

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 2021

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THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

COMPANY INFORMATION

Directors	Mr B Dean Mr D Brooking Mrs S Clark
Secretary	Vercity Social Infrastructure (UK) Limited (previously known as HCP Social Infrastructure (UK) Limited)
Company number	04129835
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor's	BDO LLP 66 Queen Square London 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 2021

The directors present the strategic report for the year ended 31 December 2021.

The Coventry and Rugby Hospital Company (Holdings) Limited is the owner of The Coventry and Rugby Hospital Company Plc ("Project Co.") 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 "UHCW" and the Coventry and Warwickshire Partnership Trust "CWPT" (together the "Trusts"). Contract negotiations were successfully completed in December 2002 and construction commenced immediately. The project has been operational since 2006.

The hospital is fully operational, however as described more fully below, CWPT have awarded Service Failure Points ('SFPs') above those that have been self-declared by the Service Providers. Despite these SFPs being disputed they are sufficient to trigger an Event of Default under the terms of the financing documents. More information is described below.

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:

Service performance risk

Following the engagement by CWPT of a third-party consultant, the Trust have awarded Service Failure Points (SFPs) and deductions over those that were self-reported by the Hard FM Service Provider in respect of alleged failure events and unavailability. To date these SFPs and Deductions have been passed down in full to the Service Provider.

A Standstill Agreement between the CWPT, the Hard FM Service Provider and Project Co. was entered into on 23 December 2021 whilst the parties to the agreement work towards a resolution. During the Standstill Period CWPT are able to accrue SFPs and deductions but are not able to levy them. On 31 January 2022 the Trust referred the matter to Adjudication, part of the Dispute Resolution Procedure available to them under the Project Agreement. They are seeking clarification as to whether and to what extent the Failure Events and Unavailability have arisen and their entitlement therefore to award SFPs and Deductions. An interim decision was received on 25 April 22 in which it was ruled that due to a lack of maintenance the Trust are able to levy deductions and SFPs for Unavailability, Failure Events and Failure to Report under the Project Agreement. The final decision was received on 23 May 22. The final decision found that the level of deductions between October 2020 and November 2021 was £7,152,119.68. These deductions will be passed down to the Subcontractor under the terms of the Hard Service Contract. The level of SFPs for the same period was 431,130 and therefore a Project Co. Event of Default ("EoD") occurred for each month from November 2020 and November 2021. This level of SFPs also exceeds the thresholds for an EoD under the terms of the Collateral Deed.

The implications of an EoD under the Collateral Deed are that the Credit Provider has a number of rights/ remedies available to them, including requiring that the amounts owing under the Collateral Deed are immediately repaid in full. The directors are in regular and continuing discussions with the Credit Provider who is aware of the situation. Based on these discussions and given the processes currently in place the Company's directors are not aware of any indication that the Credit Provider intends to exercise any of their rights including immediate repayment of the bond.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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 Trust having the right to terminate the Project Agreement.

The Group is working with the Trust and the Hard FM Service Provider to conclude this issue and therefore remedy or reduce the effect of the EoD.

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 reduced 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 company to meet its liabilities under the bonds will be the 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 company's ability to make payments to bondholders. Agreed deductions in the year were £507,000 (2020: 260,000). In addition, CWPT withheld £5,658,000 of Unitary Charge payments, which were subject to an adjudication process which concluded in May 2022 and ruled in favour of the Trust. The adjudicator awarded deductions of £7,152,119.68, which included the £5,658,000 already withheld by the Trust. The agreed deductions and withholdings were passed down in full to the Service Providers, resulting in net deductions of £nil (2020:£nil).

Service Provider failure

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

COVID-19 risk

The Group is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. Performance risk under the Project Agreement and related contracts are passed on to the Service Providers and to the building contractor. The obligations of these subcontractors are underwritten by parent company guarantees. There has been no adverse impact on the Group to date as an impact of Covid-19, therefore the Directors are comfortable that COVID-19 will not affect the ability of the Group to continue as a going concern.

Going concern

The directors have concluded that until the EoD described in the Service Performance section above has been formally waived or deemed remedied by the Credit Provider these issues represent a material uncertainty that could (in the event of Creditors then exercising their rights) cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors have reviewed cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, including the impact of COVID-19, the Group will otherwise have sufficient funds to meet its liabilities as they fall due. Therefore, notwithstanding the uncertainties described above, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For these reasons, the directors consider that it is appropriate to prepare the accounts on a going concern basis.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Further information of the directors' assessment including the consideration of the impact of COVID-19 and the EoD is contained within note 1.3.

Development and performance

Financial performance

Turnover in the year increased to £89,689,000 (2020: £77,866,000) mainly due to the cost of the services provided, to which the service margin is applied, having increased. This mainly due to increased spend on lifecycle during the year.

Interest receivable increased to £19,219,000 (2020: £15,504,000) mainly due to the indexation factor being higher than in the prior year.

Bond interest payable, which is also index-linked, increased to £25,093,000 (2020: £19,947,000), due to the higher indexation. Interest on subordinated debt increased slightly to £6,159,000 (2020: £5,620,000) due to the higher subordinated debt balance in the year. In accordance with the unsecured subordinated loan notes 2042, the unpaid interest was added to the outstanding balance and hence the average amount outstanding was higher for 2021 than for 2020, resulting in the increased interest payable. The subordinated debt balance as at 31 December 2021 was £47,072,000 made up of £32,608,000 principal and £14,464,000 accrued interest (31 December 2020: £40,915,000). The above has led to a net interest cost of £12,863,000 (2020: £10,903,000).

The impact of these movements has resulted in a profit of £618,000 (2020: profit of £507,000) for the year on a turnover of £89,689,000 (2020: £77,866,000).

Financial position

At 31 December 2021 the group had net liabilities of £41,479,000 (2020: net liabilities of £43,249,000).

During the year, the group has repaid £16,233,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). In the previous financial year, the group repaid a total of £16,047,000. Scheduled loan repayment dates are 30 June and 31 December each year.

The finance debtor amortisation during the year was £6,875,000 (2020: £6,480,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £294,694,000 (2020: £301,570,000). The directors believe the finance debtor to be recoverable over the term of the Project Agreement based on projected cashflows.

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 passed on to the service providers but the quantum is an indication of unsatisfactory performance. During the financial year agreed deductions of £507,000 (2020: £260,000) were levied by the Trusts and passed onto the service providers. This deduction amounts to 0.57% (2020: 0.33%) of the service revenue earned from the Trusts in the year. As detailed above, despite the low level of agreed deductions in the year, CWPT withheld £5,658,000 from unitary charge payments which were passed down to the service providers in full. These points were subject to an adjudication process, which ruled in favour of the Trust and awarded deductions of £7,152,119.68, which included the £5,658,000 already withheld by the Trust. Increasing deductions from £507,000 to £7,659,000 for the year (8.61% of service revenue earned).

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 2021 against this measure was considered satisfactory.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the group for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies Act 2006 ("section 172").

The directors have identified the group's main stakeholders as the following:

i. The group's shareholders, bondholders and Credit Provider

Principal considerations of the board are whether the investment objective of the group is meeting shareholder and bondholder expectations and how the manager implements the objective. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder and bondholder briefing meetings to ensure that shareholder and bondholder engagement is optimised.

The bonds are secured by an irrevocable financial guarantee policy issued by MBIA Assurance S.A (succeeded by Assured Guaranty (London) Limited), the Credit Provider. The board regularly discuss the obligations under this policy and how the manager is fulfilling these at board meetings and through engagement with the senior management of the manager. The board frequently engages with the Credit Provider and keep them updated on matters as required.

Given the purported service failures the board are holding weekly meetings with the Credit Provider to keep them updated on matters.

ii. The client

The board recognises the importance of working in partnership with its public sector clients, the Trusts, to successfully deliver a key public infrastructure asset. On behalf of the group, the manager fosters this partnership through regular meetings with the client representatives and other key managers. The manager provides regular monthly reporting to the public sector clients on the performance of its obligations under the PFI arrangement. Periodically the directors will also meet with the public sector clients to discuss key service delivery matters.

The directors are fully engaged in working with the client to rectify the current issues surrounding service provision. The directors are in regular contact with the client. A service improvement plan has been developed and the board have appointed a third party to audit this and monitor its implementation.

iii. The service providers

On behalf of the group, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the group contain service provision information and relevant information about the performance of the PFI contract. These reports are reviewed by both the manager and the board. The directors are meeting regularly with the service providers to discuss how they can support in improving the service provision. As detailed above this has involved putting in place a service improvement plan.

iv. The manager

The group has outsourced the management of the group to Vercity Social Infrastructure (UK) Limited ("Vercity"), the manager. The delivery by the manager of its services is fundamental to the long term success of the group. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(a) The likely consequences of any decision in the long term

The group has made no decisions during the year that have a material long term consequences.

(b) The interests of the group's employees

As an externally managed group, the group's activities are all outsourced and therefore it does not have any employees. The group does however, pay due regard to the interests and safety of all those engaged by contractors to the group to perform services on its behalf. The group undergoes annual external health and safety reviews and the directors undertake regular health and safety inspections.

(c) The need to foster the group's business relationships with suppliers, customers and others

The group is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the group has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that group obligations to its public sector client and service providers can be upheld.

(d) The impact of the group's operations on the community and the environment

The group has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the group is committed to minimising environmental disruption from its activities. The board upholds the group's environmental policy in all its activities and requires all parties to the arrangement to do the same.

The board recognises that the group it is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering Environmental, Social and Governance (ESG) values and initiatives to achieve socially responsible investing.

(e) The desirability of the group maintaining a reputation for high standards of business conduct

The group is committed, in its day to day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense, but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

(f) The need to act fairly between members of the group

The group is solely owned by one member and therefore has no fairness considerations needed to made during decision making.

The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the group's key stakeholders and reflect the board's belief that the long term sustainable success of the group is linked directly to its key stakeholders.

On behalf of the board



Mr B Dean

Director 9 June 2022

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and financial statements for the year ended 31 December 2021.

Results and dividends

The results for the year are set out on page 13.

No ordinary dividends were paid (2020: nil). The directors do not recommend payment of a final dividend.

Directors

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

Mr B Dean
Mr D J Brooking
Mrs S Clark

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 group's contractual and other legal obligations.

Trade creditors of the group at the year end were equivalent to 61 (2020: 25) days purchases, based on the average daily amount invoiced by suppliers during the year. The increase is due to amounts withheld from the Service Provider, which are subject to the adjudication process.

Financial risk management objectives and policies

Liquidity risk

The group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the group issued Indexed Linked Secured Guaranteed Bonds negotiated to ensure that the group has sufficient funds over the life of the PFI concession. The Bonds are linked to the Retail Price Index ('RPI'). As the Unitary Charge income received from the Trusts is also linked to RPI, the board do not consider the proposed future changes to RPI to significantly impact the group.

The Event of Default described in the Strategic Report indicates that the Trust may make further deductions from the Unitary Charge. These will be passed down to the Service Providers to the fullest extent possible. The group is working with the Trust and the Service Providers to rectify these issues surrounding service provision and so minimise the risk of deductions.

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 unsecured subordinated loan note has a fixed rate until 2042, however the senior debt is indexed linked. The bonds are linked to RPI inflation, but the Unitary Charge income is also linked to RPI inflation, therefore mitigating the inflation risk on the bonds.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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 £294,694,000 (2020: £301,570,000) and the carrying value of cash at bank is £91,893,000 (2020: £78,548,000). These balances represent the maximum credit exposure.

Future developments

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

Auditor

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

Energy and carbon report

The provision of services under the contract are not deemed to relate to energy consumed by the group nor is it within its operational control. The group has therefore excluded such activities from its reporting. The group itself is considered to be a low energy user and therefore energy and carbon information for the group has not been disclosed.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the group 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 auditor of the group is aware of that information.

On behalf of the board



Mr B Dean
Director

Date: 9 June 2022

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of 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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Group Statement of Comprehensive Income, the Group and Company Balance Sheet, the Group and Company Statement of Changes in Equity, the Group Statement of Cash Flow the group statement of comprehensive income, the group balance sheet, the company balance sheet, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1.3 in the financial statements concerning the Group's ability to continue as a going concern. This states that the Group has been notified of an Event of Default and that as a result a liability of approximately £412m has been reclassified as falling due within one year. The directors have concluded that until the Event of Default has been formally waived or deemed remedied by the Credit Provider, these events or conditions indicate that material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

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

Other information

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

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

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

We obtained an understanding of the legal and regulatory framework applicable to the entity and the industry in which it operates. We considered the significant laws and regulations to be Companies Act 2006 and the applicable accounting standards.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Group's assets.

Audit procedures performed by the engagement team included:

- We considered the processes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the determination of service margins and lifecycle costs;
- We performed substantive testing on account balances and transactions, which were considered to be a greater risk of susceptibility to fraud;
- We targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, as well as a focus on large and unusual transactions based upon our knowledge of the business;
- We made enquiries of Management, those charged with governance and those responsible for legal and compliance procedures as to whether there was any correspondence from regulators in so far as the correspondence related to financial statements; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:



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Laura Pingree (Senior Statutory Auditor)
For and on behalf of BDO LLP

Date: 10 June 2022

Chartered Accountants
Statutory Auditor

55 Baker Street
London
W1U 7EU

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

**GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 £'000	2020 £'000
Turnover	3	89,688	77,866
Cost of sales		(77,220)	(67,165)
Gross profit		<u>12,468</u>	<u>10,701</u>
Interest receivable and similar income	8	19,219	15,504
Interest payable and similar expenses	7	(32,082)	(26,407)
Loss before taxation		<u>(395)</u>	<u>(202)</u>
Tax on loss	9	1,013	709
Profit for the financial year		<u>618</u>	<u>507</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>618</u></u>	<u><u>507</u></u>

The Group statement of comprehensive income 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 2021

	Notes	2021 £'000	£'000	2020 £'000	£'000
Current assets					
Debtors falling due after more than one year	12	298,584		303,191	
Debtors falling due within one year	12	30,104		21,535	
Cash at bank and in hand		91,893		78,548	
		<u>420,581</u>		<u>403,274</u>	
Creditors: amounts falling due within one year	13	<u>(462,120)</u>		<u>(445,431)</u>	
Net current liabilities			(41,539)		(42,157)
Provisions for liabilities					
Provisions	16	<u>1,092</u>	(1,092)	<u>1,092</u>	(1,092)
Net liabilities			<u>(42,631)</u>		<u>(43,249)</u>
Capital and reserves					
Called up share capital	18		50		50
Profit and loss account			(42,681)		(43,299)
Total shareholders' funds			<u>(42,631)</u>		<u>(43,249)</u>

The financial statements were approved by the board of directors and authorised for issue on 9 June 2022 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 2021

	Notes	2021 £'000	£'000	2020 £'000	£'000
Fixed assets					
Investments	10		50		50
Current assets					
Debtors falling due after more than one year	12	47,072		40,915	
Debtors falling due within one year	12	19		17	
		47,091		40,932	
Creditors: amounts falling due within one year	13	(48,261)		(40,932)	
Net current liabilities			(1,170)		-
Total assets less current liabilities			(1,120)		50
Creditors: amounts falling due after more than one year	14		(660)		(114)
Net liabilities			(1,780)		(64)
Capital and reserves					
Called up share capital	18		50		50
Profit and loss account			(1,830)		(114)
Total shareholders' funds			(1,780)		(64)

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 £1,716,000 (2020: £31,000).

The financial statements were approved by the board of directors and authorised for issue on 9 June 2022 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 2021**

	Share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2020	50	(43,806)	(43,756)
Year ended 31 December 2020:			
Profit and total comprehensive income for the year	-	507	507
Balance at 31 December 2020	50	(43,299)	(43,249)
Year ended 31 December 2021:			
Profit and total comprehensive income for the year	-	618	618
Balance at 31 December 2021	50	(42,681)	(42,631)

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

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
Balance at 1 January 2020	50	(83)	(33)
	<hr/>	<hr/>	<hr/>
Year ended 31 December 2020:			
Loss and total comprehensive income for the year	-	(31)	(31)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	50	(114)	(64)
	<hr/>	<hr/>	<hr/>
Year ended 31 December 2021:			
Loss and total comprehensive income for the year	-	(1,716)	(1,716)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2021	50	(1,830)	(1,780)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021**

		2021		2020	
	Notes	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Cash generated from operations	21		23,711		27,038
Investing activities					
Interest received		19,219		15,504	
Net cash generated from investing activities			19,219		15,504
Financing activities					
Interest paid		(13,352)		(18,298)	
Repayment of borrowings		(16,233)		(16,047)	
Net cash used in financing activities			(29,585)		(34,345)
Net increase in cash and cash equivalents			13,345		8,197
Cash and cash equivalents at beginning of year			78,548		70,351
Cash and cash equivalents at end of year			<u>91,893</u>		<u>78,548</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

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

The group consists of The Coventry and Rugby Hospital Company (Holdings) Limited and all of its subsidiaries.

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 and group. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 December each year. The subsidiary has a year ended of 31 December 2021.

1.3 Going concern

Following the engagement by CWPT of a third-party consultant, the Trust have awarded Service Failure Points (SFPs) and deductions over those that were self-reported by the Service Providers in respect of alleged failure events and unavailability. A Standstill Agreement between the CWPT, the Service Provider and the Project Co was entered into on 23 December 2021. During the Standstill Period CWPT are able to accrue SFPs and deductions but are not able to levy them. On 31 January 2022 the Trust referred the matter to Adjudication. They sought clarification of whether and to what extent the Failure Events and Unavailability have arisen and their entitlement therefore to award SFPs and Deductions. An interim decision was received on 25 April 22 in which it was ruled that due to a lack of maintenance the Trust are able to levy deductions and SFPs for Unavailability, Failure Events and Failure to Report under the Project Agreement. The final decision was received on 23 May 22. The final decision found that the level of deductions between October 2020 and November 2021 was £7,152,119.68. These deductions will be passed down to the Subcontractor under the terms of the Hard Service Contract. The level of SFPs for the same period was 431,130 and therefore a Project Co. EoD occurred for each month from November 2020 and November 2021. This level of SFPs also exceeds the thresholds for an EoD under the terms of the Collateral Deed.

The implications of an EoD are that the Credit Provider has a number of rights/remedies available to them, including requiring that the amounts owing under the Collateral Deed are immediately repaid in full. The directors are in regular and continuing discussions with the Credit Provider who is aware of the situation. Based on these discussions and given the processes currently in place the Group's directors are not aware of any indication that the Credit Provider intends to exercise any of their rights including immediate repayment of the bond.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

The impact of the above circumstances on the balance sheet at 31 December 2021 is to classify the outstanding amounts of the bond as a current liability because the Group does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £379,283,000 of bond which would otherwise be classified as 'Creditors: Amounts due after more than one year' have been included in 'Creditors: Amounts due within one year'.

In addition, under the terms of the subordinated loan notes, as a result of the EoD the Group's subordinated debt also becomes repayable on demand. Therefore, £32,608,000 of Other Borrowings has been classified as current at 31 December 2021.

The directors are in regular and continuing discussions with the Credit Provider who is aware of the situation. Based on these discussions and given the processes currently in place the Group's directors are not aware of any indication that the Credit Provider intends to exercise any of their rights including immediate repayment of the bond. The Credit Provider is updated weekly by the directors to ensure that they are kept informed of the Group's progress in remedying or reducing the effect of the EoD.

In addition, the Finance Documents contain covenants with regard to financial performance. The directors have reviewed cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, so long as there is no acceleration of debt, taking account of severe but plausible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period. The downside scenarios have assumed/include the following:

- the potential consequences of revenue deductions for service delivery failures;
- the associated costs for further operational improvement activity;
- the potential costs of a failure of the service providers;
- the potential rectification costs of the facilities;
- the Credit Provider will not accelerate the repayments of principal as set out above; and,
- the Trust will continue to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Health.

In making this assessment the directors have considered the potential impact of COVID-19.

The Group's operating cash inflows are largely dependent on unitary charge receipts receivable from the local NHS Trust and the directors expect these amounts to be received even in severe but plausible downside scenarios.

The directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Group has its own business continuity plans to ensure that service provision will continue.

The directors have concluded that until the EoD has been formally waived or deemed remedied by the Credit Provider these issues represent a material uncertainty that could cast significant doubt on the Group's ability to continue as a going concern and that therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after considering the uncertainties described above, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For these reasons, the directors consider that it is appropriate to prepare the accounts on a going concern basis.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.4 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Income received in respect of the service concession is allocated between revenue and capital repayment of, and interest income on, the PFI financial asset using the effective interest rate method. Service revenue is recognised as a margin on non-pass-through operating and maintenance costs.

Pass through income represents the direct pass through of recoverable costs, as specified in the Project Agreement.

Variation income relates to the recharge of costs incurred for the alteration of the facilities or the services provided, requested by the Trusts.

1.5 Fixed asset investments

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1.6 Financial instruments

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

Financial instruments are recognised in the group's balance sheet 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

Basic financial assets

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

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.

Accrued service concession income

Accrued service concession income relates to future periods income for services already performed.

Cash and short term deposits

Cash and cash equivalents comprise cash balances and call deposits with a maturity less than 3 months. Short term deposits comprise of deposits with a maturity of more than 3 months.

Restricted cash

The Group is obligated to keep separate cash reserves in respect of requirements in the Group's funding agreements. The restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £87,027,000 at the year end (2020: £66,073,000).

Service concession

The group is an operator of a Public Finance Initiative ("PFI") contract. The group entered into a project agreement (the "contract") with the University Hospital Coventry and Warwickshire NHS Trust and the Coventry and Warwickshire Partnership Trust (together the "Trusts") to design, build, finance, operate and maintain the new Coventry and Rugby University Hospital. The contract negotiations were successfully completed in December 2002 and construction commenced immediately. The project has been fully operational since 2006. The concession period is for 40 years, during this period the group has contracted to provide hard, soft and equipment services to the Trusts. The group has passed these obligations down to Vinci Construction UK Plc, ISS Mediclean Limited and GE Healthcare Limited respectively via subcontracts. The obligation to provide major maintenance works (lifecycle) is undertaken by Vinci construction UK Plc, however, as discussed in the strategic report, the risk that the costs exceed those forecast in the financial model is borne by the group. The timing and extent of the major maintenance works is a key assumption that will affect the cashflows of the group, further information is shown in note 2.

The contract does not entitle the Trusts to any share of the profits of the group. The Trusts are entitled to terminate the contract at anytime by giving 3 months written notice. If the Trusts exercise this right they are liable to pay the group compensation as set out in the contract, which would include the senior debt, redundancy costs and other FM provider losses and the market value of the subordinated debt.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

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 permits 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 the Trusts pay the group a fixed unitary charge payment, as determined in the contract, that is inflated by RPI each year. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. This interest rate is inflated in line with the inflation on the Bond. 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 which are recognised as incurred, 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.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or 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. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal 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 are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

Basic financial liabilities

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

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

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

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.7 Equity instruments

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

1.8 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 statement of comprehensive income 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.

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 statement of comprehensive income, 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.9 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.

2 Judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Service concession arrangement

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 service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of the concession increase by 5% the impact on revenue and loss in the year would be a decrease in revenue of £474,000 and an increase in the loss of £474,000.

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

3 Turnover and other revenue

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

	2021 £'000	2020 £'000
Turnover analysed by class of business		
Services income	69,049	63,685
Pass through income	15,263	13,155
Variation income	5,140	825
Other income	236	201
	<u>89,688</u>	<u>77,866</u>
	2021 £'000	2020 £'000
Turnover analysed by geographical market		
United Kingdom	<u>89,688</u>	<u>77,866</u>

4 Auditor's remuneration

	2021 £'000	2020 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	<u>32</u>	<u>30</u>
For other services		
Extended audit fees	<u>3</u>	<u>-</u>

5 Employees

The group had no employees during the year (2020: nil).

6 Directors' remuneration

No directors received any remuneration for services to the group during the year (2020: nil).

7 Interest payable and similar expenses

	2021 £'000	2020 £'000
Interest on bonds	25,093	19,947
Interest payable on subordinated loans	6,159	5,620
Amortisation of finance arrangement costs	830	840
	<u>32,082</u>	<u>26,407</u>
Total finance costs		

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

8 Interest receivable and similar income

	2021 £'000	2020 £'000
Interest income		
Interest on bank deposits	34	70
Interest receivable on finance debtor	19,185	15,434
	<u>19,219</u>	<u>15,504</u>

9 Taxation

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on profits for the current period	1,705	62
Adjustments in respect of prior periods	(31)	-
Total current tax	<u>1,674</u>	<u>62</u>
Deferred tax		
Changes in tax rates	(2,683)	(909)
Adjustment in respect of prior periods	69	-
Tax losses carried forward	(73)	(69)
Other adjustments	-	207
Total deferred tax	<u>(2,687)</u>	<u>(771)</u>
Total tax credit	<u>(1,013)</u>	<u>(709)</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

9 Taxation

(Continued)

Current tax for the year ended 31 December has been calculated using the UK corporation tax rate of 19% (2020: 19%).

The UK government have announced that UK corporation tax will increase to 25% for periods from 1 April 2023. The deferred tax asset as at 31 December 2021 has, therefore, been calculated based on a rate of 25% (2020: 19%).

The actual charge for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2021 £'000	2020 £'000
Loss before taxation	(395)	(202)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	(75)	(38)
Adjustments in respect of prior years	38	-
Effect of change in corporation tax rate	(2,683)	(909)
Group relief	-	207
Under/(over) provided in prior years	537	31
Application of close company rules	1,170	-
Taxation credit	(1,013)	(709)

The group has tax losses of £44,928,000 (2020: £44,712,000) 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.

External advisors were engaged to consider the application of the close company rules on the Company and any impact this may have on 'interest expensed' in respect of related party debt. As the Company is expected to have £6,159,000 unpaid sub-debt interest relating to 2021 as at 31 December 2022 it is expected that a tax charge of £1,170,000 will be incurred. An amount of £537,000 was paid to HMRC in 2021 in respect of unpaid sub-debt interest relating to 2020, this amount was not provided in 2020 and so has been charged in the current year.

10 Fixed asset investments

	Notes	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Investments in subsidiaries	11	-	-	50	50

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

10 Fixed asset investments (Continued)

Movements in fixed asset investments Company	Shares in group undertakings £'000
Cost	
At 1 January 2021 and 31 December 2021	50
Carrying amount	
At 31 December 2021	50
At 31 December 2020	50

11 Subsidiaries

Details of the company's subsidiaries at 31 December 2021 are as follows:

Name of undertaking	Registered office	Class of shares held	% Held	
			Direct	Indirect
The Coventry and Rugby Hospital Company Nominee Limited	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.	Ordinary	100.00	-
The Coventry and Rugby Hospital Company Plc	8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.	Ordinary	99.99	0.01

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

Name of undertaking	Capital and Reserves	Profit/(Loss)
	£'000	£'000
The Coventry and Rugby Hospital Company Plc	(40,819)	2,316

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12 Debtors

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Amounts falling due within one year:				
Trade debtors	9,439	2,451	-	-
Amounts owed from subsidiary undertakings	-	-	19	17
Finance debtor	7,293	6,875	-	-
Other debtors	690	136	-	-
Unitary charge control account	8,823	8,156	-	-
Prepayments and accrued service concession income	3,859	3,917	-	-
	<u>30,104</u>	<u>21,535</u>	<u>19</u>	<u>17</u>
Amounts falling due after more than one year:				
	Notes			
Amounts owed from subsidiary undertakings	-	-	47,072	40,915
Finance debtor	287,401	294,695	-	-
	<u>287,401</u>	<u>294,695</u>	<u>47,072</u>	<u>40,915</u>
Deferred tax asset	17 11,183	8,496	-	-
	<u>298,584</u>	<u>303,191</u>	<u>47,072</u>	<u>40,915</u>
Total debtors	<u>328,688</u>	<u>324,726</u>	<u>47,091</u>	<u>40,932</u>

All financial assets included above are held at amortised cost.

13 Creditors: amounts falling due within one year

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Notes				
Bonds	15 387,915	391,578	-	-
Trade creditors	12,905	4,607	-	-
Subordinated loans	15 47,072	40,915	47,091	40,932
Corporation tax payable	1,170	31	1,170	-
Other taxation	1,845	1,278	-	-
Accruals and deferred income	11,213	7,022	-	-
	<u>462,120</u>	<u>445,431</u>	<u>48,261</u>	<u>40,932</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

13 Creditors: amounts falling due within one year

(Continued)

As at the balance sheet date there was an event of default subsisting pursuant to the Collateral Deed, which the Credit Provider has not formally waived or deemed remedied. Consequently the group's Bonds and Other Borrowings are classified as due within one year in the balance sheet. Upon remediation of the event of default and receipt of a waiver from the Credit Provider, amounts falling due within one year of £379,823,000 and £32,608,000 respectively will be transferred to Creditors: amounts falling due after more than one year.

14 Creditors: amounts falling due after more than one year

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Amounts owed to group undertakings	-	-	660	114

15 Loans and overdrafts

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Bonds	387,915	391,578	-	-
Subordinated loans	47,072	40,915	47,091	40,932
	<u>434,987</u>	<u>432,493</u>	<u>47,091</u>	<u>40,932</u>
Payable within one year	434,987	432,493	47,091	40,932
	<u>434,987</u>	<u>432,493</u>	<u>47,091</u>	<u>40,932</u>

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 Maurant & Co. Capital Trustees Limited (subsequently replaced by Apex Corporate Trustees (UK) 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 loans from group undertakings comprise subordinated loans of £32,608,000 (2020: £32,608,000). The loans are subject to interest rates of 14.52% per annum and are repayable in 2042 in line with the agreed repayment schedule. Interest accrued on these loans at 31 December 2021 are included in the total and amount to £14,464,000 (2020: £8,307,000).

16 Provisions for liabilities

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Remediation costs	<u>1,092</u>	<u>1,092</u>	<u>-</u>	<u>-</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

16 Provisions for liabilities

(Continued)

Movements on provisions:

	Remediation costs £'000
Group	
At 1 January 2021 and 31 December 2021	1,092

The provision recorded during the year relates to the directors best estimate of the rectification costs of certain assets that at 31 December 2021 had fallen below the condition required by the contract. The Group has taken expert legal and technical advice, on the basis of which, the directors expect to recover the rectification costs from the service provider.

17 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 2021 £'000	Assets 2020 £'000
Group		
Tax losses	11,183	8,496

The company has no deferred tax assets or liabilities.

	Group 2021 £'000	Company 2021 £'000
Movements in the year:		
Asset at 1 January 2021	8,496	-
Effect of change in tax rate - profit or loss	2,683	-
Adjustment in respect of prior periods	(69)	-
Tax losses carried forward	73	-
Asset at 31 December 2021	11,183	-

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

18 Share capital and reserves

	Group and company	
	2021	2020
	£'000	£'000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50

Other reserves

The group's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

19 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	2021	2020
	£'000	£'000
Directors services	40	37

The group incurred the above fees from Innisfree Limited.

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 Vercity Social Infrastructure (UK) Limited.

Vercity Holdings Limited, the parent company of Vercity Social Infrastructure (UK) Limited, is owned by Innisfree M&G PPP LP, a fund co-managed by Innisfree Limited and M&G Investment Management Limited. Innisfree Limited also manages the funds invested in the company.

Innisfree Nominees Limited, acting on behalf of Innisfree PFI Continuation Fund, holds legal title to the entire share capital of The Coventry and Rugby Hospital Company Plc.

The following transactions were entered into during the year:

	Sub-Ordinated Debt Interest		Management services	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Group				
Vercity Social Infrastructure (UK) Ltd	-	-	1,090	1,023
Innisfree PFI Continuation Fund	-	2,500	-	-
	<u>-</u>	<u>2,500</u>	<u>1,090</u>	<u>1,023</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY (HOLDINGS) LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

19 Related party transactions

(Continued)

The following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2021 £'000	2020 £'000
Vercity Social Infrastructure (UK) Ltd	62	32
Innisfree PFI Continuation Fund	47,090	40,931

As per Note 13, Other borrowings have been classified as due within 1 year in the balance sheet. Consequently, the above reflects the subordinated loan note balance (£47,072,000) as well as the interest that was accrued thereon as at the balance sheet date.

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.

21 Cash generated from group operations

	2021 £'000	2020 £'000
Profit for the year after tax	618	507
Adjustments for:		
Taxation credited	(1,013)	(709)
Finance costs	32,082	26,407
Investment income	(19,219)	(15,504)
Increase in provisions	-	1,092
Movements in working capital:		
(Increase)/decrease in debtors	(4,001)	13,115
Increase in creditors	15,244	2,130
Cash generated from operations	23,711	27,038

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

**NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

22 Analysis of changes in net debt - group

	1 January 2021 £'000	Cash flows £'000	Other non- cash changes £'000	31 December 2021 £'000
Cash at bank and in hand	78,548	13,345	-	91,893
Borrowings excluding overdrafts	(432,493)	16,233	(18,727)	(434,987)
	<u>(353,945)</u>	<u>29,578</u>	<u>(18,727)</u>	<u>(343,094)</u>