
RESOUND (DERRIFORD) LIMITED

Company Registration No. 07018708

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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RESOUND (DERRIFORD) LIMITED

Report and Financial Statements For the year ended 31 March 2017

Contents	Page
COMPANY INFORMATION	1
DIRECTORS' REPORT	2
INDEPENDENT AUDITOR'S REPORT	4
STATEMENT OF COMPREHENSIVE INCOME	6
STATEMENT OF FINANCIAL POSITION	7
STATEMENT OF CHANGES IN EQUITY	8
STATEMENT OF CASH FLOWS	9
PRINCIPAL ACCOUNTING POLICIES	10
NOTES TO THE FINANCIAL STATEMENTS	13

RESOUND (DERRIFORD) LIMITED

Company Information

Directors	R M B Chilcott J L Crouch (resigned 01 August 2017) C S E Douglass (appointed 01 August 2017) R A M Gillespie (appointed 01 August 2017) B Ravi Kumar P J Sheldrake G B Shields (resigned 01 August 2017)
Company Secretary	C Sheridan
Registered Office	Kent House 14-17 Market Place London W1W 8AJ
Auditor	BDO LLP 55 Baker Street London W1U 7EU

RESOUND (DERRIFORD) LIMITED

Directors' Report For the year ended 31 March 2017

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

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

Principal activities

The principal activity of the company is to design, build, finance and manage premises under the Government's LIFT initiative.

The company's principal tenant is Community Health Partnerships Limited. The directors are confident that the principal tenant will continue to meet the obligations set out under the Lease Plus Agreement.

The results for the year are included on page 6.

Dividends

The company paid no dividends during the year (2016: £nil). The directors do not recommend payment of a dividend (2016: £nil).

Directors

The current directors of the company, who served throughout the period and subsequently unless otherwise stated, are shown on page 1.

Resound (Derriford) Limited has adopted Articles of Association, the provisions of which do not require the directors to retire by rotation or to retire at the first Annual General Meeting after their appointment.

Qualifying third party indemnity provisions

The directors of Resound (Derriford) Limited have qualifying third party indemnity provisions put in place through Resound (Health) Limited of which they are also directors.

Going concern

The company has net liabilities of £2,094,000 (2016: £1,558,000), which includes the negative fair value of the interest rate swaps of £2,767,000 (2016: £2,652,000) and a positive RPI swap of £17,000 (2016: £561,000) within liabilities, and net current assets of £710,000 (2016: £600,000), include cash of £346,000 (2016: £332,000), at 31 March 2017.

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, despite the current economic conditions 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.

RESOUND (DERRIFORD) LIMITED

Directors' Report (continued) For the year ended 31 March 2017

Directors' responsibilities statement

The directors are responsible for preparing the annual 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 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 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.

Auditor and disclosure of information to auditor

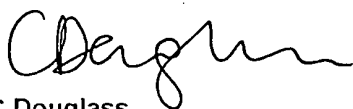
In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

BDO LLP have expressed their willingness to continue in office as the company's auditor.

On behalf of the board



C Douglass
Director

29 September 2017

RESOUND (DERRIFORD) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RESOUND (DERRIFORD) LIMITED

We have audited the financial statements of Resound (Derriford) Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, 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). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion 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 loss 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.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the 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.

RESOUND (DERRIFORD) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RESOUND (DERRIFORD) LIMITED (continued)

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 where 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 and the directors' report in accordance with the small companies' regime and to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

BDO LLP

Paul Bailey (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
W1U 7EU

29 September 2017

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

RESOUND (DERRIFORD) LIMITED

Statement of Comprehensive Income For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	1	173	128
Cost of sales		(93)	(75)
Gross profit		80	53
Administrative expenses		(8)	(8)
Operating profit		72	45
Interest receivable and similar income	5	415	419
Interest payable and similar charges	6	(445)	(432)
Profit on ordinary activities before taxation	1	42	32
Tax on profit on ordinary activities	7	(10)	(12)
Profit for the financial year		32	20
Movement in cash flow hedge		(659)	95
Taxation in respect of items of other comprehensive income/(loss)		91	(61)
Other comprehensive (loss)/income for the year		(568)	34
Total comprehensive (loss)/income for the year		(536)	54

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

The notes on pages 10 to 19 form part of these financial statements.

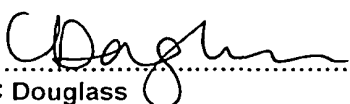
RESOUND (DERRIFORD) LIMITED

Statement of Financial Position As at 31 March 2017

	Note	2017 £'000	2016 £'000
Non-current asset			
Financial assets	8	<u>6,036</u>	<u>6,057</u>
Current assets			
Debtors – due within one year	9	73	11
Debtors – due after more than one year	9	465	384
Cash at bank and in hand	10	<u>346</u>	<u>332</u>
		884	727
Creditors			
Amounts falling due within one year	11	<u>(174)</u>	<u>(127)</u>
Net current assets		<u>710</u>	<u>600</u>
Total assets less current liabilities		6,746	6,657
Creditors			
Amounts falling due after more than one year	11	<u>(8,840)</u>	<u>(8,215)</u>
Net liabilities		<u><u>(2,094)</u></u>	<u><u>(1,558)</u></u>
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account		189	157
Cash flow hedge reserve		(2,283)	(1,715)
Shareholders' deficit		<u><u>(2,094)</u></u>	<u><u>(1,558)</u></u>

The financial statements of Resound (Derriford) Limited, registered number 07018708, were approved by the Board of Directors and authorised for issue on 29 September 2017.

These accounts have been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.


C Douglass
Director

29 September 2017

The notes on pages 10 to 19 form part of these financial statements.

RESOUND (DERRIFORD) LIMITED

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

	Issued share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total 2017 £'000
1 April 2016	-	(1,715)	157	(1,558)
Comprehensive income for the year				
Profit for the year	-	-	32	32
Hedge effective portion of change in fair value of designated hedging	-	(659)	-	(659)
Taxation in respect of other comprehensive income	-	91	-	91
Other comprehensive income for the year	-	(568)	-	(568)
Total comprehensive income for the year	-	(568)	32	(536)
31 March 2017	-	(2,283)	189	(2,094)

	Issued share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total 2016 £'000
1 April 2015	-	(1,749)	137	(1,612)
Comprehensive income for the year				
Profit for the year	-	-	20	20
Hedge effective portion of change in fair value of designated hedging	-	95	-	95
Taxation in respect of other comprehensive income	-	(61)	-	(61)
Other comprehensive income for the year	-	34	-	34
Total comprehensive income for the year	-	34	20	54
31 March 2016	-	(1,715)	157	(1,558)

The notes on pages 10 to 19 form part of these financial statements.

RESOUND (DERRIFORD) LIMITED

Statement of Cash Flows For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the financial year		32	20
Adjustments for:			
Net interest payable/(receivable)	5/6	30	13
Turnover on mark-up	1	(163)	(125)
Taxation expense	7	10	12
(Increase)/decrease in trade and other debtors		(62)	6
Increase/(decrease) in trade and other creditors		70	(78)
Net cash used in operating activities		(83)	(152)
Cash flows from investing activities			
Receipt on financial asset	8	598	583
Interest received		1	1
Net cash from investing activities		599	584
Cash flows from financing activities			
Repayment of loan		(57)	(70)
Interest paid		(445)	(432)
Net cash used in financing activities		(502)	(502)
Net increase/(decrease) in cash & cash equivalents		14	(70)
Cash and cash equivalents at beginning of year		332	402
Cash and cash equivalents at end of year		346	332
Cash and cash equivalents comprise:			
Cash at bank and in hand	10	346	332
		346	332

The notes on pages 10 to 19 form part of these financial statements.

RESOUND (DERRIFORD) LIMITED

Principal Accounting Policies **For the year ended 31 March 2017**

Resound (Derriford) Limited is incorporated in England and Wales. The registered office is Kent House, 14-17 Market Place, London, W1W 8AJ.

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

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

Going concern

The company has net liabilities of £2,094,000 (2016: £1,558,000), which includes the negative fair value of the interest rate swaps of £2,767,000 (2016: £2,652,000) and a positive RPI swap of £17,000 (2016: £561,000) within liabilities, and net current assets of £710,000 (2016: £600,000), include cash of £346,000 (2016: £332,000), at 31 March 2017.

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, despite the current economic conditions 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.

Taxation

The tax expense for the period comprises current and 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 or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the reporting 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.

RESOUND (DERRIFORD) LIMITED

Principal Accounting Policies (continued) For the year ended 31 March 2017

Turnover

a. Public to private concession arrangements

A substantial portion of the company's assets are used within the framework of a concession contract granted by a public sector customer ('grantor'). Under this contract, the company has constructed a Child and Adolescent Mental Health Services Centre that is leased to Community Health Partnerships Limited on a 30 year lease.

To fall within the scope of section 34 of FRS 102, a contract must satisfy the following two criteria:

- the grantor controls or regulates what services the operator must provide using the infrastructure, to whom, and at what price; and
- the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to section 34 of FRS 102, such infrastructures are not recognised in assets of the operator as property, plant and equipment but as financial assets ('financial asset model').

b. 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 section 34 of FRS 102 are recorded in the statement of financial position under the heading financial assets and measured at amortised cost.

Pursuant to section 23 of FRS 102, revenue associated with this financial model comprises of service remuneration which relates to lifecycle maintenance and facilities income and ad hoc property related services income.

Financial Asset

The financial asset is stated at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset.

Financial instruments

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance the substance of the contractual arrangement.

Financial instruments are recognised on the trade date when the company becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

RESOUND (DERRIFORD) LIMITED

Principal Accounting Policies (continued) **For the year ended 31 March 2017**

Financial instruments (continued)

Financial instruments are derecognised on trade date when the company is no longer a party to the contractual provisions of the instrument.

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.

Hedge Accounting

The company has entered into variable to fixed rate interest swaps and RPI swaps to manage its exposure to interest rate cash flow risk on its variable rate debt and inflation rate risk, respectively. 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 the profit or loss for the period.

Finance costs

Finance costs that were accrued during construction of the fixed assets were expensed as they were incurred.

Accounting estimates and judgments

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:

a. Key sources of estimation uncertainty

Financial asset – 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 – 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 2017 is 7.04% (2016: 7.04%) per annum.

Service Margin – 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 2017 is 87.65% (2016: 75.53%) per annum. It is the policy of the directors that the service margin is reviewed annually on 1st April each year to generate a new service margin rate, which is to be applied in the proceeding financial year.

b. 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 lease term.

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements For the year ended 31 March 2017

1. Analysis of turnover and profit on ordinary activities before taxation

Turnover in the year is analysed as follows:

	2017 £'000	2016 £'000
Cost recoveries	3	2
Service margin	163	125
Other income	7	1
	<u>173</u>	<u>128</u>

2. Audit costs

Auditor's remuneration of £2,700 (2016: £2,700) is borne by the parent company for the current and prior financial year.

3. 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.

4. Staff numbers

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

5. Interest receivable and similar income

	2017 £'000	2016 £'000
Bank interest receivable	1	1
Financial asset interest receivable	414	418
	<u>415</u>	<u>419</u>

6. Interest payable and similar charges

	2017 £'000	2016 £'000
Bank interest payable	363	351
Loan note interest payable	82	81
	<u>445</u>	<u>432</u>

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements (continued) For the year ended 31 March 2017

7. Tax on profit on ordinary activities

	2017 £'000	2016 £'000
a) Analysis of tax on ordinary activities		
UK corporation tax payable at 20% (2016: 20%)	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences:		
- current year	10	12
Total deferred tax	10	12
Tax on profit on ordinary activities	10	12
Taxation in respect of other comprehensive income		
Cash flow hedge reserve	(91)	61
Total taxation in respect of other comprehensive income	(91)	61

The tax assessed for the year is lower than the standard rate of corporation tax in the UK 20% (2016: 20%). The differences are explained below:

	£'000	£'000
b) Factors affecting the tax charge for the year		
Profit on ordinary activities before tax	42	32
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK 20% (2016: 20%)	8	6
Effects of:		
Expenses not deductible for tax purposes	3	5
Change in tax rate	(1)	1
Current tax charge for the year	10	12

The reduction in the corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 is not anticipated to materially affect the future tax charge.

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements (continued) For the year ended 31 March 2017

8. Financial assets

	2017 £'000	2016 £'000
Balance at 1 April	6,057	6,097
Income recognised in the income statement		
- service remuneration	163	125
- interest income	414	418
	<u>577</u>	<u>543</u>
Other movements		
- cash received	(598)	(583)
	<u>(598)</u>	<u>(583)</u>
Balance at 31 March	<u>6,036</u>	<u>6,057</u>

9. Debtors

	2017 £'000	2016 £'000
Due within one year		
Trade debtors	66	6
Prepayments and accrued income	7	5
	<u>73</u>	<u>11</u>
Due after more than one year		
Deferred tax (note 13)	465	384
	<u>465</u>	<u>384</u>

10. Cash at bank and in hand

Included in cash at bank and in hand is cash of £346,000 (2016: £332,000) which is restricted for use in pre-described circumstances by the bank.

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements (continued) For the year ended 31 March 2017

11. Creditors

	2017 £'000	2016 £'000
(a) Amounts falling due within one year		
Trade creditors	1	2
Bank loans (note 12)	34	51
Subordinated debt (note 12)	-	5
Other taxation and social security	35	17
Amounts owed to group member	40	40
Accruals and deferred income	64	12
	<u>174</u>	<u>127</u>
(b) Amounts falling due after more than one year		
Bank loans (note 12)	5,351	5,385
Subordinated debt (note 12)	739	739
Cashflow Hedge - Interest rate/RPI SWAP (note 15)	2,750	2,091
	<u>8,840</u>	<u>8,215</u>

12. Loans

(a) Bank loans

	2017 £'000	2016 £'000
The bank loans are repayable as follows		
Within one year	34	51
Between one and two years	15	34
Between two and five years	151	111
After more than five years	5,185	5,240
	<u>5,385</u>	<u>5,436</u>

Bank borrowings relate to a Senior Debt Facility granted by The Royal Bank of Scotland. The bank borrowings are secured by fixed and floating charges over all the company's assets.

The amounts drawn under the Senior Debt Facility are repayable on an agreed repayment profile of six-monthly instalments that commenced on 31 March 2011 and are due to end on 31 December 2040, with a final instalment of £1,773,000.

Interest charges on amounts borrowed are based on floating LIBOR plus margins of 1.75% and 2.00% per annum on the amortising and bullet tranches, respectively. The company has entered into interest rate swap agreements whereby it pays fixed rates of 6.53% and 6.82% per annum in respect of amounts drawn under the senior debt facility. The swaps expire on 30 June 2040 and 31 December 2040.

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements (continued) For the year ended 31 March 2017

12. Loans (continued)

(b) Subordinated loan due to parent undertaking	2017 £'000	2016 £'000
The loans are repayable as follows		
Within one year	-	5
Between one and two years	-	5
Between two and five years	7	2
After more than five years	732	732
	<u>739</u>	<u>744</u>

The loan notes represent amounts borrowed under the Loan Note Agreement. The loans carry a coupon of 11% and are repayable in 6 monthly instalments commencing on 30 September 2011 and ending on 31 December 2040.

13. Deferred tax

	2017 £'000	2016 £'000
Deferred tax		
Balance at beginning of year	(384)	(457)
Debit to profit and loss account	10	12
(Credit)/debit to other comprehensive income	(91)	61
Balance at end of year	<u>(465)</u>	<u>(384)</u>

An analysis of the deferred taxation provided in the financial statements is as follows:

	£'000	£'000
Capital allowances in excess of amortisation	176	169
Non trade loan relationship deficit losses	(174)	(177)
Cash flow hedge reserve	(467)	(376)
	<u>(465)</u>	<u>(384)</u>

14. Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

The Royal Bank of Scotland plc has a registered charge over the whole share capital of the company.

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements (continued) For the year ended 31 March 2017

15. Financial instruments

The company's financial instruments may be analysed as follows:

	2017 £'000	2016 £'000
Financial assets		
Financial assets measured at amortised cost	6,447	6,395
	<u>6,447</u>	<u>6,395</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(6,178)	(6,234)
Derivative financial instruments designated as hedges of variable interest rate/RPI risk	(2,750)	(2,091)
	<u>(8,928)</u>	<u>(8,325)</u>

Financial assets measured at amortised cost comprise cash at bank and in hand, financial asset, trade debtors, other debtors and accrued income.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, 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 £4,141,000 and £1,800,000, repayable 31 July 2040 and 31 December 2040 respectively.

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the company has entered into 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 a fixed rate of 4.53% and 4.57% per annum and receiving LIBOR (though cash flows are settled on a net basis). The company pays LIBOR, plus margins of 2.00% and 2.25%, on the amortising and bullet loans, respectively, effectively fixing the total interest cost on loans and interest rates swaps at 6.53% and 6.82% per annum on the amortising loan and bullet loans.

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a negative fair value of £2,767,000 (2016: £2,652,000) as at the year end date. The cash flows arising from the interest rate swaps will continue until their maturity in 2040, coincidental with the repayment of the term loans. The negative change in fair value in the period was £115,000 (2016: £194,000) with the entire charge being recognised in other comprehensive income as the swaps were 100% effective hedges.

In 2009, the company entered into one Lease Plus Agreement (LPA) having fixed contractual terms which caused its 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 LPA agreement and RPI re-pricing dates identical to those of the LPA contract. These result in the company paying 3.32% per annum and receiving actual RPI and effectively fixing the inflation on a determined portion on the LPA contract.

RESOUND (DERRIFORD) LIMITED

Notes to the Financial Statements (continued) For the year ended 31 March 2017

15. Financial instruments (continued)

The derivatives are accounted for as a hedge of variable rate RPI rate risks, in accordance with FRS 102, and had a positive fair value of £17,000 (2016: £561,000) at the year end date. The cash flows arising from the interest rate swaps will continue until their maturity in 2041, coincidental with the LPA contractual terms. The negative change in fair value in the period was £544,000 (2016: positive of £289,000) with the entire debit being recognised in other comprehensive income as the swaps were 100% effective hedges.

16. Ultimate parent company and controlling party

The company is a wholly owned subsidiary of Resound (Health) Limited. Resound (Health) Limited is owned by LIFT Investments Limited (60%) and Community Health Partnerships Limited (40%). All these companies are registered in England and Wales.

LIFT Investments Limited is ultimately owned by Community Solutions Investment Partners Limited.

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.

17. Related party transactions

The company has taken advantage of the exemption provided in FRS102 not to disclose transactions with companies within the group of which it is a member, where these transactions occur between entities which are 100% owned members of that group.

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

Name of party	Relationship	Nature of transaction	Transaction amount during year ended 31 March 2017 £'000	Amount owed (to)/by related parties at 31 March 2017 £'000
Community Health Partnerships Limited	Shareholder in Resound (Health) Limited	Provision of services	643	-

Name of party	Relationship	Nature of transaction	Transaction amount during year ended 31 March 2016 £'000	Amount owed (to)/by related parties at 31 March 2016 £'000
Community Health Partnerships Limited	Shareholder in Resound (Health) Limited	Provision of services	584	-