

**Strategic Report, Directors' Report and
Audited Financial Statements for the Year Ended 31 December 2019**
for
**NIHG South West Health Partnership
Limited**

SATURDAY



A9DG1W1L

A11

12/09/2020

#296

COMPANIES HOUSE

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Contents of the Financial Statements
for the Year Ended 31 December 2019**

	Page
Company Information	1
Strategic Report	2
Directors' Report	4
Independent Auditor's Report	8
Income Statement	11
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	15
Statement of Cash Flows	16
Notes to the Financial Statements	17

**NIHG South West Health Partnership
Limited**

**Company Information
for the Year Ended 31 December 2019**

Directors:

J S Gordon
R Thompson
L McKenna

Secretary:

A Mitchell

Registered office:

At The Offices Of Tughans
Marlborough House
30 Victoria Street
Belfast
BT1 3GS

Registered number:

NI072130

Independent auditor:

Deloitte (NI) Limited
Statutory Auditor
Belfast
BT2 7EJ

Solicitors:

Addleshaw Goddard
Milton Gate
60 Chiswell Street
London
EC1Y 4AG

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Strategic Report
for the Year Ended 31 December 2019**

The directors present their strategic report for the year ended 31 December 2019.

Principal activities

The principal activities of the Company comprise the design, construction and operation of an acute hospital facility in Enniskillen. The Company's operations are managed under the supervision of its shareholders and funders. They are largely determined by the detailed terms and the key performance indicators in the PFI contract with the South Western Health and Social Care Trust (the Trust). They were also determined by the subcontracts with FCC Elliott Healthcare Limited who supplied the construction services and Interserve (Facilities Management) Limited, who supply the facilities maintenance services throughout the life of the concession.

Review of the business and future prospects

The Trust has entered into the Project Agreement with the Company to develop facilities on the site and secure the provision of the services in order to improve the quality and efficiency of the services provided by the Trust. The Enniskillen Hospital Project is scheduled to last for a period of 33 years beginning with the design and construction phase which commenced in May 2009 completed in May 2012 and was followed by the operation phase that began in June 2012 with completion at the end of 2042.

The success of the Company is measured first and foremost in terms of cash flow and adherence to the agreed financial model. The project as a whole is expected to have a positive Net Present Value.

Gross profit reduced from £2.2m in 2018 to £1.9m in 2019, primarily as a result of a refund of maintenance costs provided for in the year, resulting in the loss for the year of £0.4m compared to a profit of £0.2m in 2018. The increase in interest payable is due to compound interest becoming payable on shareholder loan notes. Administrative expenses including management fees, general administrative costs and insurance totalled £0.8m, similar to 2018. The cash and cash equivalents position remains very strong with a balance of £23.2m at the balance sheet date compared to £20.5m in 2018. The cash balance is in accordance with the financial model and our expectations. As contractually required, accounts are funded in accordance with the Credit Agreement with the lenders.

The directors view overall performance as strong and expect to continue to meet financial targets.

The Company is a Special Purpose Vehicle created solely to deliver this project. Therefore the principal activities as detailed above are low risk as trading relationships with the Company's customer, funders and sub-contractors are determined by the terms of their respective detailed PFI contracts. For this reason the directors believe that further key performance indicators are not necessary or appropriate for an understanding of the performance or position of the business.

Whilst competitive forces do not exist within the Company's market, its main exposure is to financial risks.

The directors are not aware, at the date of this report, of any likely changes in the Company's activities in the next year.

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the Company in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the Project agreement as the sub-contracted Facilities Management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April 2020.

Since the Covid-19 outbreak, the customer, Western Health & Social Care Trust, has continued making unitary payments in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Strategic Report
for the Year Ended 31 December 2019**

Principal risks and uncertainties

Interest rate risk:

Exposure to interest rate risk was hedged at the inception of the project by swapping the majority of variable rate debt into fixed rate through the use of interest rate swaps.

Inflation risk:

Exposure to inflation risk (which impacts unitary payments received from the Trust) was hedged at the inception of the project by entering into a fixed rate RPI swap to restrict exposure to future RPI fluctuations.

Liquidity risk:

The Company 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 significant risk area.


Credit risk:

The Company receives the bulk of its revenue from a NHS Trust covered by a Deed of Safeguard between itself and the Department of Health (formerly The Department of Health, Social Services and Public Safety) and therefore is not exposed to significant credit risk. Cash investments and interest rate swap arrangements are with institutions of a suitable credit quality.

Commercial risk:

The Company manages commercial risk through ongoing monitoring of activities and taking appropriate corrective action to resolve any issues arising. The project is subject to a performance management system maintained by the Trust and this is reflected in the arrangements the Company has entered into with its subcontractors.

Approved by the board and signed on its behalf by:


Director

Roger Thompson

Date:

4/9/20

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Directors' Report
for the Year Ended 31 December 2019**

The directors present their report with the financial statements of the Company for the year ended 31 December 2019.

Results and distributions

During the year ended 31 December 2019, the Company has performed financially in accordance with expectations and recorded post-tax loss of £428k (2018 profit: £235k).

Financial risk management objectives and policies

Information in relation to financial risk management objectives and policies is included in the strategic report.

Dividends

No dividends will be distributed for the year ended 31 December 2019 (2018: Nil).

Future developments

An indication of likely future developments in the business of the Company is included in the strategic report.

Directors

The directors during the year under review were:

J S Gordon	
S Springett	- resigned 26.11.19
R Thompson	
D A J Foot	- resigned 26.11.19
L McKenna	- appointed 26.11.19

The directors holding office at 31 December 2019 did not hold any beneficial interest in the issued share capital of the Company at 1 January 2019 (or date of appointment if later) or 31 December 2019.

Use of financial instruments

Further information about the use of financial instruments by the Company is given in note 15 to the financial statements.

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Directors' Report
for the Year Ended 31 December 2019**

Going concern

On 15 March 2019 Interserve Plc, the parent company of Interserve (Facilities Management) Limited, went into administration and all its subsidiaries were sold to Interserve Group Limited, a newly incorporated private company controlled by its lenders. Interserve (Facilities Management) Limited with which the company has a contractual relationship to deliver facilities management services, is continuing business as usual within the newly formed group of Interserve Group Limited. Interserve PLC is classed as a Principal Project Party under the Common Terms Agreement as it provides a parent company guarantee for the facilities management subcontractor, Interserve (Facilities Management) Limited. Under the Common Terms Agreement with the lender, if any Principal Project Party enters administration, this triggers an Event of Default. Once Interserve Plc entered administration an Event of Default occurred. The directors are working with legal advisors, Interserve Group Limited and the lenders to find a remedy for this default.

Services have not been affected by these changes in Interserve's structure.

In addition, the level of service failure points incurred by the Company under the terms of the Project Agreement with the Trust have breached the threshold set within the Common Terms Agreement and have given rise to a further Event of Default, though there was no breach or risk of termination under the terms of the Project Agreement. Service failure points are allocated to the Company and to individual service providers in respect of the occurrence of unavailability events and performance failures which are determined by the provision set out. This position existed at the year end however was resolved by the date of approval of these financial statements.

The directors have prepared a detailed model forecasting the performance of the contract to completion incorporating the relevant terms of the Project Agreement, subcontracts, Common Terms Agreement and reasonably prudent economic assumptions. This forecast, which is updated regularly, shows that a loss will be made over the remaining contract period however sufficient cash resources are in place for a 12 month period from the date of signing these financial statements. Also, as a consequence of the Event of Default, the senior debt liability is shown as being due in less than one year.

The directors have specifically considered the matters above in respect of the Events of Default under the terms of the Common Term Agreement. The directors are working on finding a resolution to the Events of Default under the Common Term Agreement. Any waiver of the Events of Default or variation to the terms of the Common Terms Agreement are subject to approval by the lenders. The directors confirm that they do not intend to liquidate the company or cease trading as they consider they have realistic alternatives to doing so. The company is in a net liabilities position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind completely over the term of the hedge.

The Directors consider that despite the Events of Default attached to the existing financing the Company can maintain sufficient liquidity over the next 12 months, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these financial statements. The directors acknowledge that the non waiver of the Events of Default indicates the existence of a material uncertainty, which may cast significant doubt on the company's ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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.

Post balance sheet events

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the Company in responding to COVID-19 has been assessed as low. This is because the Company is still able to provide the services required under the Project agreement as the sub-contracted Facilities Management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April 2020.

Since the Covid-19 outbreak, the Trust have continued making unitary payments to the project company in accordance with the guidance included in the Infrastructure and Projects Authority guidance note.

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Directors' Report
for the Year Ended 31 December 2019**

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

Statement as to disclosure of information to auditor

Each of the persons who is a director at the date of approval of the annual report confirms that so far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.


**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Directors' Report
for the Year Ended 31 December 2019**

Auditor

The auditor, Deloitte (NI) Limited, have expressed their willingness to continue in office as auditor and will be proposed for re-appointment at the forthcoming Annual General Meeting.

Approved by the board and signed on its behalf by:

 Roger Thompson
Director

Date: 4/9/20

**Independent Auditor's Report to the Members of
NIHG South West Health Partnership
Limited (Registered number: NI072130)**

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NIHG South West Health Partnership Limited (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that events of default have been triggered under the common terms agreement to the company's loans related to: 1. breach of the thresholds for service failure points incurred by the facilities management contractor; and 2. the administration of Interserve Plc, the parent company of Interserve (Facilities Management) Limited, a principal project party. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

**Independent Auditor's Report to the Members of
NIHG South West Health Partnership
Limited (Registered number: NI072130)**

Responsibilities of director

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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

**Independent Auditor's Report to the Members of
NIHG South West Health Partnership
Limited (Registered number: NI072130)**

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.

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.

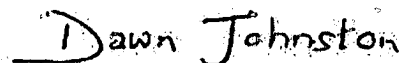
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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, 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.

We have nothing to report in respect of these matters.

 Dawn Johnston

Dawn Johnston FCA (Senior Statutory Auditor)
for and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast
BT2 7EJ

Date: 7 September 2020

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Income Statement
for the Year Ended 31 December 2019**

	Notes	2019 £'000	2018 £'000
Continuing operations			
Revenue	3	4,474	4,859
Cost of sales		<u>(2,612)</u>	<u>(2,628)</u>
Gross profit		1,862	2,231
Administrative expenses		<u>(812)</u>	<u>(806)</u>
Operating profit		1,050	1,425
Finance costs	5	(12,843)	(12,586)
Finance income	5	<u>11,244</u>	<u>11,451</u>
(Loss)/profit before income tax	6	(549)	290
Income tax	7	<u>96</u>	<u>(55)</u>
(Loss)/profit for the year		<u>(453)</u>	<u>235</u>

The notes form part of these financial statements

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Statement of Comprehensive Income
for the Year Ended 31 December 2019**

	2019 £'000	2018 £'000
(Loss)/profit for the year	(453)	235
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Income tax relating to items that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>
	-	-
Items that may be reclassified subsequently to profit or loss:		
Gain on hedging instruments (note 15)	2,474	3,829
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>(420)</u>	<u>(651)</u>
	2,054	3,178
Other comprehensive income for the year, net of income tax	<u>2,054</u>	<u>3,178</u>
Total comprehensive income for the year	<u>1,601</u>	<u>3,413</u>

The notes form part of these financial statements

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Statement of Financial Position
31 December 2019**

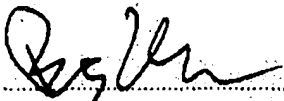
	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	-	-
Trade and other receivables	9	154,666	158,078
Deferred tax	17	13,606	13,947
		<u>168,272</u>	<u>172,025</u>
Current assets			
Trade and other receivables	9	3,880	2,586
Cash and cash equivalents	10	23,191	20,457
		<u>27,071</u>	<u>23,043</u>
Total assets		<u>195,343</u>	<u>195,068</u>
Equity			
Shareholders' equity			
Called up share capital	11	1	1
Financial instruments reserve	12	(65,238)	(67,292)
Retained earnings	12	1,380	1,833
Total equity		<u>(63,857)</u>	<u>(65,458)</u>
Liabilities			
Non-current liabilities			
Financial instruments	13	78,601	81,075
Liabilities - borrowings			
Interest bearing loans and borrowings	14	19,051	159,667
Provisions	16	100	250
		<u>97,752</u>	<u>240,992</u>
Current liabilities			
Trade and other payables	13	20,682	15,806
Liabilities - borrowings			
Interest bearing loans and borrowings	14	140,616	3,578
Provisions	16	150	150
		<u>161,448</u>	<u>19,534</u>
Total liabilities		<u>259,200</u>	<u>260,526</u>
Total equity and liabilities		<u>195,343</u>	<u>195,068</u>

The financial statements were approved by the directors on 4 September 2020 and were signed by:

The notes form part of these financial statements

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Statement of Financial Position - continued
31 December 2019**


Director

Roger Thompson

The notes form part of these financial statements

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Statement of Changes in Equity
for the Year Ended 31 December 2019**

	Called up share capital £'000	Retained earnings £'000	Financial instruments reserve £'000	Total equity £'000
Balance at 1 January 2018	1	1,598	(70,470)	(68,871)
Changes in equity				
Profit for the year	-	235	-	235
Other comprehensive income	-	-	3,178	3,178
Total comprehensive income	-	235	3,178	3,413
 Balance at 31 December 2018	<u>1</u>	<u>1,833</u>	<u>(67,292)</u>	<u>(65,458)</u>
 Changes in equity				
Deficit for the year	-	(453)	-	(453)
Other comprehensive income	-	-	2,054	2,054
Total comprehensive income/(loss)	-	(453)	2,054	1,602
 Balance at 31 December 2019	<u>1</u>	<u>1,380</u>	<u>(65,238)</u>	<u>(63,857)</u>

The notes form part of these financial statements

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Statement of Cash Flows
for the Year Ended 31 December 2019**

	2019	2018
	£'000	£'000
Cash flows from operating activities		
Cash generated from operations 19	3,880	3,067
Interest paid	(8,829)	(13,259)
Taxation refund	15	-
Net cash from operating activities	<u>(4,934)</u>	<u>(10,192)</u>
Cash flows from investing activities		
Interest received	<u>11,244</u>	<u>11,451</u>
Net cash from investing activities	<u>11,244</u>	<u>11,451</u>
Cash flows from financing activities		
Loan repayments in year	<u>(3,578)</u>	<u>(3,093)</u>
Net cash from financing activities	<u>(3,578)</u>	<u>(3,093)</u>
Increase/(decrease) in cash and cash equivalents	<u>2,734</u>	<u>(1,834)</u>
Cash and cash equivalents at beginning of year 20	<u>20,457</u>	<u>22,291</u>
Cash and cash equivalents at end of year 20	<u><u>23,191</u></u>	<u><u>20,457</u></u>

The notes form part of these financial statements

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements
for the Year Ended 31 December 2019**

1. Statutory information

NIHG South West Health Partnership Limited is a wholly owned subsidiary of NIHG Limited which in turn is owned by three stakeholders: PFI 2005 Limited, Ashover Project Investments Limited and Coral Project Investments (Assetco) Limited. NIHG South West Health Partnership Limited financed, built, and is now operating a 300-bed hospital in Enniskillen. Funding was provided by the European Investment Bank, Barclays Bank, Bank of Ireland, and Norddeutsche Landesbank Girozentrale. The project is the region's first acute hospital funded through the PFI, with construction completed in May 2012.

The Company is incorporated in the United Kingdom under the Companies Act 2006 and registered in Northern Ireland. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

PFI 2005 Limited, Coral Project Investments (Assetco) Limited and Ashover Project Investments Limited are each owned by a fund which is managed by Dalmore Capital Limited. However, as no individual entity owns more than 25% of any of those funds, the directors do not consider any particular entity to be the ultimate controlling party.

Presentation of financial statements and comparative information

The financial statements are prepared in GBP.

All amounts stated in this report are in thousands of GBP, unless indicated otherwise.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the financial statements comply with Article 4 of the EU IAS Regulation. The Company has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Interpretations Committee and adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2019.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The principal accounting policies and measurement bases used by the Company in preparing its financial statements were as follows:

Going concern

On 15 March 2019 Interserve Plc, the parent company of Interserve (Facilities Management) Limited, went into administration and all its subsidiaries were sold to Interserve Group Limited, a newly incorporated private company controlled by its lenders. Interserve (Facilities Management) Limited with which the company has a contractual relationship to deliver facilities management services, is continuing business as usual within the newly formed group of Interserve Group Limited. Interserve PLC is classed as a Principal Project Party under the Common Terms Agreement as it provides a parent company guarantee for the facilities management subcontractor, Interserve (Facilities Management) Limited. Under the Common Terms Agreement with the lender, if any Principal Project Party enters administration, this triggers an Event of Default. Once Interserve Plc entered administration an Event of Default occurred. The directors are working with legal advisors, Interserve Group Limited and the lenders to find a remedy for this default.

Services have not been affected by these changes in Interserve's structure.

In addition, the level of service failure points incurred by the Company under the terms of the Project Agreement with the Trust have breached the threshold set within the Common Terms Agreement and have given rise to a further Event of Default, though there was no breach or risk of termination under the terms of the Project Agreement. Service failure points are allocated to the Group and to individual service providers in respect of the occurrence of unavailability event and performance failures which are determined by the provision set out. This position existed at the year end however was resolved by the date of approval of these financial statements.

The directors have prepared a detailed model forecasting the performance of the contract to completion incorporating the relevant terms of the Project Agreement, subcontracts, Common Terms Agreement and reasonably prudent economic assumptions. This forecast, which is updated regularly, shows that a loss will be made over the remaining contract period however sufficient cash resources are in place for a 12 month period from the date of signing these financial statements. Also, as a consequence of the Event of Default, the senior debt liability is shown as being due in less than one year.

The directors have specifically considered the matters above in respect of the Events of Default under the terms of the Common Term Agreement. The directors are working on finding a resolution to the Events of Default under the Common Term Agreement. Any waiver of the Events of Default or variation to the terms of the Common Terms Agreement are subject to approval by the lenders. The directors confirm that they do not intend to liquidate the company or cease trading as they consider they have realistic alternatives to doing so. The company is in a net liabilities position due to the inclusion of the hedge reserve on the statement of financial position and this will unwind completely over the term of the hedge.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

The Directors consider that despite the Events of Default attached to the existing financing the Company can maintain sufficient liquidity over the next 12 months, and that it is accordingly appropriate to adopt a going concern basis for the preparation of these financial statements. The directors acknowledge that the non waiver of the Events of Default indicates the existence of a material uncertainty, which may cast significant doubt on the company's ability to continue as a going concern, and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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.

Adoption of new and revised standards

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

The Company has adopted the following standards, amendments and interpretations which have not had a significant impact on the Company's results:

- Leases - IFRS 16
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19
- Definition of Material - Amendments to IAS 1 and IAS 8.
- Definition of Business - Amendments to IFRS 3

There is no impact to the company's results with the adoption of the new standards

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been endorsed by the EU:

- IFRS 17 Insurance Contracts
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)
- Amendments to IFRS 3 (Oct 2018) (effective 1 January 2020)
- Amendments to IAS 1 and IAS 8 (Oct 2018) (effective 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7 (September 2019) (effective 1 January 2020)
- Amendments to IFRS 3 (May 2020)
- Amendments to IAS 16
- Amendment to IFRS 16
- Annual improvements to IFRS Standards 2018-2020
- Amendments to IFRS 17
- Amendments to IAS 1
- Amendments to IFRS 10 and IAS 28

Property, plant and equipment

Property, plant and equipment is carried at acquisition cost less depreciation and any provision for impairment.

The Company depreciates its office equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, being four.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

Interest income is recognised in profit or loss and is included in the "finance income" line item (note 5).

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Derecognition of financial assets

The Company derecognises a financial asset 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 of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to interest rate and through interest rate swaps. Further details of derivative financial instruments are disclosed in note 15.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company designates its derivatives as hedging instruments in respect of interest rate risk in fair value hedges, cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Note 15 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 12.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

Taxation

Tax expense / (tax income) comprises current tax expense / (current tax income) and deferred tax expense / (deferred tax income).

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. The Company's liability for the current tax year is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Revenue, expense and asset recognition

PFI projects are accounted for as set out below. The Company has interpreted the provisions of IFRS 15 and IFRIC 12 in determining the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Where it can be demonstrated that the residual interest in the project is not held by the company and where there is a contractual right to receive cash or other financial assets in return for financing, building, and operating the project, the asset created and / or provided under the contract is classified as and accounted for as a financial asset, otherwise it is accounted for as property, plant and equipment. As a consequence, revenues are recognised as follows:

Financial asset projects:

Construction phase - Revenue is recognised based on the certified value of work completed in the period; and
Availability phase - Income is allocated between revenue and interest receivable using a constant operating margin on service costs and taking account of the project specific financial income.

Additional third party revenues arising are recognised in accordance with the contractual terms as services are performed.

Major maintenance

For financial asset accounted projects, the cost of major maintenance is recorded in cost of sales and an appropriate amount of revenue that would otherwise have been available to amortise the financial asset is transferred to revenue. This has the effect of increasing the financial asset by the cost of major maintenance.

PFI bid costs are capitalised only at such time as the company is virtually certain that it will recover the costs. Virtual certainty is generally achieved when an agreement is in place demonstrating that costs are fully recoverable even in the event of cancellation of the project. From the point of virtual certainty, bid costs are capitalised in the balance sheet as a PFI financial asset prior to achieving financial close.

Deferred income is released to the income statement in respect of projects using financial asset accounting, over the period of construction during which the financial asset is established.

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Revenue from sales is recognised when the control of the goods sold has been transferred to the buyer, and the Company neither continues to manage the goods nor retains effective control over them.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably.

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Critical accounting judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Hedge effectiveness

Management verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of derivative financial instruments

In determining the fair value of derivative financial instruments,, management have considered estimates of future cash flows and the appropriateness of future interest and inflation rates.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

2. Accounting policies - continued

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair values of derivatives as at the balance sheet date are obtained from the banks or financial institutions with which the derivatives have been transacted. Where these are not available the fair value of the derivative is calculated as the present value of the estimated future cash flows. In these calculations the market forward six month LIBOR curve for an interest rate swap or the forward RPI inflation curve for an inflation swap as at the balance sheet date are used. All amounts are discounted using the zero coupon yield curve as at the balance sheet date.

Related party transactions

The Company performs all its transactions with related parties on an arm's length basis.

Borrowing Costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Critical accounting judgements and key sources of estimation uncertainty

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

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

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

3. Revenue

Revenue from contracts with customers

2019	2018
£'000	£'000

Revenue from PFI contracts	<u>4,475</u>	<u>4,859</u>
----------------------------	--------------	--------------

The company operates exclusively within the United Kingdom.

4. Employees and directors

2019	2018
£'000	£'000

Recharges in respect of non-executive directors' services	<u>153</u>	<u>75</u>
---	------------	-----------

The company had no employees during the year (2018: none). The directors have no contract of services with the company.

5. Net finance costs

2019	2018
£'000	£'000

Finance income:

Bank interest income	75	69
Finance income PFI receivable	<u>11,169</u>	<u>11,382</u>

	<u>11,244</u>	<u>11,451</u>
--	---------------	---------------

Finance costs:

Interest and fees on loans	8,786	8,869
Interest on loan notes	<u>4,057</u>	<u>3,717</u>

	<u>12,843</u>	<u>12,586</u>
--	---------------	---------------

Net finance costs	<u>1,599</u>	<u>1,135</u>
-------------------	--------------	--------------

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

6. (Loss)/profit before income tax

The loss before income tax (2018 - profit before income tax) is stated after charging:

	2019 £'000	2018 £'000
Cost of inventories recognised as expense	2,612	2,628
Fees payable to the Company's auditor for the audit of the Company's annual accounts	21	19
Fees to the Company's auditor for tax compliance services	<u>4</u>	<u>5</u>

All audit fees for the Group are borne by the Company. The Group comprises this Company and its parent, NIHG Limited.

7. Income tax

Analysis of tax expense/(income)

	2019 £'000	2018 £'000
Current tax - prior year adjustment	(17)	-
Deferred tax - originations and reversal of timing differences	(93)	55
Deferred tax - prior year adjustment	<u>14</u>	<u>-</u>
	<u>(96)</u>	<u>55</u>

Tax assessed for the period is equal to (2018: equal to) the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2018: 19%). The reconciliation is explained below:

	2019 £'000	2018 £'000
Profit/(loss) for the year	(453)	235
Total tax (credit)/charge	<u>(96)</u>	<u>55</u>
(Loss)/profit excluding taxation	<u>(549)</u>	<u>290</u>
Tax at standard rate of 19% (2018: 19%)	(104)	55
Change in tax rate	11	-
Prior year adjustments	<u>(3)</u>	<u>-</u>

Total tax charge/(credit) recognised in the profit and loss account (96) 55

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

7. Income tax - continued

Deferred tax

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

	Tax losses £'000	Effective derivative hedges £'000	Total £'000
At 1 January 2018	220	14,433	14,653
Credit to profit and loss	(55)	-	(55)
Credit to other comprehensive income (arising on derivatives):			
- Credit in respect of loss at 17%	-	(651)	(651)
At 31 December 2018	<u>165</u>	<u>13,782</u>	<u>13,947</u>
At 1 January 2019	165	13,782	13,947
Charge to profit and loss	79	-	79
- Credit in respect of loss at 17%	-	(420)	(420)
At 31 December 2019	<u>244</u>	<u>13,362</u>	<u>13,606</u>

8. Property, plant and equipment

	Computer equipment £'000
Cost	
At 1 January 2019 and 31 December 2019	<u>13</u>
Depreciation	
At 1 January 2019 and 31 December 2019	<u>13</u>
Net book value	
At 31 December 2019	<u>-</u>
At 31 December 2018	<u>-</u>

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

9. Trade and other receivables

	2019	2018
	£'000	£'000
Current:		
Trade receivables	622	158
Finance receivables	3,109	1,904
Other receivables	-	375
Prepayments	149	149
	<u>3,880</u>	<u>2,586</u>
Non-current:		
Finance receivables	<u>154,666</u>	<u>158,078</u>
Aggregate amounts	<u>158,546</u>	<u>160,664</u>

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

9. Trade and other receivables - continued

The average credit period taken on sales of goods and services is 7 days (2018: 3 days). No interest is charged on the receivables.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and are still considered recoverable.

Ageing of trade receivables not impaired but net of allowance for doubtful debts:

	2019 £'000	2018 £'000
0-30 days	32	53
31-60 days	(1)	27
61-90 days	-	32
91 + days	636	46
	<u>667</u>	<u>158</u>

Movement in the period for doubtful debts:

	2019 £'000	2018 £'000
Balance at the beginning of the period	165	75
Impairment losses recognised	44	90
Amounts written off during the year as uncollectible	-	-
Impairment losses reversed	-	-
	<u>209</u>	<u>165</u>

Ageing of impaired trade receivables:

	2019 £'000	2018 £'000
31-60 days	-	-
61-90 days	-	-
91 + days	209	165
	<u>209</u>	<u>165</u>

The directors consider that the carrying amount of the trade and other receivables is approximately equal to their fair value.

10. Cash and cash equivalents

	2019 £'000	2018 £'000
Bank accounts	<u>23,191</u>	<u>20,457</u>

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

11. Called up share capital

Allotted, issued and fully paid:		Nominal value: £1	2019	2018
Number:	Class:		£	£
1,000	Ordinary		<u>1,000</u>	<u>1,000</u>

12. Reserves

	Retained earnings £'000	Financial instruments reserve £'000	Totals £'000
At 1 January 2019	1,833	(67,292)	(65,459)
Loss for the year	(453)		(453)
Gain on hedging instruments	-	2,474	2,474
Income tax relating to items that may be reclassified later to profit and loss	-	(420)	(420)
At 31 December 2019	<u>1,380</u>	<u>(65,238)</u>	<u>(63,858)</u>

13. Trade and other payables

	2019 £'000	2018 £'000
Current:		
Trade payables	352	694
Other payables	-	375
Accrued expenses	19,795	14,177
Other tax and social security	<u>535</u>	<u>560</u>
	<u>20,682</u>	<u>15,806</u>
Non-current:		
Interest rate swap liability	57,780	52,887
RPI swap liability	<u>20,821</u>	<u>28,188</u>
	<u>78,601</u>	<u>81,075</u>
Aggregate amounts	<u>99,283</u>	<u>96,881</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 41 days (2018:62 days). For most suppliers no interest is charged on the trade payables for the first 60 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

14. Liabilities - borrowings

	2019 £'000	2018 £'000
Current:		
Bank loans	<u>140,616</u>	<u>3,578</u>
Non-current:		
Bank loans	-	140,616
Loan notes	<u>19,051</u>	<u>19,051</u>
Total of non-current borrowings	<u>19,051</u>	<u>159,667</u>

**Debt repayment schedule
2019**

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Totals £'000
Bank loans	140,616	-	-	-	140,616
Loan notes	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,051</u>	<u>19,051</u>
	<u>140,616</u>	<u>-</u>	<u>-</u>	<u>19,051</u>	<u>159,667</u>

2018

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Totals £'000
Bank loans	3,578	3,999	13,121	123,496	144,194
Loan notes	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,051</u>	<u>19,051</u>
	<u>3,578</u>	<u>3,999</u>	<u>13,121</u>	<u>142,547</u>	<u>163,245</u>

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

14. Liabilities - borrowings continued

The Company has two bank loans and loan notes:

	Facility £'000	Amount utilised 2019 £'000	Carrying Value 2019 £'000	Amount Utilised 2018 £'000	Carrying Value 2018 £'000
Loan notes	29,036	19,051	19,051	19,051	19,051
Bank loans	247,230	140,616	140,616	144,194	144,194
	<u>276,266</u>	<u>159,667</u>	<u>159,667</u>	<u>163,245</u>	<u>163,245</u>
Analysed:					
Current			140,616		3,578
Non-current			19,051		159,667
			<u>159,667</u>		<u>163,245</u>

The first bank loan is from European Investment Bank, and was agreed on 19 May 2009. It was drawn down during the Construction Phase between May 2009 and May 2012. It is repayable in unequal quarterly instalments having commenced on 31 May 2012 and ending on 31 March 2039. The Company hedges the loan for interest rate risk via an interest rate swap exchanging the variable rate interest for fixed rate interest. The outstanding balance is adjusted for the fair value movement in the hedged risk, being movements in the 6 months' LIBOR rate.

Interest on the bank loan is charged at 1.4% above LIBOR

The second bank loan is from the senior lenders, and was agreed on 19 May 2009. It was drawn down during the Construction Phase between May 2009 and May 2012. It commenced on 31 May 2012, ending on 31 March 2039.

As there was an Event of Default existing at year end, all bank loans are shown as current liabilities falling due within 12 months (see Going Concern section in note 2).

Interest on the loan notes are charged at 2.20% above LIBOR.

The unsecured loan notes represent amounts borrowed under the loan note agreements with the shareholders. The loan notes bear interest at a rate of 12.019% per annum. Unpaid interest bears interest at a rate of 14.019% per annum.

The weighted average interest rates paid during the year were as follows:

	2019 %	2018 %
Bank loans	6.22	6.13
Unsecured loan notes	<u>12.33</u>	<u>12.02</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments

Derivatives that are designated and effective as hedging instruments carried at fair value

At the balance sheet date the interest rate profile of the company's interest-bearing financial instruments was:

	2019 £'000	2018 £'000
Non current		
Interest rate swaps	(57,780)	(52,887)
Inflation rate swaps	<u>(20,821)</u>	<u>(28,188)</u>
	<u>(78,601)</u>	<u>(81,075)</u>

The fair value movement per the above table was a gain of £2,474k (2018: gain of £3,829k).

(a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, if the effect is material.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	2019 £'000 Carrying amount	2019 £'000 Fair value	2018 £'000 Carrying Amount	2018 £'000 Fair value
Financial assets				
Other financial assets	157,776	157,776	159,982	159,982
Loans and receivables				
Cash and equivalents	23,191	23,191	20,457	20,457
Trade and other receivables (note 9)	667	667	384	384
Total loans and receivables	<u>23,858</u>	<u>23,858</u>	<u>20,841</u>	<u>20,841</u>
Total financial assets	<u>181,634</u>	<u>181,634</u>	<u>180,823</u>	<u>180,823</u>
	2019 £'000 Carrying amount	2019 £'000 Fair value	2018 £'000 Carrying Amount	2018 £'000 Fair value
Financial liabilities measured at amortised cost				
Interest bearing loans	(159,667)	(159,667)	(163,245)	(163,245)
Trade and other payables (note 13)	(20,185)	(20,185)	(15,097)	(15,097)
Total financial liabilities measured at amortised cost	<u>(179,852)</u>	<u>(179,852)</u>	<u>(178,342)</u>	<u>(178,342)</u>
Financial liabilities measured at fair value				
Financial instruments	(78,601)	(78,601)	(81,075)	(81,075)
Total financial instruments	<u>(78,601)</u>	<u>(78,601)</u>	<u>(78,594)</u>	<u>(78,594)</u>

Fair value hierarchy

The paragraphs below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

The company does not have any financial instruments that are measured by any other technique other than at Level 2.

Fair value of financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities.

Financial assets/ financial liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Interest rate swaps	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period and contract)	N/A	N/A
2) Inflation rate swaps	Level 2	Discounted cash flow. Future cash flows are estimated based on forward inflation rates (from observable yield curves at the end of the reporting period and contract)	N/A	N/A

There were no transfers between Level 1 and 2 in the period.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

(b) Credit risk

Financial risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. NIHG South West Health Partnership Limited receives the bulk of its revenue from a NHS Trust in accordance with an agreed contract outlining the revenues and allowable expenditure for the entire life of the project and therefore is not exposed to significant credit risk. Cash investments and interest rate swap arrangements are with institutions of a suitable credit quality.

The maximum exposure to credit risk for trade receivables and other financial assets at the balance sheet by geographic region was:

	2019 £'000	2018 £'000
United Kingdom	158,442	160,366
	<u>158,442</u>	<u>160,366</u>

(c) Liquidity risk

Financial risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the company's short-, medium- and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows. To the extent that the interest flows are floating rate, the undiscounted amount is derived from interest curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Company may be required to pay

2019	Carrying Values	Contractual Cashflows	Less than 3 months	3 to 12 months	1 to 5 Years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative Financial Liabilities						
Term loan	140,616	140,616	140,616	-	-	-
Other unsecured loans	19,051	19,051	-	-	-	19,051
Trade & other payables (note 13)	<u>20,185</u>	<u>20,185</u>	<u>1,829</u>	<u>-</u>	<u>1,182</u>	<u>17,174</u>
	<u>179,852</u>	<u>179,852</u>	<u>142,445</u>	<u>-</u>	<u>1,182</u>	<u>36,225</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

2018	Carrying Values	Contractual Cashflows	Less than 3 months £'000	3 to 12 months £'000	1 to 5 Years £'000	More than 5 years £'000
Non-derivative Financial Liabilities	£'000	£'000	£'000	£'000	£'000	£'000
Term loan	144,194	144,194	1,830	1,748	17,120	123,496
Other unsecured loans	19,051	19,051	-	-	-	19,051
Trade & other payables	15,246	15,246	1,069	-	-	14,177
	<u>178,491</u>	<u>178,491</u>	<u>2,899</u>	<u>1,748</u>	<u>17,120</u>	<u>156,724</u>

The following table details the Company's liquidity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

2019

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Net settled						
Interest rate swaps	-	363	1,090	6,121	50,206	57,780
Inflation rate swaps	-	129	386	2,169	18,137	20,821
	<u>-</u>	<u>492</u>	<u>1,476</u>	<u>8,290</u>	<u>68,343</u>	<u>78,601</u>

2018

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Net settled						
Interest rate swaps	-	671	641	6,279	45,296	52,887
Inflation rate swaps	-	358	342	3,347	24,143	28,188
	<u>-</u>	<u>1,029</u>	<u>983</u>	<u>9,626</u>	<u>69,439</u>	<u>81,075</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

(d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as inflation rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

The Company seeks to minimise the effects of interest rate and inflation risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk - Interest rate risk

The Company is exposed to interest rate risk because it borrows funds at floating interest rates. The risk is managed by the company by the use of interest rate swap contracts to fix the interest rates of some of the borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

Profile

At the balance sheet date the interest rate profile of the company's interest-bearing financial instruments was:

	2019 £'000	2018 £'000
Fixed rate instruments		
Financial assets	157,775	159,982
Financial liabilities	(19,051)	(19,051)
	<u>138,724</u>	<u>140,931</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(140,616)	(144,194)
	<u>(140,616)</u>	<u>(144,194)</u>

Interest rate risk - sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A one per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

If interest rates had been one per cent higher / lower (assuming zero floor) and all other variables were held constant, the Company's:

- profit for the year ended 31 December 2019 would have been £Nil higher / lower (2018: £Nil higher/lower).
- other comprehensive income would increase by £18,102k / decrease by £16,400k (2018: increase by £16,371k / decrease by £15,122k) mainly as a result of the changes in the fair value of interest rate swaps used to hedge interest rates and the associated deferred tax liability / asset.

The Company's sensitivity to interest rate changes has decreased in the year as the value of loans outstanding has reduced. If all other factors remain unchanged it is expected that this trend will continue until the end of the contract period.

Market risk - Inflation rate risk

The Company is exposed to inflation rate risk because its future revenues under the project agreement are indexed using the RPI rate. The risk is managed by the company by the use of inflation rate swap contracts to fix the inflation rate that will be applied to its revenues. Hedging activities are evaluated regularly to align with inflation rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

Inflation rate risk - sensitivity analysis

Market risk exposures are measured using sensitivity analysis where appropriate. The sensitivity analyses below have been determined based on the exposure to the inflation rate for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A one per cent increase or decrease is used when reporting inflation rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in inflation rates.

If the inflation rate had been one per cent higher / lower and all other variables were held constant, the Company's:

- profit for the year ended 31 December 2019 would have been £Nil higher / lower (2018: £Nil higher / lower).
- other comprehensive income would decrease by £5,696k / increase by £8,615k (2018: decrease by £852k / increase by £4,085k) mainly as a result of the changes in the fair value of inflation rate caps used to hedge the inflation rate and the associated deferred tax asset / liability.

Interest rate swap and inflation rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

Under inflation rate swap contracts, the Company has fixed the inflation rate on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing inflation rates on the fair value of future revenues. The fair value of inflation rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below.

The following tables detail the notional principal amounts and remaining terms of interest rate swap and inflation rate swap contracts outstanding as at the reporting date.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

Cash flow hedges

	Average contract fixed interest/inflation rate		Notional principal value		Fair value	
	2019 %	2018 %	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Less than one year						
Two to five years						
Over five years:						
- interest rate swaps	4.4925	4.4925	140,616	144,194	(57,780)	(52,887)
- inflation rate swaps	2.7350	2.7350	5,580	6,569	(20,821)	(28,188)
			<u>146,196</u>	<u>150,763</u>	<u>(78,601)</u>	<u>(81,075)</u>

The interest rate swaps settle on a six monthly basis. The floating rate on the interest rate swaps is 6 months LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis.

Interest rate swap contracts exchanging floating rate interest for fixed rate interest are designated as cash flow hedges to reduce the Company's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

Inflation rate swap contracts exchanging floating rate inflation for fixed rate inflation are designated as cash flow hedges to reduce the Company's cash flow exposure resulting from variable inflation rates on revenue. The amount accumulated in equity is reclassified to profit or loss over the period that the inflation rate impacts on revenues recorded in profit or loss.

(e) Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and operate within the parameters agreed with the debt providers and the Trust. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 14, cash and cash equivalents, issued capital, reserves and retained earnings. The Company is not subject to any externally imposed capital requirements.

The Company's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Company has a target gearing ratio of 85 per cent to 95 per cent determined as the proportion of net senior debt to equity plus subordinated debt. The gearing ratio at 31 December 2019 of 86 per cent (see below) was equal to the target gearing ratio as specified in the financial model.

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

15. Financial instruments - continued

Gearing ratio

The gearing ratio at the year end is as follows:

	2019 £'000	2018 £'000
Senior debt	140,616	144,194
Cash and cash equivalents	(23,191)	(20,457)
Net senior debt	117,425	121,903
Equity	1	1
Subordinated debt	19,050	19,050
	19,051	19,051
	86%	86%

Debt is defined as long- and short-term borrowings (excluding derivatives). Equity includes all capital, and reserves of the Company that are managed as capital.

16. Provisions

	2019 £'000	2018 £'000
Other provisions	250	400
Analysed as follows:		
Current	150	150
Non-current	100	250
	250	400
		2019 £'000
At 1 January 2019		400
Provision utilised in the year		(150)
At 31 December 2019		250

The provision represents the Company's liability under a support package agreement with a supplier.

**NIHG South West Health Partnership
Limited (Registered number: NI072130)**

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

17. Deferred tax

	2019 £'000	2018 £'000
Balance at 1 January	(13,947)	(14,653)
Charge to comprehensive income	420	651
Credit to profit and loss	(79)	55
Balance at 31 December	<u>(13,606)</u>	<u>(13,947)</u>

18. Related party disclosures

The Company's parent is NIHG Limited. NIHG Limited is incorporated in the United Kingdom and registered in Northern Ireland and copies of its financial statements, which are those of the smallest and largest group for which group financial statements are drawn up and of which the reporting entity is a member, are available from its registered office at Marlborough House, 30 Victoria Street, Belfast, BT1 3GG.

The Company deems its investors in its parent company (as detailed in note 1) to be related parties in accordance with IAS 24 Related Party Disclosures as they exercise joint control over the Company through the parent company. Transactions between the company and its related parties are disclosed below.

Directors' transactions

There were no transactions with any of the company's directors. A payment was made for the services of the non-executive directors to their employers. The charge in the year was £153k (2018: £75k).

Loans from related parties

	2019 £'000	2018 £'000
Loans from NIHG Limited	<u>19,050</u>	<u>19,050</u>
	<u>19,050</u>	<u>19,050</u>

Amounts repayable to NIHG Limited of £19,050k (2018: £19,050k) carry interest of 12.019% (2018: 12.019%) per annum charged on the outstanding loan balances (see note 14). Interest of £15,888k (2018: £11,832k) in respect of the loan notes was accrued at the year end. Unpaid interest bears interest at a rate to date of 14.019% per annum.

19. Reconciliation of (loss)/profit before income tax to cash generated from operations

	2019 £'000	2018 £'000
(Loss)/profit before income tax	(549)	290
Decrease in provisions	(150)	(200)
Finance costs	12,843	12,586
Finance income	<u>(11,244)</u>	<u>(11,451)</u>
	900	1,225
Decrease in trade and other receivables	2,118	1,466
Increase in trade and other payables	<u>862</u>	<u>376</u>
Cash generated from operations	<u>3,880</u>	<u>3,067</u>

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2019**

20. Cash and cash equivalents

Cash and cash equivalents compare cash and short term bank deposits with an original maturity of three months or less.

Included within cash and cash equivalents is a bank account with Allied Irish Banks plc a former shareholder up until 30 November 2017, with a balance of £69k (2018: £69k) at the year end. This amount is also included in borrowings as it relates to interest owed.

21. Post balance sheet events

The World Health Organisation declared the COVID-19 outbreak a health emergency on 30 January 2020 and a global pandemic on 11 March 2020. Many actions taken by the UK Government and the private sector to respond to the outbreak followed these announcements. A review of the financial impact on the company in responding to COVID-19 has been assessed as low and non-adjusting event. This is because the project company is still able to provide the services required under the project agreement as the sub-contracted Facilities Management company are still able to provide the necessary services as the work is deemed to be essential and the persons delivering those services deemed to be key workers, as confirmed by a guidance note released by the Infrastructure and Projects Authority on 2 April 2020.