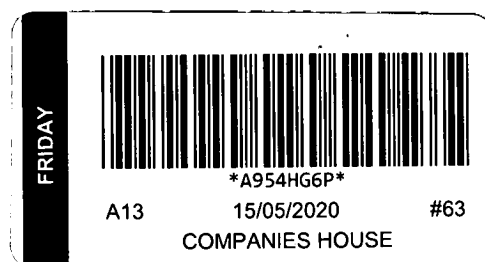


Company Registration No. 04508763 (England and Wales)

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

COMPANY INFORMATION

Directors	Mr B Dean Mr M Fry Mrs S Clark Mr D Brooking (Appointed 18 September 2019)
Secretary	HCP Social Infrastructure (UK) Limited
Company number	04508763
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Fair review of the business

The principal activity of the company is to design, build, finance and operate the new Coventry and Rugby University Hospital with the University Hospitals Coventry and Warwickshire NHS Trust and the Coventry and Warwickshire Partnership Trust (together the "Trusts").

The contract negotiations were successfully completed in December 2002 and construction commenced immediately. The concession period is for 40 years. The project has been fully operational since 2006.

The hospital is fully operational with no major issues to report, despite certain construction defects that have been identified, for which a programme of works has been agreed with the Trusts and is underway.

Principal risks and uncertainties

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company'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 company 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 company 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 company's ability to make payments to bondholders. Deductions incurred in the year were £98,000 (2018: £160,000), which were recovered from the service providers, resulting in net deductions of £nil (2018: £nil).

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 low 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 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.

Brexit

The risks from Brexit are a result of the risk it poses to the service providers, rather than the company itself. Therefore, this is linked to the service performance and service provider failure risks referred to above. The company is substantively insulated from these risks because non-performance will result in deductions being passed down to the service providers. However, there remains a risk that in extreme circumstances non-performance may result in the Trusts having the right to terminate the Project Agreement.

The service providers have performed a review of their respective exposure to Brexit. The relevant concerns relate to availability of spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

While there will likely be some disruption, each service provider has a strategy in place to keep this to a minimum. This will result in higher costs to the service providers but not impact the company itself. The directors are comfortable that the increased costs and disruption will not threaten the services providers to such an extent as to put the project at risk.

COVID-19 Pandemic

The risks posed by the current COVID-19 pandemic include the Trusts not paying the Unitary Charge, a risk of the service provider falling behind on fulfilling their contractual requirements due to staff sickness, resulting in a high level of deductions and the risk of service provider failure.

The Cabinet Office released a Procurement Policy Note (Action Note PPN 02/20) on 20 March 2020 that states contracting authorities (i.e. NHS Trusts) should put in place the most appropriate payment measures to support supplier cash flow. On 02 April 2020 a further guidance note was issued relating to PFI projects. This note stated that PFI contractors should consider themselves part of the public sector response to the COVID-19 emergency and asked that contracting authorities maintain unitary charge payments and moderate payment and performance regimes as appropriate. In addition to this, the Trust have written to the company expressing that they wish to work together and support one another at this time and that they are not looking to apply contractual deductions. Any deductions would however be passed down to the service providers.

The service providers are continually updating their Business Continuity Plans to show how services will be covered in the event of certain levels of staff sickness. These have been reviewed by the Board. In addition, the service providers have brought in additional staff from mothballed sites around the Midlands region and are prioritising works in the clinical areas of the hospital.

The Board have assessed the financial stability of the service providers and continue to assess new information. As the service providers have a large number of public sector customers, in particular hospitals, they are supported by the Payment Policy Note for the public sector to ensure cashflow is maintained and therefore the board consider the risk of failure to be low.

The board have considered the additional risks posed by the Covid-19 pandemic and have concluded that the company can mitigate these risks and continue to operate as a going concern for the foreseeable future.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Development and performance

Financial performance

Turnover in the year increased to £73,568,000 (2018 restated: £68,496,000) mainly due to the cost of the services provided, to which the service margin is applied, costs have increased. Although lifecycle costs have reduced, other income has increased to £3,574,000 (2018: £1,511,000), mainly due to an increase in variation activity on which turnover is generated.

Interest receivable reduced to £21,018,000 (2018: £22,263,000) mainly due to reduced interest receivable on the finance debtor. Interest receivable on the finance debtor has reduced partly due to the reduction in the finance debtor balance and also due to the indexation factor being lower than in the prior year.

Bond interest payable, which is also index-linked, reduced to £26,581,000 (2018: £28,020,000), due to the lower indexation. Interest on subordinated debt increased slightly to £5,452,000 (2018: £5,319,000) which is due to not all of the subordinated debt interest being paid in 2019. 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 2019 than for 2018, resulting in the increased interest payable. The subordinated debt balance as at 31 December 2019 was £37,912,000 (31st December 2018: £36,659,000). This has led to a net interest cost of £11,937,000 (2017: £11,608,000).

The impact of these movements has resulted in a loss of £973,000 (2018 restated: loss of £1,309,000) for the year on a turnover of £73,568,000 (2018 restated: £68,496,000).

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

Financial position

At 31 December 2019 the company had net liabilities of £43,673,000 (2018 restated: net liabilities of £42,700,000).

During the year, the company has repaid £16,345,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). In the previous financial year, the company repaid a total of £23,153,000. Scheduled loan repayment dates are 30 June and 31 December each year. As 31 December 2017 fell on a non-working day, payment of £7,590,000 was made on 2 January 2018, in line with the terms and conditions of the bond.

The company 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 £6,108,000 (2018: £5,758,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £308,050,000 (2018: £314,158,000). The directors believe the finance debtor to be recoverable over the term of the Project Agreement.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 deductions of £98,000 (2018: £160,000) were levied by the Trusts and passed onto the service providers. This deduction amounts to 0.16% (2018 restated: 0.28%) of the service revenue earned from the Trusts in the year. The directors consider this low level of deduction to be satisfactory.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession and this has shown the project to be profitable and cash generative. The directors monitor actual performance against this anticipated performance. As discussed above the company's performance as at 31 December 2019 against this measure was considered satisfactory.

The company is providing a full range of facilities management services as required under the Project Agreement at a satisfactory level. The company has met all of the obligations contained within the Collateral Deed and there have been no events of default, potential events of default or trigger events with regards to the Collateral Deed in the year ended 31 December 2019.

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the company 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 company's main stakeholders as the following:

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

Principal considerations of the board are whether the investment objective of the company is meeting shareholder and bondholder expectations and the 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 optimized.

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.

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 company, 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.

iii. The service providers

On behalf of the company, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the company 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. Periodically the directors will also meet with the service provider to discuss key service delivery matters.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

iv. The manager

The company has outsourced the management of the company to HCP Social Infrastructure (UK) Limited ("HCP"), the manager. The delivery by the manager of its services is fundamental to the long term success of the company. 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:

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

The company has outsourced the management of the company to HCP Social Infrastructure (UK) Limited ("HCP"), the manager. The delivery by the manager of its services is fundamental to the long term success of the company. 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.

(b) The interests of the company's employees

As an externally managed company, the company's activities are all outsourced and therefore it does not have any employees. The company does however, pay due regard to the interests and safety of all those engaged by contractors to the company to perform services on its behalf.

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

The company is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the company 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 company obligations to its public sector client and service providers can be upheld.

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

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

The board recognises that the company 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 company maintaining a reputation for high standards of business conduct

The company 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 company

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

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 company's key stakeholders and reflect the board's belief that the long term sustainable success of the company is linked directly to its key stakeholders.

On behalf of the board



Mr B Dean

Director

12 May 2020

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and financial statements for the year ended 31 December 2019.

Directors

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

Mrs S Clark

Mr B Dean*

Mr N Crowther

(Resigned 18 September 2019)

Mr M Fry* (Non-Executive director)

Mr D Brooking

(Appointed 18 September 2019)

* Members of the Audit Committee

Results and dividends

The results for the year are set out on page 16.

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

Supplier payment policy

The company'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 company at the year end were equivalent to 16 (2018:17) days purchases, based on the average daily amount invoiced by suppliers during the year.

Financial instruments

Treasury operations and financial instruments

The company's financial instruments result in the company's exposure to liquidity, credit rate and interest rate risks. Further information on the financial instruments employed by the company 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 company aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the company.

Interest rate risk

The company 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. (senior debt is indexed linked)

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 company. 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 £308,050,000 (2018: £314,158,000) is the maximum credit exposure.

Financial risk management policies and objectives

The company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the board members of the company. HCP reports regularly to the board of the company. The board receives monthly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the company 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 company 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.

The company has constituted an Audit Committee, comprising of an independent chairman (non-executive director) and a further director. The Audit Committee is responsible for satisfying itself that the financial affairs of the group's companies are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the companies in the group and to review significant judgements contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditor; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the company.

Auditor

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

Statement of disclosure to auditor

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

Going concern

The company'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 and the risk posed by COVID-19 are described above and in the strategic report.

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

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

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Significant shareholdings and special rights

The company is 99.998% owned by The Coventry and Rugby Hospital Company (Holdings) Limited and 0.002% owned by The Coventry and Rugby Hospital Company Nominee Limited (which is in turn 100% owned by The Coventry and Rugby Hospital Company (Holdings) Limited). The Coventry and Rugby Hospital Company (Holdings) Limited is 100% owned by Innisfree PFI Continuation Fund, through its nominee Innisfree Nominees Limited. The shareholders 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 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.

The directors confirm that:

- (a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- (b) the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

On behalf of the board



Mr B Dean

Director

12 May 2020

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 or 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 its financial statements comply with the Companies Act 2006. They are 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.



Mr B Dean
Director

12 May 2020
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THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

1 Our opinion is unmodified

We have audited the financial statements of The Coventry and Rugby Hospital Company Plc (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the 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 Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors for the year ended 31 December 2003. The period of total uninterrupted engagement is for the 17 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Service revenue

Risk vs 2018: ◀▶

Service revenue (£60.4 million; 2018: £56.8 million).

Refer to page 20 (accounting policy) and page 25 (related notes).

The risk

Service revenue recognition

The amount of service revenue recognised is calculated via a mark-up being applied to costs incurred during the year. The mark-up is determined from a long term financial model which acts as a long term forecast of the revenues and costs to be incurred on the project. A significant portion of the service provision and the associated performance risk, are outsourced to subcontractors with costs contractually agreed over the life of the contract. Lifecycle replacement risk remains with the Company and is a significant estimate.

A fraud risk exists as the directors could manipulate the amount of revenue recognised either through amending the future forecast assumptions and hence changing the mark-up applied to the costs on which revenue is recognised or by applying the mark-up to costs which are not related to the provision of the services under the concession contract.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

The effect of these matters is that, as part of our risk assessment, we determined that the amount of service revenue recognised has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 2) discloses the sensitivity estimated by the Directors.

Our response

Our procedures included:

- Service revenue recalculation: Recalculating service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- Historical comparisons: Assessing the reasonableness of the cost forecasts by considering the historical accuracy of the previous forecasts as well as changes to forecast cost estimates relating to future years.
- Our sector experience: Evaluating the appropriateness of cost estimates and assessing whether or not estimates showed any evidence of management bias based on our knowledge of the Company and experience of the industry in which it operates.
- Assessing transparency: Assessing the adequacy of the Company's disclosures in respect of the sensitivity of the amount of service revenue recognised to changes in cost forecasts.

Our results

The results of our testing were satisfactory and we considered the amount of revenue recognised to be acceptable (2018: acceptable).

Going concern

Risk vs 2018: ▲

Refer to Note 1.2, page 20 (accounting policy).

The risk

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.

That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements.

The risk most likely to adversely affect the Company's available financial resources over this period is the impact of Covid-19 on contract performance, subcontractor failure and compliance with borrowing covenants.

Our response

Our procedures included:

- Our sector experience: We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used in the cash flow forecasts and the level of severe but plausible downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.
- Evaluating directors' intent: We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.
- Assessing transparency: We assessed the accuracy and completeness of the matters covered in the going concern disclosure.

Our results

We found the going concern disclosures without any material uncertainty to be acceptable.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £3.1 million (2018: £3.2 million), determined with reference to a benchmark of total assets of £392.1 million (2018: £404 million) of which it represents 0.8% (2018: 0.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £150,000 (2018: £160,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at our offices.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5 We have nothing to report on the 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 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:

Based solely on our 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

6 We have nothing to report on the other 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 10, the Directors are responsible for: the preparation of the financial statements including 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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and anti-bribery legislation recognising the nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 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.



Robert Fitzpatrick (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square
Bristol
BS1 4BE

14 May 2020
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THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	£'000	as restated £'000
Turnover	3	73,568	68,496
Operating Costs		(62,557)	(57,916)
Operating profit		11,011	10,580
Interest receivable and similar income	7	21,018	22,263
Interest payable and similar expenses	8	(32,884)	(34,199)
Loss before taxation		(855)	(1,356)
Taxation	9	(118)	47
Loss for the financial year		(973)	(1,309)
Other comprehensive income		-	-
Total comprehensive loss for the year		(973)	(1,309)

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

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

BALANCE SHEET

AS AT 31 DECEMBER 2019

		2019		2018	
	Notes	£'000	£'000	as restated £'000	£'000
Current assets					
Debtors falling due after more than one year	10	309,295		315,893	
Debtors falling due within one year	10	27,795		30,618	
Cash at bank and in hand		70,351		68,144	
		<u>407,441</u>		<u>414,655</u>	
Creditors: amounts falling due within one year	11	<u>(22,647)</u>		<u>(27,636)</u>	
Net current assets			384,794		387,019
Creditors: amounts falling due after more than one year	12		(428,467)		(429,525)
Provisions for liabilities	14		-		(194)
Net liabilities			<u>(43,673)</u>		<u>(42,700)</u>
Capital and reserves					
Called up share capital	16		50		50
Profit and loss reserves			(43,723)		(42,750)
Total equity			<u>(43,673)</u>		<u>(42,700)</u>

See note 1.10 and 21 in respect of the restatements.

The financial statements were approved by the board of directors and authorised for issue on 12 May 2020 and are signed on its behalf by:



Mr B Dean
Director

Company Registration No. 04508763

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2018	50	(48,651)	(48,601)
Effect of prior year adjustment	-	7,210	7,210
Balance at 1 January 2018 (restated):	50	(41,441)	(41,391)
As restated for the period ended 31 December 2018:			
Balance at 1 January 2018	50	(41,441)	(41,391)
Year ended 31 December 2018:			
Loss and total comprehensive income for the year (restated)	-	(1,309)	(1,309)
Balance at 31 December 2018 (restated)	50	(42,750)	(42,700)
Year ended 31 December 2019:			
Loss and total comprehensive income for the year	-	(973)	(973)
Balance at 31 December 2019	50	(43,723)	(43,673)

See notes 1.10 and 21 in respect of the restatements.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

Company information

The Coventry and Rugby Hospital Company Plc is a public company incorporated by shares 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 under 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.

The company's parent undertaking, The Coventry and Rugby Hospital Company (Holdings) Limited, includes the company in its consolidated financial statements. The consolidated financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited are prepared in accordance with FRS 102 and are available to the public and maybe obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

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.

As the company is a wholly owned subsidiary of The Coventry and Rugby Hospital Company (Holdings) Limited, the company has taken advantage of the exemption in section 33 of FRS 102 to not disclose transactions entered into between itself and the other members of the group.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.2 Going concern

Notwithstanding net liabilities of £43,673,000 as at 31 December 2019, a loss for the year then ended of £973,000 and operating cash inflows for the year of £2,207,000, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared 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, the company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing 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 the emergence and spread of COVID-19.

The company'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. This is in line with the announcement made by the Government in "Procurement Policy Note 02/20: Supplier Relief due to COVID-19" which states it is vital that contracting authorities pay all suppliers as quickly as possible to maintain cash flow and protect jobs.

The company continues to provide the asset in accordance with the contract and is available to be used. As a result, the company does not believe there is any likelihood of a material impact to the unitary payment.

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 company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the company has its own business continuity plans to ensure that service provision will continue.

The directors believe the company has sufficient funding in place and expect the company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a 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 and do not attract a margin.

1.4 Financial instruments

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

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

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

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include trade and other 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.

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 company is obligated to keep separate cash reserves in respect of requirements in the company'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 £70,351,000 at the year end (2018: £64,307,000).

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. 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 company 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 company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other 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.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

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 company's contractual obligations expire or are discharged or cancelled.

1.5 Equity instruments

Equity instruments issued by the company 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 company.

1.6 Taxation

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

Current tax

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

Deferred tax

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

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.7 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the 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 in which it arises.

1.8 Service Concession Accounting

The company is an operator of a Public Finance Initiative ("PFI") contract. The company 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 company has contracted to provide hard, soft and equipment services to the Trusts. The company 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 company. The timing and extent of the major maintenance works is a key assumption that will affect the cashflows of the company, further information is shown in note 2. The contract does not entitle the Trusts to any share of the profits of the company. 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 company 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.

As the company entered into the contract prior to the date of transition to FRS102, the company 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 company 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 Project Co. 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. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The company 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.

1.9 Interest receivable and payable

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

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

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.10 Prior period adjustment

During the year management identified mathematical issues with the long term contracting model which affected revenue recognised between 2008 and 2018 inclusively. The issues resulted in a reduced margin being applied to service revenue in each of those years and, conversely, the margin being applied to certain costs to which it was not applicable. As a consequence of the higher revenue now recognised an increased amount of the deferred tax asset would have been utilised in those years. The net effect of the above has been to increase revenue and accrued income and reduce the deferred tax asset. This has no impact on cash recognition or amounts invoiced to the underlying customer.

Further details are given in note 21.

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.

Certain critical accounting judgements in applying the company'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 service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the company'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 concession increase by 5% the impact on revenue and loss in the year would be a decrease in revenue of £762,000 and an increase in the loss of £762,000.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover and other revenue

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

	2019 £'000	2018 £'000 (restated)
Turnover		
Services income	60,357	56,771
Pass through income	9,637	10,214
Other income	3,574	1,511
	<u>73,568</u>	<u>68,496</u>

4 Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the company's financial statements	<u>35</u>	<u>24</u>

5 Employees

The company had no employees during the year (2018: nil).

6 Directors' remuneration

	2019 £'000	2018 £'000
Sums paid to related parties for directors' services	<u>32</u>	<u>38</u>

Directors' emoluments were paid by the shareholders of the parent undertaking. The company does not operate a pension scheme for its directors.

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	589	442
Interest on finance debtor	20,429	21,821
	<u>21,018</u>	<u>22,263</u>
Total interest income	<u>21,018</u>	<u>22,263</u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

8 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	26,581	28,020
Interest on subordinated loans	5,452	5,319
Amortisation of finance arrangement costs	851	860
	<u>32,884</u>	<u>34,199</u>

9 Taxation

	2019 £'000	2018 (restated) £'000
Deferred tax		
Group tax relief	192	185
Changes in tax rates	88	25
Tax losses carried forward	(162)	(257)
	<u>118</u>	<u>(47)</u>

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

The actual charge/(credit) 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:

	2019 £'000	2018 (restated) £'000
Loss before taxation	<u>(855)</u>	<u>(1,356)</u>
Expected tax charge based on a corporation tax rate of 19% (2018 - 19%)	(162)	(257)
Effect of change in corporation tax rate	88	25
Deferred tax adjustments in respect of prior years	192	185
	<u>118</u>	<u>(47)</u>

The company has tax losses of £45,441,000 (2018 restated: £44,585,000) 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 COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

9 Taxation

(Continued)

A reduction in the UK corporation tax rate from 19% (effective from 1 April 2017) to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax asset at 31 December 2019 has been calculated on that rate. Since then it was substantively enacted on 17 March 2020 that the rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. This will increase the company's tax charge accordingly.

10 Debtors

	Notes	2019 £'000	2018 £'000 (restated)
Amounts falling due within one year:			
Trade debtors		2,299	1,418
Amount due from parent undertaking		83	83
Other debtors		42	100
Finance debtor		6,480	6,108
Prepayments and accrued income		18,891	22,909
		<u>27,795</u>	<u>30,618</u>
Amounts falling due after one year:			
Finance debtor		301,570	308,050
Deferred tax asset (note 15)	15	7,725	7,843
		<u>309,295</u>	<u>315,893</u>
Total debtors		<u>337,090</u>	<u>346,511</u>

All financial assets included above are held at amortised cost.

11 Creditors: amounts falling due within one year

	Notes	2019 £'000	2018 £'000
Bank loans and overdrafts	13	9,880	10,363
Trade creditors		2,815	2,631
Other taxation and social security		1,386	1,703
Other creditors		-	103
Accruals and deferred income		8,566	12,836
		<u>22,647</u>	<u>27,636</u>

All Financial liabilities above are held at amortised cost.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Creditors: amounts falling due after more than one year

	Notes	2019 £'000	2018 £'000
Bank loans and overdrafts	13	428,467	429,525

All financial liabilities included above are held at amortised cost.

13 Loans and overdrafts

	2019 £'000	2018 £'000
Bonds	400,435	403,229
Subordinated Loans	37,912	36,659
	<u>438,347</u>	<u>439,888</u>
Payable within one year	9,880	10,363
Payable after one year	<u>428,467</u>	<u>429,525</u>

Amounts included above which fall due after five years:

Payable by instalments	392,594	391,595
	<u>392,594</u>	<u>391,595</u>

The bond is secured by an irrevocable 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 Link Asset Services) as security trustee over all of the undertakings and assets of the company. 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 from the parent undertaking 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.

14 Provisions for liabilities

	2019 £'000	2018 £'000
Remediation costs	-	194

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

14 Provisions for liabilities

(Continued)

Movements on provisions:

	Remediation costs £'000
At 1 January 2019	194
Utilisation of provision	(194)
	<u> </u>
At 31 December 2019	<u> </u>

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 further costs totalling £194,000 have been recognised in relation to this work, utilising this provision.

15 Deferred taxation

Deferred tax assets and liabilities are offset where the 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 2019 £'000	Assets 2018 £'000 (restated)
Balances:		
Tax losses	7,725	7,843
	<u> </u>	<u> </u>
Movements in the year:		2019 £'000
Liability/(Asset) at 1 January 2019 (restated)		(7,843)
Loss for the year carried forward		(162)
Effect of change in tax rates		88
Adjustment for prior period		192
		<u> </u>
Liability/(Asset) at 31 December 2019		(7,725)
		<u> </u>

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

16 Share capital

	2019 £'000	2018 £'000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

17 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.

18 Related party transactions

	Management Services	
	2019 £'000	2018 £'000
HCP Social Infrastructure (UK) Limited	813	782
	<u>813</u>	<u>782</u>

In December 2002, the company 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 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.

The following amounts were outstanding at the reporting end date:

	2019 £'000	2018 £'000
Amounts owed to related parties		
Key management personnel	-	-
	<u>-</u>	<u>-</u>

No guarantees have been given or received.

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

19 Ultimate controlling party

The company is a wholly owned subsidiary undertaking of The Coventry and Rugby Hospital Company (Holdings) Limited, which is incorporated in the United Kingdom, registered at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The ultimate controlling party is Innisfree PFI Continuation Fund, registered at 1st Floor Boundary House, 91 - 93 Charter House Street, London, EC1M 6HR.

The largest and smallest group in which the results of the company are consolidated is that headed by The Coventry and Rugby Hospital Company (Holdings) Limited. The consolidated accounts of this group are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

20 Non-adjusting post balance sheet event

These financial statements are for the year ended 31 December 2019 and therefore the impact of COVID-19 on these accounts is considered to be a non-adjusting post-balance sheet event. For the reasons discussed in the Strategic Report and in note 1.2 we do not expect Covid-19 to have a material impact on the year ended 31 December 2019 numbers

THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

21 Prior period adjustment

As stated in note 1, these financial statements have been amended for the effects of the prior period adjustment on revenue.

Reconciliations provided shall, to the extent practicable, show the correction of errors in prior periods.

Reconciliation of equity

		31 December 2018		
		Effect of		
	Note	Original £'000	error £'000	Restated £'000
Current assets				
Prepayments and accrued income included in debtors (due within one year)	10	9,860	13,049	22,909
Deferred tax asset included in debtors (due after more than one year)	10	10,082	(2,239)	7,843
Net liabilities		(53,510)	10,810	(42,700)

	31 December 2018			1 January 2018		
	Effect of			Effect of		
	Original £'000	error £'000	Restated £'000	Original £'000	error £'000	Restated £'000
Profit and loss account	(53,560)	10,810	(42,750)	(48,651)	7,210	(41,441)
Shareholders' equity	(53,610)	(10,810)	(42,700)	(48,601)	7,210	(41,391)

Reconciliation of comprehensive income

		2018		
		Effect of		
	Note	Original £'000	error £'000	Restated £'000
Turnover				
Turnover	3	64,150	4,346	68,496
Profit/(loss) before taxation		(5,702)	4,346	(1,356)
Tax on profit		793	(746)	47
Profit/(loss) for the year		(4,909)	3,600	(1,309)