Company Registration No. 05462512 (England and Wales)

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

COMPANY INFORMATION

Directors	Mr B M Watson (Alternate)	
	Mr M Fry	(Appointed 1 January 2021)
	Mr S Beauchamp	(Appointed 27 January 2021)
	Mr D J Brooking	(Appointed 27 January 2021)
Secretary	Vercity Social Infrastructure (UK) Limited (formerly HCP Social Infrastructure (UK) Ltd)	
Company number	05462512	
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG	
Auditor	BDO LLP 55 Baker Street London W1U 7EU	

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

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CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Business Review and Principal Activities
The principal activity of the company 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 hospital is fully operational, however as described more fully below, the level of self-reported service failure points ("SFPs") have exceeded the thresholds for an Event of Default ("EoD") under the terms of the Project Agreement and the Collateral Deed. More information is described in the Service performance section below.

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

Major maintenance
The principal risk borne by the company is that maintenance costs exceed those forecast in the financial model agreed at financial close. 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 under the Project Agreement
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 the 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 company's ability to make payments to Bondholders. Deductions of £1,171,000 (2019: £276,000) were incurred in the year and fully recovered from the service providers. This included Hard FM deductions backdated to January 2018; transacted during 2020 as part of the settlement discussions further discussed below.

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 exceeded the thresholds for an Event of Default ("EoD") under the terms of the Collateral Deed and, at times, the Project Agreement. However, the company 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 under the Collateral Deed are that the Credit Provider has a number of rights/ remedies available to them, including requiring that the amounts owing under the Collateral Deed are immediately repaid in full. The directors are in regular and continuing discussions with the Credit Provider who is aware of the situation. Based on these discussions and given the processes currently in place the company's directors are not aware of any indication that the Credit Provider intends to exercise any of their rights including immediate repayment of the bond.

As part of the Settlement Agreement discussions an Operational Development Plan ("ODP") has started to be implemented to resolve any outstanding issues of contractual interpretation and bring SFPs back within contractual threshold levels. In order to support the Settlement Agreement, in May 2020 the company engaged independent consultants to manage the ODP on their behalf. The company and the Trust now intend to enter into a Standstill Agreement for a defined period during which they will resolve the outstanding issues that will be captured in the Settlement Agreement.

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.

Service provider failure
The likelihood of this risk is assessed through the review of service provider financial statements and through discussions with the service providers. The company currently considers the likelihood of this risk for its two major service providers 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.

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 negotiated debt facilities with an external party to ensure that the company has sufficient funds over the life of the PFI concession.

Credit risk
The company's principal financial assets are cash, finance debtor and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a NHS Trust backed by the UK Government.

The Trust may make deductions from the Unitary Charge in addition to those self-reported by the Service Providers. These will be passed down to the Service Providers to the fullest extent possible. As previously discussed, the company is working with the Trust and the Service Providers to rectify the issues surrounding service provision and minimise the risk of deductions and SFPs.

Interest risk
The company is exposed to interest rate risk on bank balances with floating interest rates, however the company does not consider this exposure to be significant. The unsecured subordinated loan notes have a fixed rate until 2042, however the senior debt is indexed linked. The bonds are linked to RPI inflation, however, the unitary charge income is also linked to RPI inflation, therefore mitigating the inflation risk on the bonds and other costs.

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

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.

Development and performance
Turnover in the year decreased by £60,000 to £40,879,000 (2019: £40,939,000).

Operating profit has increased slightly by £52,000 to £4,028,000 (2019: £3,976,000).

The company's loss before taxation increased in the year from a £29,000 loss to a £108,000 loss, a £79,000 deterioration. 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 2020 the company had net liabilities of £696,000 (2019: net liabilities of £674,000).

The finance debtor amortisation during the year was £7,067,000 (2019: £6,701,000). This is being amortised over the life of the concession and the carrying value at the reporting date is £297,458,000 (2019: £304,565,000).

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

During the year, the company has repaid £15,115,000 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 company repaid a total of £14,727,000.

The company has not repaid any of the subordinated unsecured loan stock during the year as scheduled repayments do not commence until 2042. Due to the situation described under the Service Performance section above the company did not make any subordinated interest payments during the year, these will recommence once the settlement agreement is signed.

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 company; the directors are of the opinion that the covenants will continue to be met in the future.

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

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 £1,171,000 (2019: £276,000) were levied by the Trust and passed onto the service providers. This included Hard FM deductions backdated to January 2018 that were transacted during 2020 as part of the settlement discussions as discussed above.

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 company's performance as at 31 December 2020 against this measure satisfactory.

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 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. Given the previously described EoD the board are holding regular meetings with the Credit Provider to keep them updated on matters.

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 company, the manager (see iv. below) 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.

   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 Trust representatives. An Operational Development 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 this has involved putting in place an Operational Development 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.

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

a. The likely consequences of any decision in the long term
   The company has outsourced the management of the company to 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. This is performed by undergoing an external health and safety review and performing 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 partnership 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 it 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. Notwithstanding that the company is committed to minimising environmental disruption from its activities. The board upholds the company'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 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.

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 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 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

Simon Beauchamp
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Mr S Beauchamp
Director
Date: 17 June 2021

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 14.

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:

Mrs G Birley-Smith	(Resigned 27 January 2021)
Ms S Sidhu	(Resigned 27 January 2021)
Mr M Davis (Non- Executive)	(Resigned 31 December 2020)
Mr B M Watson (Alternate)	
Mr M Fry	(Appointed 1 January 2021)
Mr S Beauchamp	(Appointed 27 January 2021)
Mr D J Brooking	(Appointed 27 January 2021)

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 with which it engages are considered to have exposure in relation to availability of labour and materials 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 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.

Brexit
The company is exposed to Brexit risk as a result of the inherent uncertainty around the UK's exit from the European Union. Whilst the company itself is not considered to be significantly exposed, subcontractors with which the company engages are considered to have exposure in relation to availability of labour and the cost of supplies. 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.

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 company's contractual and other legal obligations.

Trade creditors of the company at the year end were equivalent to 75 (2019: 61) days purchases, based on the average daily amount invoiced by suppliers during the year.

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
On 10 December 2020 BDO LLP were appointed as auditor to the company for the year ended 31 December 2020. In accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Energy and carbon report
As the company has not consumed or emitted more than 40,000 kWh of energy in the current or prior reporting period, the company qualifies as a low energy user and is not required to report on its emissions, energy consumption or energy efficiency activities.

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

Simon Beauchamp

Mr S Beauchamp
Director
Date: 17 June 2021

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 company financial statements have been prepared in accordance with UK Accounting Standards and Article 4 of the IAS Regulation 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

Opinion on the financial statements

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 loss 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 Central Nottinghamshire Hospitals 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 18 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.

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 bond liability of £323,753,000 and subordinated loan note liability of £25,966,000 have been reclassified as falling due within one year. Therefore the total bond liability and subordinated loan note liability immediately repayable on demand is £364,670,000. 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 liability of £323,753,000 and subordinated loan note of £25,966,000 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 forecast, the sensitivities applied and the clerical accuracy of the forecast.
- We assessed the accuracy and completeness of the matters covered in the going concern disclosure.

Overview

	2020
Key audit matters	Going Concern Financial model Lifecycle costs Revenue recognition
Materiality	Financial statements as a whole *£3.8m based on 1% total assets*

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

Key audit matter	How the scope of our audit addressed the 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.	Our audit work on clerical accuracy included, but was not restricted to, the following: - We compared the model with the model used in the 2019 audit. 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.

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 Private 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.

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

	2020 **£m**
Materiality	£3.8 million
Basis for determining materiality	Benchmark of total assets of £386m of which it represents 1%
Rationale for the benchmark applied	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.
Performance materiality	65% of financial statement materiality to reflect that this is the first year audited by BDO LLP.
Cost testing threshold	We set a lower cost testing threshold of £460,000, 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 £75,000. 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.

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.

Strategic report and the directors' report

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

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

In the light of the knowledge and understanding of the 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.

Matters on which we are required to report by exception
which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the 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.

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:

- We considered the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the determination of service margins and lifecycle costs;

- We performed substantive testing on account balances and transactions, which were considered to be a greater risk of susceptibility to fraud;
- We targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud, as well as a focus on large and unusual transactions based upon our knowledge of the business;
- We made enquiries of Management, those charged with governance and those responsible for legal and compliance procedures as to whether there was any correspondence from regulators in so far as the correspondence related to financial statements; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

Use of our report

This report is made solely to the 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.

DocuSigned by:

L. Pingree

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

17 June 2021

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

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Turnover	**4**	40,879	40,939
Cost of sales		(36,851)	(36,963)
Gross profit		4,028	3,976
Interest receivable and similar income	**8**	14,646	16,494
Interest payable and similar expenses	**9**	(18,782)	(20,499)
Loss before taxation		(108)	(29)
Tax on loss	**10**	85	5
Loss for the financial year		(23)	(24)

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

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

BALANCE SHEET

AS AT 31 DECEMBER 2020

		2020		2019 Restated	
	Notes	£000	£000	£000	£000
Current assets					
Debtors falling due after more than one year	11	332,983		340,565	
Debtors falling due within one year	11	9,168		8,660	
Short term deposits	12	31,256		29,403	
Cash at bank and in hand	12	12,162		8,479	
		385,569		387,107	
Creditors: amounts falling due within one year	14	(381,218)		(382,497)	
Net current assets			4,351		4,610
Creditors: amounts falling due after more than one year	15		(5,047)		(5,284)
Net liabilities			(696)		(674)
Capital and reserves					
Called up share capital	17		50		50
Profit and loss account	17		(746)		(724)
Total equity			(696)		(674)

The financial statements were approved by the board of directors and authorised for issue on 17 June 2021 and are signed on its behalf by:

Simon Beauchamp

Mr S Beauchamp
Director

Company Registration No. 05462512

CENTRAL NOTTINGHAMSHIRE HOSPITALS PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Profit and loss account	Total
	£000	**£000**	**£000**
Balance at 1 January 2019	50	(700)	(650)
Year ended 31 December 2019:			
Loss and total comprehensive income for the year	-	(24)	(24)
Balance at 31 December 2019	50	(724)	(674)
Year ended 31 December 2020:			
Loss and total comprehensive income for the year	-	(23)	(23)
Balance at 31 December 2020	50	(746)	(696)

1 Accounting policies

Company information
Central Nottinghamshire Hospitals Plc is a public company limited by shares incorporated in England and Wales (Company Registration No. 05462512). 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 33 'Related Party Disclosures': Compensation for key management personnel.

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

1.2 Going concern

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") being reported in 2019, 2020 and continuing in 2021, that exceeded the Events of Default ("EoD") thresholds under the terms of the Collateral Deed and, at times, the Project Agreement. As a result, in conjunction with the service providers and with the consent of the Company's Credit Provider, the company has started to implement an Operational Development 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 threshold levels.

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

1 Accounting policies **(Continued)**

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, £323,753,000 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'. Therefore the total bond liability and subordinated loan note liability immediately repayable on demand is £364,670,000.

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, £25,966,000 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 remains involved in Settlement Agreement discussions and is updated regularly 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.

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 it 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 (service providers) and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the company, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the company or its sub-contractors arising from COVID-19 or Brexit. 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 and notwithstanding the company having net liabilities of £696,000 as at 31 December 2020, 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 Accounting policies **(Continued)**

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 Trust.

1.4 Financial instruments

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

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

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

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.

Accrued service concession income

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

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 and short term deposits

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

1 Accounting policies **(Continued)**

Other financial assets
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

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.

Service concession
The company is an operator of a Private Finance Initiative ("PFI") contract. The company 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 company has contracted to provide hard and soft facilities management services to the Trust. The company 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 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 Trust to any share of the profits of the company. 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 company 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 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 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 company a fixed Unitary Charge payment, as determined in the Contract, that is inflated by RPI each year. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The company recognises revenue in respect of the services provided, including lifecycle services (the costs for which are recognised when 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.

1 Accounting policies **(Continued)**

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.

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

Basic financial liabilities
Basic financial liabilities, including trade and other creditors, Bonds and subordinated loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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

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

Derecognition of financial liabilities
Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

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

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

1 Accounting policies **(Continued)**

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.

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.

Critical judgements

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 accounting

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the company's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If lifecycle costs cumulatively over the remainder of the concession increase by 5% the impact on revenue and loss for the year ended 31 December 2020 would be a decrease in revenue of £95,000 and an increase in the loss of £95,000.

3 Prior year restatement

Accrued service concession income restatement
The accrued service concession income balance of £42,815,000 was presented within amounts falling due within one year in the prior year, this was in error as the amount should have been presented within amounts falling due after one year. The prior year comparatives have been restated to reflect this. The restatement has neither any impact on the profit and loss, nor the overall net liability position of the company.

Cash and short term deposits restatement
The amount classified as 'short term deposits' are deposit balances with a maturity of more than 3 months. The short term deposit balance of £29,403,000 was presented within cash at bank and in hand in the prior year, this was in error as the amount should have been presented as a short term deposit. The prior year comparatives have been restated to reflect this. The restatement has neither any impact on the profit and loss, nor the overall net liability of the company.

4 Turnover and other revenue

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

	2020 £000	2019 £000
Turnover analysed by class of business		
Services Income	29,512	26,837
Pass Through and Variation Income	9,475	12,246
Car Parking Income	1,665	1,634
Rental Income	227	222
	40,879	40,939

5 Auditor's remuneration

Fees payable to the company's auditor and associates:	2020 £000	2019 £000
For audit services		
Audit of the financial statements of the company	27	35
For other services		
Audit-related assurance services	3	-

6 Employees

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

7 Directors' remuneration

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

8 Interest receivable and similar income

	2020 £000	2019 £000
Interest income		
Interest on bank deposits	133	269
Interest receivable on the finance debtor	14,513	16,225
	14,646	16,494

9 Interest payable and similar expenses

	2020 £000	2019 £000
Interest on financial liabilities measured at amortised cost:		
Indexation on bonds	7,577	9,427
Interest on bonds	6,708	6,808
Interest on subordinated loans	3,713	3,489
	17,998	19,724
Other finance costs:		
Amortisation of finance arrangement costs	784	775
	18,782	20,499

10 Taxation

	2020 £000	2019 £000
Deferred tax		
Other adjustments	(85)	(5)

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

	2020 £000	2019 £000
Loss before taxation	(108)	(29)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	(21)	(5)
Tax effect of expenses that are not deductible in determining taxable profit	4	-
Deferred tax adjustments in respect of change in tax rate	(68)	-
Taxation credit for the year	(85)	(5)

10 Taxation (Continued)

Factors that may affect the future tax charge
The company has tax losses of £1,772,000 (2019: £1,482,000) which have been carried forward and will be offset against future 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.

A reduction in the UK corporation tax rate from 19% (effective from 1 April 2017) to 17% (effective 1 April2020) was substantively enacted on 6 September 2016. 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%. The deferred tax asset as at 31 December 2020 has therefore been calculated at that rate.

11 Debtors

	2020	2019
Amounts falling due within one year:	**£000**	**£000**
		Restated
Trade debtors	1,133	1,179
Finance debtor	7,424	7,067
Other debtors	12	1
Prepayments and accrued income	599	414
	9,168	8,661

		2020	2019
Amounts falling due after more than one year:	**Notes**	**£000**	**£000**
			Restated
Finance debtor		290,074	297,498
Accrued service concession income		42,572	42,815
		332,646	340,313
Deferred tax asset	16	337	252
		332,983	340,565
Total debtors		342,151	349,226

All financial assets included above are held at amortised cost.

12 Cash and short term deposits

	2020 £000	2019 Restated £000
Cash at bank and in hand	12,162	8,479
Short term deposits	31,256	29,403
	43,418	37,882

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 "short term deposits" balance, amounts to £31,256,000 at the year end (2019: £29,403,000).

13 Loans and overdrafts

	2020 £000	2019 £000
Bonds	338,704	345,599
Subordinated loans	25,966	25,823
	364,670	371,422
Payable within one year	364,670	371,422
	364,670	371,422

13 Loans and overdrafts **(Continued)**

Index Linked Guaranteed Secured Bonds 2042

The company 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 company 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 company and Central Nottinghamshire Hospitals (Holding) Limited.

Unsecured 12.00% Subordinated loan notes 2043

Under the terms of a Deed Poll made on 4 November 2005 (amended and restated on 21 April 2006) both Central Nottinghamshire Hospitals (Holdings) Limited and the company authorised and approved the issue by the company 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 Central Nottinghamshire Hospitals (Holdings) Limited each agreed to subscribe in proportion to their shareholdings for a share of the £29,873,000 of the loan notes issued.

The company 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.

14 Creditors: amounts falling due within one year

	Notes	2020 £000	2019 £000
Bonds	13	338,704	345,599
Other borrowings	13	25,966	25,823
Trade creditors		7,571	6,226
Other Taxation		418	498
Deferred income		273	272
Accruals		8,286	4,079
		381,218	382,497

As at the balance sheet date, there were Events of Default subsisting pursuance 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 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 £323,753,000 and £25,966,000 respectively will be transferred to Creditors: amounts falling due after more than one year.

All financial liabilities included above are held at amortised cost.

15 Creditors: amounts falling due after more than one year

	Notes	2020 £000	2019 £000
Deferred income		5,047	5,284

16 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:

Balances:	Assets 2020 £000	Assets 2019 £000
Tax losses	337	252

Movements in the year:	2020 £000
(Asset) at 1 January 2020	(252)
Credit to profit or loss	(21)
Effect of change in tax rate	(68)
Tax effect of expenses that are not deductible in determining taxable profit	4
(Asset) at 31 December 2020	(337)

17 Share capital

Ordinary share capital	2020 Number	2019 Number	2020 £000	2019 £000
Issued and fully paid				
Ordinary Shares of £1 each	50,000	50,000	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.

18 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	2020	2019
	£000	£000
Directors services	92	92

The group incurred the above fees from Innisfree Limited.

	Subordinated Debt Interest		Management Services	
	2020	2019	2020	2019
	£000	£000	£000	£000
Vercity Social Infrastructure (UK) Ltd	-	-	1,056	990
Innisfree PFI Secondary Fund	2,450	2,303	-	-
Innisfree PFI Secondary Fund 2 LP	1,262	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 Vercity Social Infrastructure (UK) Limited (previously known as HCP Social Infrastructure (UK) Limited). Vercity Holdings Limited (previously known as HCP 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 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	
	2020	2019
	£000	£000
Vercity Social Infrastructure (UK) Limited	187	189
Innisfree PFI Secondary Fund	20,168	17,623
Innisfree PFI Secondary Fund 2 LP	10,390	9,079

No guarantees have been given or received.

As per Note 14, Other borrowings have been classified as due within 1 year in the balance sheet. Consequently, the above reflects the subordinated loan note balance (£25,966,000) as well as the interest that was accrued thereon as at the balance sheet date.

19 Ultimate controlling party

The company is a wholly owned subsidiary of Central Nottinghamshire Hospitals (Holdings) Limited incorporated in the United Kingdom, registered at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

Innisfree Nominees Limited, acting on behalf of Innisfree PFI Secondary Fund (66%) and Innisfree PFI Secondary Fund 2 LP (34%), holds legal title to the entire issued share capital of Central Nottinghamshire Hospitals (Holdings) Limited. The registered address of these funds is First floor, Boundary House, 91/93 Charterhouse Street, London, EC1M 6HR.

In the directors' opinion the company's ultimate controlling party is Innisfree PFI Secondary Fund.

The largest and smallest group in which the results of the company are consolidated is that headed by Central Nottinghamshire Hospitals (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.