

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 2020**



# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## COMPANY INFORMATION

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<b>Directors</b>	Mr B Dean Mr M Fry Mrs S Clark Mr D J Brooking
<b>Secretary</b>	Vercity Social Infrastructure (UK) Limited (previously known as HCP Social Infrastructure (UK) Limited)
<b>Company number</b>	04508763
<b>Registered office</b>	8 White Oak Square London Road Swanley Kent BR8 7AG
<b>Auditor</b>	BDO LLP 55 Baker Street London W1U 7EU

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# **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 2020**

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The directors present the strategic report for the year ended 31 December 2020.

### **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 "UHCW" and the Coventry and Warwickshire Partnership Trust "CWPT" (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, 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.

### **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:

#### **Service performance risk**

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.

Following the engagement by CWPT of a third-party consultant, the Trust have awarded Service Failure Points over those that were self-reported by the Service Providers. The points were for alleged service performance and maintenance failures. The company and the Service Provider disagree with the Trust's assessment and their application of the points. The company is working closely with the Trust and the Service Provider to resolve the service performance issues and to come to an agreement on the level of points. Although the company and the Service Providers have not agreed the level of SFPs, they still stand until this process has been concluded. The level of awarded SFPs exceed the thresholds for an Event of Default ("EoD") under the terms of the Collateral Deed and also a Project Co Event of Default under the Project Agreement.

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 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.

However, the company is working with the Trust and the Service Providers to conclude this issue and therefore remedy the EoD.

#### **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 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. Deductions incurred in the year were £260,000 (2019: £98,000), which were recovered from the service providers, resulting in net deductions of £nil (2019: £nil).

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 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.

### COVID-19 risk

The company 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 company 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. The company is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, 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. Due to the evolving nature of the risk, the board continue to actively monitor developments.

### Going concern

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 company's ability to continue as a going concern and that therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the uncertainties above, 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 provider;
- 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.

After considering the uncertainties described above, the directors have a reasonable expectation that the company 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. For further details see note 1.2.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### Development and performance

#### *Financial performance*

Turnover in the year increased to £77,866,000 (2019: £73,568,000) mainly due to the cost of the services provided, to which the service margin is applied, having increased. This is mainly due to increased spend on lifecycle during the year.

Interest receivable reduced to £15,504,000 (2019: £21,018,000) 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 £19,947,000 (2019: £26,581,000), due to the lower indexation and repayment of capital. Interest on subordinated debt increased slightly to £5,620,000 (2019: £5,452,000) 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 2020 than for 2019, resulting in the increased interest payable. The subordinated debt balance as at 31 December 2020 was £40,915,000 made up of £32,608,000 principal and £8,307,000 accrued interest (31 December 2019: £37,912,000). This has led to a net interest cost of £10,903,000 (2019: £11,866,000)

The impact of these movements has resulted in a profit of £538,000 (2019 loss: £973,000) for the year on a turnover of £77,866,000 (2019: £73,568,000).

#### *Financial position*

At 31 December 2020 the company had net liabilities of £43,135,000 (2019: net liabilities of £43,673,000).

During the year, the company has repaid £16,047,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). In the previous financial year, the company repaid a total of £16,345,000. Scheduled loan repayment dates are 30 June and 31 December each year.

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 £6,480,000 (2019: £6,108,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £301,570,000 (2019: £308,050,000). 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 deductions of £260,000 (2019: £98,000) were levied by the Trusts and passed onto the service providers. This deduction amounts to 0.33% (2019: 0.16%) of the service revenue earned from the Trusts in the year. As detailed above, despite the low level of deductions in the year, a significant number of SFPs have been awarded by the Trust, which have exceeded the threshold for an Event of Default. These points are being disputed, however since the balance sheet date CWPT have deducted £959,000, these have been passed down in full to the Service Providers. There is the possibility that the SFPs will lead to further deductions. These will be passed down to the fullest extent possible to the Service Providers and the directors consider the risk to the company to be minimal.

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 2020 against this measure was considered satisfactory.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **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 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 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.

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 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. The directors are meeting regularly with the service providers to discuss how they can support in improving the service provision. As detailed above the has involved putting in place a service improvement plan.

#### **iv. The manager**

The company has outsourced the management of the company 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 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:

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

The company has outsourced the management of the company 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 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. The company undergoes annual external health and safety reviews and the directors undertake regular health and safety inspections

(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 be 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 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

28 April 2021



# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2020

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The directors present their annual report and audited financial statements for the year ended 31 December 2020.

#### Results and dividends

The results for the year are set out on page 17.

No ordinary dividends were paid. (2019: 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 M Fry  
Mrs S Clark  
Mr D J Brooking

#### Qualifying third party indemnity provisions

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

#### 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 group's contractual and other legal obligations.

Trade creditors of the group at the year end were equivalent to 25 (2019: 16) days purchases, based on the average daily amount invoiced by suppliers during the year.

#### Financial instruments

##### **Liquidity Risk**

The company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the company issued Indexed Linked Secured Guaranteed Bonds negotiated to ensure that the company 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 company.

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 company is working with the Trust and the Service Providers to rectify the issues surrounding service provision and so minimise the risk of deductions.

##### **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 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 also noted that the Unitary Charge income is also linked to RPI inflation, therefore mitigating the inflation risk on the bonds.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### **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 £301,570,000 (2019: £30,050,000) and the carrying value of cash at bank is £78,548,000 (2019: £70,351,000). 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 company'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 company 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 company nor is it within its operational control. The company has therefore excluded such activities from its reporting. The company itself is considered to be a low energy user and therefore energy and carbon information for the company 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 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.

On behalf of the board



Mr B Dean

Director

Date: 28 April 2021

# **THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Directors' responsibilities pursuant to DTR4**

The directors confirm to the best of their knowledge:

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

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Coventry and Rugby Hospital Company Plc (the 'Company') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity 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 UK accounting standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

#### **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. Our audit opinion is consistent with the additional report to the audit committee.

#### **Independence**

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 2 February 2021 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. This is the first period of engagement. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements concerning the Company's ability to continue as a going concern. This states that the Company has been notified of an Event of Default and that as a result a liability of approximately £382m 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 Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

We have identified going concern as a Key Audit Matter, with the risks most likely to adversely affect the Company's ability to continue as a going concern being contract performance and the open Event of Default.

Our audit work included, but was not restricted to, the following:

- We agreed the Service Points awarded and the resulting implications of the Event of Default to supporting evidence.
- We evaluated the impact the Event of Default had on the reclassification of the outstanding amounts of the bond due to current liability, as the company does not have an unconditional right to avoid repayment for at least 12 months at the reporting date.
- We evaluated the achievability of the actions the Directors are taking to resolve the issue.
- We critically assessed the reasonableness of the key assumptions used in the cash flow forecasts and the sensitivities applied.
- We assessed the accuracy and completeness of the matters covered in the going concern disclosure

#### Overview

	2020
<b>Key audit matters</b>	Revenue recognition Lifecycle costs Financial model
<b>Materiality</b>	<i>Financial statements as a whole</i> <i>£4.0m based on 1% total assets</i>

#### An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Material uncertainty related to going concern section we have determined the matters below to be the key audit matters to be communicated in our report.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### Key audit matter

##### **Financial Model**

The financial model drives a number of transactions and balances recorded in the financial statements.

There is a risk that inputs in the model are inaccurate, compromising the integrity of the model resulting in incorrect outputs and cash flow projections.

#### How the scope of our audit addressed the key audit matter

Our audit work included, but was not restricted to, the following:

- We compared the model with the model used in the 2019 audit and the original audited model. For any amendments identified, we obtained supporting evidence to consider appropriateness of the changes made to inputs.
- We assessed the adequacy of the key inputs in the model.
- We compared the results for the 2020 financial year with the project's projected results for 2021, to identify any anomalies that would be indicative of manipulation of the future profit margin.
- We ensured that the finance debtor was forecast to fully amortise and the debt profile be settled over the life of the service concession agreement.

#### Key observations:

- Based on the work performed we consider that the inputs to the financial model were reasonable.

##### **Lifecycle Costs**

As explained in note 2, determination of the lifecycle costs over the duration of the contract requires significant management judgement and estimate.

There is a risk that future lifecycle costs may not have been accurately forecasted in the financial model for future periods which could lead to incorrect determination of profit margin and recognition of profits.

As such, lifecycle costs represent a significant risk and key area of focus for our audit.

Our audit work included, but was not restricted to, the following:

- We critically challenged management over the estimates of future lifecycle costs. In particular, this included consideration and assessment of the long term lifecycle plan, lifecycle budgets and condition level of the hospital.
- We checked a sample of lifecycle costs to supporting documentation and challenged management as to whether the costs were completed at the year-end.
- We have considered the completeness of the provisions by reviewing board minutes as well as holding a number of discussions with Management in regards to the lifecycle costs.
- We checked that the latest lifecycle plan has been appropriately reflected in the financial model.

#### Key observations:

- Based on the work performed we consider that management's key estimates in respect of lifecycle costs are reasonable.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### **Revenue Recognition**

Revenue is accounted for as detailed in note 1.3, with a service margin added to the relevant cost base. The margin applied is determined by the forecasted results of the Public Finance Initiative ('PFI') contract. Management use a financial model to forecast the results of the contract for the period until completion.

As explained in note 2, the determination of the service margins is a key area of estimates and judgement and we therefore consider this to be an area of significant risk and key area of focus.

Our audit work included, but was not restricted to, the following:

- We tested the mark-up applied within the financial model and investigated differences from that applied in prior year, corroborating changes to supporting documents and Board approvals.
- We checked that mark-up had been applied to appropriate costs, and that it was based on contractual entitlements.
- We checked the allocation of the unitary charge account between revenue, interest and amortisation of the finance debtor to the financial model and compared the total unitary charge to contractual terms
- We checked a sample of revenue for variations, deductions and pass through income to ensure that recognition was in line with contractual terms.
- We reviewed transactions around the year end, to ensure cut-off had been applied correctly to costs and consequently revenue.

#### **Key observations:**

- Based on the work performed, we consider that the service margin has been appropriately applied.

#### **Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows::

	2020 £m
<b>Materiality</b>	£4.0 million
<b>Basis for determining materiality</b>	Benchmark of total assets of £403m of which it represents 1%
<b>Rationale for the benchmark applied</b>	The PFI project is asset driven and the success of the project is measured through the overall return of the project, with the Finance Debtor representing the right for future distributions.
<b>Performance materiality</b>	65% of financial statement materiality to reflect that this is the first year audited by BDO LLP.
<b>Cost testing threshold</b>	We set a lower cost testing threshold of £820,000, which is based on 1.25% of operating costs to ensure adequate testing of the cost base.

#### *Reporting threshold*

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £60,000 (2019: £150,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

#### **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.



# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

<b>Strategic report and Directors' report</b> <ul style="list-style-type: none"><li>•</li><li>•</li></ul>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"><li>• 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</li><li>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.</li></ul> <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
<b>Matters on which we are required to report by exception</b> <ul style="list-style-type: none"><li>•</li><li>•</li><li>•</li><li>•</li></ul>	<p>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:</p> <ul style="list-style-type: none"><li>• 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</li><li>• the Company financial statements are not in agreement with the accounting records and returns; or</li><li>• certain disclosures of Directors' remuneration specified by law are not made; or</li><li>• we have not received all the information and explanations we require for our audit.</li></ul>

#### 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### **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:

Based on our understanding of the Company and industry, we identified the principal risk of non-compliance with laws and regulations to be UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that might have a direct impact on the preparation of the financial statements such as Companies Act 2006.

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 Company's assets.

Audit procedures performed by the engagement team included:

- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging 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; and
- Identifying and testing journal entries, in particular any material journal entries posted and/or with unusual descriptions.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

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#### 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.



Cassie Forman-Kotsapa (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

Date: 29 April 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Turnover	3	77,866	73,568
Cost of sales		(67,165)	(62,557)
<b>Gross profit</b>		<b>10,701</b>	<b>11,011</b>
Interest receivable and similar income	7	15,504	21,018
Interest payable and similar expenses	8	(26,407)	(32,884)
<b>Loss before taxation</b>		<b>(202)</b>	<b>(855)</b>
Tax on loss	9	740	(118)
<b>Profit/(loss) for the financial year</b>		<b>538</b>	<b>(973)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>538</b>	<b>(973)</b>

The profit and loss account 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 2020

	Notes	2020 £'000	£'000	2019 £'000	£'000
<b>Current assets</b>					
Debtors falling due after more than one year	10	303,191		309,295	
Debtors falling due within one year	10	21,649		27,795	
Cash at bank and in hand		78,548		70,351	
		<u>403,388</u>		<u>407,441</u>	
<b>Creditors: amounts falling due within one year</b>	11	<u>(445,431)</u>		<u>(22,647)</u>	
<b>Net current (liabilities)/assets</b>			(42,043)		384,794
<b>Creditors: amounts falling due after more than one year</b>	12		-		(428,467)
<b>Provisions for liabilities</b>					
Provisions	14	<u>1,092</u>	<u>(1,092)</u>	<u>-</u>	<u>-</u>
<b>Net liabilities</b>			<u>(43,135)</u>		<u>(43,673)</u>
<b>Capital and reserves</b>					
Called up share capital	16		50		50
Profit and loss account	16		<u>(43,185)</u>		<u>(43,723)</u>
<b>Total equity</b>			<u>(43,135)</u>		<u>(43,673)</u>

The financial statements were approved by the board of directors and authorised for issue on 28 April 2021 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 2020

	Share capital £'000	Profit and loss account £'000	Total £'000
<b>Balance at 1 January 2019</b>	50	(42,750)	(42,700)
<b>Year ended 31 December 2019:</b>			
Loss and total comprehensive expense for the year	-	(973)	(973)
<b>Balance at 31 December 2019</b>	50	(43,723)	(43,673)
<b>Year ended 31 December 2020:</b>			
Profit and total comprehensive income for the year	-	538	538
<b>Balance at 31 December 2020</b>	50	(43,185)	(43,135)

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **1 Accounting policies**

#### **Company information**

The Coventry and Rugby Hospital Company Plc is a private company limited 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 financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

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

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position': Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited. These consolidated financial statements are available from its registered office, 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 1 Accounting policies

(Continued)

#### 1.2 Going concern

Following the engagement by CWPT of a third-party consultant, the Trust have awarded Service Failure Points over those that were self-reported by the Service Providers. The points were for alleged service performance and maintenance failures. The company and the Service Provider disagree with the Trust's assessment and their application of the points. The company is working closely with the Trust and the Service Provider to resolve the service performance issues and to come to an agreement on the level of points. Although the company and the Service Providers have not agreed the level of SFPs, they still stand until this process has been concluded. The level of awarded SFPs exceed the thresholds for an Event of Default ("EoD") under the terms of the Collateral Deed and also a Project Co Event of Default under the Project Agreement.

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 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 impact of the above circumstances on the balance sheet at 31 December 2020 is to classify the outstanding amounts of the bond as a current liability because the company does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £382,035,000 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 company's subordinated debt also becomes repayable on demand. Therefore, £ 40,915,000 of Other Borrowings has been classified as current at 31 December 2020.

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 Credit Provider is updated weekly by the directors to ensure that they are kept informed of the company's progress in remedying the outstanding 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 provider;
- 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.



# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **1 Accounting policies**

**(Continued)**

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. 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 subcontractors 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 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 company's ability to continue as a going concern and that therefore the company 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 company 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.

#### **1.3 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.

#### **1.4 Cash and cash equivalents**

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

##### **Restricted cash**

The company is obligated to keep separate cash reserves in respect of requirements in the company'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 £66,073,000 at the year end (2019: 76,477,000).

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### 1.5 Financial instruments

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

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

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

##### **Basic financial assets**

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

##### **Loans and Receivables**

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition. The effective interest rate is amended for changes in RPI that affect the future cashflows.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1 Accounting policies

(Continued)

##### **Service Concession**

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. 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 company recognises revenue in respect of the services provided, including lifecycle services, the costs of 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 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.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies

(Continued)

##### **Classification of financial liabilities**

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

##### **Basic financial liabilities**

Basic financial liabilities, including creditors, bank loans and loans from fellow group 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 company's contractual obligations expire or are discharged or cancelled.

#### 1.6 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.

#### 1.7 Taxation

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

##### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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 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 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 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 2020

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### 1 Accounting policies

(Continued)

#### 1.8 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.

### 2 Judgements and key sources of estimation uncertainty

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

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

#### 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 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 £487,000 and an increase in the loss of £487,000.

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3 Turnover and other revenue

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

	2020 £'000	2019 £'000
<b>Turnover analysed by class of business</b>		
Services income	63,685	60,357
Pass through income	13,155	9,637
Other income	1,026	3,574
	<u>77,866</u>	<u>73,568</u>
	2020 £'000	2019 £'000
<b>Turnover analysed by geographical market</b>		
United Kingdom	<u>77,866</u>	<u>73,568</u>

### 4 Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the company	<u>30</u>	<u>35</u>

### 5 Employees

The company had no employees during the year (2019: nil).

### 6 Directors' remuneration

No directors received any remuneration for services to the company during the year (2019: nil).

### 7 Interest receivable and similar income

	2020 £'000	2019 £'000
<b>Interest income</b>		
Interest on bank deposits	70	589
Interest receivable on the finance debtor	15,434	20,429
	<u>15,504</u>	<u>21,018</u>

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 8 Interest payable and similar expenses

	2020	2019
	£'000	£'000
Interest on bond	19,947	26,581
Interest payable on subordinated debt	5,620	5,452
Amortisation of finance arrangement costs	840	851
	<u>26,407</u>	<u>32,884</u>

### 9 Taxation

	2020	2019
	£'000	£'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	31	-
	<u>31</u>	<u>-</u>
<b>Deferred tax</b>		
Changes in tax rates	(909)	88
Tax losses carried forward	(69)	(162)
Group relief	207	192
	<u>(771)</u>	<u>118</u>
Total deferred tax	(771)	118
	<u>(771)</u>	<u>118</u>
Total tax (credit)/charge	<u>(740)</u>	<u>118</u>

For the year ended 31 December 2020, the UK Corporation tax rate of 19% is applied.

The Finance Act 2016 reduced the corporation tax rate to 17% with effect from 1 April 2020 and so this rate was used in the December 2019 deferred tax calculations. In the Budget of 11 March 2020, the Chancellor of the Exchequer announced that the planned rate reduction to 17% would no longer be taking effect. The changes announced during the Budget of 11 March 2020 were substantively enacted as at the 2020 balance sheet date, therefore, all opening deferred taxation balances have been remeasured at 19% with an adjustment recognised in the 2020 total tax charge.

The actual (credit)/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:

	2020	2019
	£'000	£'000
Loss before taxation	<u>(202)</u>	<u>(855)</u>
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	(38)	(162)
Effect of change in corporation tax rate	(909)	88
Group relief	207	192
	<u>(740)</u>	<u>118</u>
Taxation (credit)/charge for the year	<u>(740)</u>	<u>118</u>

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 9 Taxation

(Continued)

The company has tax losses of £44,712,000 (2019: £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.

### 10 Debtors

		2020 £'000	2019 £'000
<b>Amounts falling due within one year:</b>			
Trade debtors		2,451	2,299
Amounts owed by subsidiary undertakings		114	83
Finance debtor		6,875	6,480
Other debtors		136	42
Unitary charge control account		8,156	15,250
Prepayments and accrued income		3,917	3,641
		<u>21,649</u>	<u>27,795</u>
<b>Amounts falling due after more than one year:</b>	<b>Notes</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Finance debtor		294,695	301,570
Deferred tax asset	15	8,496	7,725
		<u>303,191</u>	<u>309,295</u>
<b>Total debtors</b>		<u>324,840</u>	<u>337,090</u>

All financial assets included above are held at amortised cost.

### 11 Creditors: amounts falling due within one year

	<b>Notes</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Bonds	13	391,578	9,880
Trade creditors		4,607	2,815
Loans from group undertakings	13	40,915	-
Corporation tax		31	-
Other Taxation		1,278	1,386
Accruals and deferred income		7,022	8,566
		<u>445,431</u>	<u>22,647</u>



# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 12 Creditors: amounts falling due after more than one year

	Notes	2020 £'000	2019 £'000
Bonds	13	-	390,555
Loans from group undertakings	13	-	37,912
		<u>-</u>	<u>428,467</u>

All financial liabilities included above are held at amortised cost.

As at the balance sheet date there was an Event of Default subsisting pursuant to the Collateral Deed, which the Credit Provider had not formally waived or deemed remedied. Consequently, the company's Bonds and Other Borrowings are classified as due within one year in the balance sheet. Upon remediation of the Events of Default and receipt of a waiver from the Credit Provider amounts falling due within one year of £382,035,000 and £40,915,000 respectively will be transferred to Creditors: amounts falling due after more than one year.

### 13 Loans and overdrafts

	2020 £'000	2019 £'000
Bank loans	391,578	405,867
Loans from group undertakings	40,915	37,912
	<u>432,493</u>	<u>443,779</u>
Payable within one year	432,493	11,360
Payable after one year	-	432,419
	<u>432,493</u>	<u>443,779</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 Apex Corporate Trustees (UK) Ltd) 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 loans from group undertakings comprise subordinated loans of £32,608,000 (2019: £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 2020 are included in the total and amount to £8,307,000 (2019: £5,304,000).

### 14 Provisions for liabilities

	2020 £'000	2019 £'000
Remediation costs	<u>1,092</u>	<u>-</u>

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 14 Provisions for liabilities

(Continued)

Movements on provisions:

**Remediation  
costs  
£'000**

Additional provisions in the year

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 2020 had fallen below the condition required by the contract. These costs are expected to be incurred during 2021. The company has taken expert legal and technical advice, on the basis of which, the directors expect to recover the rectification costs from the service provider.

### 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:

	<b>Assets 2020 £'000</b>	<b>Assets 2019 £'000</b>
<b>Balances:</b>		
Tax losses	8,496	7,725
<b>Movements in the year:</b>		<b>2020 £'000</b>
Asset at 1 January 2020		(7,725)
Credit to profit or loss		(69)
Effect of change in tax rate - profit or loss		(909)
Group relief		207
Asset at 31 December 2020		(8,496)

### 16 Share capital

	<b>2020 Number</b>	<b>2019 Number</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Ordinary share capital Issued and fully paid</b>				
Ordinary shares of £1 each	50,000	50,000	50	50

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 16 Share capital

(Continued)

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

#### Other reserves

The Company's other reserves are as follows:

The profit and loss account represents cumulative profits or losses.

### 17 Related party transactions

#### Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	2020 £'000	2019 £'000
Directors services	37	32

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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Innisfree PFI Continuation Fund	2,500	4,200		
Vercity Social Infrastructure (UK) Limited	-	-	1,023	1,058

# THE COVENTRY AND RUGBY HOSPITAL COMPANY PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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The following amounts were outstanding at the reporting end date:

	<b>Amounts owed to related parties</b>	
	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Vercity Social Infrastructure (UK) Limited	32	59
Innisfree PFI Continuation Fund	40,931	2,100

As per Note 12, Other borrowings have been classified as due within 1 year in the balance sheet. Consequently, the above reflects the subordinated loan note balance (£40,915,000) as well as the interest that was accrued thereon as at the balance sheet date.

### **18 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.