounts owed to related parties (note 16)	72	89
Other taxation and social security	49	41
Accruals and deferred income	138	144
	<u>446</u>	<u>469</u>

15. Creditors: Amounts falling due after more than one year

	2019 £000	2018 £000
Bank loans (note 16)	8,346	8,462
Amounts owed to related parties (note 16)	1,144	1,134
Accruals and deferred income	184	180
Derivative financial instruments (note 18)	3,803	3,573
	<u>13,477</u>	<u>13,349</u>

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

16. Loans payable

(a) Bank loans

	2019 £000	2018 £000
The bank loans are repayable as follows		
Within one year	118	146
Between one and two years	146	119
Between two and five years	585	510
After more than five years	7,683	7,903
	<u>8,532</u>	<u>8,678</u>

Bank borrowings relate to a Senior Debt Facility. £2,200,000 of the facility is repayable at the end of the term (2041). The amounts drawn under the Facility are repayable on an agreed repayment profile of six monthly instalments that commenced on 31 December 2010 and are due to end in May 2041.

Interest charges on amounts drawn down under both the current and previous facility are based on floating LIBOR. The company has entered into a number of interest rate swap agreements whereby it pays fixed rates of 4.45% per annum in respect of amounts drawn under the facilities. The swaps expire on 31 March 2040 and 22 May 2041.

The Senior Facility is secured by a first floating charge over the assets of the company.

Issue costs of £71,000 (2018 - £75,000) are offset against the bank loans and will be amortised over the duration of the facilities.

(b) Subordinated loan notes due to related parties

	2019 £000	2018 £000
The loan notes are repayable as follows		
Within one year	-	-
Between one and two years	-	-
Between two and five years	-	-
After more than five years	1,144	1,134
	<u>1,144</u>	<u>1,134</u>

The loan notes carry a coupon of 13% (2018: 13%) and are repayable in the quarter ending September 2041.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

17. Provisions

	Lifecycle provision £000
Charged to the profit and loss account	304
At 31 March 2019	304

Lifecycle provision is made in respect of lifecycle repairs/replacements required as at the reporting date, which the company is obligated to carry out under its lease agreements. The provision represents management's best estimate of the full replacement cost of all items identified as requiring upgrades as at the year-end. Management are, however, exploring alternative changes that may mitigate some of these costs.

18. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
10,000 ordinary share of £1 each	10	10

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

19. Financial instruments

	2019 £000	2018 £000
Financial assets		
Financial assets measured at amortised cost	10,893	11,022
Financial liabilities		
Financial liabilities measured at amortised cost	(9,861)	9,934
Derivative financial instruments designated as hedges of variable interest rate and RPI risk	3,803	3,573
	(6,058)	13,507

Financial assets measured at amortised cost comprise financial assets, cash at bank and in hand, amounts due from related parties, trade debtors, other debtors and accrued income.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, amounts due to related parties, trade creditors, other creditors and accruals.

Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps and RPI swaps.

The fair values of the interest rate swaps have been determined by reference to prices available from the markets on which the instruments involved are traded.

In 2009, the company borrowed funds from its bankers under two term loans of £7,068,000 and £2,200,000, which are repayable in 2039 and 2041 respectively.

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the company has entered into floating to fixed interest rate swaps with a nominal value equal to that initial borrowings, the same term as the loans and interest re-pricing dates identical to those of the variable rate loans. These result in the company paying 4.45% per annum and receiving LIBOR (though cash flows are settled on a net basis). The company pays LIBOR, plus margin of 2.05% on the Amortising and Bullet loans, effectively fixing the total interest cost on loans and interest rates swaps at 6.5% per annum.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

20. Financial instruments (continued)

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had negative fair value of £3,547,000 (2018: £3,490,000) at the reporting date. The cash flows arising from the interest rate swaps will continue until their maturity in 2041, coincidental with the repayment of the term loans. The swaps were 100% effective hedges.

Between 2009, the company entered into one LPA agreement having fixed contractual terms which caused their turnover to increase with RPI on a yearly basis.

To hedge the potential volatility in future revenue cash flows arising from movements in RPI, the company has entered into RPI swaps with a nominal value below that of the LPA contract but having the same term as the loans and RPI re-pricing dates identical to those of the LPA contract. These result in the company paying 3.24% and per annum and receiving actual RPI and effectively fixing the inflation on a determined portion of the LPA contract.

The derivatives are accounted for as a hedge of variable rate RPI rate risks, in accordance with FRS 102 and had a negative fair value of £256,000 (2018: 83,000) as at the reporting date. The cash flows arising from the RPI swaps will continue until their maturity in 2041, coincidental with the LPA contractual terms. The change in fair value in the period was a increase of £173,000 (2018: £246,000) with the entire charge being recognised in other comprehensive income as the swaps were 100% effective hedges.

21. Ultimate parent company and controlling party

The company is a wholly owned subsidiary of Sandwell Midco 2 Limited, which is in turn a wholly owned subsidiary of Sandwell Estates Partnership Limited. Both companies are registered in England and Wales.

As at 31 March 2019, Sandwell Estates Partnership Limited was owned by Primary Plus Holdings Limited (60%) and Community Health Partnerships Limited (40%), which are both registered in England and Wales.

The directors are of the opinion that there is no ultimate parent undertaking or controlling party by virtue of the company's joint ownership and control.

Sandwell Fundco 2 Limited

Notes to the Financial Statements For the Year Ended 31 March 2019

22. Related party transactions

Key management personnel include all directors who together have authority and planning, directing and controlling the activities of the company. See note 6 for details of directors' remuneration.

The directors consider the material transactions undertaken by the company during the year with related parties were as follows:

	2019 £000	2018 £000
Sales to:		
Community Health Partnerships Limited	1,271	1,156
Balances due to:		
Community Health Partnerships Limited	487	490
Primary Plus Holdings Limited	731	734
Interest charged to:		
Community Health Partnerships Limited	62	62
Primary Plus Holdings Limited	92	93

23. Other commitments

On completion of the buildings, under terms of contracts made, the company is committed to fixed payments, which increase by indexation, for Facilities Management for a 25 year period. The current year payment for these services amounted to £142,000.

Under the terms of management agreements with its parent company, the company is committed to the payment of fixed and variable fees based on services provided in the contract term. The current year payment for these services amounted to £63,000.