

Company Registration No. 06401001

**KENT AND EAST SUSSEX WEALD
HOSPITAL HOLDINGS LIMITED**

Annual Report and Financial Statements

For the year ended 31 December 2017

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KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

STRATEGIC REPORT

The directors present their strategic report on the group for the year ended 31 December 2017. These financial statements have been prepared under FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

The group was formed to enter into a Private Finance Initiative (“PFI”) concession contract with the Maidstone and Tunbridge Wells National Health Service Trust (the “Trust”) to design, build, finance and operate a hospital in Pembury. The contract was signed in March 2008, construction commenced immediately and full services started in 2012. The contract will run until 2042.

The company was incorporated in Great Britain, registered in England and Wales and is domiciled in the United Kingdom.

In the year the group made a profit of £1,239,000 (2016: £974,000). This has increased on the prior year due to certain costs being lower than anticipated and the general rise in the indexation rates to which the concession is linked.

The group’s operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the key performance indicators in the PFI contract with the Trust and the contracts with Laing O’Rourke (“LOR”) who originally constructed the hospital and Interserve FM Limited (“IFM”) who is the service provider throughout the life of the concession. For this reason, the company’s directors believe that no other key performance indicators apart from profit are necessary or appropriate for an understanding of the performance or position of the business.

The PFI contract with the Trust and contracts with LOR and IFM follow a set formula for the life of the contract and this enables the group to have a high degree of certainty over its net income and major expenses until 2042. Furthermore the company has a Credit Agreement with its lender which fixes the level of borrowing and repayments due until the loan is fully repaid in 2042. The directors have prepared a detailed forecast up to 2042 incorporating inter alia the terms of the PFI contract, Subcontracts and Credit Agreement. This forecast, 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, Subcontracts 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 the going concern basis.

The directors do not anticipate a change in the company’s activity for the foreseeable future.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal risks and uncertainties

The group’s principal activity as detailed above is considered low risk as its trading relationships with its customer, funders and contracts with LOR and IFM are determined by the terms of their respective detailed PFI contracts. Its main exposure is to financial risks as detailed in the following section.

One of the risks of the group is that services may not be able to continue due to the financial failure of one of the group’s subcontractors. The financial stability of the facilities management and management service company is being monitored. The directors have reviewed the benchmarking information on the facilities management contract fee and are comfortable that this is a market rate which would enable replacement of the contractor for a similar fee. The management service subcontractor fee has been reviewed and the directors feel comfortable that the service is at a market rate.

Financial risk management

The group has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the group’s performance.

The board has policies for managing each of these risks and they are summarised below:

Interest rate risk

The group hedged its interest rate risk at the inception of the project by swapping its variable rate debt into fixed rate by the use of an interest rate swap.

Inflation risk

The group hedged its inflation risk at the inception of the project by entering into a fixed rate RPI swap to restrict its exposure to future RPI fluctuations.

STRATEGIC REPORT (continued)

Liquidity risk

The group adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its obligations. Due to the nature of the project cash flows are reasonably predictable and so this is not a major risk area for the group.

Credit risk

The group receives the bulk of its revenue from a NHS Trust and therefore is not exposed to significant credit risk.

Cash investments, interest rate swap arrangement and inflation swap arrangements are with institutions of a suitable credit quality.

Subsequent events

There have been no significant events since the statement of financial position date.

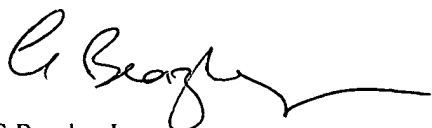
Ownership

In the directors' opinion there is no ultimate controlling party. The company is owned by its ultimate shareholders PFI 2005 Limited and John Laing Health (Pembury) Limited.

Going concern

The directors confirm that the financial statements have been prepared on the going concern basis and do not intend to liquidate the company or cease trading as we consider we have realistic alternatives to doing so. The directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern. 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.

Approved by the Board of Directors
and signed on behalf of the Board



G Beazley-Long
Director

27 July 2018

DIRECTORS' REPORT

The directors present their annual report on the affairs of the group and the audited financial statements for the year ended 31 December 2017.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of the principal risks and uncertainties are included in the strategic report.

STRATEGIC REPORT

The information that fulfils the Companies Act requirements of the business review is included in the strategic report. This includes a review of the development of the business of the group during the year, of its position at the end of the year and of the likely future developments in its business.

ENVIRONMENT

The group recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies via its sub-contractors to reduce any damage that might be caused by the group's activities.

EMPLOYEES

The group has no direct employees (2016: nil).

DIVIDENDS

The directors declared and paid a dividend of £844,000 (2016: £2,924,000).

GOING CONCERN

Information related to the going concern assumptions is included in the strategic report.

DIRECTORS

The directors, who served throughout the year and at the date of this report, are set out below:

D Brooking (appointed 30 April 2017)

C Dix

G Beazley-Long

R Marsden (resigned 1 September 2017)

D Bradbury

R Christie

None of the directors had any interests in the issued share capital of the group at 31 December 2017.

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant information and to establish that the company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board of Directors
and signed on behalf of the Board



G Beazley-Long

Director

27 July 2018

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 accounting 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; 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.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Kent and East Sussex Weald Hospital Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

27 July 2018

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
TURNOVER	2	7,101	6,912
Cost of sales		(4,171)	(4,086)
GROSS PROFIT		2,930	2,826
Administrative expenses		(939)	(1,063)
OPERATING PROFIT	3	1,991	1,763
Interest receivable and similar income	4	16,783	16,826
Interest payable and similar charges	4	(17,240)	(17,372)
PROFIT BEFORE TAXATION		1,534	1,217
Tax on profit	5	(295)	(243)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO SHAREHOLDERS	16	1,239	974
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Fair value movement of derivatives		11,444	(43,863)
Deferred tax relating to other comprehensive (expense)/income	6	(1,946)	7,456
Deferred tax relating to tax rate change	6	-	(721)
TOTAL COMPREHENSIVE GAIN/(LOSS)		10,737	(36,154)

All activities are derived from continuing operations.

The change in fair value of the interest rate swap liability and RPI swap asset were wholly recognised in other comprehensive income in the current and prior years. There was no amount recognised in profit or loss for this year (2016: £Nil). The amount reclassified from equity to profit or loss for this year was £nil (2016: £nil).

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

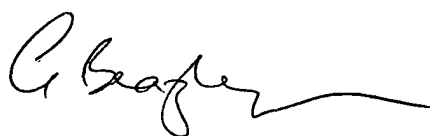
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 £'000	2016 £'000 *Restated
CURRENT ASSETS			
Investments	9	2,848	2,270
Debtors - Due within one year	11	4,749	3,956
- Due after one year	11	320,019	318,392
Cash at bank and in hand	10	4,493	4,653
		<hr/>	<hr/>
		332,109	329,271
CREDITORS: amounts falling due within one year	12	<hr/> (9,254) <hr/>	<hr/> (8,276) <hr/>
NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES		322,855	320,995
CREDITORS: amounts falling due after more than one year	13	<hr/> (407,203) <hr/>	<hr/> (415,236) <hr/>
NET LIABILITIES		<hr/> (84,348) <hr/>	<hr/> (94,241) <hr/>
CAPITAL AND RESERVES			
Called up share capital	14	1	1
Profit and loss account	16	2,407	2,012
Hedging Reserve	20	<hr/> (86,756) <hr/>	<hr/> (96,254) <hr/>
SHAREHOLDERS' DEFICIT		<hr/> (84,348) <hr/>	<hr/> (94,241) <hr/>

These financial statements of Kent and East Sussex Weald Hospital Holdings Limited, registered number 06401001 were approved by the Board of Directors and authorised for issue on 27 July 2018.

Signed on behalf of the Board of Directors



G Beazley-Long
Director

* Investments and cash at bank and in hand have been represented to be shown on a consistent basis with the current year. For further details see note 9.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 £'000	2016 £'000
FIXED ASSETS			
Investment in subsidiary undertaking	8	1	1
CURRENT ASSETS			
Debtors: Due within one year	11	862	862
Due after one year	11	26,295	26,295
		<hr/>	<hr/>
		27,157	27,157
CREDITORS: amounts falling due within one year	12	(862)	(862)
		<hr/>	<hr/>
NET CURRENT ASSETS		26,295	26,295
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		26,296	26,296
CREDITORS: amounts falling due after more than one year	13	(26,295)	(26,295)
		<hr/>	<hr/>
NET ASSETS		1	1
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	14	1	1
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS		1	1
		<hr/>	<hr/>

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own profit and loss account. The result of the company in the year was £844,000 (2016: £2,924,000).

These financial statements of Kent and East Sussex Weald Hospital Holdings Limited, registered number 06401001 were approved by the Board of Directors and authorised for issue on 27 July 2018.

Signed on behalf of the Board of Directors



G Beazley-Long
Director

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Called up Share capital £'000	Hedging Reserve £'000	Profit and loss account £'000	Total £'000
AT 1 JANUARY 2016		1	(59,126)	3,962	(55,163)
Profit for the year	16	-	-	974	974
Fair Value movement on derivatives	20	-	(43,863)	-	(43,863)
Deferred tax on FV movement of derivatives	6	-	6,735	-	6,735
Dividends paid on equity shares	7	-	-	(2,924)	(2,924)
		<hr/>	<hr/>	<hr/>	<hr/>
AT 31 DECEMBER 2016		1	(96,254)	2,012	(94,241)
Profit for the year	16	-	-	1,239	1,239
Fair Value movement on derivatives	20	-	11,444	-	11,444
Deferred tax on FV movement of derivatives	6	-	(1,946)	-	(1,946)
Dividends paid on equity shares	7	-	-	(844)	(844)
		<hr/>	<hr/>	<hr/>	<hr/>
AT 31 DECEMBER 2017		1	(86,756)	2,407	(84,348)
		<hr/>	<hr/>	<hr/>	<hr/>

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

		Called up Share capital £'000	Hedge Reserve £'000	Profit and loss account £'000	Total £'000
AT 1 JANUARY 2016		1	-	-	1
Profit for the year	16	-	-	2,924	2,924
Other comprehensive income		-	-	-	-
Dividends paid on equity shares	7	-	-	(2,924)	(2,924)
AT 31 DECEMBER 2016		<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Profit for the year	16	-	-	844	844
Other comprehensive income		-	-	-	-
Dividends paid on equity shares	7	-	-	(844)	(844)
AT 31 DECEMBER 2017		<u><u>1</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1</u></u>

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT For the Year ended 31 December 2017

	Notes	2017 £'000	2016 £'000 *Restated
Cash flow from operating activities	17	2,929	2,289
Tax paid		(276)	(259)
Interest received		16,783	16,826
		<hr/>	<hr/>
Net cash generated from operating activities		19,436	18,856
Cash flows (used in) investing activities			
Increase in current asset investments		(578)	(2,270)
		<hr/>	<hr/>
Net cash (used in) investing activities		(578)	(2,270)
Cash flows (used in)/from financing activities			
Secured senior loans		(917)	(520)
Interest paid		(17,257)	(17,377)
Equity dividends paid		(844)	(2,924)
		<hr/>	<hr/>
Net cash (used in) financing activities		(19,018)	(20,821)
Net (decrease)/increase in cash and cash equivalents		(160)	(4,235)
Cash and cash equivalents at the beginning of the year		4,653	8,888
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		4,693	4,653
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		4,493	253
Cash equivalents		-	4,400
		<hr/>	<hr/>
Cash and cash equivalents		4,493	4,653

* Restated to show deposit accounts with a duration of over three months as investing. For further detail see note 9.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2017

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted by the directors are described below, and have been applied consistently throughout the current and prior year except as noted below.

The financial statements have been prepared under FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

The particular policies adopted by the directors are described below.

Going concern

The financial statements are prepared on a going concern basis. The consolidated statement of financial position on page 9 of the financial statements shows that the group is in a net liability position due largely to providing for the interest rate swap hedging costs under FRS 102 accounting requirements.

As disclosed on page 1, the directors believe that the group has adequate resources to continue in operational existence for the foreseeable future.

Accounting convention

These financial statements have been prepared in accordance with the historical cost convention, modified to include certain items at fair value (see derivative financial instruments below) and in accordance with FRS 102.

Accounting for PFI contracts

In the prior year the Group took advantage of exemptions made available under section 35.10 (i) of FRS 102, and as such there has been no substantial change to the treatment of the financial asset receivable due to the adoption of the standard.

Under the terms of the contract substantially all the risks and rewards of ownership of the property remain with Maidstone and Tunbridge Wells NHS Trust.

During the period of construction, costs incurred as a direct consequence of financing, designing and constructing the hospital, including finance costs, are capitalised and shown as work in progress. On completion, credit is taken for the deemed sale, which is recorded within turnover. The construction expenditure and associated costs are reallocated to cost of sales. Amounts receivable are classified as a financial asset receivable (PFI debtor).

Revenues received from the customer are apportioned between:

- capital repayments;
- finance income; and
- operating revenue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

1. ACCOUNTING POLICIES (CONTINUED)

Cash Investments

Cash investments are stated at cost excluding any accrued interest and with no provision for impairment in value.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are held at the cost of the shares and the face value of the loan less any provision for impairment in value.

Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Group's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification of financial liabilities

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 group after deducting all of its liabilities.

Basic financial liabilities, including trade and other payables, 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 receipts discounted at a market rate of interest.

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

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts 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 payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligation specified in the contract is discharged, cancelled, or expires.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided in full on timing differences which result in an obligation at the statement of financial position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items or income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Group financial statements

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking. As a consolidated statement of comprehensive income is published, a separate statement of comprehensive income for the parent company is omitted from the group financial statements by virtue of section 408 of the companies Act 2006. The result for the financial year of the parent company was £844,000 (2016: £2,924,000).

Share Capital

Share capital recognised at amortised cost represents the amount of equity in the form of shares invested by the shareholders.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

Critical accounting judgements and sources of estimation uncertainty

The preparation of the financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. 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 if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

- Accounting for the service concession contract and finance asset require an estimation of service margins, finance asset's interest rate and associated amortisation profile which is based on forecast results of the PFI contract.

Critical judgements in applying the company's accounting policies

- Derivative financial instruments are held at fair value.
- Applicability of hedge accounting.

Service concession

The Group has been established to provide services under certain private finance agreements with Maidstone and Tunbridge Wells NHS Trust. Under the terms of these Agreements, the Council (as grantor) controls the services to be provided by the Group over the contract term. Based on the contractual arrangements the Group has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

The group has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10(i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied at the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed.

Under the terms of the arrangement, the company has the right to receive a baseline contractual payment stream for the provision of the services from or at the direction of the grantor (the Trust), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in line with FRS 102.

Revenue is recognised from the supply of services, which represents the timing of services provide under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.

Derivative financial instruments

The group holds derivative financial instruments which have the effect of fixing the interest rate payable on bank borrowings. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest over the period of the contract. See hedge accounting below for how the derivative is accounted for.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2017

1 Accounting policies (continued)

Hedge accounting

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the fair value of the derivative financial instrument is recognised directly in the statement of comprehensive income as other comprehensive income or expense. Any ineffective portion of the hedge is recognised immediately in profit or loss.

Where hedge accounting recognises a liability then an associated deferred tax asset is also recognised.

Cash flow hedges

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods in which the hedged item affects profit or loss, or when the hedging relationship ends.

Hedge accounting is discontinued when the entity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at the time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided, and is recognised each year as the applicable portions of the amounts receivable relating to finance and operating costs calculated on a consistent basis (see accounting policy note 1).

Turnover which is attributable to one geographical market, the United Kingdom, can be analysed as follows:

	2017 £'000	2016 £'000
Turnover comprises:		
Turnover from operations	7,062	6,898
Turnover from pass throughs	39	14
Total Sales	<u>7,101</u>	<u>6,912</u>

Turnover from pass throughs in the current year and previous year relate to deductions and variations.

3. OPERATING PROFIT

	2017 £'000	2016 £'000
This is stated after charging:		
Auditor's remuneration		
- Audit services for the audit of the company		
and subsidiary borne by the subsidiary	14	7
Tax compliance services	6	6
Tax advisory services	3	4

The group had no employees during the year (2016: nil). Service fees of £140,000 (2016: £135,000) were paid to the group's ultimate shareholders for the directors' services to the company during the year.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

4. NET FINANCE CHARGES

	2017 £'000	2016 £'000
Interest receivable and similar income:		
Interest receivable on financial asset	16,765	16,798
Bank interest	18	28
Total interest receivable	16,783	16,826
Interest payable and similar charges:		
Swap interest paid	(10,745)	(10,366)
Senior debt	(3,066)	(3,572)
Subordinated loan stock	(3,418)	(3,428)
Other finance costs	(11)	(6)
Total interest payable	(17,240)	(17,372)
Net interest payable	(457)	(546)

5. TAX ON PROFIT

	2017 £'000	2016 £'000
Current taxation charge comprises:		
Current tax – charge for the year	295	243
Deferred taxation		
Timing differences, origination and reversal	-	-
	295	243
Factors affecting the current tax charge in the year:		
Profit before tax	1,534	1,217
Tax charge on profit on ordinary activities before tax at a blended rate of 19.25% (2016: 20%)	295	243
Total tax charge for the year	295	243

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

6. DEFERRED TAXATION

	2017 £'000	2016 £'000
Deferred taxation provided for at 17% (2016: 17%) in the financial statements is set out below:		
Deferred tax (charge)/credit comprises:		
Deferred tax credit to other comprehensive income relating to movement in fair value	(1,946)	7,456
(Charge)/credit relating to other comprehensive income to change in tax rate	-	(721)
	<u>(1,946)</u>	<u>6,735</u>

	2017 £'000	2016 £'000
Deferred tax asset:		
Balance at start of year	19,715	12,980
Deferred tax (charge)/credit to other comprehensive income relating to movement in fair value	(1,946)	7,456
(Charge)/credit to other comprehensive income relating to change in tax rate	-	(721)
	<u>17,769</u>	<u>19,715</u>

The deferred tax asset will unwind over the life of the hedge.

7. DIVIDENDS

	2017 £'000	2016 £'000
Dividend paid in year of £844 per share (2016: £2,924)	844	2,924

No dividends are payable at 31 December 2017. Since the year end, the directors have proposed and paid dividends of £774,000 (2016: £2,471,000).

8. INVESTMENT IN SUBSIDIARY UNDERTAKING

	Company 2017 £'000	Company 2016 £'000
Cost and net book value	1	1

The group's subsidiary undertaking, Kent & East Sussex Weald Hospital Limited, is wholly-owned and incorporated in Great Britain. Its activity is to provide design, build, finance and operate the services under a Private Finance Initiative concession contract.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

9. INVESTMENTS

In accordance with the group's funding arrangements, cash that is restricted and not available to fund the ongoing operations of the company is disclosed as a current asset investment. These funds are held as interest bearing cash deposits for terms of no longer than twelve months.

Deposit balances for a duration of more than three months are classified as current asset investments. In the prior year such amounts were classified as cash and in the current year these have been reclassified as current asset investments to give the appropriate and consistent classification.

10. CASH AND DEPOSITS

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000 *Restated	Company 2016 £'000
Due within one year				
Cash at bank and in hand	4,493	-	2,325	-
Cash held on deposit with original maturity of three months or less	-	-	4,400	-
	<u>4,493</u>	<u>-</u>	<u>4,653</u>	<u>-</u>

* Investments and cash at bank and in hand have been represented to be shown on a consistent basis with the current year. The value that has been reclassified is £2,270,000.

11. DEBTORS

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Due within one year				
Trade debtors	2,443	-	2,325	-
Prepayments and other debtors	245	-	227	-
RPI swap asset	669	-	507	-
Deferred Tax Asset	-	-	3	-
Subordinated loan interest	-	862	-	862
Financial asset receivable (PFI contract)	1,392	-	894	-
	<u>4,749</u>	<u>862</u>	<u>3,956</u>	<u>862</u>
Due after one year				
Financial asset receivable (PFI contract)	276,792	-	278,188	-
Subordinated loans	-	26,295	-	26,295
RPI Swap Asset	25,445	-	20,493	-
Deferred tax asset	17,782	-	19,711	-
	<u>320,019</u>	<u>26,295</u>	<u>318,392</u>	<u>26,295</u>
Total due after one year	<u>320,019</u>	<u>26,295</u>	<u>318,392</u>	<u>26,295</u>
Total debtors	<u>324,768</u>	<u>27,157</u>	<u>322,348</u>	<u>27,157</u>

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Trade creditors	423	-	364	-
Accruals and deferred income	1,550	-	1,408	-
Corporation tax liability	70	-	51	-
Value added tax payable	648	-	674	-
Deferred tax liability	13	-	-	-
Interest rate swap liability	745	-	490	-
Senior loan interest	4,943	-	4,427	-
Subordinated loan interest	862	862	862	862
	<u>9,254</u>	<u>862</u>	<u>8,276</u>	<u>862</u>

The subordinated loan bears interest at a fixed rate of 13% and is repayable over the life of the contract.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Senior secured loan	251,014	-	252,463	-
Subordinated loan stock	26,295	26,295	26,295	26,295
Interest rate swap liability	129,894	-	136,478	-
	<u>407,203</u>	<u>26,295</u>	<u>415,236</u>	<u>26,295</u>

Maturity analysis of senior secured loan due after more than one year:

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Senior secured loan:				
Repayable between one and two years	1,681	-	1,474	-
Repayable between two and five years	7,500	-	6,052	-
Repayable after five years	244,748	-	247,863	-
	<u>253,929</u>	<u>-</u>	<u>255,389</u>	<u>-</u>
Less: unamortised issue costs	(2,915)	-	(2,926)	-
	<u>251,014</u>	<u>-</u>	<u>252,463</u>	<u>-</u>

The secured senior loan represents amounts borrowed under a facility agreement with Bank of Scotland. The loan bears interest at a margin of 0.7% over LIBOR and is repayable in instalments between 2014 and 2042. The loan is secured by fixed and floating charges over the property, assets and rights of the company, and has certain covenants attached.

In order to hedge against interest variations on the senior secured loan, the company has entered into an interest rate swap agreement with a bank whereby at monthly intervals sums are exchanged reflecting the difference between floating and fixed interest rates, calculated on a predetermined notional principal amount.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

Maturity analysis of subordinated loan stock due after more than one year:

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Subordinated loans:				
Repayable after five years	26,295	26,295	26,295	26,295

Interest on the subordinated loans is paid at 13% per annum, and is repayable in instalments over the life of the contract.

Maturity analysis of interest rate swap due after more than one year:

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Interest rate swap liability				
Repayable between one and two years	868	-	778	-
Repayable between two and five years	3,920	-	4,907	-
Repayable after five years	125,106	-	130,793	-
	<u>129,894</u>	<u>-</u>	<u>136,478</u>	<u>-</u>

14. CALLED UP SHARE CAPITAL

	2017 £'000	2016 £'000
Authorised		
51,000 ordinary shares of £1 each	51	51
Called up, allotted and fully paid		
1,000 ordinary shares of £1 each	1	1

The company has 1,000 shares at £1 each, of which none carry rights to fixed income.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

15. FINANCIAL INSTRUMENTS

The group and company has the following financial instruments:

	2017		2016	
	Group £'000	Company £'000	Group £'000	Company £'000
Financial assets that are debt instruments measured at amortised cost:				
- Trade debtors	2,443	-	2,325	-
- Finance asset receivable	278,184	-	279,082	-
	<u>280,627</u>	<u>-</u>	<u>281,407</u>	<u>-</u>
Financial liabilities in effective hedging relationships:				
Derivative financial instruments – interest rate swap	104,525	-	115,968	-
Financial liabilities that are debt instruments measured at amortised cost:				
- Senior debt loan	258,872	-	259,816	-
- Subordinated loan	27,157	27,157	27,157	27,157
- Trade creditors	423	-	364	-
	<u>286,452</u>	<u>27,157</u>	<u>287,337</u>	<u>27,157</u>

16. RETAINED PROFIT FOR THE YEAR AND ATTRIBUTABLE TO SHAREHOLDERS

	2017 £'000	2016 £'000
Group		
Balance at 1 January	2,012	3,962
Retained profit for the year	1,239	974
Dividend paid	(844)	(2,924)
Balance at 31 December	<u>2,407</u>	<u>2,012</u>
Company		
Balance at 1 January	-	-
Retained profit for the year	844	2,924
Dividend paid	(844)	(2,924)
Balance at 31 December	<u>-</u>	<u>-</u>

17. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2017 £'000	2016 £'000
Operating profit	1,991	1,763
Decrease in debtors	765	398
Increase/(Decrease) in creditors	175	128
Net cash inflow from operating activities	<u>2,929</u>	<u>2,289</u>

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2017

18. CONTROLLING PARTIES

The Company is incorporated and domiciled in Great Britain. The immediate parent companies are PFI 2005 Limited, which holds 25% of the company, and John Laing Health (Pembury) Limited which holds 75% of the company. The registered addresses of these companies are Interserve House, Ruscombe Park, Twyford, RG10 9JU and 1 Kingsway, London, WC2B 6AN, respectively. In the opinion of the directors no company is a controlling party. The ultimate parent company that controls PFI 2005 Limited is Dalmore Capital Fund LP. The ultimate parent companies that jointly control John Laing Health (Pembury) Limited are John Laing Infrastructure Fund Limited and Innisfree PFI Secondary Fund. These are the smallest and largest group accounts that are prepared of which the company is a member. No other group financial statements are prepared.

19. RELATED PARTY TRANSACTIONS

Parties	Supplied during the year ended 31 December 2017 £'000	Amounts payable at 31 December 2017 £'000	Supplied during the year ended 31 December 2016 £'000	Amounts payable at 31 December 2016 £'000
Interserve plc and its subsidiary undertakings				
For FM and other services	1,823	-	3,394	363
PFI 2005 Limited				
For services	28	62	27	61
Subordinated debt	-	6,574	-	6,574
Subordinated debt interest	854	216	857	215
John Laing Health (Pembury) Limited				
For services	332	28	305	55
Subordinated debt	-	19,721	-	19,721
Subordinated debt interest	2,564	646	2,571	647

Amounts payable at 31 December 2017 are included within trade creditors, accruals and deferred income and subordinated loans.

KENT AND EAST SUSSEX WEALD HOSPITAL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2017

20. HEDGE RESERVE

	2017 £'000	2016 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value:		
Interest rate swap on loans:		
Fair value on interest swap liability at year end	(130,639)	(136,968)
RPI swap on unitary receipt:		
Fair value on RPI swap asset at year end	26,114	21,000
Tax on above	17,769	19,714
	<u>(86,756)</u>	<u>(96,254)</u>

In March 2008 the company entered into a thirty-four year fixed interest rate swap arrangement to hedge its exposure to the effect of interest rate fluctuations.

The interest rate swap contract is designated as a hedge of variable interest rate risk of the company's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the swap.

The swap was effected on a notional amount of £258,606,877 at a fixed rate of 4.7%, payable in semi-annual amounts between 31 March 2014 and 31 March 2042.

The fair value of the interest rate swap liability in the current year and prior years have been determined by relevant market data.

In March 2008 the company entered into a thirty-four year fixed RPI swap arrangement to restrict its exposure to the effect of RPI fluctuations on income.

The RPI swap contract is designated as a hedge of variable inflation rate risk of the company's inflation based income. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the swap.

The swap was effected on a notional amount of £4,661,719 payable in semi-annual amounts between 31 March 2014 and 30 September 2042.

The fair value of the RPI swap asset in the current year and prior years have been determined by relevant market data.

21. CAPITAL COMMITMENTS

There are no capital commitments (2016: £Nil).