

Hexham General Hospital SPC Holdings Limited

**Directors' report and financial
statements**

Registered number 04108766

Year ended 31 December 2013

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Company information

Non-Executive Directors

KW Gillespie
LW McKenna
BP Millsom (resigned 31 October 2013)
HM Murphy
H Potgieter (alternate to HM Murphy and LW McKenna)
C Solley

Registered Office

3rd Floor, The Venus
1 Old Park Lane
Trafford
Manchester
M41 7HG

Company Secretary

Ailison Mitchell LLB ACIS
3rd Floor, The Venus
1 Old Park Lane
Trafford
Manchester
M41 7HG

Registered Auditor

KPMG LLP
St James' Square
Manchester
M2 6DS

Solicitors

Dundas & Wilson
Northwest Wing
Bush House
Aldwych
London
WC2B 4EZ

Bankers

Bank of Scotland
11 Earl Grey Street
Edinburgh
EH3 9BN

Strategic report

Company objectives

The objectives of the company are to invest in a PFI project company to provide long-term returns for its investors. The subsidiary company's objectives are to successfully design, construct, finance and operate certain facilities and provide non-clinical services at Hexham General Hospital for a period of 32 years under a concession agreement with Northumbria Healthcare Foundation NHS Trust. However, on 31 March 2014, the Trust issued a voluntary termination notice which will terminate the concession agreement on 1 October 2014. As there will be no further business activity after that date, the directors intend to liquidate the company and the subsidiary company following the settlement of the remaining net assets and consequently, they have not prepared the financial statements on a going concern basis. The effect of this is explained in note 1.

Company's strategy

To ensure that the Company achieves its objective, the strategy is to implement processes, policies and procedures to provide effective oversight and governance of the company in which it has invested, through direct representation on the boards of the subsidiary company. This includes minimising performance and availability deductions, monitoring cash levels and cash flow ratios and maintenance of good working relationships between all stakeholders.

Principal risks and uncertainties

The subsidiary company's project is currently in its operational phase and operational risks are monitored closely. This takes the form of representation on site through the Company's management services agent and periodic reporting by the independent Technical Assessor.

Whilst the main elements of cash flow (unitary payments, facilities management costs and lifecycle costs) are contractually linked to the RPI index, a relatively small proportion of total costs are not protected from inflation increases via the RPI swap instrument. A rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history so far is good and current premium renewals have not been excessive.

A small proportion of cash flow is derived from bank interest on cash balances. The reduction in credit interest rates is therefore a risk to the business and its compliance with debt covenants.

Key performance indicators

Key performance indicators for the company include investment returns compared to those budgeted at the time of acquisition and the internal rate of return of the projects.

Key performance indicators for the subsidiary company include debt service cover ratios and the level of payment deductions levied for non-availability of the PFI facilities or for failure to perform the contracted services to the required specification. The directors monitor the performance of the subsidiary company by direct representation on the Boards of the subsidiary company.

Development and performance of the business

The subsidiary company made a pre-tax profit of £1,360,000, a modest increase compared to 2012 (£1,332,000).

A large variation (relating to Clinical Trials works) was signed for the subsidiary company in January 2014. Construction of this unit is due to be completed in March 2014. This new variation is being fully funded by the Trust.

The delivery of operational services for the subsidiary company is generally running well.

On 31 March 2014, the Trust issued a voluntary termination notice which will terminate the concession agreement with the subsidiary company on 1 October 2014.

By order of the board



Ailison Mitchell LLB ACIS
Secretary

3rd Floor, The Venus,
1 Old Park Lane,
Trafford,
Manchester, M41 7HG

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013.

Proposed dividend and transfer to reserves

The Company made a dividend payment of £361,000 in the year (2012: £47,000).

Business review

The results of the company for the year are set out in the profit and loss account on page 8.

Directors and directors' interests

The directors who held office during the period are set out on page 1.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial period and at the date of this report.

Political and charitable contributions

There were no donations of a political or charitable nature made during the period (2012: £nil).

Financial Instruments

The Company's principal financial instruments comprises of unsecured loan stock. The terms of these financial instruments are such that the profile of the debt service costs is tailored to match expected revenues from the subsidiary undertaking.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities.

Interest rate risk

The unsecured loan stock is not exposed to interest rate risk.

Corporate Governance

The Group is committed to high standards of corporate governance, as are appropriate for the long-term obligations to finance, construct and operate non-clinical services for hospitals under the Private Finance Initiative programme.

Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with the Northumbria Healthcare NHS Foundation Trust. The Board has taken note of the UK Corporate Governance Code which applies to equity quoted plcs with certain reporting requirements; this company, not being an equity quoted plc, is not bound by the Code's requirements but has voluntarily adopted certain of those principles as detailed below.

This report is a narrative on the principles of corporate governance, as applied in this company. It does not provide a detailed statement to identify those provisions of the Code from which the company's governance differs.

A. The Board

1. The Board meets quarterly and reviews operating performance against the financial model and detailed management budgets. This model incorporates aspects of the strategic business plan and associated risks; all proposals for contract variations are vetted before approval against the model.

Directors' report *(continued)*

Corporate Governance *(continued)*

The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project.

2. The position of Chairman is rotated on a quarterly basis and the nominated chair leads the Board
3. The Board receives quarterly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the hospital project.
4. Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision.
5. For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation.

B. Remuneration

No directors received remuneration directly from the group.

C. Dialogue with Institutions

The Board maintains regular liaison with Bank of Scotland as Agent Bank for the senior lenders.

D Financial Reporting

1. The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the Company and ensures that they are consistently applied.
2. The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships.
3. The Board has decided to undertake the role of an Audit Committee with all directors. The Audit Committee meets annually to review the Management Letter tabled by the Auditors.
4. The Board continue to satisfy themselves that, given the contractual and long-term funding provisions, the Company will continue to trade as a going concern.

E Internal Controls

1. The Board annually reviews the need for a formal internal audit function.
2. The Board maintains a sound system of internal control to safeguard shareholders' investments and the group's assets.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director 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.

Directors' report *(continued)*

Auditor

KPMG Audit Plc resigned as auditor on 2 October 2013 pursuant to section 516 of the Companies Act 2006. On 19 February 2014 the Directors appointed KPMG LLP as auditor of the company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in the office.

By order of the board



AL Mitchell
Secretary

3rd Floor, The Venus
1 Old Park Lane
Trafford
Manchester
M41 7HG

Statement of directors' responsibilities in respect of the Strategic Report and Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report and 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. As explained above, the directors believe that it is no longer appropriate to prepare these accounts on a going concern basis.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

*St James' Square
Manchester
M2 6DS
United Kingdom*

Independent auditor's report to the members of Hexham General Hospital SPC Holdings Limited

We have audited the financial statements of Hexham General Hospital SPC Holdings Limited for the Year ended 31 December 2013 set out on pages 9 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 Directors' Responsibilities Statement set out on page 6, 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 Auditing Practices Board's (APB'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 Financial Reporting Council'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 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - non-going concern basis of preparation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note.

Opinion on other matter prescribed by the Companies Act 2006


In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Hexham General Hospital SPC Holdings Limited *(continued)*

Matters on which we are required to report by exception

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.



Mick Davies (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

8 May 2016

Profit and loss account
for the year ended 31 December 2013

	<i>Note</i>	2013 £000	2012 £000
Turnover		-	-
Net operating costs		-	-
Operating profit		-	-
Interest payable and similar charges	4	(449)	(453)
Other interest receivable and similar income	5	449	453
Income from shares in group undertakings		361	47
Profit on ordinary activities before taxation		361	47
Tax on profit on ordinary activities	6	1	-
Profit for the year	11	361	47

The Trust issued a voluntary termination notice on 31 March 2014 which will end the concession agreement for the subsidiary company on 1 October 2014. All amounts above are classified as continuing activities.

The company has no recognised gains or losses other than the result for the year and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the result as disclosed in the Profit and Loss account and the result on an unmodified historical cost basis

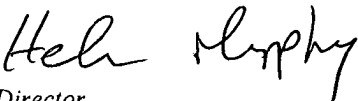
The notes on pages 12 to 16 form part of the financial statements.

Balance sheet
at 31 December 2013

	<i>Note</i>	2013 £000	2012 £000
Fixed assets			
Investments	7	50	50
Current assets			
Debtors: amounts falling due within one year	8	3,853	-
amounts falling due after more than one year	8	-	3,853
Current liabilities			
Creditors: amounts falling due within one year	9	(3,853)	-
Net current assets		<u>50</u>	<u>3,853</u>
Total assets less current liabilities		<u>50</u>	<u>3,903</u>
Creditors: amounts falling due after more than one year	10	-	(3,853)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account	12	-	-
Equity shareholders' funds		<u>50</u>	<u>50</u>

The notes on pages 12 to 16 form part of the financial statements

These financial statements were approved by the board of directors on 30 April 2014 and were signed on its behalf by:


 Director

HELEN MURPHY

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2013

	2013 £000	2012 £000
Profit for the financial year	361	47
Dividend	(361)	(47)
	<hr/>	<hr/>
Net addition to shareholders' funds	-	-
Opening shareholders' funds	50	50
	<hr/>	<hr/>
Closing shareholders' funds	50	50
	<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the Company's voting rights are controlled within the group headed by Consolidated Investment Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Consolidated Investment Holdings Limited, within which this Company is included, can be obtained from the address given in note 12.

In previous years, the financial statements have been prepared on a going concern basis. However, on 31 March 2014, the Trust issued a voluntary termination notice which will terminate the company's subsidiary's concession agreement on 1 October 2014. As there will be no further business activity after that date, in either the company or its subsidiary, the directors intend to liquidate the company following settlement of all remaining net assets, and consequently, they have not prepared the financial statements on a going concern basis. As a consequence, all assets and liabilities have been recognised as current as they are recoverable/payable within twelve months of the balance sheet date.

On termination, a redemption premium will become payable by the company to the unsecured loan note holders. This amount is estimated to be £4.1m and is not recognised on the balance sheet at the year end date. A corresponding amount would be receivable from the subsidiary company as there is an expectation that termination compensation paid by the Trust will be sufficient to meet cover any liabilities arising with no anticipated loss to the company in 2014. Therefore, no adjustment has been made to recognise this liability in the financial statements at 31 December 2013.

No adjustments were necessary to the amounts at which the remaining net assets are included in these financial statements.

Investments

Investments in subsidiaries and other undertakings are stated at cost less amounts written off.

Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

Interest bearing borrowings

Immediately after issue debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

2 Remuneration of directors

None of the directors received emoluments directly from the company (2012: none).

3 Staff numbers and costs

No staff are directly employed by the company (2012: none).

4 Interest payable and similar charges

	2013 £000	2012 £000
Interest on subordinated debt	449	453
	<u>449</u>	<u>453</u>

5 Other interest receivable and similar income

	2013 £000	2012 £000
Interest on intercompany debt	449	453
	<u>449</u>	<u>453</u>

Notes *(continued)*

6 Taxation

Analysis of charge in the year

	2013	2012
	£000	£000
<i>UK corporation tax (23.25%)</i>		
Current tax on income for the year	-	-
	<hr/>	<hr/>
Total current tax credit charge	-	-
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the current tax charge for the current year

The current tax charge for the year is equal to (2012: equal to) than the standard rate of corporation tax in the UK 23% for 9 months from 1 April 2013 and 24% for 3 months to 31 March 2013 (2012: 24.5%).

	2013	2012
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	361	47
	<hr/>	<hr/>
Current tax at standard rate of 23.25% (2012: 24.5%)	84	11
<i>Effects on actual tax charge for the year:</i>		
Non-taxable income	(84)	(11)
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the future tax charge

Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was substantively enacted on 3 July 2012.

In addition to the change in rates of Corporation tax disclosed above, further changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015.

This will reduce the company's future current tax charge accordingly.

Notes (continued)

7 Fixed asset investments

	Shares in group Undertakings 2013 £000
<i>Cost and net book value</i>	
At beginning and end of year	50

The principal company in which the company's interest at the year end is more than 20% is as follows:

Subsidiary undertakings

	Principal activity	Class of shares	%
Hexham General Hospital SPC Plc	PFI Contractor	Ordinary	100

The above company is incorporated in England and Wales. The principal activities of the group are to design, finance, construct, refurbish and operate certain new facilities at the Hexham General Hospital under a concession agreement with Northumbria Healthcare NHS Foundation Trust.

8 Debtors

	2013 £000	2012 £000
Intercompany debtor – amounts due from subsidiary	3,853	3,853

The amounts due from subsidiary includes £nil (2012: £3,853,000) due after more than one year.

9 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Subordinated debt	3,853	-

10 Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Subordinated debt	-	3,853

Analysis of debt

	2013 £000	2012 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	3,853	-
Between one and two years	-	-
Between two and five years	-	-
In five years or more	-	3,853
	3,853	3,853

Notes *(continued)*

10 Creditors: amounts falling due after more than one year *(continued)*

The subordinated debt is in respect of unsecured loan notes which have been issued in respect of the project. The loan notes are redeemable by 31 August 2032 and bear interest at 11% (phase 3) and 13% (phase 1&2). The loan notes are secured by way of a floating charge over the assets of the company.

11 Called up share capital

	2013 £000	2012 £000
<i>Allotted, called up and fully paid</i>		
Equity: 50,000 ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

12 Reserves

	Profit and loss account £000
At beginning of year	-
Profit for the financial year	361
Dividend	(361)
	<u>-</u>
At end of year	<u>-</u>

13 Post balance sheet events

On 31 March 2014, the Trust issued a voluntary termination notice to the subsidiary company which will terminate their concession agreement on 1 October 2014. As there will be no further business activity after that date, the directors intend to liquidate the company and its subsidiary company following settlement of all remaining net assets.

14 Ultimate parent company

The Company is a subsidiary undertaking of Consolidated Investment Holdings Limited which is the ultimate parent company incorporated in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Consolidated Investment Holdings Limited incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from 3rd Floor, The Venus, 1 Old Park Lane, Trafford, Manchester, M41 7HG.