

Company Registration No. 04129835 (England and Wales)

**THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS)
LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

COMPANY INFORMATION

Directors	Mrs G Birley-Smith Mr B Dean
Secretary	HCP Social Infrastructure (UK) Limited
Company number	04129835
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditors	KPMG LLP 100 Temple Street Bristol BS1 6AG

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

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THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present the strategic report and financial statements for the year ended 31 December 2015.

Fair review of the business

The principal activity of the group is to design, build, finance and operate the new Coventry and Rugby University Hospital in accordance with a 40 year contract (the Project Agreement) with the University Hospitals Coventry and Warwickshire NHS Trust and the Coventry and Warwickshire Partnership Trust (together the "Trusts"). Contract negotiations were successfully completed in December 2002 and construction commenced immediately. The project has been operational since 2006.

The directors do not foresee any change in the activities of the group.

Principal risks and uncertainties

The group has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the group's performance. The directors have policies for managing each of these risks and they are summarised below:

Major maintenance

The principal risk borne by the group is that maintenance costs exceed those forecast in the financial model agreed at financial close. This risk is mitigated by regular management review of actual expenditure against budget and technical evaluations of the physical condition of the facilities.

Availability

Investment in the project is funded primarily by the bonds and subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the bonds will be unitary charge received from the Trusts under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the group's ability to make payments to bondholders. Deductions incurred in the year were, where possible, recovered from the service provider.

Service performance

Performance risk under the Project Agreement and related contracts are substantially passed on to the service providers. The obligations of these subcontractors are underwritten by parent company guarantees. Ultimately, poor performance may result in the Trusts having the right to terminate the Project Agreement. As noted in the discussion of the group's KPIs, despite the levels of deductions being higher than the previous year, the levels of deductions levied in the year were still relatively low and are not considered to pose a risk to the project.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Development and performance

The group made a loss of £5,381,000 (2014: profit of £1,385,000) for the year on a turnover of £66,218,000 (2014: £73,594,000). At 31 December 2015 the group had net liabilities of £43,236,000 (2014: £37,855,000).

Financial covenants have been met during the year and having considered the anticipated future performance and position of the group, the directors are of the opinion that the covenants will continue to be met in the future.

During the year, the group has repaid £13,739,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). Scheduled loan repayment dates are 30 June and 31 December each year. In the previous financial year, the group repaid a total of £12,727,000.

The group has not repaid any of the subordinated unsecured loan stock as scheduled repayments do not commence until 2042.

The directors believe the financial asset to be recoverable over the term of the Project Agreement.

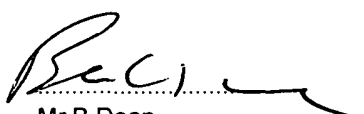
Key performance indicators

Financial penalties are levied by the Trusts in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are substantially passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year deductions of £4,611,000 (2014: £66,000) were levied by the Trusts. The total deductions amount to 8.14% (2014: 0.21%) of the service revenue earned from the Trusts in the year. The increase on previous years results from certain construction defects in the Project. A plan for rectification works required to resolve the issues identified has been agreed with the Trusts.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As discussed above the group's performance as at 31 December 2015 against this measure was considered satisfactory.

The group is providing a full range of facilities management services as required under the Project Agreement at a satisfactory level.

On behalf of the board



Mr B Dean

Director

27 April 2016

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their annual report and financial statements for the year ended 31 December 2015.

Directors

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

Mrs G Birley-Smith
Mr B Dean

Results and dividends

The results for the year are set out on page 9.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Supplier payment policy

The group's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Trade creditors of the group at the year end were equivalent to 19 (2014: 36) days purchases, based on the average daily amount invoiced by suppliers during the year.

Political donations

The group made no political donations during the year (2014: £nil).

Financial instruments

Treasury operations and financial instruments

The group's financial instruments result in the group's exposure to liquidity, credit rate and interest rate risks. Further information on the financial instruments employed by the group can be seen in the notes to these financial statements.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the group.

Interest rate risk

The group is exposed to interest rate risk on bank balances with floating interest rates, however the directors do not consider this exposure to be significant.

The guaranteed secured bonds and the unsecured subordinated loan notes both have fixed rates until 2040 and 2042 respectively, thus there is no interest rate risk associated with these financial liabilities.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The Trusts are the only clients of the group. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trusts will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trusts' obligations. The carrying values of the finance debtor of £330,457,000 (2014: £335,280,000) and the unitary charge control account of £17,937,000 (2014: £23,592,000) represent the maximum credit exposure.

Financial risk management policies and objectives

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

Auditor

In accordance with the company's articles, a resolution proposing that KPMG LLP be reappointed as auditor of the group will be put at a General Meeting.

Statement of disclosure to the 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.

Going concern

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and its exposures to credit, liquidity and interest rate risk are described above.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Significant shareholdings and special rights

The company is 100% owned by Innisfree PFI Continuation Fund through its nominee Innisfree Nominees Limited. The shareholder holds its shareholdings as a long term investment.

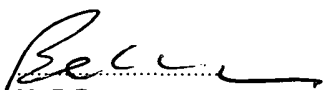
None of the company's ordinary shares carry any special rights with regard to the control of the company. There are no known arrangements under which financial rights are held by a person other than the beneficial owner of the shares and no known agreements on restrictions on share transfers (other than pre-emption rights between existing shareholders) or on voting rights.

Directors appointment and replacement, allotments of shares and control provisions

The rules about the appointment and replacement of directors are contained in the company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time. The powers of the directors and authority to issue and allot ordinary shares are determined by UK legislation and the Memorandum and Articles of Association of the company in force from time to time. Subject to UK legislation the directors are empowered by the Articles to authorise the company to purchase its own shares.

The company does not have agreements with any director that would provide compensation for loss of office or employment following a takeover.

On behalf of the board



Mr B Dean

Director

27 April 2016

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

We have audited the financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited for the year ended 31 December 2015 set out on pages 9 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

28 April 2016

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Notes	£'000	£'000
Turnover	3	66,218	73,594
Administrative expenses		(63,117)	(61,567)
Operating profit		3,101	12,027
Interest receivable and similar income	6	15,183	20,736
Interest payable and similar charges	7	(24,059)	(30,991)
(Loss)/profit before taxation		(5,775)	1,772
Taxation	8	394	(387)
(Loss)/profit for the financial year		(5,381)	1,385
Other comprehensive income for the year		-	-
Total comprehensive (loss)/income for the year		(5,381)	1,385

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

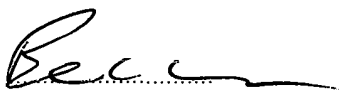
THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Current assets			
Debtors falling due after one year	10	334,575	339,332
Debtors falling due within one year	10	38,697	33,879
Cash at bank and in hand		55,327	59,238
		<u>428,599</u>	<u>432,449</u>
Creditors: falling due within one year	12	<u>(25,692)</u>	<u>(26,793)</u>
Net current assets		402,907	405,656
Creditors: amounts falling due after more than one year	13	(436,643)	(443,511)
Provisions for liabilities	14	(9,500)	-
Net liabilities		<u>(43,236)</u>	<u>(37,855)</u>
Capital and reserves			
Called up share capital	16	50	50
Profit and loss reserves		(43,286)	(37,905)
Total equity		<u>(43,236)</u>	<u>(37,855)</u>

The financial statements were approved by the board of directors and authorised for issue on 27 April 2016 and are signed on its behalf by:



Mr B Dean
Director

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments	9	50	50
Current assets			
Debtors falling due after one year	10	35,743	33,342
Debtors falling due within one year	10	2,630	488
Cash at bank and in hand		-	1,952
		<u>38,373</u>	<u>35,782</u>
Creditors: falling due within one year	12	<u>(2,630)</u>	<u>(2,440)</u>
Net current assets		35,743	33,342
Total assets less current liabilities		35,793	33,392
Creditors: amounts falling due after more than one year	13	(35,743)	(33,342)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	16	50	50

The financial statements were approved by the board of directors and authorised for issue on 27 April 2016 and are signed on its behalf by:


Mr B Dean
Director

Company Registration No. 04129835

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2014		50	(39,290)	(39,240)
Period ended 31 December 2014:				
Loss and total comprehensive income for the year		-	1,385	1,385
Balance at 31 December 2014		50	(37,905)	(37,855)
Period ended 31 December 2015:				
Loss and total comprehensive income for the year		-	(5,381)	(5,381)
Balance at 31 December 2015		50	(43,286)	(43,236)

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Share capital £'000
Balance at 1 January 2014		50
Period ended 31 December 2014:		
Loss and total comprehensive income for the year		-
Balance at 31 December 2014		50
Period ended 31 December 2015:		
Loss and total comprehensive income for the year		-
Balance at 31 December 2015		50

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Notes	£'000	£'000
Cash flows from operating activities			
Cash generated from operations	20	12,059	15,382
Income taxes refunded/(paid)		1	(51)
Net cash inflow from operating activities		12,060	15,331
Financing activities			
Interest paid		(16,778)	(19,377)
Interest received		15,183	20,736
Repayment of bank loans		(14,376)	(12,727)
Net cash used in financing activities		(15,971)	(11,368)
Net (decrease)/increase in cash and cash equivalents		(3,911)	3,963
Cash and cash equivalents at beginning of year		59,238	55,275
Cash and cash equivalents at end of year		55,327	59,238

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

Company information

The Coventry and Rugby Hospital Company (Holdings) Limited ("the company") is a limited company domiciled and incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

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.

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 £'000.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 December 2015 are the first financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 January 2014. The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

Service concession arrangements: The group entered into its service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The Company's profit for the year was £nil (2014: £nil).

In these financial statements, the company is considered a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

1.2 Going concern

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

1.3 Turnover

Turnover is recognised in accordance with the service concession contract accounting policy. Turnover represents value of work done entirely in the United Kingdom and excludes value added tax.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.4 Financial instruments

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

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

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

Basic financial assets

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

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The group is obligated to keep separate cash reserves in respect of requirements in the group's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £51,054,000 at the year end (2014: £55,891,000).

Finance debtor

The finance debtor is classified as a debt instrument, which is initially measured at transaction price including transaction costs and 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.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

Impairment of financial assets

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

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

Derecognition of financial assets

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

Classification of financial liabilities

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

Basic financial liabilities, including trade and creditors, bonds and subordinated loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derecognition of financial liabilities

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

1.5 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.6 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 group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

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 if, and only if, there is 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.

1.7 Provisions

Provisions are recognised when the group has a legal or constructive present obligation as a result of a past event, it is probable that the group 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 reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

1.8 Service concession accounting

The group is an operator of a Public Finance Initiative ("PFI") contract. The underlying asset is not deemed to be an asset of the group under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Trusts.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

1.9 Interest receivable and payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements

Certain critical accounting judgements in applying the group's accounting policies are described below:

Service concession accounting

Accounting for the service concession contract and finance debtors requires of estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.

Debtors

The recoverability of the group's debtors has been assessed by the directors and, where any uncertainty has been identified, sufficient provisions have been posted to reflect the uncertainty.

Provisions

The provision requires an estimate of the construction and ancillary costs required to correct certain defects in the project.

3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2015 £'000	2014 £'000
Turnover		
Services income	51,978	59,317
Other income	14,240	14,277
	<u>66,218</u>	<u>73,594</u>

4 Auditor's remuneration

	2015 £'000	2014 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the group and company	<u>17</u>	<u>17</u>
For other services		
Taxation compliance services	<u>8</u>	<u>8</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

5 Employees

The company had no employees during the year (2014: nil).

6 Interest receivable and similar income

	2015 £'000	2014 £'000
Interest income		
Interest on bank deposits	428	467
Interest on Finance Debtor	14,755	20,269
	<u>15,183</u>	<u>20,736</u>
Total income	<u>15,183</u>	<u>20,736</u>

7 Interest payable and similar charges

	2015 £'000	2014 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	3,810	10,732
Interest on bonds	14,339	14,536
Interest on subordinated loans	5,031	4,841
Amortisation of finance arrangement costs	879	882
	<u>24,059</u>	<u>30,991</u>
	<u>24,059</u>	<u>30,991</u>

8 Taxation

	2015 £'000	2014 £'000
Current tax		
UK corporation tax on profits for the current period	-	33
Adjustments in respect of prior periods	(35)	-
	<u>(35)</u>	<u>33</u>
Total current tax	<u>(35)</u>	<u>33</u>
Deferred tax		
Origination and reversal of timing differences	-	348
Changes in tax rates	845	(24)
Adjustment in respect of prior periods	1	30
Tax losses carried forward	(1,205)	-
	<u>(359)</u>	<u>354</u>
Total deferred tax	<u>(359)</u>	<u>354</u>
Total tax (credit)/charge	<u>(394)</u>	<u>387</u>

A deferred tax asset in respect of tax losses has been recognised as the directors consider the balance to be recoverable over the life of the PFI contract.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

8 Taxation

(Continued)

The charge for the year can be reconciled to the (loss)/profit per the profit and loss account as follows:

	2015 £'000	2014 £'000
(Loss)/profit before taxation	(5,775)	1,772
Expected tax charge based on a corporation tax rate of 20.25% (2014 - 21.50%)	(1,169)	381
Unutilised tax losses carried forward	(36)	-
Adjustments in respect of prior years	(35)	-
Effect of change in corporation tax rate	845	(24)
Deferred tax adjustments in respect of prior years	1	30
Total tax (credit)/charge	(394)	387

The total tax charge as stated above has been recorded in the profit and loss account.

The group has tax losses of £50,318,000 (2014: £44,369,000) which have been carried forward and will be offset against future trading profits.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantially enacted on 2 July 2013 and as such a blended rate of 20.25% has been used for the calculation of current tax for the year ended 31 December 2015.

A further reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantially enacted on 26 October 2015. The latest budget announcement on 16 March 2016 has proposed a reduction to 17% (effective from 1 April 2020). This will reduce the company's future tax accordingly.

9 Fixed asset investments

	Notes	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Investments in subsidiaries	19	-	-	50	50

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

9 Fixed asset investments

(Continued)

Movements in fixed asset investments Company

Shares
£'000

Cost

At 1 January 2015 & 31 December 2015

50

Carrying amount

At 31 December 2015

50

At 31 December 2014

50

10 Debtors

	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Amounts falling due within one year:				
Trade debtors	2,700	1,568	-	-
Unitary charge control account	17,937	23,592	-	-
Corporation tax receivable	18	-	-	-
Amounts due from subsidiary undertakings	-	-	2,630	488
Other debtors	7,000	-	-	-
Finance debtor	5,115	4,822	-	-
Prepayments and accrued income	5,927	3,897	-	-
	<u>38,697</u>	<u>33,879</u>	<u>2,630</u>	<u>488</u>
Amounts falling due after one year:				
Amounts due from subsidiary undertakings	-	-	35,743	33,342
Finance debtor	325,342	330,458	-	-
	<u>325,342</u>	<u>330,458</u>	<u>35,743</u>	<u>33,342</u>
Deferred tax asset (note 15)	9,233	8,874	-	-
	<u>334,575</u>	<u>339,332</u>	<u>35,743</u>	<u>33,342</u>
Total debtors	<u>373,272</u>	<u>373,211</u>	<u>38,373</u>	<u>33,830</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

11 Bank loans and overdrafts

	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Bonds	410,987	421,188	-	-
Subordinated loans	35,743	33,342	35,743	33,342
	<u>446,730</u>	<u>454,530</u>	<u>35,743</u>	<u>33,342</u>
Payable within one year	10,087	11,019	-	-
Payable after one year	<u>436,643</u>	<u>443,511</u>	<u>35,743</u>	<u>33,342</u>
Amounts included above which fall due after five years:				
Payable by instalments	<u>395,016</u>	<u>413,881</u>	<u>35,743</u>	<u>33,342</u>

The bond is secured by an irrecoverable financial guarantee policy issued by MBIA Assurance S.A. (succeeded by MBIA UK Insurance Limited), in favour of Maurant & Co. Capital Trustees Limited (subsequently replaced by Capita Trust Company Ltd) as security trustee over all of the undertakings and assets of the group. The bond is repayable in bi-annual instalments ending in 2040 and is subject to an interest rate of 3.246% index linked.

The shareholders' subordinated debt is unsecured and repayable in 2042 subsequent to the repayment of the bond. Interest is payable bi-annually at a rate of 14.52% per annum.

12 Creditors: falling due within one year

	Notes	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Bank loans and overdrafts	11	10,087	11,019	-	-
Other taxation and social security		251	-	-	-
Trade creditors		3,296	5,917	-	-
Other creditors		110	3,124	-	2,440
Accruals and deferred income		11,948	6,733	2,630	-
		<u>25,692</u>	<u>26,793</u>	<u>2,630</u>	<u>2,440</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

13 Creditors: amounts falling due after more than one year

	Notes	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Bank loans and overdrafts	11	436,643	443,511	35,743	33,342

14 Provisions for liabilities

	Group 2015 £'000	2014 £'000	Company 2015 £'000	2014 £'000
Remediation costs	9,500	-	-	-

Movements on provisions:

Group	£'000
At 1 January 2015	-
Additional provisions in the year	9,500
At 31 December 2015	9,500

The provision recorded during the year relates to the directors' best estimate of the construction and ancillary costs required to correct certain defects in the project. These costs are expected to be incurred during 2016 and 2017.

15 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets 2015 £'000	Assets 2014 £'000
Group		
Tax losses	9,233	8,874

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

15 Deferred taxation (Continued)

	Group 2015 £'000	Company 2015 £'000
Movements in the year:		
Liability/(Asset) at 1 January 2015	(8,874)	-
Charge to profit or loss	(1,205)	-
Effect of change in tax rate - profit or loss	845	-
Other	1	-
Liability/(Asset) at 31 December 2015	(9,233)	-

16 Share capital

	Group and company 2015 £'000	2014 £'000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50

17 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, who are also directors, is as follows.

	2015 £'000	2014 £'000
Directors services	29	31

The group incurred the above fees from Innisfree Limited.

Transactions with related parties

	Management services 2015 £'000
Group	
HCP Social Infrastructure (UK) Limited	682

In December 2002, the group entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited. HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited, is invested with funds under the management of Innisfree Limited, who also manage the funds invested in the group.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

17 Related party transactions

(Continued)

The following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2015 £'000	2014 £'000
Group		
Key management personnel	17	17
HCP Social Infrastructure (UK) Limited	-	70
	<u>17</u>	<u>87</u>

No guarantees have been given or received.

18 Controlling party

The company's voting share capital is held by Innisfree PFI Continuation Fund through its nominee Innisfree Nominees Limited, managed by Innisfree Limited. All of these entities are registered in England and Wales.

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

19 Subsidiaries

Details of the company's subsidiaries at 31 December 2015 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held	
			Direct	Indirect
The Coventry and Rugby Hospital Company Plc	England and Wales	PFI Special Purpose Vehicle	Ordinary	
			99.99	0.01
The Coventry and Rugby Hospital Company Nominee Limited	England and Wales	Holding of investments	Ordinary	
			100.00	-

The aggregate capital and reserves and the profit for the year of the subsidiaries noted above was as follows:

Name of undertaking	Profit/(Loss)	Capital and Reserves
	£'000	£'000
The Coventry and Rugby Hospital Company Plc	(5,381)	(43,236)
The Coventry and Rugby Hospital Nominee Limited	-	-

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

20	Cash generated from operations	2015 £'000	2014 £'000
	(Loss)/profit for the year	(5,381)	1,385
	Adjustments for:		
	Income tax expense recognised in profit or loss	(394)	387
	Finance costs recognised in profit or loss	24,059	30,991
	Investment income recognised in profit or loss	(15,183)	(20,736)
	Increase in provisions	9,500	-
	Movements in working capital:		
	Decrease in debtors	951	1,203
	(Decrease)/increase in creditors	(1,493)	2,152
	Cash generated from operations	12,059	15,382