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 2017

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

COMPANY INFORMATION

Directors	Mr B Dean	
	Mr N Crowther	(Appointed 23 January 2017)
Secretary	HCP Social Infrastructure (UK) Limited	
Company number	04129835	
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG	
Auditors	KPMG LLP 66 Queen Square Bristol BS1 4BE	

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 2017

The directors present the strategic report for the year ended 31 December 2017.

The Coventry and Rugby Hospital Company (Holdings) Limited is the owner of The Coventry and Rugby Hospital Company Plc and The Coventry and Rugby Hospital Company Nominee Limited. These three companies constitute The Coventry and Rugby Hospital Company group of companies ('the group').

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 periodic 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 the group 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 unitary charge receipts 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. The levels of deductions levied in the year were mainly due to certain construction defects in the project. The deductions related to final settlement of these issues and therefore are not considered to pose a risk to the project.

Service Provider Failure

The likelihood of this risk is assessed through the review of service provider financial statements and through discussions with the service providers. The company currently considers the likelihood of this risk as being low. However, as continuity of service delivery is of paramount importance, the company has a Business Continuity Plan which details how the company would deal with a service provider failure. This includes directly employing staff and sub-contractors until a replacement sub-contractor is in place.

Development and performance
Turnover in the year reduced to £70,559,000 (2016: £72,551,000) mainly due to increased deductions in the year resulting from construction defects that were settled in the year. These were passed through to the service providers, in turn resulting in lower operating costs. Operating costs however, have not reduced by the same extent as turnover as compared to the previous year. This is due to the recovery of deductions of £1,327,000 recognised in turnover in 2016, therefore increasing turnover in that year. These deductions were made in 2015 and related to construction defects, recovery of these deductions were not made until 2016. This has led to a lower net operating profit in the current year.

Interest receivable increased to £23,019,000 (2016: £16,363,00) due to an increase in indexation, however bond interest payable, which is also index-linked, has increased to a greater extent to £28,603,000 (2016: £19,559,000), due to the higher balance of the bonds relative to the finance debtor on which interest is earned. This has led to a net interest cost of £11,608,000 (2016: £9,002,000)

The impact of these movements has resulted in a loss of £4,651,000 (2016: loss of £714,000) for the year on a turnover of £70,559,000 (2016: £72,551,000).

The financial position of the group is currently in net liabilities due to the bond debt financing which was used to build the Hospital being in excess of the capital asset which represents the future cash flows receivable. This position is expected to reverse in the future and is primarily driven by the decision to not capitalise the interest costs into the capital asset initially.

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 £14,461,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). In the previous financial year, the group repaid a total of £6,983,000. Scheduled loan repayment dates are 30 June and 31 December each year. As the 31st December 2016 fell on a non working day, payment of £6,739,000 was made on the 3rd January 2017, this was in line with the terms and conditions of the bond. However, as 31 December 2017 also fell on a non-working day, payment of £7,590,000 was made on 2nd January 2018 and therefore three repayments will be made in the 2018 financial year.

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

The finance debtor amortisation during the year was £5,427,000 (2016: £5,115,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £319,915,000 (2016: £325,342,000). 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 £3,958,000 (2016: £193,000) were levied by the Trusts. The total deductions amount to 6.56% (2016: 0.34%) of the service revenue earned from the Trusts in the year. The higher level of deductions this year resulted from certain construction defects in the project. A plan for rectification works to resolve the issues identified has been agreed with the Trusts and is underway.

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 2017 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
..25..April..2018

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and financial statements for the year ended 31 December 2017.

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	(Resigned 23 January 2017)
Mr B Dean	
Mr N Crowther	(Appointed 23 January 2017)

Results and dividends
The results for the year are set out on page 10.

No ordinary dividends were paid. The directors do not recommend payment of a further 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 17 (2016: 28) 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 (2016: £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.

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 value of the finance debtor of £319,915,000 (2016: £325,342,000) is the 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.

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
...25 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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 FRS102 *The Financial Reporting Standard applicable in the UK and the 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 or 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited (the 'company') for the year ended 31 December 2017 which comprise the Consolidated Statement of Total Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 1.

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 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102 *The Financial reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

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

Directors' responsibilities
As explained more fully in their statement set out on page 7, the directors are are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
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.

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
27/4/2018

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Turnover	3	70,559	72,551
Operating Costs		(63,889)	(64,031)
Operating profit		6,670	8,520
Interest receivable and similar income	7	23,019	16,363
Interest payable and similar expenses	8	(34,628)	(25,365)
Loss before taxation		(4,939)	(482)
Taxation	9	205	(232)
Loss for the financial year		(4,734)	(714)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(4,734)	(714)

The consolidated statement of total comprehensive income has been prepared on the basis that all operations are continuing operations.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Current assets					
Debtors falling due after one year	11	323,447		328,917	
Debtors falling due within one year	11	27,165		25,529	
Cash at bank and in hand		73,163		72,920	
		423,775		427,366	
Creditors: amounts falling due within one year	12	(39,003)		(32,008)	
Net current assets			384,772		395,358
Creditors: amounts falling due after more than one year	13		(433,056)		(436,605)
Provisions for liabilities	15		(400)		(2,703)
Net liabilities			(48,684)		(43,950)
Capital and reserves					
Called up share capital	17		50		50
Profit and loss reserves			(48,734)		(44,000)
Total equity			(48,684)		(43,950)

The financial statements were approved by the board of directors and authorised for issue on 25 April 2018 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 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed assets					
Investments	**10**		50		50
Current assets					
Debtors falling due after one year	**11**	37,626		36,370	
Debtors falling due within one year	**11**	15		14	
		37,641		36,384	
Creditors: amounts falling due within one year	**12**	(98)		(14)	
Net current assets			37,543		36,370
Total assets less current liabilities			37,593		36,420
Creditors: amounts falling due after more than one year	**13**		(37,626)		(36,370)
Net (liabilities)/assets			(33)		50
Capital and reserves					
Called up share capital	**17**		50		50
Profit and loss reserves			(83)		-
Total equity			(33)		50

The financial statements were approved by the board of directors and authorised for issue on 25 April 2018 and are signed on its behalf by:

Mr B Dean
Director

Company Registration No. 04129835

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 January 2016	50	(43,286)	(43,236)
Year ended 31 December 2016:			
Loss and total comprehensive income for the year	-	(714)	(714)
Balance at 31 December 2016	50	(44,000)	(43,950)
Year ended 31 December 2017:			
Loss and total comprehensive income for the year	-	(4,734)	(4,734)
Balance at 31 December 2017	50	(48,734)	(48,684)

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 January 2016	50	-	50
Year ended 31 December 2016:			
Profit and total comprehensive income for the year	-	-	-
Balance at 31 December 2016	50	-	50
Year ended 31 December 2017:			
Loss and total comprehensive income for the year	-	(83)	(83)
Balance at 31 December 2017	50	(83)	(33)

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Cash flows from operating activities					
Cash generated from operations	**22**		9,594		22,185
Income taxes paid			(65)		-
Net cash inflow from operating activities			9,529		22,185
Financing activities					
Interest paid		(17,844)		(13,972)	
Interest received		23,019		16,363	
Repayment of bank loans		(14,461)		(6,983)	
Net cash used in financing activities			(9,286)		(4,592)
Net increase in cash and cash equivalents			243		17,593
Cash and cash equivalents at beginning of year			72,920		55,327
Cash and cash equivalents at end of year			73,163		72,920

1 Accounting policies

Company information

The Coventry and Rugby Hospital Company (Holdings) Limited ("the company") is a private 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 presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The financial statements have been prepared on the historical cost convention. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's loss for the year was £83,000 (2016: £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

Notwithstanding the net liabilities of the group, the directors, having reviewed a cash flow forecast covering the remainder of the group's contract period and taking into account reasonably 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 and company 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 in relation to service revenue is recognised in accordance with the service concession contract accounting policy. Turnover in relation to pass-through revenue is recognised when the services are performed.

1.4 Investments in subsidiaries

In the separate financial statements of the company, investments in subsidiaries are carried at cost less impairment.

1 Accounting policies **(Continued)**

1.5 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 interest 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 £63,533,000 at the year end (2016: £67,638,000).

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 publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

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.

1 Accounting policies **(Continued)**

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group 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 the group's contractual obligations expire or are discharged or cancelled.

1.6 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.

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

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.

1.8 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.

1.9 Finance debtor and service income

The group is an operator of a Public Finance Initiative ("PFI") contract. As the group entered into the contract prior to the date of transition to FRS102, the group has taken advantage of the exemption in section 35.10 (i) of FRS102 which permit it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, 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 revenue in respect of the services provided, including lifecycle services, 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.

1.10 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.

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 debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the PFI contract. Lifecycle costs are a significant proportion of future expenditure and they can be volatile in nature. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis.

Debtors
The recoverability of the group's debtors has been assessed by the directors and, where any uncertainty has been identified, impairment losses have been recognised to reflect this uncertainty. Impairment losses are recognised to the extent that the future cash flows are considered to be affected.

Provisions
The provision requires an estimate of the construction and ancillary costs required to correct certain defects in the project. The estimate is based on the experience of costs incurred and the agreed nature and timescales of the programme of works agreed with the Trust.

3 Turnover and other revenue

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

	2017	2016
	£'000	£'000
Turnover		
Services income	56,339	57,465
Pass through income	10,494	11,958
Other income	3,726	3,128
	70,559	72,551

4 Auditor's remuneration

	2017	2016
Fees payable to the company's auditor and associates:	£'000	£'000
For audit services		
Audit of the financial statements of the group and company	22	18

5 Employees

The company had no employees during the year (2016: nil).

6 Directors' remuneration

	2017	2016
	£'000	£'000
Sums paid to third parties for directors' services	41	40

7 Interest receivable and similar income

	2017	2016
	£'000	£'000
Interest income		
Interest on bank deposits	330	468
Interest on finance debtor	22,689	15,895
Total Interest income	23,019	16,363

8 Interest payable and similar expenses

	2017	2016
	£'000	£'000
Interest on financial liabilities measured at amortised cost:		
Interest on bonds	28,603	19,559
Interest on subordinated loans	5,157	4,932
Amortisation of finance arrangement costs	868	874
	34,628	25,365

9 Taxation

	2017 £'000	2016 £'000
Current tax		
Adjustments in respect of prior periods	83	-
Total current tax	83	-
Deferred tax		
Group tax relief	87	173
Changes in tax rates	575	122
Adjustment in respect of prior periods	-	33
Tax losses carried forward	(950)	(96)
Total deferred tax	(288)	232
Total tax charge/(credit)	(205)	232

All tax has been charged to the Profit and Loss Account with none charged through other comprehensive income.

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

	2017 £'000	2016 £'000
Loss before taxation	(4,939)	(482)
Expected tax charge based on a corporation tax rate of 19.25% (2016: 20.00%)	(950)	(96)
Adjustments in respect of prior years	83	-
Effect of change in corporation tax rate	575	122
Group relief	-	173
Deferred tax adjustments in respect of prior years	87	33
Total tax (credit)/charge	(205)	232

9 Taxation (Continued)

The group has tax losses of £54,132,000 (2016: £49,676,000) which have been carried forward and will be offset against future trading profits. 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 group has deductible amounts carried forward in respect of interest on subordinated loans of £2,947,000 (2016: £1,841,000) for which no deferred tax asset has been recognised as the directors are not sufficiently certain of the utilisation of the amounts.

Reductions in the UK corporation tax rate from 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

10 Fixed asset investments

		Group		Company	
		2017	2016	2017	2016
	Notes	£'000	£'000	£'000	£'000
Investments in subsidiaries	21	-	-	50	50

Movements in fixed asset investments

Company	Shares
	£'000
Cost	
At 1 January 2017 & 31 December 2017	50
Carrying amount	
At 31 December 2017	50
At 31 December 2016	50

11 Debtors

	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Amounts falling due within one year:				
Trade debtors	1,734	2,026	-	-
Corporation tax receivable	-	18	-	-
Amounts due from subsidiary undertakings	-	-	15	14
Other debtors	905	2,295	-	-
Finance debtor	5,758	5,426	-	-
Prepayments and accrued income	18,768	15,764	-	-
	27,165	25,529	15	14
Amounts falling due after one year:				
Amounts due from subsidiary undertakings	-	-	37,626	36,370
Finance debtor	314,158	319,916	-	-
	314,158	319,916	37,626	36,370
Deferred tax asset (note 16)	9,289	9,001	-	-
	323,447	328,917	37,626	36,370
Total debtors	350,612	354,446	37,641	36,384

All financial assets included above are held at amortised cost.

12 Creditors: amounts falling due within one year

	Notes	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Loans and overdrafts	14	16,031	10,164	-	-
Other taxation and social security		1,496	1,135	-	-
Trade creditors		3,054	4,879	-	-
Amounts due to fellow group undertakings		-	-	83	-
Other creditors		730	110	-	14
Accruals and deferred income		17,692	15,720	15	-
		39,003	32,008	98	14

13 Creditors: amounts falling due after more than one year

		Group		Company	
		2017	2016	2017	2016
	Notes	£'000	£'000	£'000	£'000
Loans and overdrafts	14	433,056	436,605	37,626	36,370

All of the above items are held at amortised cost

14 Loans and overdrafts

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bonds	411,461	410,399	-	-
Subordinated Loans	37,626	36,370	37,626	36,370
	449,087	446,769	37,626	36,370
Payable within one year	16,031	10,164	-	-
Payable after one year	433,056	436,605	37,626	36,370
Amounts included above which fall due after five years:				
Payable by instalments	392,846	389,657	37,626	36,370

The bond is secured by an irrecoverable financial guarantee policy issued by MBIA Assurance S.A. (succeeded by Assured Guaranty (London) Limited), in favour of Mourant & Co. Capital Trustees Limited (subsequently replaced by Link Asset Services) 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.

15 Provisions for liabilities

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Remediation costs	400	2,703	-	-

15 Provisions for liabilities (Continued)

Movements on provisions:

Group	**£'000**
At 1 January 2016	2,703
Additional provisions in the year	400
Reversal of provision	(1,000)
Utilisation of provision	(1,703)
At 31 December 2017	400

The provision brought forward related to the directors' best estimate of the construction and ancillary costs required to correct certain defects in the project. During the year costs totalling £1,703,000 have been recognised in relation to this work, utilising the provision.

16 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:

Group	**Assets 2017 £'000**	**Assets 2016 £'000**
Tax losses	9,289	9,001

Movements in the year:	**Group 2017 £'000**	**Company 2017 £'000**
Liability/(Asset) at 1 January 2017	(9,001)	-
Charge to profit or loss	(950)	-
Effect of change in tax rate - profit or loss	575	-
Group Relief	87	-
Liability/(Asset) at 31 December 2017	(9,289)	-

17 Share capital

	Group and company	
	2017	**2016**
Ordinary share capital	**£'000**	**£'000**
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50

18 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel wholly relates to directors' services payable to Innisfree Limited. These are as follows.

	2017	2016
	£'000	£'000
Directors services	41	40

Transactions with related parties

	Management services
	2017
	£'000
Group	
HCP Social Infrastructure (UK) Ltd	747

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 following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2017	**2016**
	£'000	**£'000**
Group		
Key management personnel	18	-

No guarantees have been given or received.

19 Financial commitments, guarantees and contingent liabilities

As stated above a provision has been recorded relating to construction and ancillary costs to correct certain defects in the project. Rectification works are still ongoing. It is therefore possible that further costs are incurred in relation to these works. However, the directors consider that the risk of a net outflow to the company is not probable under the relevant contractual agreements in place.

20 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, registered at 1st Floor Boundary House, 91 - 93 Charterhouse Street, London, EC1M 6HR.

21 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 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	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.	PFI Special Purpose Vehicle	Ordinary	99.99	0.01
The Coventry and Rugby Hospital Company Nominee Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.	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	(4,651)	(48,601)
The Coventry and Rugby Hospital Nominee Limited	-	-

22 Cash generated from group operations

	2017	2016
	£'000	£'000
Loss for the year after tax	(4,734)	(714)
Adjustments for:		
Taxation (credited)/charged	(206)	232
Finance costs	34,628	25,365
Investment income	(23,019)	(16,363)
Decrease in provisions	(920)	(2,092)
Movements in working capital:		
Decrease in debtors	2,722	13,888
Increase in creditors	1,123	1,869
Cash generated from operations	9,594	22,185