

Ayrshire Hospitals Limited

Directors' report and financial statements

Registered number SC248921

Year ended 31 August 2020



COMPANIES HOUSE

10 MAR 2021

EDINBURGH MAILBOX

Contents

Directors and Advisors	1
Directors' Report	2
Statement of Directors' Responsibilities	4
Independent Auditor's Report	5
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes of Equity	10
Notes to the financial statements	11

Directors and Advisors

Directors

R Christie
J S Gordon
A Fordyce

Registered Office

c/o Pinsent Masons
13 Queen's Road
Aberdeen
AB15 4YL

Company Secretary

Peter Johnstone

Registered Auditor

Johnston Carmichael LLP
7-11 Melville Street
Edinburgh
EH3 7PE

Solicitors

Pinsent Masons
13 Queen's Road
Aberdeen
AB15 4YL

Bankers

Allied Irish Bank
227 West George Street
Glasgow
G2 2ND

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 August 2020.

Principal activities

The principal activity of the company is the construction and maintenance of a hospital unit under the PFI/PPP scheme. The company entered into a long term contract on 6 October 2004 with Ayrshire & Arran Health Authority for the construction and maintenance of Ayrshire Maternity Unit (AMU). Construction of AMU was completed during the year to 31 August 2006 and the company continues to provide facilities management and maintenance under the PFI/PPP contract entered into in October 2004. The facility continues to be a success and the company continues to operate in line with the financial model agreed at financial close.

The profit for the year after taxation and fair value movements on cash flow hedging instruments is £744,037 (2019: loss £243,057) as set out in the Statement of Comprehensive Income on page 8. The profit for the year will be transferred to reserves.

Dividend

During the year, the company made dividend payments totalling £320,000. The directors do not recommend the payment of a dividend as at 31st August 2020 (2019: £nil).

Directors

The directors who held office during the year and after the year end are set out below.

Rory Christie
Stephen Gordon
Alan Fordyce

Financial Instruments

Due to the nature of the company's business, the financial risks the directors consider relevant to the company are credit, interest rate, cash flow and liquidity risk.

Credit Risk

The credit risk of the FM provider represents the major credit risk to the company. Periodic checks of the financial strength of the FM provider are undertaken.

Interest Rate Risk

The financial risk management objectives of the company are to ensure that the financial risks are mitigated by the use of financial instruments. The company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash flow and liquidity Risk

The company's cash flow and liquidity risk is principally managed through financing the company by means of long term borrowing.

Going concern

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the Scottish Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the group in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the PFI contract as the sub-contracted Facilities Management company remains able to meet its contractual obligations. This is because PPP contractors are deemed to be part of the public sector response to the pandemic according to the guidance notes released by the Scottish Futures Trust on 29th June 2020.

Since the COVID-19 outbreak, the customer, Ayrshire & Arran Health Board, have continued making unitary payments under the Project Agreement and in accordance with the Scottish Futures Trust guidance note, and the onward payments to the Facilities Management company have continued to be paid in accordance with the FM Services Agreement.

The directors confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future action.

Auditors

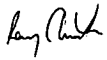
In accordance with the company's articles, a resolution proposing that Johnston Carmichael LLP be reappointed as auditors of the company will be put at a General Meeting.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

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

By order of the board



Rory Christie
Director
Date: 4th March 2021

Statement of Directors' Responsibilities in respect of the Directors' Report and the financial statements

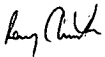
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures discussed 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.

The Directors' Responsibilities were approved by the board on 4th March 2021 and signed on its behalf by:



Rory Christie
Director

Independent Auditor's Report to the Members of Ayrshire Hospitals Limited

Opinion

We have audited the financial statements of Ayrshire Hospitals Limited (the 'company') for the year ended 31 August 2020 which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and 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 August 2020, 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 annual report, 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.

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 our 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.

Responsibilities of 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, 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.

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.



Grant Roger (Senior Statutory Auditor)
For and on behalf of Johnston Carmichael LLP

5 March 2021
.....

Chartered Accountants
Statutory auditor

7-11 Melville Street
Edinburgh
EH3 7PE

Statement of Comprehensive Income
for the year ended 31 August 2020

	<i>Note</i>	2020 £	2019 £
Turnover	<i>1</i>	1,698,053	1,629,057
Operating expenses	<i>2</i>	(943,515)	(976,730)
Operating profit		754,538	652,327
Interest receivable and similar income	<i>5</i>	741,998	762,828
Interest payable and similar charges	<i>6</i>	(989,168)	(1,024,465)
Profit on ordinary activities before taxation		507,368	390,690
Tax on profit on ordinary activities	<i>7</i>	(96,400)	(74,231)
Profit for the financial year end		410,968	316,459
Fair value movements on cash flow hedging instruments		284,037	(674,116)
Deferred tax relating to fair value movements		49,032	114,600
Total comprehensive income / (expense) for the year		744,037	(243,057)

All the activities of the company are from continuing activities.

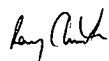
The notes on pages 11 to 19 form part of the financial statements.

Statement of Financial Position
at 31 August 2020

		2020	2019
	Note	£	£
Current assets			
Debtors - due within one year	8	931,921	821,938
Debtors - due after more than one year	8	14,322,474	14,770,027
Deferred tax asset	11	924,540	875,508
Total debtors		16,178,935	16,467,473
Cash at bank and in hand		2,179,963	2,410,112
		18,358,898	18,877,585
Creditors: amounts falling due within one year	9	(4,203,745)	(4,117,097)
Current assets less current liabilities		14,155,153	14,760,488
Creditors: amounts falling due after more than one year	10	(17,812,172)	(18,841,544)
Net liabilities		(3,657,019)	(4,081,056)
Capital and reserves			
Called up share capital	12	2,000	2,000
Hedging reserve	13	(3,941,466)	(4,274,535)
Retained earnings	13	282,447	191,479
Shareholders' deficit		(3,657,019)	(4,081,056)

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

These financial statements were approved by the board of directors and authorised for issue on 4th March 2021 and were signed on its behalf by:



Rory Christie
Director

Statement of Changes of Equity
Year to 31 August 2020

	Called up share capital £	Retained Earnings £	Hedge Reserve £	Total Equity £
At 1 September 2018	2,000	219,020	(3,715,019)	(3,493,999)
Profit for the year	-	316,459	-	316,459
Dividends	-	(344,000)	-	(344,000)
Other comprehensive income for the year: Fair value movements on cash flow hedging instruments, net of tax			(559,516)	(559,516)
At 1 September 2019	2,000	191,479	(4,274,535)	(4,081,056)
Profit for the year	-	410,968	-	410,968
Dividends	-	(320,000)	-	(320,000)
Other comprehensive income for the year: Fair value movements on cash flow hedging instruments, net of tax	-	-	333,069	333,069
As at 31 August 2020	2,000	282,447	(3,941,466)	(3,657,019)

Notes

(forming part of the financial statements)

Company information

Ayrshire Hospitals Limited is a company limited by shares domiciled and incorporated in Scotland. Their registered office is Pinsent Masons, 13 Queen's Road, Aberdeen, AB15 4YL.

Statement of compliance

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £. The financial statements have been prepared on the historical cost convention.

Accounting policies

Basis of preparation

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 further in the accounting policies.

The principal accounting policies adopted are set out below have been consistently applied to the years presented, unless otherwise stated.

Going concern

The directors acknowledge that the company is in net liabilities, however this is as a result of the interest rate swaps, which are significantly out of the money, being brought onto the Statement of Financial Position. There is no going concern impact as the swaps will not result in an outflow of cash that is in excess of the total debt interest forecast within the company's original projections. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the company's ability to meet its liabilities as they fall due. After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the Scottish Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the group in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the PFI contract as the sub-contracted Facilities Management company remains able to meet its contractual obligations. This is because PPP contractors are deemed to be part of the public sector response to the pandemic according to the guidance notes released by the Scottish Futures Trust on 29th June 2020.

Since the COVID-19 outbreak, the customer, Ayrshire & Arran Health Board, have continued making unitary payments under the Project Agreement and in accordance with the Scottish Futures Trust guidance note, and the onward payments to the Facilities Management company have continued to be paid in accordance with the FM Services Agreement.

The directors confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including plans for future action.

Disclosure exemptions

The company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

The company has taken advantage of the exemption in Section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

Revenue recognition

Turnover represents the services' share of the management services income received by the company for the provision of a PFI asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract. Turnover is represented net of VAT.

Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case tax is also recognised in Other Comprehensive Income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments. A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are initially recognised at the present value of cash payable to the lender and are subsequently measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The effective interest rate amortisation is included in interest payable and similar charges in the Statement of Comprehensive Income.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Hedge accounting

The company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps").

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts.

Finance debtor

The company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the company to continue the service concession arrangement accounting policies from previous UK GAAP.

The company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

Judgement and key sources of estimation uncertainty

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements

The judgement (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that has the most significant effect on the amounts recognised in the financial statements is as follows:

- Hedge accounting and consideration of the fair value of derivative financial instruments

The company uses a derivative financial instrument to hedge certain economic exposures in relation to movements in interest rates as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The company fair values its derivative financial instrument and records the fair value of the swap instrument on its Statement of Financial Position. No market prices are available for this instrument and consequently the fair value is derived using financial models developed by the lender based on counterparty information that is independent of the company, but uses observable market data in respect of interest rates as an input to valuing the derivative financial instrument. There is also a judgement on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

The effective interest rate on senior debt instruments was calculated and is not deemed to be materially different to the interest rate applied in the financial statement and as such no adjustment has been made to the interest charge in the financial statements. This will continue to be monitored.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract. These were forecast initially within the operating model at financial close monitored throughout the duration of the project.

ii) Impairment of assets

The carrying value of those assets recorded in the company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

1. Turnover

	2020	2019
Turnover arises from :	£	£
Service fee	1,698,053	1,629,057
	<u>1,698,053</u>	<u>1,629,057</u>

The whole of the turnover is attributable to the principal activity of the company, wholly undertaken in the UK.

2. Operating expenses

	2020 £	2019 £
FM management fees	779,168	749,070
Other operating expenses	164,347	227,660
	<u>943,515</u>	<u>976,730</u>

3. Result on ordinary activities before taxation

	2020 £	2019 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditor's remuneration:		
Audit of these financial statements	6,900	6,500
Audit and tax of company's fellow group undertakings	3,030	2,900
Other services relating to taxation	2,490	2,380
	<u>12,420</u>	<u>11,780</u>

4. Directors' and employees' remuneration

The directors, who are also key management personnel, received no emoluments from the company during the period for their services as directors. There are no other employees of the company.

George Street Capital Limited, the parent company of Ayrshire Hospitals Limited, received fees of £30,452 (2019: £29,689) from the company in respect of the services of J S Gordon and R Christie as directors.

5. Interest receivable and similar income

	2020 £	2019 £
Bank interest receivable	3,497	3,759
Interest receivable on finance debtor	738,501	759,069
	<u>741,998</u>	<u>762,828</u>

6. Interest payable and similar charges

	2020 £	2019 £
Senior debt	812,607	844,084
Subordinated loan interest	176,561	180,381
	<u>989,168</u>	<u>1,024,465</u>

7. Taxation

	2020 £	2019 £
Major components of tax expense / (income)		
Current corporation tax	96,400	74,231
	<u>96,400</u>	<u>74,231</u>

	2020 £	2019 £
Factors affecting the tax charge in the year :		
Profit on ordinary activities before taxation	507,368	390,690
Corporation tax at 19% (2019: 19%)	96,400	74,231
Adjustments in respect of previous periods	(40,505)	-
Deferred tax credited directly to equity	49,032	114,600
Timing differences not recognised	53,969	(128,082)
Change to deferred tax rate	(103,001)	13,482
Payment / (receipt) for group relief	40,505	-
Total tax charge for the year	96,400	74,231

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%.

8. Debtors

	2020 £	2019 £
<i>Amounts falling due within one year</i>		
Finance debtor	447,553	410,599
Accrued income	244,416	247,472
Prepayments	14,599	18,514
Amounts owed by group undertakings and undertakings in which company has a participating interest	225,353	145,353
	931,921	821,938
<i>Amounts falling due after more than one year</i>		
Finance debtor	14,322,474	14,770,027
Deferred tax asset	924,540	875,508
	15,247,014	15,645,535
<i>Finance debtor</i>		
At beginning of year	15,180,626	15,557,323
Repayments received	(410,599)	(376,697)
At end of year	14,770,027	15,180,626

The finance debtor represents payments due from NHS Trust in respect of the Project Agreement. These payments are receivable over the remaining life of the agreement.

9. Creditors: amounts falling due within one year

	2020	2019
	£	£
Senior debt (secured)	645,000	645,000
Subordinated debt	34,719	30,610
Trade creditors	17,188	123,762
Other creditors	2,625,689	2,500,716
Provision for other charges	55,918	55,918
Amounts due to related parties	148,585	109,227
Derivative financial liability	643,251	577,633
Corporation tax	33,395	74,231
	<u>4,203,745</u>	<u>4,117,097</u>

Included within other creditors are amounts recognised in respect of future payments due to lifecycle underspend of £2,147,533 (2019: £1,952,006), the timing of which is uncertain.

10. Creditors: amounts falling due after more than one year

	2020	2019
	£	£
Senior debt (secured)	12,276,360	12,921,360
Subordinated debt	1,313,057	1,347,774
Derivative financial liability	4,222,755	4,572,410
	<u>17,812,172</u>	<u>18,841,544</u>

The senior debt is repayable in bi-annual instalments which commenced in October 2004. The final repayment date is September 2033.

The senior debt bears interest based on LIBOR. As part of its interest rate management strategy the company entered into an interest rate swap agreement in respect of the debt maturing in September 2033. Under this swap the company pays interest at a fixed rate of 5.285%.

The loan is secured by a floating charge and standard security over the assets of the company.

Other loans relate to subordinate debt which carries an interest rate of 13%. The principal is repayable on 30 September 2034.

	2020	2019
	£	£
<i>Debt can be analysed as falling due:</i>		
In one year or less, or on demand	679,718	675,610
Between one and two years	804,378	679,718
Between two and five years	2,037,781	2,304,701
In five years or more	10,747,258	11,284,715
	<u>14,269,135</u>	<u>14,944,744</u>

11. Deferred tax

Deferred tax has been provided for at 19% (2019: 17%) in the financial statements and is set out below:

	2020 £	2019 £
Deferred tax credit comprises:		
Deferred tax credit relating to movement in fair value	49,032	114,600
Total tax credit included in other comprehensive income	49,032	114,600
Deferred tax asset:		
Balance at 1 September	875,508	760,908
Charged in year	49,032	114,600
Balance at 31 August	924,540	875,508

The deferred tax asset will unwind over the life of the hedge which expires in September 2033.

No portion of the deferred tax balance is likely to be recovered or settled in the 12 months following the Statement of Financial Position date.

12. Called up share capital

	2020 £	2019 £
<i>Allotted, called up and fully paid</i>		
2,000 Ordinary shares of £1 each	2,000	2,000

13. Reserves

The company has two main reserves:

Hedging reserve - This reserve records fair value movements on cash flow hedging instruments.

Retained earnings - This reserve records retained earnings and accumulated losses.

14. Hedge Accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The company's use of derivative financial instruments is described below.

Interest rate swaps

The company has entered into an interest rate swap with a third party for a specified amount of the company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those components of the loan for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan / swap arrangements. The interest rate swap was entered into at a fixed interest rate of 5.285% in October 2004 and expires in March 2033.

The directors believe that the hedging relationship between the interest rate swap and related variable rate bank loan is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

The company's derivative financial instrument is carried at fair value. The carrying value of the interest swap at 31 August 2020 amounted to liabilities of £4,866,006 (2019: £5,150,043). The movements during the year in the fair value of the interest rate

swap is a credit of £284,037 (2019: £674,116 debit) which has been recorded in the cashflow hedge reserve and a credit of £49,032 (2019: £114,600 credit) to deferred tax.

15. Related Party Transactions

The company has taken advantage of the exemption available in FRS 102 section 33 1A from the requirement to disclose related party transactions with wholly owned group companies.

16. Immediate and ultimate holding Company

George Street Capital Limited is the immediate parent entity. The ultimate controlling entity is considered to be Dalmore Capital Fund LP. Dalmore Capital Fund LP is owned by a number of investors, with no one investor having individual control.