

Central Nottinghamshire Hospitals (Holdings) Limited

Annual report and financial statements

For the year ended 31 December 2014

Registered number: 05456419

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Company information

Independent Chairman

M. Davis

Directors

G. Birley-Smith
R. Sheehan

Secretary

P. Beardsmore (resigned 1 February 2014)
HCP Social Infrastructure (UK) Limited (appointed 1 February 2014)

Registered office

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditor

KPMG LLP
100 Temple Street
Bristol
BS1 6AG

Registered number

05456419

Strategic report

The Directors present their strategic report for the year ended 31 December 2014.

Business review

The Company is an investment holding company whose sole business is the holding of investments in its wholly-owned subsidiary, Central Nottinghamshire Hospitals plc (together the "Group").

In November 2005 a subsidiary, Central Nottinghamshire Hospitals plc entered into a Project Agreement with the Sherwood Forest Hospitals NHS Foundation Trust (the "Trust"), together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements. The Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain non-clinical services within the new Kings Mill Hospital, Mansfield Community Hospital and Newark General Hospital for a primary term of thirty seven years and five months from 4 November 2005 being the date of signing of the Project Agreement.

The Group is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed with Assured Guaranty (UK) Limited. To the best of the Directors' knowledge the Group has met all of the obligations contained within these Deeds and there have been no Events of Default, Potential Event of Defaults or Trigger Events with regard to the Collateral Deed.

Financial performance and financial position

Turnover for the year is £36,206,000 (2013: £36,964,000), of which the main component is service fee income (net of deductions) of £36,009,000 (2013: £32,892,000). Turnover has reduced slightly this year as last year included some one-off construction income of £3,880,000, which is mostly offset by the increase in services income this year.

The profit before tax for the year is £142,000 (2013: loss of £466,000). The operating profit margin, without the construction income last year, has remained consistent at 10% on turnover this year, and lower inflation rates have resulted in lower finance costs, hence the small profit before tax this year compared to the loss last year.

The profit after tax for the year is £111,000 (2013: loss of £447,000). There has been no movement in the deferred tax asset this year.

Financial penalties are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the relevant service provider but the quantum is an indication of satisfactory performance. During the year deductions of £23,000 (2013: £12,000) and £44,000 (2013: £16,000) were levied by the Trust in respect of the performance of the Hard FM service provider and the Soft FM service provider respectively, and passed onto the service providers accordingly. These deductions relate to only 0.39% (2013: 0.21%) of the Hard FM and 0.39% (2013: 0.13%) of the Soft FM total fees charged by the service providers. These low levels of deduction in the current year, and in the prior year, were considered satisfactory.

The Directors have modelled the anticipated financial outcome of the Project across its full term. The Directors monitor actual financial performance against this anticipated performance. Financial covenants have been met during the year and, having considered the anticipated future performance and position of the Group, the Directors are of the opinion that the covenants will continue to be met in the future, and the Group will therefore continue in business.

During the year, the Group has repaid £12,232,000 (2013: £11,770,000) of the guaranteed secured bonds as scheduled, with repayment dates set for 31 March and 30 September each year, or the first business day thereafter.

The Directors believe the FRS5 finance debtor to be recoverable over the life of the Concession Agreement.

Strategic report *(continued)*

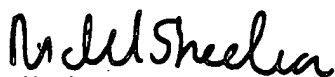
Principal risks and uncertainties

The Trust is the sole client of the Group but the Directors consider that no risk arises from such a small client base since the Secretary of State for Health has underwritten the Trust's obligations.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor where possible. The Group is exposed to the risk that sub-contractor non-performance is sufficient to allow the Trust to require a change in subcontractor, however, the Directors consider that this risk is mitigated by enhanced monitoring of subcontractor performance which is reported to the Board. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees.

Exposure to liquidity, credit and interest rate risks arise in the normal course of the Group's business. The Directors consider that these pose no significant risks to the Group.

By order of the Board



R. Sheehan
Director

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

20 May 2015

Registered number: 05456419

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Financial instruments

The Group's principal financial instruments comprise short term bank deposits, guaranteed index linked bonds, and subordinated loan stock. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement.

The Group and Company does not undertake financial instrument transactions which are speculative or unrelated to the Group and Company's trading activities. Board approval is required for the use of any new financial instrument, and the Group and Company's ability to do so is restricted by covenants in its existing funding agreements.

Financial reporting

The Group has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the Board members of the Group. HCP reports regularly to the Board of the Group. The Board receives monthly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the Group is exposed to, and are pertinent to the industry in which the Group operates. The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the Group and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the Project remains robust and viable throughout the life of the contract.

Dividends

The Directors do not recommend the payment of a dividend (2013: £nil).

Directors

The Directors who held office during the year were as follows:

G. Birley-Smith
R. Sheehan

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Group Companies.

Political contributions

The Group made no political contributions during the year (2013: £nil).

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 he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' report *(continued)*

By order of the Board



R. Sheehan
Director

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

20 May 2015

Registered number: 05456419

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, 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 they have elected to prepare the Group and parent Company 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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Central Nottinghamshire Hospitals (Holdings) Limited

We have audited the financial statements of Central Nottinghamshire Hospitals (Holdings) Limited for the year ended 31 December 2014 set out on pages 8 to 20. 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 auditor

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 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 Group's and of the parent Company's affairs as at 31 December 2014 and of the Group's 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.

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.

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.



Huw Brown, Senior Statutory Auditor
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

22 May 2015

Consolidated profit and loss account

for the year ended 31 December 2014

	<i>Note</i>	2014 £000	2013 £000
Turnover	3	36,206	36,964
Net operating costs	4	(32,591)	(33,703)
Operating profit		3,615	3,261
Interest payable and similar charges	6	(21,506)	(23,650)
Other interest receivable and similar income	7	18,033	19,923
Profit / (loss) on ordinary activities before taxation		142	(466)
Tax (charge) / credit on ordinary activities	8	(31)	19
Profit / (loss) for the financial year	16	111	(447)

There were no other recognised gains and losses for the periods above other than the gain stated above.

There is no difference between the historical cost gain and the gain stated above. All of the results relate to continuing activities.

The notes on pages 13 to 20 form an integral part of these financial statements.

Consolidated balance sheet

at 31 December 2014

	Note	2014 £000	2013 £000
Current assets			
Debtors: amounts falling due within one year	10	47,915	45,454
Debtors: amounts falling due in more than one year	11	329,441	334,937
		377,356	380,391
Cash at bank and in hand	12	31,910	30,050
		409,266	410,441
Current liabilities			
Creditors: amounts falling due within one year	13	(23,747)	(22,843)
Net current assets		385,519	387,598
Creditors: amounts falling due after more than one year	14	(386,594)	(388,784)
Net liabilities		(1,075)	(1,186)
Capital and reserves			
Called up share capital	15	50	50
Reserves	16	(1,125)	(1,236)
Equity shareholders' deficit		(1,075)	(1,186)

The notes on pages 13 to 20 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 May 2015 and were signed on its behalf by:



R. Sheehan

Director

Company balance sheet
at 31 December 2014

	<i>Note</i>	2014 £000	2013 £000
Fixed assets			
Investment in subsidiary undertakings	9	50	50
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
<i>Called up share capital</i>			
Allotted, called up and fully paid	15	50	50
Equity shareholders' funds		<u>50</u>	<u>50</u>

The notes on pages 13 to 20 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 May 2015 and were signed on its behalf by:



R. Sheehan

Director

Registered number: 05456419

Consolidated cash flow statement

For the year ended 31 December 2014

	<i>Note</i>	2014 £000	2013 £000
Net cash inflow from operating activities	17	6,825	4,531
Returns on investment and servicing of finance	18	7,286	9,115
Taxation	18	(19)	456
		<hr/>	<hr/>
Net cash inflow before financing		14,092	14,102
Financing	18	(12,232)	(11,770)
		<hr/>	<hr/>
Increase in cash in the year		1,860	2,332
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the period		1,860	2,332
Redemption of index-linked bonds and issue costs		12,232	11,770
		<hr/>	<hr/>
Change in net debt resulting from cash flows		14,092	14,102
Change in net debt resulting from non-cash transactions	18	(10,750)	(12,866)
Net debt at 31 December 2013		(364,240)	(365,476)
Net debt at 31 December 2014	19	(360,898)	(364,240)

The notes on pages 13 to 20 form an integral part of these financial statements

Consolidated reconciliation of movements in equity shareholders' funds / (deficit)
for the year ended 31 December 2014

	Company	Group	Company	Group
	2014	2014	2013	2013
	£000	£000	£000	£000
Opening equity shareholders' funds/(deficit)	50	(1,186)	50	(739)
Profit / (loss) for the financial year	-	111	-	(447)
Closing equity shareholders' funds/(deficit)	50	(1,075)	50	(1,186)

The notes on pages 13 to 20 form an integral part of these financial statements

Notes

(forming part of the financial statements)

1 Basis of preparation of the financial statements

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

The shareholders' funds for the period ending 31 December 2014 show a deficit of £1,075,000 (2013: £1,186,000).

The Directors' have reviewed the cash flow forecast and taking into account reasonable possible risks in operations to the Group and the fact the obligations of the Group's sole customer are underwritten by the Secretary of State for Health, believe that the Group will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis.

2 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.

(i) Basis of consolidation

The Group accounts consolidate the accounts of Central Nottinghamshire Hospitals (Holdings) Limited and its subsidiary undertakings for the year ended 31 December 2014 using the acquisition method. All inter-company balances, transactions and profits are eliminated on consolidation. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006. The result for the Company for the year ended 31 December 2014 was £nil (2013: £nil).

(ii) Finance debtor and service contract

The Group is an operator of a Private Finance Initiative ("PFI") contract. The underlying asset is not deemed to be a fixed asset of the Group under FRS 5 Application Note F because the risks and rewards of ownership as set out in the standard are deemed to lie principally with the Trust.

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs are transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G. The Group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when these services are performed.

(iii) Bank and other borrowings

Interest-bearing bank and other borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in the income statement using effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

(iv) Taxation

Deferred taxation 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.

(v) Turnover

Turnover is recognised in accordance with the finance debtor and service contract accounting policies above. Turnover represents value of work done entirely in the UK and excludes value added tax.

Notes (continued)

2 Accounting policies (continued)

(vi) Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

3 Analysis of turnover

	2014 £000	2013 £000
Recognised in the profit and loss account:		
Construction income	-	3,880
Services income	36,009	32,892
Other income	197	192
	<u>36,206</u>	<u>36,964</u>

Services income relates to the provision of non-clinical services at the Kings Mill Hospital, Mansfield Community Hospital, and Newark General Hospital.

4 Net operating costs

	2014 £000	2013 £000
Materials site and production costs	-	3,880
Services costs	30,321	27,423
Auditors remuneration - audit of these financial statements	17	17
- taxation services	8	8
Other charges	2,245	2,375
	<u>32,591</u>	<u>33,703</u>

5 Directors and staff costs

The Group had no employees during the year (2013: Nil). The Directors' fees were paid to the shareholders of the Company for provision of the Directors' services. During the year, the total amount paid to the shareholders for these services was £82,000 (2013: £77,000). The Company does not operate a pension scheme for its Directors.

6 Interest payable and similar charges

	2014 £000	2013 £000
Interest payable and indexation on bonds	17,172	19,313
Interest payable on loan stock	3,489	3,489
Amortisation of finance costs	845	848
	<u>21,506</u>	<u>23,650</u>

Notes (continued)

7 Other interest receivable and similar income

	2014 £000	2013 £000
Finance debtor interest receivable	17,936	19,868
Interest receivable on bank deposits	97	52
Interest receivable on tax paid	-	3
	18,033	19,923

8 Taxation

(i) Analysis of tax charge in the year

	2014 £000	2013 £000
Current tax:		
Current tax charge	31	-
Total current tax	31	-
Deferred tax:		
Tax losses carried forward	-	(108)
Effect of change in corporation tax rates	-	89
Total deferred tax (note 20)	-	(19)
Tax charge / (credit) on profit / (loss) on ordinary activities	31	(19)

A deferred tax asset of £589,000 (2013: £589,000) has been recognised as the directors believe that the availability of suitable future taxable profits under the PFI contract is sufficiently certain.

(ii) Factors affecting the tax charge for the year

The current tax charge for the year is equal to (2013: lower than) the standard rate of corporation tax of 21.5% in the UK (2013: 23.25%). The differences are explained below.

	2014 £000	2013 £000
Profit / (loss) on ordinary activities before tax	142	(466)
Current tax charge / (credit) at 21.5% (2013: 23.25%)	31	(108)
Effects of:		
Tax losses carried forward	-	108
Total current tax	31	-

(iii) Factors that may affect future tax charges

The Group has tax losses of £2,937,000 (2013: £2,943,000) which have been carried forward and will be offset against future trading profits.

A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 2 July 2013 and as such a blended rate of 21.5% has been used for the calculation of current tax in 2014.

A further reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantially enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax asset as at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes (continued)

9 Fixed assets – investments in subsidiary undertakings

Company	2014 Shares in group undertakings £000
Cost and net book value	
At beginning and end of year	<u>50</u>

The undertakings in which the Company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal Activity	Class and percentage of shares held Company
Central Nottinghamshire Hospitals Plc	United Kingdom	PFI operator	£1 ordinary shares 100%

10 Debtors: amounts falling due within one year

	2014 £000	2013 £000
Finance debtor (see note 11)	5,481	5,211
Trade debtors	459	401
Deferred taxation asset (see note 20)	589	589
Prepayments and accrued income	584	644
Unitary charge control account	40,802	38,609
	<u>47,915</u>	<u>45,454</u>

11 Debtors: amounts falling due after more than one year

	2014 £000	2013 £000
Finance debtor:		
Due within one year	5,481	5,211
Due after more than one year	<u>329,441</u>	<u>334,937</u>
	334,922	340,148
Less: Amount due within one year	<u>(5,481)</u>	<u>(5,211)</u>
	<u>329,441</u>	<u>334,937</u>

12 Cash at bank and in hand

	2014 £000	2013 £000
Cash at bank	31,910	30,050
	<u>31,910</u>	<u>30,050</u>

Included within cash is £22,664,000 (2013: £21,848,000), the distribution of which is subject to restrictions in accordance with the Group's financing agreements.

Notes (continued)

13 Creditors: amounts falling due within one year

	2014 £000	2013 £000
Bond instalments due within one year (note 14)	12,686	12,216
Trade creditors	5,252	5,112
Accruals and deferred income	5,386	5,087
Other creditors	423	428
	<u>23,747</u>	<u>22,843</u>

14 Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Bond proceeds:		
At the beginning of the year	383,568	383,320
Inflation on the bond	10,038	12,173
Adjustment for effective interest rate *	(134)	(155)
Redemption of bonds during the year	<u>(12,232)</u>	<u>(11,770)</u>
At the end of the year	381,240	383,568
Finance arrangement costs capitalised	(19,802)	(19,802)
Less: amortisation of finance arrangement costs capitalised	<u>6,262</u>	<u>5,559</u>
At the end of the year	367,700	369,325
Unsecured Subordinated 12% Loan Stock 2043:		
At the beginning of the year	29,073	29,073
Repaid during the year	-	-
At the end of the year	<u>29,073</u>	<u>29,073</u>
Finance arrangement costs capitalised	(4,501)	(4,501)
Less: amortisation of finance arrangement costs capitalised	<u>536</u>	<u>393</u>
At the end of the year	25,108	24,965
Accruals and deferred income	<u>6,472</u>	<u>6,710</u>
	399,280	401,000
Less amounts due within one year	<u>(12,686)</u>	<u>(12,216)</u>
	<u>386,594</u>	<u>388,784</u>

* This represents the difference between the interest charged at the effective interest rate and actual interest payable based upon the coupon rate.

Notes (continued)

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

		2014 £000	2013 £000
Bond Repayments			
Installments due	within 1 year	12,686	12,216
	1-2 years	13,380	12,668
	2-5 years	43,317	41,814
	Over 5 years	311,991	317,025
		<u>381,374</u>	<u>383,723</u>

Index Linked Guaranteed Secured Bonds 2042

The Group has created £351,900,000 of 1.8768% Index Linked Guaranteed Secured Bonds 2042 pursuant to a Trust Deed and Collateral Deed dated 4 November 2005 of which £319,900,000 were issued for cash on 4 November 2005 at an issue price of 100 %.

The bonds bear interest at 1.8768% which together with their principal repayment is subject to indexation in accordance with the terms of the Bond Trust Deed. The interest is payable semi - annually in arrears on 31 March and 30 September each year. The bonds are repayable in instalments commencing in September 2011 and ending in September 2042. At 31 December 2014, bonds totalling £41,408,000 (2013: £29,176,000) had been redeemed.

The Group retained £32,000,000 of bonds (the "variation bonds") which it may sell, subject to certain restrictions in the Collateral Deed, to fund variations to the project. The bonds, excluding the variation bonds, have the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (UK) Limited in favour of Deutsche Trustee Company Limited as security trustee over all of the undertaking and assets of the Company.

Unsecured Subordinated 12.00% Loan notes 2043

The company is owned by Innisfree PFI Secondary Fund (66%) and Innisfree PFI Secondary Fund 2 LP (34%) through its nominee Innisfree Nominees Limited.

Under the terms of a Deed Poll made on 4 November 2005 (amended and restated on 21 April 2006) both the Company and Central Nottinghamshire Hospitals Plc, a subsidiary of the Company, authorised and approved the issue by the subsidiary of up to £29,873,000 unsecured subordinated loan notes 2043 on like terms. Under the terms of a Shareholder Support Agreement dated 4 November 2005 (amended and restated on 21 April 2006) the shareholders of the Company each agreed to subscribe equally in instalments between September 2009 and March 2011 for £29,873,000 of the loan notes to be issued.

Central Nottinghamshire Hospitals Plc has issued 29,873,000 of loan notes at par for cash. The loan notes bear interest at 12.00% which is payable semi-annually on 31 March and 30 September each year. The loan notes are repayable in instalments on 31 March 2042, 30 September 2042 and 31 March 2043 save that they may be redeemed early with the consent of Assured Guaranty (UK) Limited. An amount of £800,000 was redeemed in March 2012.

15 Called up share capital

	2014 £000	2013 £000
Equity		
Authorised		
50,000 shares of £1 each	<u>50</u>	<u>50</u>
Called up and fully paid		
50,000 shares of £1 each	<u>50</u>	<u>50</u>

Notes (continued)

16 Reserves

	Company 2014 £000	Group 2014 £000	Company 2013 £000	Group 2013 £000
At the beginning of the year	-	(1,236)	-	(789)
Profit / (loss) for the financial year	-	111	-	(447)
At the end of the year	<u>-</u>	<u>(1,125)</u>	<u>-</u>	<u>(1,236)</u>

17 Reconciliation of operating profit to cash inflow from operating activities

	2014 £000	2013 £000
Operating profit	3,615	3,261
Decrease in debtors	3,013	1,449
Increase / (decrease) in creditors	197	(179)
Cash inflow from operating activities	<u>6,825</u>	<u>4,531</u>

18 Analysis of cash flow movements

	2014 £000	2013 £000
Returns on investment and servicing of finance		
Interest received	18,055	19,897
Interest paid	(10,769)	(10,782)
Net cash inflow from returns on investment and servicing of finance	<u>7,286</u>	<u>9,115</u>
Taxation		
Corporation tax (paid) / received	<u>(19)</u>	<u>456</u>
Financing		
Redemption of index-linked bonds	<u>(12,232)</u>	<u>(11,770)</u>

Changes in net debt resulting from non cash transactions comprise: -

Adjustment on effective interest rate	134	155
Inflation on the bonds	(10,038)	(12,173)
Amortisation of debt issuance costs	(846)	(848)
	<u>(10,750)</u>	<u>(12,866)</u>

19 Analysis of net debt

	At 1 January 2014 £000	Cashflow £000	Other non cash changes £000	At 31 December 2014 £000
Cash at bank	30,050	1,860	-	31,910
Index linked guaranteed secured bonds	(369,325)	12,232	(10,607)	(367,700)
Unsecured subordinated loan notes	(24,965)	-	(143)	(25,108)
	<u>(364,240)</u>	<u>14,092</u>	<u>(10,750)</u>	<u>(360,898)</u>

Notes (continued)

20 Deferred tax asset

A deferred tax asset has been recognised in the current year books of a subsidiary undertaking as it is felt that this amount will be recoverable from future profits. The elements of deferred taxation are as follows:

	2014	2013
	£000	£000
Deferred tax asset brought forward	589	570
Tax losses utilised in the current year	-	108
Effect of change in corporation tax rate	-	(89)
Total deferred tax	589	589

The deferred tax asset has been calculated using the reduced rate of 20% effective from 1 April 2015 as this has been substantially enacted as at the balance sheet date.

21 Related party transactions

The Company is owned by Innisfree PFI Secondary Fund (66%) and Innisfree PFI Secondary Fund 2 LP (34%) through its nominee Innisfree Nominees Limited, managed by Innisfree Limited.

During the year ended 31 December 2014, the Group incurred £82,000 (2013: £77,000) in respect of directors' services from Innisfree Limited and these are included in operating costs. As at 31 December 2014 £nil (2013: £nil) due to Innisfree Limited remains outstanding and is included in trade creditors and accruals.

In November 2005, the Group entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited. HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited, is owned by Innisfree M&G PPP LP, a fund co-managed by Innisfree Limited and M&G Investment Management Limited. Innisfree Limited also manages the funds invested in the Company. During the year the Group incurred costs of £894,000 (2013: £909,000) in respect of project management and other associated services to HCP Social Infrastructure (UK) Limited. As at 31 December 2014 £167,000 (2013: £180,000) due to HCP Social Infrastructure (UK) Limited remains outstanding and is included in trade creditors and accruals.

22 Parent undertaking and controlling party

The Company's voting share capital is held by Innisfree PFI Secondary Fund (66%) and Innisfree PFI Secondary Fund 2 LP (34%) through its nominee Innisfree Nominees Limited, managed by Innisfree Limited. All of these entities are registered in England and Wales.

In the directors' opinion, the Company's ultimate parent undertaking and controlling party is Innisfree PFI Secondary Fund.