

COMPANY REGISTRATION NUMBER: 06401000

Kent and East Sussex Weald Hospital Limited
Annual Report and Financial Statements
31 December 2020

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Kent and East Sussex Weald Hospital Limited

Annual Report and Financial Statements

Year Ended 31 December 2020

Contents	Page
Officers and Professional Advisers	1
Directors' Report	2
Directors' Responsibilities Statement	5
Independent Auditors' Report to the Members of Kent and East Sussex Weald Hospital Limited	6
Statement of Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Notes to the Annual Report and Financial Statements	14

Kent and East Sussex Weald Hospital Limited

Officers and Professional Advisers

The Board of Directors

G Beazley-Long
C James
M Templeton
JS Gordon

Company Secretary

Infrastructure Managers Limited

Registered Office

Cannon Place
78 Cannon Street
London
EC4N 6AF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditor
Level 4
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Kent and East Sussex Weald Hospital Limited

Directors' Report

Year Ended 31 December 2020

The directors present their report and the audited Annual Report and Financial Statements of Kent and East Sussex Weald Hospital Limited ("the Company") for the year ended 31 December 2020.

Principal Activities

The principal activity of the company during the year was to operate a PFI concession contract with the Maidstone and Tunbridge Wells National Health Service Trust ("the Trust") to design, build, finance and operate a hospital in Pembury. The contract was signed in March 2008, construction commenced immediately and full services started in 2012. The contract will run until 2042.

Performance Review

The profit for the financial year, after taxation, amounted to £907,000 (2019: £684,000).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

In the prior year there was an event of default as the parent company of Interserve Facilities Management Limited, the FM service provider, went into administration. As a result, the bank debt was classified as current in the balance sheet at 31 December 2019. During the current year a new parent company guarantee was signed which cured the event of default and the debt has been reclassified as non-current as appropriate at the year end. Services were not affected by these changes in Interserve structure.

On 1 December 2020 Mitie plc announced that they purchased the support services business of Interserve Group Limited and renamed Interserve Facilities Management Limited to Mitie Facilities Management Limited. Mitie plc has agreed to provide a replacement parent company guarantee which transfers the current guarantee to Mitie plc and the board is working with its advisors to put this in place. There has been no effect on the operations of the Company from this change.

Covid-19 was declared a pandemic in March 2020 and since then there has been widespread disruption in the UK. The Company's income is availability based and due from the NHS Trust so the risk of non-payment is considered remote, and to date the company has continued to receive payment in line with the contract terms. Alongside this, the Company has not experienced material variation from its projected levels of expenditure and key suppliers (primarily the facilities manager) have continued to be able to service the Company. The directors have considered the current performance and the future financial impact to the Company of this pandemic, taking into account the sources of income and expenditure. It is the directors' view that although the likely full impact is unknown, and at this stage is not possible to quantify, it is not expected to materially impact on the operations or financial position of the Company.

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the Group loan agreement.

Kent and East Sussex Weald Hospital Limited

Directors' Report *(continued)*

Year Ended 31 December 2020

Going Concern

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions, including the impact of Covid-19, that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The directors acknowledge that the Company is in net liabilities, however this is a result of the interest rate swaps, which are significantly out of the money, being brought onto the Statement of Financial Position. After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Directors

The directors who served the company during the year and up to the date of this report were as follows:

G Beazley-Long
C James
M Templeton
JS Gordon

Dividends

No dividends were paid in the year (2019: £nil).

Financial Instruments

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company are credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash flow and liquidity risk

Many of the cash flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings.

Qualifying Indemnity Provision

During the year, and at the date of this report, the Company has in place qualifying third party indemnity provisions for the benefit of its directors.

Kent and East Sussex Weald Hospital Limited

Directors' Report *(continued)*

Year Ended 31 December 2020

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, are deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 27 April 2021 and signed by order of the board by:



Infrastructure Managers Limited
Company Secretary

Kent and East Sussex Weald Hospital Limited

Directors' Responsibilities Statement

Year Ended 31 December 2020

The directors are responsible for preparing the Directors' Report and the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and applicable law).

Under company law the directors must not approve the Annual Report and Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing the Annual Report and Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Financial Statements; and
- prepare the Annual Report and 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.

Kent and East Sussex Weald Hospital Limited

Independent Auditors' Report to the Members of Kent and East Sussex Weald Hospital Limited

Year Ended 31 December 2020

Report on the Audit of the Financial Statements

Opinion

In our opinion, Kent and East Sussex Weald Hospital Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

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

Independence

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

Conclusions Relating to Going Concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Kent and East Sussex Weald Hospital Limited

Independent Auditors' Report to the Members of Kent and East Sussex Weald Hospital Limited *(continued)*

Year Ended 31 December 2020

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

Kent and East Sussex Weald Hospital Limited

Independent Auditors' Report to the Members of Kent and East Sussex Weald Hospital Limited *(continued)*

Year Ended 31 December 2020

Auditors' 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.

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 that the principal risks of non-compliance with laws and regulations related to UK employment law, UK tax legislation and Health and Safety laws and regulations, 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 have a direct impact on the financial statements such as the 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 posting inappropriate journal entries and the risk of management bias in accounting estimates. Audit procedures performed included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding of management's controls designed to prevent and deter irregularities;
- Review of board minutes;
- Challenging management on assumptions and judgements made in their significant accounting estimates, in particular in relation to the fair value of derivative financial instruments;
- Identifying and testing journal entries to assess whether any of the journals appeared unusual, impacting revenue and distributable reserves.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

Kent and East Sussex Weald Hospital Limited

Independent Auditors' Report to the Members of Kent and East Sussex Weald Hospital Limited *(continued)*

Year Ended 31 December 2020

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of This Report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Required Reporting

Companies Act 2006 Exception Reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Kent and East Sussex Weald Hospital Limited

Independent Auditors' Report to the Members of Kent and East Sussex Weald Hospital Limited *(continued)*

Year Ended 31 December 2020

Entitlement to Exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditor
Edinburgh

27 April 2021

Kent and East Sussex Weald Hospital Limited

Statement of Comprehensive Income

Year Ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	4	6,752	5,214
Cost of sales		(4,528)	(3,707)
Gross profit		2,224	1,507
Administrative expenses		(965)	(809)
Operating profit	5	1,259	698
Interest receivable and similar income	7	17,621	17,708
Interest payable and similar expenses	8	(17,763)	(17,553)
Profit before taxation		1,117	853
Tax on profit	9	(210)	(169)
Profit for the financial year		907	684
Fair value movements on cash flow hedging instruments, net of tax		(5,987)	1,501
Total comprehensive (expense)/income for the year		(5,080)	2,185

All the activities of the company are from continuing operations.

The notes on pages 14 to 24 form part of these Financial Statements.

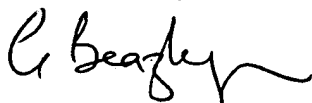
Kent and East Sussex Weald Hospital Limited

Statement of Financial Position

As at 31 December 2020

	Note	2020 £000	2019 £000
Current assets			
Debtors: amounts falling due within one year	10	5,055	5,558
Debtors: amounts falling due after more than one year	10	338,468	323,907
Cash at bank and in hand		12,017	12,312
		<u>355,540</u>	<u>341,777</u>
Creditors: Amounts falling due within one year	11	<u>(9,536)</u>	<u>(260,005)</u>
Net current assets		<u>346,004</u>	<u>81,772</u>
Total assets less current liabilities		<u>346,004</u>	<u>81,772</u>
Creditors: Amounts falling due after more than one year	12	<u>(424,057)</u>	<u>(156,600)</u>
Net liabilities		<u>(78,053)</u>	<u>(74,828)</u>
Capital and reserves			
Called up share capital	15	1	1
Hedging reserve	16	(81,095)	(76,963)
Retained earnings	16	3,041	2,134
Total shareholders deficit		<u>(78,053)</u>	<u>(74,828)</u>

The Financial Statements were approved by the board of directors and authorised for issue on 27 April 2021, and are signed on behalf of the board by:



G Beazley-Long
Director

Company registration number: 06401000

The notes on pages 14 to 24 form part of these Financial Statements.

Kent and East Sussex Weald Hospital Limited

Statement of Changes in Equity

Year Ended 31 December 2020

	Called up share capital £000	Hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2019	1	(78,464)	1,450	(77,013)
Profit for the financial year			684	684
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	1,501	—	1,501
Total comprehensive income for the year	—	1,501	684	2,185
At 31 December 2019	1	(75,108)	2,134	(72,973)
Profit for the financial year			907	907
Other comprehensive expense for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	(5,987)	—	(5,987)
Total comprehensive expense for the year	—	(5,987)	907	(5,080)
At 31 December 2020	1	(81,095)	3,041	(78,053)

Included in the fair value movement on cash flow hedging instruments is £10,402,244 (2019: £9,690,887) that was recycled through Interest Payable in the Statement of Comprehensive Income.

The notes on pages 14 to 24 form part of these Financial Statements.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements

Year Ended 31 December 2020

1. General Information

Kent and East Sussex Weald Hospital Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Cannon Place, 78 Cannon Street, London, EC4N 6AF.

The principal activity of the company during the year was to operate a PFI concession contract with the Maidstone and Tunbridge Wells National Health Service Trust ("the Trust") to design, build, finance and operate a hospital in Pembury. The contract was signed in March 2008, construction commenced immediately and full services started in 2012. The contract will run until 2042.

The Company's functional and presentation currency is the pound sterling.

2. Statement of Compliance

The individual financial statements of Kent and East Sussex Weald Hospital Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The Company prepares cash flow forecasts covering the expected life of the asset and so including the 12 month period from the date the financial statements are signed. In drawing up these forecasts, the directors have made assumptions based upon their view of the current and future economic conditions, including the impact of Covid-19, that will prevail over the forecast period. Based on these forecasts the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The directors acknowledge that the Company is in net liabilities, however this is a result of the interest rate swaps, which are significantly out of the money, being brought onto the Statement of Financial Position. After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In light of this, the directors continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

3. Accounting Policies *(continued)*

(c) Disclosure exemptions

The Company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compare that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Fair values for derivative contracts

Fair values for derivative contracts are based on market-to-market valuations provided by the contract counterparty. Whilst these can be tested for reasonableness, the exact valuation methodology and forecast assumptions for future interest rates or inflation rates are specific to the counterparty.

iii) Service concession contract

Accounting for the service concession contract and finance debtor requires estimation of a finance debtor interest rate.

(e) Revenue recognition

Turnover represents the services' share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

3. Accounting Policies *(continued)*

Revenue recognition *(continued)*

Revenue from the rendering of services is measured by reference to the stage of completion of the service transaction at the end of the reporting period provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that it is probable the expenses recognised will be recovered.

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

(g) Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

The Company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the Company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

3. Accounting Policies *(continued)*

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship. Financial assets are stated after an appropriate adjustment to account for the possible counterparty credit risk.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 December 2020

3. Accounting Policies (continued)

Financial instruments (continued)

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. 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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

(k) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

The Company has elected to early adopt the FRS 102 Interest Rate Benchmark Reform Amendment.

4. Turnover

Turnover arises from:

Rendering of services

2020	2019
£6,752	£3,000
5,214	5,214

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

4. Turnover *(continued)*

The whole of the turnover is attributable to the principal activity of the company wholly undertaken in the United Kingdom.

5. Operating Profit

Operating profit or loss is stated after charging:

	2020 £000	2019 £000
Fees payable for the audit of the annual report and financial statements	<u>12</u>	<u>15</u>

Included in the fee above is £3,255 (2019: £4,160) for the audit of the immediate parent entity Kent and East Sussex Weald Hospital (Holdings) Limited.

In addition to the audit fee the Company also paid the auditor £6,180 (2019: £5,000) for the provision of tax services for the Company and £2,575 (2019: £3,000) for the immediate parent entity. Further tax fees were incurred in relation to prior periods of £14,250 (2019: £nil).

6. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2019: £nil). The directors did not receive any remuneration from the Company during the year (2019: £nil).

7. Interest Receivable and Similar Income

	2020 £000	2019 £000
Interest on cash and cash equivalents	9	41
Inflation swap received	1,250	1,065
Interest received on finance debtor	<u>16,362</u>	<u>16,602</u>
	<u>17,621</u>	<u>17,708</u>

8. Interest Payable and Similar Expenses

	2020 £000	2019 £000
Interest on bank loans and overdrafts	13,656	13,790
Interest due to Group undertakings	3,906	3,642
Other interest payable and similar expenses	<u>201</u>	<u>121</u>
	<u>17,763</u>	<u>17,553</u>

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

9. Tax on Profit

Major components of tax expense

	2020 £000	2019 £000
Current tax:		
UK current tax expense	208	158
Adjustments in respect of prior periods	—	7
Total current tax	<u>208</u>	<u>165</u>
Deferred tax:		
Origination and reversal of timing differences	2	4
Tax on profit	<u>210</u>	<u>169</u>

Reconciliation of tax expense

The tax assessed on the profit for the year is lower than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020 £000	2019 £000
Profit before taxation	1,117	853
Profit before taxation by rate of tax	212	162
Adjustment to tax charge in respect of prior periods	—	7
Effect and origination of timing differences	(2)	—
Total tax charge	<u>210</u>	<u>169</u>

10. Debtors

Debtors amounts falling due within one year are as follows:

	2020 £000	2019 £000
Trade debtors	2,702	2,611
Prepayments and accrued income	375	303
Corporation tax repayable	97	174
Finance debtor	1,881	2,470
	<u>5,055</u>	<u>5,558</u>

Debtors amounts falling due after more than one year are as follows:

	2020 £000	2019 £000
Deferred tax asset	19,039	15,782
Derivative financial assets	51,003	37,400
Finance debtor	268,426	270,725
	<u>338,468</u>	<u>323,907</u>

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

10. Debtors *(continued)*

The movement in the finance debtor is analysed as follows:

	2020	2019
	£'000	£'000
At beginning of year	273,195	276,799
Repayments	(2,888)	(3,604)
At end of year	<u>270,307</u>	<u>273,195</u>

11. Creditors: Amounts Falling due Within One Year

	2020	2019
	£000	£000
Bank loans and overdrafts	2,277	250,438
Trade creditors	899	534
Amounts owed to group undertakings	1,892	4,503
Accruals and deferred income	3,778	3,820
Taxation and social security	690	710
	<u>9,536</u>	<u>260,005</u>

The amounts owed to Group undertakings is accrued interest on the Loan Notes (Note 12). This balance bears interest at 13%, is unsecured and is repayable on demand.

12. Creditors: Amounts Falling due after More than One Year

	2020	2019
	£000	£000
Bank loans and overdrafts	246,478	—
Amounts owed to group undertakings	26,295	26,295
Derivative financial liability	151,121	130,127
Other creditors	163	178
	<u>424,057</u>	<u>156,600</u>

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

12. Creditors: Amounts Falling due after More than One Year

(continued)

The secured senior loan represents amounts borrowed under a facility agreement with Bank of Scotland. The loan is repayable in instalments between 2013 and 2042. The loan is secured by fixed and floating charges over the property, assets and rights of the company, and has certain covenants attached. The loan bears interest at LIBOR plus 0.700% however the Company has an interest rate swap arrangement receiving LIBOR and paying interest fixed at 4.718% for the full amount of the loan drawn, hence fixing the total interest payable on the bank loan to 5.418%. The full amount of loan drawdowns at 31 December 2020 is £250,377,209 (2019: £252,259,469). Issue costs of £1,622,212 (2019: £1,821,786) have been set off against total loan drawdowns.

In the prior year the full amount of senior loan was classified as payable within one year due to the technical default. The senior loan has been re-classed as long term this year as the Company is no longer in technical default

Amounts owed to group undertakings is unsecured Loan Notes to its immediate parent company, Kent and East Sussex Weald Hospital (Holdings) Limited. In 2011 the Company issued a total of £20,816,090 in unsecured Loan Notes which accrued interest. The debt bears a Coupon of 13% per annum and payment of capital falls due in 2042 at the end of the project term. The Coupon on the principal amount accrues daily and is payable in cash every March and September. The investment sum was advanced under a subordinated loan agreement, is unsecured, and would rank alongside ordinary creditors in the event of a winding up.

13. Deferred Tax

The deferred tax included in the Statement of Financial Position is as follows:

	2020	2019
	£000	£000
Included in debtors (note 10)	<u>19,039</u>	<u>15,782</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2020	2019
	£000	£000
Derivative financial instruments	19,023	15,763
Deferred tax - other timing differences	16	19
	<u>19,039</u>	<u>15,782</u>

	2020
	£'000
Opening balance	(15,782)
Movement through other comprehensive income	(3,257)
Closing balance	<u>(19,039)</u>

The net deferred tax liability expected to reverse in 2020 is £4,150 (2019: £3,713). This primarily relates to the reversal of short term timing differences.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

14. Financial Instruments

The carrying amount for each category of financial instrument is as follows:

	2020 £000	2019 £000
Financial assets measured at fair value through profit or loss		
Financial assets measured at fair value through profit or loss	<u>51,003</u>	<u>37,400</u>
Financial liabilities measured at fair value through profit or loss		
Financial liabilities measured at fair value through profit or loss	<u>(151,121)</u>	<u>(130,127)</u>

The fair values of the interest rate and RPI swaps have been calculated by discounting the fixed cash flows at forecasted forward interest and RPI rates over the term of the financial instrument. The bank borrowing and finance debtor are both held at amortised cost.

15. Called Up Share Capital

Issued, called up and fully paid

	2020 No. <u>1,000</u>	£000 <u>1</u>	2019 No. <u>1,000</u>	£000 <u>1</u>
Ordinary shares of £1 each				

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and the repayment of capital.

16. Reserves

The hedging reserve records fair value movements on cash flow and net investment hedging instruments.

Retained earnings records retained earnings and accumulated losses.

17. Related Party Transactions

The Company is wholly owned by Kent and East Sussex Weald Hospital (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

The following disclosures are with entities in the Group that are not wholly owned:

The Company paid £67,911 (2019: £59,763) to Dalmore Capital and its subsidiaries as shareholders for the provision of two directors during the year.

The Company paid £67,911 (2019: £59,763) to Innisfree Limited as shareholders for the provision of two directors during the year.

The Company paid £nil (2019: £19,678) to Laing Investments Mgt Services Limited as shareholders for the provision of two directors during the year.

Kent and East Sussex Weald Hospital Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2020

18. Controlling Party

The immediate parent undertaking is Kent and East Sussex Weald Hospital (Holdings) Limited.

The immediate parent undertaking is owned 75% by Health (Pembury) Limited and 25% by PFI 2005 Limited. Health (Pembury) Limited is owned 50% by JLIF Holdings (Pembury Hospital) Limited and 50% by Innisfree PFI Secondary Fund. The ultimate shareholding in PFI 2005 Limited and JLIF Holdings (Pembury Hospital) Limited is held by various funds which are managed by Dalmore Group. In the directors' opinion there is no ultimate controlling party.