Company registration number SC248921 (Scotland)

AYRSHIRE HOSPITALS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

AYRSHIRE HOSPITALS LIMITED

COMPANY INFORMATION

Directors	JS Gordon	
	PR Hepburn	(Appointed 8 February 2023)
	PK Johnstone	(Appointed 20 December 2023)
Secretary	Resolis Limited	
Company number	SC248921	
Registered office	C/O Resolis Limited Exchange Tower, 11th Floor 19 Canning Street Edinburgh United Kingdom EH3 8EG	
Auditor	Johnston Carmichael LLP Bishop's Court 29 Albyn Place Aberdeen AB10 1YL	

AYRSHIRE HOSPITALS LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Directors' responsibilities statement	3
Independent auditors' report	4 - 7
Statement of comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11 - 20

AYRSHIRE HOSPITALS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2023

The directors present their annual report and financial statements for the year ended 30 September 2023.

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 £564,868 (2022: £ 3,230,202) as set out in the Statement of Comprehensive Income on page 8. The profit for the year will be transferred to reserves.

Results and dividends

During the year, the company made dividend payments totalling £260,000 (2022: £100,000). The directors do not recommend the payment of a dividend as at 30th September 2023 (2022: £nil).

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

JS Gordon	
R W Christie	(Resigned 8 February 2023)
PR Hepburn	(Appointed 8 February 2023)
J McDonagh	(Appointed 1 March 2023 and resigned 20 December 2023)
PK Johnstone	(Appointed 20 December 2023)

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 directors have prepared a detailed model forecast to project completion incorporating the relevant terms of the PFI contract, subcontracts and Credit Agreement and reasonably prudent economic assumptions. This forecast and associated business model, which is updated regularly, predicts that the Company will be profitable and will have sufficient cash resources to operate within the terms of the PFI contract, Subcontract and Credit Agreement. Therefore, the directors, having considered the financial position of the Company and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the Company or cease trading as we consider we have realistic alternatives to doing so.

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 actions.

Auditor

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

Statement of disclosure to 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.

On behalf of the board

PR Hepburn
Director

29 February 2024

AYRSHIRE HOSPITALS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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.

AYRSHIRE HOSPITALS LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AYRSHIRE HOSPITALS LIMITED

Opinion

We have audited the financial statements of Ayrshire Hospitals Limited (the 'company') for the year ended 30 September 2023 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 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 30 September 2023 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 *Auditors' 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information contained within the annual report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 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:

- A
- T
- Cdirectors' remuneration specified by law are not made; or
- W; or
- The directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

Auditors' 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 auditors' 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 is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and the sector in which it operates, focusing on those provisions that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- UK Generally Accepted Accounting Practice, including FRS 102;
- Companies Act 2006;
- UK Corporation Tax legislation; and
- VAT legislation

We gained an understanding of how the company is complying with these laws and regulations by making enquiries of management and those charged with governance. We corroborated these enquiries through our review of relevant correspondence with regulatory bodies and board meeting minutes.

We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls. We identified a heightened fraud risk in relation to:

- Revenue recognition; and
- Management override of controls.

In addition to the above, the following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Recalculating the unitary charge received by taking the base charge per the project agreement and uplifting for RPI;
- Agreeing a sample of months' income receipts to invoice and bank statements;
- Performing an assessment on the service margins used in the year and agreeing margins used to the active financial models;
- Reconciling the finance income and amortisation to the finance debtor reconciliation to ensure allocation methodology is in line with contractual terms and relevant accounting standards;
- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulation or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Reviewing the level of and reasoning behind the company's procurement of legal and professional services;
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias;
- Completion of appropriate checklists and use of our experience to assess the company's compliance with the Companies Act 2006; and
- Agreement of the financial statement disclosures to supporting documentation.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

Use of our report

This report is made solely to the company's member 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 member those matters we are required to state to the member in an auditors' 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 member for our audit work, for this report, or for the opinions we have formed.

Jenny Junnier
Senior Statutory Auditor
For and on behalf of Johnston Carmichael LLP

29 February 2024

Chartered Accountants
Statutory Auditor

Bishop's Court
29 Albyn Place
Aberdeen
AB10 1YL

AYRSHIRE HOSPITALS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Notes	Year ended 30 September 2023 £'000	Period ended 30 September 2022 £'000
Turnover	**3**	2,061	2,044
Cost of sales		(840)	(977)
Gross profit		1,221	1,067
Administrative expenses		(273)	(203)
Operating profit		948	864
Interest receivable and similar income	**3**	684	693
Interest payable and similar expenses	**5**	(841)	(954)
Profit before taxation		791	603
Tax on profit		(174)	(115)
Profit for the financial year		617	488
Other comprehensive income			
Cash flow hedges (loss)/gain arising in the year		(59)	3,655
Tax relating to other comprehensive income		15	(914)
Total comprehensive income for the year		573	3,229

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 11 to 20 form part of the financial statements.

AYRSHIRE HOSPITALS LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 2023

	Notes	2023 £'000	£'000	2022 £'000	£'000
Current assets					
Debtors falling due after more than one year	8	12,671		13,255	
Debtors - deferred tax	14	73		58	
Debtors falling due within one year	8	1,267		1,085	
Cash at bank and in hand		2,100		1,941	
		16,111		16,339	
Creditors: amounts falling due within one year	9	(3,677)		(3,645)	
Net current assets			12,434		12,694
Creditors: amounts falling due after more than one year	10		(11,274)		(11,847)
Net assets			1,160		847
Capital and reserves					
Called up share capital	15		2		2
Hedging reserve			(219)		(175)
Profit and loss reserves			1,377		1,020
Total equity			1,160		847

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

The notes on pages 11 to 20 form part of the financial statements.

The financial statements were approved by the board of directors and authorised for issue on 29 February 2024 and are signed on its behalf by:

PR Hepburn
Director

Company Registration No. SC248921

AYRSHIRE HOSPITALS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Notes	Share capital	Hedging reserve	Profit and loss reserves	Total
		£'000	£'000	£'000	£'000
Balance at 1 September 2021		2	(2,916)	632	(2,282)
Period ended 30 September 2022:					
Profit for the period		-	-	488	488
Other comprehensive income:					
Cash flow hedges gains		-	3,655	-	3,655
Tax relating to other comprehensive income		-	(914)	-	(914)
Total comprehensive income for the period		-	2,741	488	3,229
Dividends	6	-	-	(100)	(100)
Balance at 30 September 2022		2	(175)	1,020	847
Year ended 30 September 2023:					
Profit for the year		-	-	617	617
Other comprehensive income:					
Cash flow hedges gains		-	(59)	-	(59)
Tax relating to other comprehensive income		-	15	-	15
Total comprehensive income for the year		-	(44)	617	573
Dividends	6	-	-	(260)	(260)
Balance at 30 September 2023		2	(219)	1,377	1,160

1 Accounting policies

Company information

Ayrshire Hospitals Limited is a private company limited by shares incorporated in Scotland. The registered office is C/O Resolis Limited, Exchange Tower, 11th Floor, 19 Canning Street, Edinburgh, United Kingdom, EH3 8EG.

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 £'000. The financial statements have been prepared on the historical cost convention.

1.1 Accounting convention

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.

1.2 Going concern

The directors have prepared a detailed model forecast to project completion incorporating the relevant terms of the PFI contract, subcontracts and Credit Agreement and reasonably prudent economic assumptions. This forecast and associated business model, which is updated regularly, predicts that the Company will be profitable and will have sufficient cash resources to operate within the terms of the PFI contract, Subcontract and Credit Agreement. Therefore, the directors, having considered the financial position of the Company and its expected future cash flows, have prepared the financial statements on a going concern basis. The directors confirm that they do not intend to liquidate the Company or cease trading as we consider we have realistic alternatives to doing so.

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 actions.

1.3 Reporting period

During the last reporting period the company changed its accounting period end from 31 August 2022 to 30 September 2022 to bring the financial statements in line with lender reporting deadlines. Previously the company had prepared financial statements for the financial year from 1 September 2020 to 31 August 2021. The reporting period reverted back to a 12-month period from 1 October 2022. The comparative period being from 1 September 2021 to 30 September 2022 is therefore not entirely comparable.

1.4 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.

1 Accounting policies **(Continued)**

1.5 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.

1.6 Cash and cash equivalents

Cash and cash equivalents include 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.

The lifecycle and debt service reserve accounts must be maintained at a level which is higher than the lifecycle reserve and debt service reserve amounts. These amounts vary during the year so cash levels are monitored to ensure that appropriate levels are maintained. Cash is therefore not freely available from these accounts

Restricted cash

Cash at bank includes £1,773,890 (2022: £1,721,140) held in reserve accounts. Restrictions are placed on the use of these funds being held in the company's reserve accounts under the terms of its Senior Loan facility.

1.7 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.

1 Accounting policies **(Continued)**

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.

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.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

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

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

1.8 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.

1.9 Taxation

Taxation expense for the year 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.

1 Accounting policies **(Continued)**

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.

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.

2 Judgements and key sources of estimation uncertainty

In the application of the company's 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 following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

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.

2 **Judgements and key sources of estimation uncertainty** **(Continued)**

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

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.

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.

3 **Turnover and other revenue**

	2023	2022
	£'000	£'000
Turnover analysed by class of business		
Service Fee	2,061	2,044

	2023	2022
	£'000	£'000
Other significant revenue		
Interest receivable on finance debtor	684	693

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

4 **Directors' remuneration**

The directors, who are also key management personnel, received no emoluments from the company during the year 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 £34,283 (2022: £34,297) from the company in respect of the services of JS Gordon, RW Christie, PR Hepburn and J McDonagh as directors.

5 **Interest payable and similar expenses**

	2023	2022
	£'000	£'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank and subordinated debt	841	954

6 Dividends

	2023 £'000	2022 £'000
Dividend paid on ordinary shares	260	100

7 Financial instruments

	2023 £'000	2022 £'000
Carrying amount of financial liabilities		
Measured at fair value through profit or loss		
- Derivative financial instruments	292	232

8 Debtors

Amounts falling due within one year:	2023 £'000	2022 £'000
Finance Debtor - due within 1 year	584	536
Other debtors	274	285
Prepayments and accrued income	409	264
	1,267	1,085

Amounts falling due after more than one year:	2023 £'000	2022 £'000
Finance Debtor - due after more than 1 year	12,671	13,255
Deferred tax asset (note 14)	73	58
	12,744	13,313
Total debtors	14,011	14,398

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

The movement in the finance debtor is analysed as follows:

	2023 £'000	2022 £'000
At beginning of year	13,791	14,320
Repayments received	(536)	(529)
At end of year	13,255	13,791

9 Creditors: amounts falling due within one year

	Notes	2023 £'000	2022 £'000
Bank loans	11	580	690
Loans from group undertakings	11	54	48
Trade creditors		353	109
Corporation tax		99	197
Other taxation and social security		87	101
Accruals and deferred income		2,504	2,500
		3,677	3,645

Included within accruals and deferred income are amounts recognised in respect of future payments due to lifecycle underspend of £2,233,837 (2022: £2,329,370), the timing of which is uncertain.

10 Creditors: amounts falling due after more than one year

	Notes	2023 £'000	2022 £'000
Bank loans and overdrafts	11	9,831	10,411
Loans from group undertakings	11	1,151	1,204
Derivative financial instruments		292	232
		11,274	11,847

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 SONIA. 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.

11 Loans and overdrafts

An analysis of the maturity of loans is given below:

	2023 £'000	2022 £'000
Amounts falling due within one year or on demand:		
Senior secured loan	580	690
Loans from group undertakings	54	48
	634	738
Amounts falling due between one and two years:		
Senior secured loan	365	580
Loans from group undertakings	61	54
	426	634
Amounts falling due between two and five years:		
Senior secured loan	2,415	1,810
Loans from group undertakings	237	209
	2,652	2,019
Amounts falling due after more than five years:		
Repayable by instalments		
Senior secured loan	7,051	8,021
Loans from group undertakings	853	941
	7,904	8,962
The total cash repayable on the loan is as follows :		
Bank loans	10,411	11,101
Loans from group undertakings	1,205	1,252
	11,616	12,353
Payable within one year	634	738
Payable after one year	10,982	11,615

12 Related Party Transactions

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

Cobalt Project Investments Ltd	2023 £'000	2022 £'000
Group Relief	56	-

13 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, a limited partnership registered in England and Wales. The registered office of Dalmore Capital Fund LP is 1 Park Row, Leeds, LS1 5AB. Copies of the financial statements of Dalmore Capital Fund LP are available from the General Partner at C/O Dalmore Capital Limited, Caledonian Exchange, 19a Canning Street, Edinburgh, EH3 8EG.

14 Deferred taxation

Deferred tax has been provided for at 25% (2022: 25%) in the financial statements.

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Assets 2023	Assets 2022
Balances:	**£'000**	**£'000**
Deferred tax asset	73	58

	2023
Movements in the year:	**£'000**
Asset at 1 October 2022	(58)
Credit to other comprehensive income	(15)
Asset at 30 September 2023	(73)

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.

15 Share capital

	2023	2022	2023	2022
Ordinary share capital	**Number**	**Number**	**£'000**	**£'000**
Issued and fully paid				
of £1 each	2,000	2,000	2	2

16 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.

17 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 September 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 30 September 2023 amounted to liabilities of £291,647 (2022: £232,452). The movements during the year in the fair value of the interest rate swap is a debit of £59,196 (2022: £3,655,321 credit) which has been recorded in the cashflow hedge reserve and £14,799 debit (2022: £913,830 credit) to deferred tax.

18 Contingent Liability

There is an ongoing dispute with the customer, Ayrshire & Arran Health Board over historical defects relating to fire protection. The Health Board are seeking up to £3m. The financial statements do not include any adjustments for this at present as the directors consider the situation to be resolved with the anticipated net exposure to Ayrshire Hospitals Limited estimated at a much lower figure. The Health Board continue to make 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.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.