Company registration number SC345017 (Scotland)

ELGIN HEALTH (MIDLOTHIAN) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

ELGIN HEALTH (MIDLOTHIAN) LIMITED

COMPANY INFORMATION

Directors	PR Hepburn	(Appointed 16 January 2023)
	J McDonagh	(Appointed 1 March 2023)
	JS Gordon	(Appointed 1 March 2023)
Secretary	Resolis Limited	
Company number	SC345017	
Registered office	Exchange Tower 11th Floor 19 Canning Street Edinburgh Scotland EH3 8EG	
Auditor	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE	

ELGIN HEALTH (MIDLOTHIAN) LIMITED

CONTENTS

ELGIN HEALTH (MIDLOTHIAN) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and financial statements for the year ended 31 March 2023.

Principal activities
The principal activities of the company are the finance, operation and maintenance of a community hospital near Bonnyrigg in Midlothian, through an agreement with NHS Lothian, Health NHS Trust. The agreement was entered into under the Government's Private Finance Initiative scheme. The contract is in year 13 of its term, expiring in August 2040.

Results and dividends
The profit for the financial year, after taxation, amounted to £25,353 (2022: £6,951).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key Performance Indicators

The performance of the company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider, with the key indicator being the debt service cover ratio. The company has been performing well and has been compliant with the covenants laid out in the Group loan agreement. At the year end this ratio was 2.52 (2022: 1.36).

Going Concern

The company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions which will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and meet its debt covenants as they fall due. The company's operating cash flows are largely dependent on the unitary charge receipts and the directors expect these amounts will be received even in severe, but plausible, downside scenarios.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the company's annual financial statements.

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

PK Johnstone	(Resigned 9 February 2023)
GM Steven	(Resigned 28 September 2022)
PR Hepburn	(Appointed 16 January 2023)
J McDonagh	(Appointed 1 March 2023)
JS Gordon	(Appointed 1 March 2023)

Qualifying third party indemnity provisions
The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Financial instruments
Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company are cash flow and liquidity risk. Credit risk is not considered significant as the client is a quasi-governmental organisation.

Cash flow and liquidity risk
Many of the cash flow risks are addressed by means of contractual provisions. The company's liquidity risk is principally managed through financing the company by means of long-term borrowings.

The financial risk management objectives of the company are to ensure that financial risks are mitigated by the use of financial instruments. The company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Auditor
The auditor, Johnston Carmichael LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption
This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

PR Hepburn
Director

29 August 2023

ELGIN HEALTH (MIDLOTHIAN) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to 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.

ELGIN HEALTH (MIDLOTHIAN) LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF ELGIN HEALTH (MIDLOTHIAN) LIMITED

Opinion

We have audited the financial statements of Elgin Health (Midlothian) Limited ('the company') for the year ended 31 march 2023, which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement as set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

- Revenue Recognition; and
- Management override of controls;

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

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

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

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.

Fiona Munro (Senior Statutory Auditor)
For and on behalf of Johnston Carmichael LLP
Statutory Auditor

30 August 2023
7-11 Melville Street
Edinburgh
EH3 7PE

ELGIN HEALTH (MIDLOTHIAN) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £	2022 £
Turnover		985,321	890,836
Cost of sales		(397,181)	(376,972)
Gross profit		588,140	513,864
Administrative expenses		(195,493)	(170,999)
Operating profit	3	392,647	342,865
Interest receivable and similar income		884,953	908,553
Interest payable and similar expenses		(1,224,269)	(1,246,557)
Profit before taxation		53,331	4,861
Tax on profit		(27,978)	2,090
Profit for the financial year		25,353	6,951
Other comprehensive income			
Cash flow hedges gain arising in the year		2,616,354	2,026,913
Total comprehensive income for the year		2,641,707	2,033,864

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

ELGIN HEALTH (MIDLOTHIAN) LIMITED

BALANCE SHEET

AS AT 31 MARCH 2023

	Notes	2023 £	2023 £	2022 £	2022 £
Current assets					
Debtors falling due after more than one year	5	15,658,512		17,111,088	
Debtors falling due within one year	5	2,346,813		2,054,545	
Cash at bank and in hand		2,448,495		2,317,543	
		20,453,820		21,483,176	
Creditors: amounts falling due within one year	7	(2,431,789)		(579,569)	
Net current assets			18,022,031		20,903,607
Creditors: amounts falling due after more than one year	8		(18,618,650)		(24,141,933)
Net liabilities			(596,619)		(3,238,326)
Capital and reserves					
Called up share capital	10		143,500		143,500
Hedging reserve	11		(345,125)		(2,961,479)
Profit and loss reserves	11		(394,994)		(420,347)
Total equity			(596,619)		(3,238,326)

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

The financial statements were approved by the board of directors and authorised for issue on 29 August 2023 and are signed on its behalf by:

PR Hepburn
Director

Company Registration No. SC345017

ELGIN HEALTH (MIDLOTHIAN) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Share capital	Hedging reserve	Profit and loss reserves	Total
	£	£	£	£
Balance at 1 April 2021	143,500	(4,988,392)	(427,298)	(5,272,190)
Year ended 31 March 2022:				
Profit for the year	-	-	6,951	6,951
Other comprehensive income:				
Cash flow hedges gains	-	2,026,913	-	2,026,913
Total comprehensive income for the year	-	2,026,913	6,951	2,033,864
Balance at 31 March 2022	143,500	(2,961,479)	(420,347)	(3,238,326)
Year ended 31 March 2023:				
Profit for the year	-	-	25,353	25,353
Other comprehensive income:				
Cash flow hedges gains	-	2,616,354	-	2,616,354
Total comprehensive income for the year	-	2,616,354	25,353	2,641,707
Balance at 31 March 2023	143,500	(345,125)	(394,994)	(596,619)

1 Accounting policies

Company information

Elgin Health (Midlothian) Limited is a private company limited by shares incorporated in Scotland. The registered office is Exchange Tower, 11th Floor, 19 Canning Street, Edinburgh, Scotland, EH3 8EG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed further in the accounting policies.

The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption in FRS 102 section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

The company has also taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

1.2 Going concern

The company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and meet its debt covenants as they fall due. The company's operating cash flows are largely dependent on the unitary charge receipts and the directors expect these amounts will be received even in severe, but plausible downside scenarios.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the company's annual financial statements.

1.3 Turnover

Turnover represents the services' share of the management services income received by the company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

1 Accounting policies **(Continued)**

1.4 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, and other short-term liquid investments with original maturities of three months or less.

The company is obligated to keep cash reserves as at the balance sheet date and 30 September in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown within the "cash at bank and in hand" balance, amounts to £362,095 (2022: £1,569,964) as at the balance sheet date.

1.5 Financial instruments

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

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

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

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

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

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

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

1.6 Hedge accounting

The company designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as 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 risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item.

1 Accounting policies **(Continued)**

For derivatives that are designated and qualify as cash flow hedges, the effective portion of changes in the fair value of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Any gain or loss previously recognised in other comprehensive income is reclassified to profit or loss when the hedge relationship ends. This occurs when the hedging instrument expires or no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised, or the hedging instrument is terminated.

1.7 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.8 Lifecycle

Lifecycle costs are a significant portion of future expenditure. Given the length of the company's service concession contract, the forecast of lifecycle costs is subject to estimation, uncertainty and changes in the amount and timing of expenditure that could have material impacts. The risk here is mitigated by future estimates of lifecycle expenditure being prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. Lifecycle costs borne by the company are recognised as they are incurred and estimated over the remaining contract period.

1.9 Finance debtor

The company has taken the transition exemption in FRS 102 Section 35.10(i) which allows the company to continue the service concession arrangement accounting policies from previous UK GAAP.

The company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

2 Judgements and key sources of estimation uncertainty

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

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

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Hedge accounting and consideration of the fair value of derivative financial instruments

The company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The company fair values its derivative financial instruments and records the fair value of those instruments on its balance sheet. No market prices are available for these investments and consequently the fair values are determined by calculating the present value of the estimated future cashflows based on observable yield curves. There is also a judgement on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

Deferred taxation

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Judgement is required in the case of the recognition of deferred tax assets, the directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future trading profits arising. This exercise of judgement requires the directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

Key sources of estimation uncertainty

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

Impairment of assets

The carrying value of those assets recorded in the Company's balance sheet, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compare that with the carrying value of the asset or assets in the balance sheet. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract. These were forecast initially within the operating model at financial close and are closely monitored throughout the duration of the project.

ELGIN HEALTH (MIDLOTHIAN) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

3 **Operating profit**

	2023	2022
Operating profit for the year is stated after charging:	£	£
Fees payable for the audit of the annual report and financial statements	11,500	10,000

Included in the fee above is £3,800 (£2022: £3,450) for taxation compliance services. Also included in the fee above is £1,200 (2022: £1,000) for the audit of the immediate parent entity Elgin Health (Midlothian) Holdings Limited. Auditor remuneration is payable to Johnston Carmichael LLP.

4 **Employees**

The average monthly number of persons (including directors) employed by the company during the year was nil (2022: nil). The directors are not employed by the company and did not receive any remuneration from it during the year (2022 : £nil). Director fees are paid to Elgin Infrastructure Limited.

5 **Debtors**

	2023	2022
Amounts falling due within one year:	£	£
Trade debtors	278,591	12,336
Corporation tax recoverable	-	16,430
Other debtors	576,761	546,924
Prepayments and accrued income	1,491,461	1,478,855
	2,346,813	2,054,545

	2023	2022
Amounts falling due after more than one year:	£	£
Other debtors	15,541,624	16,118,387
Deferred tax asset	116,888	992,701
	15,658,512	17,111,088
Total debtors	18,005,325	19,165,633

Included within Other debtors is a shareholder loan of £37,859 (2022: £37,859) created in March 2017 which bears no interest and is repayable on demand. Also included is accrued income of £1,348,518 (2022: £1,412,577) relating to the unitary charge control account, which is forecast to be received within the next 12 months via Unitary Charge receipts with amounts received being offset by service concession accounting adjustments.

The Finance asset receivable represents payments due from Lothian Health Board in respect of the Project Agreement. These payments are received over the remaining life of the agreement.

6 Financial instruments

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The company's use of derivative financial instruments is described below.

Interest rate swaps

The company has entered into an interest rate swap with third parties for the same notional amount as the company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into with a base rate of 3.84% on 9 March 2009 and expire on 31 December 2038.

The director believes that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence has concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

The company's derivative financial instruments are carried at fair value. The net carrying value of the derivative financial instruments at 31 March 2023 amounted to net liabilities of £458,689 (2022: £3,948,638). All of the movements during the year in the fair value of these derivative financial instruments, net of deferred tax, have been recorded in the cash flow hedge reserve amounting to a credit of £2,616,354 (2022: £2,026,913).

7 Creditors: amounts falling due within one year

	2023	2022
	£	£
Bank loans	392,820	327,204
Trade creditors	181,287	42,294
Corporation tax	9,292	-
Other taxation and social security	89,763	94,815
Other creditors	1,758,627	115,256
	2,431,789	579,569

Included within Other creditors is accrued interest due to group undertakings of £99,617 (2022: £45,275) and amounts due to group undertakings £1,614,376 (2022: nil).

Subordinated debt provided by Elgin Health (Midlothian) (Holdings) Limited bears interest at 13.5% per annum and was originally due to be repaid in 2037. Permission was granted from the lender to permit repayment of the loan and remaining interest at the signing of the March 2022 financial statements. The sub debt balance of £1,614,376 was repaid in April 2023.

8 Creditors: amounts falling due after more than one year

	2023	2022
	£	£
Bank loans and overdrafts	18,159,961	18,578,919
Amounts owed to group undertakings	-	1,614,376
Other creditors	458,689	3,948,638
	18,618,650	24,141,933

Included within creditors falling due after more than one year is an amount of £15,838,193 (2022: £18,170,470) in respect of liabilities payable or repayable by instalments which fall due after more than five years from the reporting date.

The senior debt due to the Cooperative Bank is secured by a bond and floating charge over the assets and undertakings of the Company and by a guarantee supported by a bond and floating charge over the assets and undertakings of its parent company. The loan bears interest at 5.26% per annum under a swap agreement entered into by the company. The swap rate is fixed for the duration of the loan. The term loan is repayable in quarterly instalments which commenced on 30 September 2010. The final repayment is due in September 2040. Senior debt is stated net of issue costs of £90,744 (2022: £96,941).

9 Deferred taxation

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

	Assets	Assets
	2023	2022
Balances:	£	£
Short term timing differences	2,216	5,541
Derivative financial instruments	114,672	987,160
	116,888	992,701

	2023
Movements in the year:	£
Asset at 1 April 2022	(992,701)
Movement through Other Comprehensive Income	875,813
Asset at 31 March 2023	(116,888)

No portion of the deferred tax balance is likely to be recovered or settled in the 12 months following the Statement of Financial Position date.

10 Called up share capital

	2023	2022	2023	2022
Ordinary share capital	**Number**	**Number**	**£**	**£**
Issued and fully paid				
Ordinary shares of £1 each	143,500	143,500	143,500	143,500

11 Reserves

Hedging reserve
This reserve records fair value movements on cash flow hedging instruments.

Retained earnings
This reserve records retained earnings and accumulated losses.

12 Events after the reporting date

The outstanding sub debt capital balance was repaid on 5th April 2023. This was an early repayment brought forward from 2027.

13 Related party transactions

The company is wholly owned by Elgin Health (Midlothian) (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures' that allows it not to disclose transactions with wholly owned members of a group.

14 Parent company

The immediate parent undertaking is Elgin Health (Midlothian) (Holdings) Limited, a limited company incorporated in Scotland. The accounts for Elgin Health (Midlothian) (Holdings) Limited can be obtained from C/O Resolis Limited Exchange Tower, 11th Floor, 19 Canning Street, Edinburgh, Scotland, EH3 8EG.

Elgin Health (Midlothian) (Holdings) Limited is owned 100% by Elgin Infrastructure Limited, which is jointly owned between Cobalt Project Investments Limited and Ednaston Project Investments Limited. There is no ultimate controlling party.