

Company Registration No. 05456419 (England and Wales)

**CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	Mrs G Birley-Smith Ms S Sidhu Mr B M Watson (Alternate) (Appointed 1 March 2019)
<b>Secretary</b>	HCP Social Infrastructure (UK) Limited
<b>Company number</b>	05456419
<b>Registered office</b>	8 White Oak Square London Road Swanley Kent BR8 7AG
<b>Auditor</b>	KPMG LLP 66 Queen Square Bristol BS1 4BE

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# **CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED**

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# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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

### **Business review**

The principal activity of the group is to design, build, finance, operate and maintain a Hospital in accordance with a thirty seven years and five months contract (the "Project Agreement" or "Contract") with Sherwood Forest Hospitals NHS Foundation Trust (the "Trust". Contract negotiations were successfully completed in November 2005 and construction commenced immediately. The project has been fully operational since 2011.

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

### **Principal risks and uncertainties**

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

#### **Major maintenance**

The principal risk borne by the group is that maintenance costs exceed those forecast in the financial model agreed at financial close. Increased lifecycle costs are therefore the greatest risk to breaching the ratio covenants in the Collateral Deed. This risk is mitigated by regular management review of actual expenditure against budget and technical evaluations of the physical condition of the facilities.

#### **Availability**

Investment in the project is funded primarily by the bonds and subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the bonds will be unitary charge received from the Trust under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the group's ability to make payments to bondholders. Deductions of £276,000 (2018: £181,000) were incurred in the year and recovered from the service providers to the fullest extent possible.

#### **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 Trust having the right to terminate the Project Agreement.

It was identified in 2018 that certain practices of the service providers were not fully aligned with the contract. This has led to an increased level of self-reported service failure points ("SFPs") which exceed the thresholds for an Event of Default ("EoD") under the terms of the Collateral Deed. However, the Group is continuing to work with the Trust and the service providers to conclude an agreement to waive these points (the "Settlement Agreement") and therefore remedy the EoD.

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

As part of the Settlement Agreement an Operational Delivery Plan ("ODP") has started to be implemented to resolve any outstanding issues of contractual interpretation and bring SFPs back within contractual levels. In order to expedite the Settlement Agreement, in May 2020 the Group engaged independent consultants to manage the ODP on their behalf.

The directors are confident that the proposed Settlement Agreement will be finalised, historic SFPs will be waived and the EoD remedied, and that the ODP will enable a sustainable service delivery and therefore reduce future service failures.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### ***Service provider failure***

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

### ***Brexit***

The Group is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the Group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

To date Group has not experienced any significant disruption as a result of Brexit.

### ***COVID-19 risk***

The Group is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Group itself is not considered to be significantly exposed, subcontractors with which it engages are considered to have exposure in relation to labour and the ability to continue to perform required services. The Group 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 either by performance guarantees issued by banks or 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 described in the Service Performance section above has been formally waived or deemed remedied by the Credit Provider these issues represent a material uncertainty that could (in the absence of a Settlement Agreement and in the event of Creditors then exercising their rights) cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors have reviewed cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, the Group will have sufficient funds to meet its liabilities as they fall due. Therefore, notwithstanding the uncertainties described above, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For these reasons, the directors consider that it is appropriate to prepare the accounts on a going concern basis.

Further information of the directors' assessment including the consideration of the impact of COVID-19 and the EoD and related Settlement Agreement is contained within note 1.2.

# **CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Development and performance**

Turnover in the year increased by £3,908,000 to £40,940,000 (2018: £37,032,000). £2,241,000 of this increase is related to pass through and variation income, for which there are equivalent costs. The remainder is primarily due to inflation uplifts on service costs, resulting in higher services income (as a mark-up is applied to these service costs). The inflation uplifts to service costs are governed by the project contracts.

As expected, operating profit has increased in a similar percentage as services income, by £239,000 to £3,976,000 (2018: £3,737,000).

The group's loss before taxation improved in the year from a £564,000 loss to a £29,000 loss, a £535,000 improvement. £239,000 is due to service income explained above. £152,000 is due to a decrease in the indexation movement compared to the prior year. The movement in the Retail Prices Index impacts both the bond indexation expense and the finance debtor interest income, however it has a greater impact on bond indexation because an element of the finance debtor interest rate is fixed over the life of the project.

At the 31 December 2019 the group had net liabilities of £674,000 (2018: net liabilities of £650,000).

The finance debtor amortisation during the year was £6,701,000 (2018: £6,366,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £304,565,000 (2018: £311,266,000).

The directors believe the finance debtor to be recoverable over the term of the Project Agreement.

During the year, the group has repaid £14,727,000 of the Index Linked Secured Guaranteed Bonds (the "Bonds"). Scheduled loan repayment dates are 31 March and 30 September each year. In the previous financial year, the group repaid a total of £14,320,000.

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

Ratio covenants as set out in the Collateral Deed have been met during the year and having considered the anticipated future performance and position of the group; the directors are of the opinion that the covenants will continue to be met in the future.

As at the balance sheet date there was an EoD that had not been formally waived or deemed remedied by the Credit Provider, the Group's borrowings have been classified as due within 1 year on the balance sheet.

The Group statement of cash flows has been restated to correctly classify interest receivable related cashflows as an Investing activity in accordance with the requirements of FRS 102 7.15. In the prior year these cashflows were incorrectly classified as a financing activity. The impact of this restatement on the prior year is that financing cash outflows were understated by £19,702,000 and Investing cash inflows were understated by £19,702,000. There was no impact on the net increase in cash and cash equivalents.

### **Key performance indicators**

Financial penalties are levied by the Trust in the event of performance not being achieved according to detailed criteria set out in the Project Agreement. During the financial year deductions of £276,000 (2018: £181,000) were levied by the Trust and passed onto the service providers. An additional £1,040,000 is still expected to be levied, however this is subject to confirmation through the Settlement Agreement as discussed above. This will also be passed onto the service providers.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance and consider the Group's performance as at 31 December 2019 against this measure satisfactory.

# **CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Section 172 Companies Act 2006 Statement**

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

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

- i. The group's shareholders, bondholders and Credit Provider  
Principal considerations of the board are whether the investment objective of the group is meeting shareholder and bondholder expectations and the how the manager implements the objective. These are discussed at all board meetings, which are held regularly throughout the year.

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 Trust  
The board recognises the importance of working in partnership with the Trust, to successfully deliver a key public infrastructure asset. On behalf of the group, the manager fosters this partnership through regular meetings with the Trust representatives and other key managers. The manager provides regular monthly reporting to the Trust on the performance of its obligations under the PFI arrangement. Periodically the directors will also meet with the Trust to discuss key service delivery matters.
- iii. The service providers  
On behalf of the group, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the group contain service provision information and relevant information about the performance of the PFI contract. These reports are reviewed by both the manager and the board. Periodically the directors will also meet with the service provider to discuss key service delivery matters.
- iv. The manager  
The group has outsourced the management of the group 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 group. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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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 group has made no decisions during the year that have a material long term consequence
- b. The interests of the group's employees  
As an externally managed group, the group's activities are all outsourced and therefore it does not have any employees. The group does however, pay due regard to the interests and safety of all those engaged by contractors to the group to perform services on its behalf.
- c. The need to foster the group's business relationships with suppliers, customers and others  
The group is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the group has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that group obligations to its public sector client and service providers can be upheld.
- d. The impact of the group's operations on the community and the environment  
The group has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the group is committed to minimising environmental disruption from its activities. The board upholds the group's environmental policy in all its activities and is supportive of any measures that our partners take in this regard.  
  
The board recognises that the group 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.
- e. The desirability of the group maintaining a reputation for high standards of business conduct  
The group is committed, in its day to day operations and dealings with all affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.
- f. The need to act fairly between members of the group  
The group is wholly owned by Central Nottinghamshire Hospitals (Holdings) Limited 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 group's key stakeholders and reflect the board's belief that the long term sustainable success of the group is linked directly to its key stakeholders.

On behalf of the board



Ms S Sidhu

Director

30 June 2020



# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## DIRECTORS' REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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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 G Birley-Smith

Ms S Sidhu

Mr B M Watson (Alternate)

(Appointed 1 March 2019)

### **Results and dividends**

The results for the year are set out on page 11.

No interim dividends were paid (2018: £Nil). The directors do not recommend payment of a final dividend.

### **Qualifying third party indemnity provisions**

The directors have the benefit of a qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) as Directors' and Officers' insurance is maintained on their behalf. This insurance was in force throughout the financial year and up to the date of approval of these accounts.

### **Supplier payment policy**

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

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

Trade creditors of the group at the year end were equivalent to 61 (2018: 67) day's purchases, based on the average daily amount invoiced by suppliers during the year.

### **Financial instruments**

#### ***Treasury operations and financial instruments***

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

#### ***Liquidity risk***

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

#### ***Interest rate risk***

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

The unsecured subordinated loan notes have a fixed interest rate thus there is no interest rate risk associated with this financial liability.

The interest rate risk on the index linked guaranteed secured bonds are mitigated against the increase in interest revenue on the finance debtor.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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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 Trust is the sole client of the group. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trust will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trust's obligations. The carrying value of the financial asset of £347,380,000 (2018: £354,190,000) is the maximum credit exposure.

### **Financial reporting risk and internal control**

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

### **Deemed reappointment by a private company under s485 to s488A**

KPMG have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an 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 auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

### **Significant shareholdings and special rights**

The company is owned by Innisfree PFI Secondary Fund (66%) and Innisfree Secondary Fund 2 LP (34%). Each of 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 (other than pre-emption rights between existing shareholders) or on voting rights.

### **Directors Appointment and Replacement, Allotments of Shares and Control Provisions**

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

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

On behalf of the board



Ms S Sidhu  
30 June 2020

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## DIRECTORS' RESPONSIBILITIES STATEMENT

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

On behalf of the board



Ms S Sidhu

Director

30 June 2020

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED**

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#### **Opinion**

We have audited the financial statements of Central Nottinghamshire Hospitals (Holdings) Limited (the 'company') for the year ended 31 December 2019 which comprise the Consolidated Statement of Total Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity and the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's 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 have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Material uncertainty related to going concern**

We draw attention to note 1.2 to the financial statements which indicates that the group's and parent company's ability to continue as a going concern is dependent on the continued financial support of its financing providers following a level of self-reported service failure points ("SFPs") that exceed the Events of Default ("EoD") thresholds under the terms of the Collateral Deed prior to the balance sheet date. These events and conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### **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:

- 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.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED**

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#### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 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 the financial statements.

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

#### **The purpose of our 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

30 June 2020  
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# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		2019 £000	2018 £000
Turnover	Notes 3	40,939	37,033
Operating costs		(36,963)	(33,296)
<b>Operating profit</b>		<b>3,976</b>	<b>3,737</b>
Interest receivable and similar income	7	16,494	19,702
Interest payable and similar expenses	8	(20,499)	(24,003)
<b>Loss before taxation</b>		<b>(29)</b>	<b>(564)</b>
Taxation	9	5	43
<b>Loss for the financial year</b>		<b>(24)</b>	<b>(521)</b>
<b>Total comprehensive expense for the year</b>		<b>(24)</b>	<b>(521)</b>

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


# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## CONSOLIDATED BALANCE SHEET

**AS AT 31 DECEMBER 2019**

	Notes	2019 £000	2018 £000
<b>Current assets</b>			
Debtors falling due after one year	11	297,750	304,812
Debtors falling due within one year	11	51,475	50,902
Cash at bank and in hand		37,882	37,356
		<u>387,107</u>	<u>393,070</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(382,497)</u>	<u>(26,646)</u>
<b>Net current assets</b>		4,610	366,424
<b>Creditors: amounts falling due after more than one year</b>	14	(5,284)	(367,074)
<b>Net liabilities</b>		<u>(674)</u>	<u>(650)</u>
<b>Capital and reserves</b>			
Called up share capital	16	50	50
Profit and loss reserves		(724)	(700)
<b>Total equity</b>		<u>(674)</u>	<u>(650)</u>

The financial statements were approved by the board of directors and authorised for issue on 30 June 2020 and are signed on its behalf by:

  
 Ms S Sidhu  
 Director

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
<b>Fixed assets</b>			
Investments	10	50	50
		<u>50</u>	<u>50</u>
<b>Capital and reserves</b>			
Called up share capital	16	50	50
		<u>50</u>	<u>50</u>

The financial statements were approved by the board of directors and authorised for issue on 30 June 2020 and are signed on its behalf by:



Ms S Sidhu  
Director

Company Registration No. 05456419



# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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	Notes	Share capital £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2018		50	(179)	(129)
		<hr/>	<hr/>	<hr/>
Period ended 31 December 2018:				
Loss and total comprehensive loss for the year		-	(521)	(521)
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2018		50	(700)	(650)
		<hr/>	<hr/>	<hr/>
Period ended 31 December 2019:				
Loss and total comprehensive loss for the year		-	(24)	(24)
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2019		50	(724)	(674)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 DECEMBER 2019*

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	Notes	Share capital £000
Balance at 1 January 2018		50
Period ended 31 December 2018:		
Profit and total comprehensive loss for the year		-
Balance at 31 December 2018		50
Period ended 31 December 2019:		
Profit and total comprehensive loss for the year		-
Balance at 31 December 2019		50

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	£000	(restated) £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	20	9,087	9,401
Income taxes refunded/(paid)		2	-
<b>Net cash inflow from operating activities</b>		<u>9,089</u>	<u>9,401</u>
<b>Investing activities</b>			
Interest received		<u>16,494</u>	<u>19,702</u>
<b>Net cash generated from investing activities</b>		16,494	19,702
<b>Financing activities</b>			
Interest paid		(10,330)	(10,408)
Redemption of bonds		<u>(14,727)</u>	<u>(14,320)</u>
<b>Net cash used in financing activities</b>		<u>(25,057)</u>	<u>(24,728)</u>
<b>Net increase in cash and cash equivalents</b>		526	4,375
Cash and cash equivalents at beginning of year		<u>37,356</u>	<u>32,981</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>37,882</u></u>	<u><u>37,356</u></u>

The Group statement of cash flows has been restated to correctly classify interest receivable related cashflows as an Investing activity in accordance with the requirements of FRS 102 7.15. In the prior year these cashflows were incorrectly classified as a financing activity. The impact of this restatement on the prior year is that financing cash outflows were understated by £19,702,000 and Investing cash inflows were understated by £19,702,000. There was no impact on the net increase in cash and cash equivalents.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

---

### 1 Accounting policies

#### Company information

Central Nottinghamshire Hospitals (Holdings) Limited ("the company") is a private company limited by shares domiciled and incorporated in England and Wales, in the UK (Company Registration No. 054564). 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.

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.

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

#### 1.2 Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

It was identified in 2018 that certain practices of the service providers were not fully aligned with the systems and processes required by the contract. This has led to a level of self-reported service failure points ("SFPs") that exceed the Events of Default ("EoD") thresholds under the terms of the Collateral Deed.

As a result, in conjunction with the service providers and with the consent of the Group's Credit Provider, the Group has started to implement an Operational Delivery Plan ("ODP") designed to bring the practices in line with contractual requirements, resolve any outstanding issues of contractual interpretation, and bring SFPs back within contractual levels.

The ODP forms part of the Settlement Agreement that, if executed, will waive historic SFPs. The directors believe that this would remedy the EoD under the Collateral Deed.

The EoD described above had not been formally waived or deemed remedied by the Credit Provider at the date of signing these financial statements. The implications of an EoD are that the Credit Provider has a number of rights/remedies available to them which includes requiring immediate repayment of the outstanding loans.

The impact of the above circumstances on the balance sheet at 31 December 2019 is to classify the outstanding amounts of the bond as a current liability because the Group does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £331,227,000 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'

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

In addition, under the terms of the subordinated loan notes, as a result of the EoD the Group's subordinated debt also becomes repayable on demand. Therefore, £25,823,000 of Other Borrowings has been classified as current at 31 December 2019.

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

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

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

The Group continues to provide the asset in accordance with the contract and is available to be used. As a result, the Group 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 Group, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Group has its own business continuity plans to ensure that service provision will continue.

The directors have concluded that until the EoD has been formally waived or deemed remedied by the Credit Provider these issues represent a material uncertainty that could cast significant doubt on the Group's and Company's ability to continue as a going concern and that therefore the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after considering the uncertainties described above, the directors have a reasonable expectation that the Group and 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 recognised in accordance with the service concession contract accounting policy. Turnover represents value of work done entirely in the United Kingdom and excludes value added tax. Turnover in relation to pass-through revenue is recognised when the services are performed.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### 1.4 Fixed asset investments

Investment in subsidiaries, are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

#### 1.5 Financial instruments

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

Financial instruments are recognised in the group's Balance Sheet when the group becomes party to the contractual provisions of the instrument.

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

##### **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 instrument for a similar debt instrument.

##### *Cash*

Cash comprises cash balances

##### *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 £27,405,000 at the year-end (2018: £25,512,000).

##### **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.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### ***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

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

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

#### ***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.

#### ***Trade and other creditors***

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

#### ***Interest-bearing borrowings classified as basic financial instruments***

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

#### ***Derecognition of financial liabilities***

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

### 1.6 Equity instruments

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

### 1.7 Taxation

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

#### ***Current tax***

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

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### **Deferred tax**

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

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

#### **1.8 Service concession accounting**

The group is an operator of a Public Finance Initiative ("PFI") contract. The group entered into a project agreement (the "contract") with the Trust to design, build, finance, operate and maintain Kings Mill Hospital, Newark General Hospital and Mansfield Community Hospital. The contract negotiations were successfully completed in November 2005 and construction commenced immediately. The project has been fully operational since 2011. The concession period ends on 31 March 2043, during this period the group has contracted to provide hard and soft facilities management services to the Trust. The group has passed these obligations down to Skanska Rashleigh Weatherfoil Ltd ("Skanska") and Compass Contract Services (U.K.) Limited ("Medirest") respectively via subcontracts. The obligation to provide major maintenance works (lifecycle) is undertaken by Skanska, however, as discussed in the strategic report, the risk that the costs exceed those forecast in the financial model is borne by the group. The timing and extent of the major maintenance works is a key assumption that will affect the cashflows of the group, further information is shown in Note 2. The contract does not entitle the Trust to any share of the profits of the group. The Trust is entitled to terminate the Contract at any time by giving six months written notice. If the Trust exercises this right they are liable to pay the group compensation as set out in the Contract, which would include the senior debt, redundancy costs, subcontractor losses, and the market value of the subordinated debt.

As the group entered into the contract prior to the date of transition to FRS102, the group has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for the service concession arrangements under the accounting policies adopted under old UK GAAP. In particular, the underlying asset is not deemed to be an asset of the group under old UK GAAP, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Trust.

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 Trust pays the group a fixed Unitary Charge payment,

as determined in the Contract, that is inflated by RPI each year. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The group recognises revenue in respect of the services provided, including lifecycle services, as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.



# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### 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.

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

#### Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### 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 Group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of the concession increase by 5% the impact on revenue and loss in the year would be a decrease in revenue of £270,000 and an increase in the loss of £270,000.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 Turnover and other revenue

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

	2019 £000	2018 £000
<b>Turnover</b>		
Services Income	26,837	25,233
Pass Through and Variation Income	12,246	10,005
Car Parking Income	1,634	1,579
Rental Income	222	216
	<u>40,939</u>	<u>37,033</u>

### 4 Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the group and company	4	4
Audit of the company's subsidiaries	31	16
	<u>35</u>	<u>20</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 by the group for directors' services	<u>92</u>	<u>88</u>

### 7 Interest receivable and similar income

	2019 £000	2018 £000
<b>Interest income</b>		
Interest on bank deposits	269	213
Interest on finance debtor	16,225	19,489
Total interest income	<u>16,494</u>	<u>19,702</u>

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 8 Interest payable and similar expenses

	2019 £000	2018 £000
<b>Interest on financial liabilities measured at amortised cost:</b>		
Indexation on bonds	9,427	12,843
Interest on bonds	6,808	6,905
Interest on subordinated loans	3,489	3,489
Amortisation of finance arrangement costs	775	766
	<u>20,499</u>	<u>24,003</u>

### 9 Taxation

	2019 £000	2018 £000
<b>Deferred tax</b>		
(Increase)/decrease in deferred tax asset	<u>(5)</u>	<u>(43)</u>

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

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

	2019 £000	2018 £000
Loss before taxation	<u>(29)</u>	<u>(564)</u>
Expected tax (credit)/ charge based on a corporation tax rate of 19.00% (2018 - 19.00%)	(5)	(107)
Deferred tax adjustments in respect of prior years	-	53
Effect of differences in the corporation tax rate and the deferred tax rate	-	11
Tax (credit)/charge for the year	<u>(5)</u>	<u>(43)</u>

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

#### Factors that may affect the future tax charge

The group has tax losses of £1,482,000 (2018: £1,455,000) which have been carried forward and will be offset against future trading profits.

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016; deferred tax has been calculated based at this 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 deferred tax asset and reduce its reported tax charge in the financial statements for the year ending 31 December 2020 accordingly.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 10 Fixed asset investments

	Notes	Group 2019 £000	2018 £000	Company 2019 £000	2018 £000
Investments in subsidiaries	19	-	-	50	50

#### Movements in fixed asset investments

	Shares £000
<b>Company</b>	
<b>Cost or valuation</b>	
At 1 January 2019 & 31 December 2019	50
<b>Carrying amount</b>	
At 31 December 2019	50
At 31 December 2018	50

### 11 Debtors

	Group 2019 £000	2018 £000	Company 2019 £000	2018 £000
<b>Amounts falling due within one year:</b>				
Trade debtors	1,177	875	-	-
Accrued service concession income	42,815	42,924	-	-
Other debtors	1	1	-	-
Finance debtor	7,067	6,701	-	-
Prepayments and accrued income	415	401	-	-
	<u>51,475</u>	<u>50,902</u>	<u>-</u>	<u>-</u>
<b>Amounts falling due after one year:</b>				
Finance debtor	297,498	304,565	-	-
Deferred tax asset (note 15)	252	247	-	-
	<u>297,750</u>	<u>304,812</u>	<u>-</u>	<u>-</u>
<b>Total debtors</b>	<u>349,225</u>	<u>355,714</u>	<u>-</u>	<u>-</u>

All financial assets included above are held at amortised cost.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 12 Loans and borrowings

	Group 2019 £000	2018 £000	Company 2019 £000	2018 £000
Bonds	345,599	350,267	-	-
Subordinated loans	25,823	25,680	-	-
	<u>371,422</u>	<u>375,947</u>	<u>-</u>	<u>-</u>
Payable within one year	371,422	14,395	-	-
Payable after one year	-	361,552	-	-
	<u>-</u>	<u>361,552</u>	<u>-</u>	<u>-</u>
Amounts included above which fall due after five years:				
Payable by instalments	-	323,068	-	-
	<u>-</u>	<u>323,068</u>	<u>-</u>	<u>-</u>

#### **Index Linked Guaranteed Secured Bonds 2042**

The group has created £351,900,000 of 1.8768% Index Linked Guaranteed Secured Bonds 2042 pursuant to a Trust Deed and Collateral Deed dated 4 November 2005, of which £319,900,000 were issued for cash on 4 November 2005 at par.

The bonds bear interest at 1.8768% which together with their principal repayment is subject to indexation in accordance with the terms of the Bond Trust Deed. The interest is payable semi - annually in arrears on 31 March and 30 September each year.

The group retained £32,000,000 of bonds (the "variation bonds") which it may sell, subject to certain restrictions in the Collateral Deed, to fund variations to the project. The bonds, excluding the variation bonds, have the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (UK) Limited in favour of Deutsche Trustee Company Limited as security trustee over all of the undertaking and assets of the Central Nottinghamshire Hospitals Plc.

#### **Unsecured Subordinated 12.00% Loan notes 2043**

Under the terms of a Deed Poll made on 4 November 2005 (amended and restated on 21 April 2006) both the Company and Central Nottinghamshire Hospitals Plc, a subsidiary of the Company, authorised and approved the issue by the subsidiary of up to £29,873,000 unsecured subordinated loan notes 2043 on like terms. Under the terms of a Shareholder Support Agreement dated 4 November 2005 (amended and restated on 21 April 2006) the shareholders of the Company each agreed to subscribe in proportion to their shareholdings for a share of the £29,873,000 of the loan notes issued.

Central Nottinghamshire Hospitals Plc has issued 29,873,000 of loan notes at par for cash. The loan notes bear interest at 12.00% which is payable semi-annually on 31 March and 30 September each year. The loan notes are repayable in instalments on 31 March 2042, 30 September 2042 and 31 March 2043 save that they may be redeemed early with the consent of Assured Guaranty (UK) Limited. An amount of £800,000 was redeemed in March 2012.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	Group 2019 £000	2018 £000	Company 2019 £000	2018 £000
Bond	12	345,599	14,395	-	-
Other borrowings	12	25,823			
Trade creditors		6,226	6,128	-	-
Other taxation and social security		498	491	-	-
Deferred income		272	295	-	-
Accruals		4,079	5,337	-	-
		<u>382,497</u>	<u>26,646</u>	<u>-</u>	<u>-</u>

As at the balance sheet date, there were Events of Default subsisting pursuant to the Collateral Deed which the Credit Provider had not formally waived or deemed remedied. Consequently, the Group's Bonds and Other borrowings are classified as due within 1 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 £331,227,000 and £25,823,000 respectively will be transferred to Creditors: amounts falling due after more than one year.

All financial liabilities included above are held at amortised cost.

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

	Notes	Group 2019 £000	2018 £000	Company 2019 £000	2018 £000
Bonds	12	-	335,872	-	-
Other borrowings	12	-	25,680	-	-
Deferred income		5,284	5,522	-	-
		<u>5,284</u>	<u>367,074</u>	<u>-</u>	<u>-</u>

Amounts included above which fall due after five years are as follows:

Payable by instalments	-	323,068	-	-
Payable other than by instalments	-	4,571	-	-
	<u>-</u>	<u>327,639</u>	<u>-</u>	<u>-</u>

All financial liabilities included above are held at amortised cost.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 Deferred taxation

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

	<b>Assets</b>	<b>Assets</b>
	<b>2019</b>	<b>2018</b>
<b>Group</b>	<b>£000</b>	<b>£000</b>
Tax losses	252	247

	<b>Group</b>	<b>Company</b>
	<b>2019</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
<b>Movements in the year:</b>		
(Asset)/Liability at 1 January 2019	(247)	-
Charge to profit or loss	(5)	-
(Asset)/Liability at 31 December 2019	(252)	-

### 16 Share capital

	<b>Group and company</b>	<b>Group and company</b>
	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
50,000 Ordinary Shares of £1 each	50	50

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 Related party transactions

#### Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Directors services	92	88

The group incurred the above fees from Innisfree Limited.

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 17 Related party transactions

(Continued)

#### Transactions with related parties

	Sub-Ordinated Debt Interest		Management Services	
	2019	2018	2019	2018
	£000	£000	£000	£000
<b>Group</b>				
HCP Social Infrastructure (UK) Ltd	-	-	990	948
Innisfree PFI Secondary Fund	2,303	2,303	-	-
Innisfree PFI Secondary Fund 2 LP	1,186	1,186	-	-

In November 2005, the group entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited. HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) Limited, is 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 Secondary Fund (66%) and Innisfree Secondary Fund 2 LP (34%), holds legal title to the entire share capital of central Nottinghamshire Hospitals (Holdings) Limited.

The following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2019	2018
	£000	£000
<b>Group</b>		
HCP Social Infrastructure (UK) Limited	189	175
Innisfree PFI Secondary Fund	17,623	580
Innisfree PFI Secondary Fund 2 LP	9,079	299

No guarantees have been given or received.

As per Note 13, Other borrowings have been classified as due within 1 year in the balance sheet. Consequently, the above reflects the subordinated loan note balance (£25,823,000) as well as the interest that was accrued thereon as at the balance sheet date.

### 18 Controlling party

The company is owned by Innisfree PFI Secondary Fund (66%) and Innisfree PFI Secondary Fund 2 LP (34%), through its nominee Innisfree Nominees Limited. The registered address of these funds is First floor, Boundary House, 91/93 Charterhouse Street, London, EC1M 6HR.



# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 19 Subsidiaries

Details of the company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking and registered address	Nature of business	Class of shareholding	% Held	
			Direct	Indirect
Central Nottinghamshire Hospitals Plc	8 White Oak Square, London Road, Swanley, Kent, UK, BR8 7AG	PFI Special Purpose Vehicle Ordinary		100.00

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

Name of undertaking	Profit/(Loss)	Capital and Reserves
	£000	£000
Central Nottinghamshire Hospitals Plc	(24)	(673)

20 Cash generated from operations	2019	2018
	£000	£000
Loss for the year	(24)	(521)
Adjustments for:		
Income tax expense recognised in profit or loss	(5)	(43)
Finance costs recognised in profit or loss	20,499	24,003
Investment income recognised in profit or loss	(16,494)	(19,702)
(Decrease) in provisions	(397)	-
Movements in working capital:		
Decrease in debtors	6,541	2,661
(Decrease)/increase in creditors	(1,033)	3,003
<b>Cash generated from operations</b>	<b>9,087</b>	<b>9,401</b>

# CENTRAL NOTTINGHAMSHIRE HOSPITALS (HOLDINGS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 21 Analysis of changes in net debt

	2019 £000
<b>Opening net funds/(debt)</b>	
Cash and cash equivalents	37,356
Loans	(375,947)
	<u>(338,591)</u>
<b>Changes in net debt arising from:</b>	
Cash flows of the entity	5,051
	<u>(333,540)</u>
Closing net funds/(debt) as analysed below	<u><u>(333,540)</u></u>
 <b>Closing net funds/(debt)</b>	
Cash and cash equivalents	37,882
Loans	(371,422)
	<u><u>(333,540)</u></u>

### 22 Non-adjusting post balance sheet event

The COVID-19 pandemic continues to cause significant impact to the UK's economy; however, the Group has continued to be paid in full since the year end in accordance with Government guidance and the concession contract and does not expect this position to change. The project remains fully operational and is fully available for use by the Trust under the terms of the contract and as a result continues to be entitled to the receipt of the Unitary Payment.