

Sovereign Hospital Services Limited

Annual report and financial statements

Registered number 3232308

For the year ended 31 December 2015

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Strategic report

The directors present their annual report together with the audited financial statements for the year ended 31 December 2015.

Principal activities

The company's principal activities during the year continued to be the provision of facilities management within the healthcare sector.

Business review

The company's performance for the financial year is shown on page 7 in the profit and loss account. Revenue reduced to £68,929,000 (2014: £72,956,000) and operating profit decreased to £3,505,000 (2014: £8,243,000) as a result of a reduction in additional works and the closure of London Chest Hospital. The company provides its services under long term arrangements. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

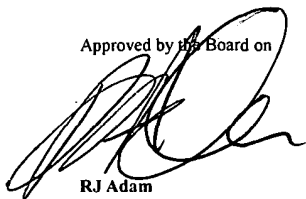
There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements. The profit before taxation for the year is £3,992,000 (2014: £8,541,000).

Principal risks and key performance indicators ("KPI's")

The main operational risks relate to delivery of service which are measured by KPI's on each of the main contracts. Management regularly review these KPI's and take any corrective actions that may be required. Performance against the KPI's during the year has been satisfactory.

A key risk for the business is to maintain effective cost control since the major part of each contract relates to a fixed revenue income stream. Monthly reviews are undertaken to monitor costs and performance. New methods of working to introduce efficiencies are constantly being evaluated and implemented subject to a detailed business case and successful pilot.

Approved by the Board on



R.J. Adam
Director

23 September 2016 and signed on its behalf by:

84 Salop Street
Wolverhampton
WV3 0SR

Directors' Report

Directors

The directors serving during the year and subsequently were:

C Macpherson
RJ Adam
M Kasher
RJ Howson
JC Platt

Dividends

During the year, the Directors did not recommend the payment of a dividend (2014: £nil).

Political donations

The company made political donations of £nil during the year (2014: £nil).

Employees

The majority of employees are based at site on contracts. Communication and consultation within the working teams takes place, as appropriate, as part of the normal pattern of everyday operations. Employees receive regular publications, such as "Spectrum", which provides information on activities throughout the Carillion Group and is published several times a year.

The establishment and maintenance of safe working practices at all work places are of greatest importance to the company and special training in health and safety is provided for all employees. The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of younger people, as well as increasing its own training commitment to full time employees.

Equal opportunities

The company is an equal opportunities employer. It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees. Carillion continually strives to eliminate all bias and unlawful discrimination in relation to job applicants, employees, business partners and members of the public. Full consideration is given to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position and wherever possible to retrain employees who become disabled, so that they can continue in their employment in another position.

Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the company. Where necessary, training is carried out to assist employees to develop their full potential. All aspects of employment are regularly reviewed by management to ensure this policy is achieved.

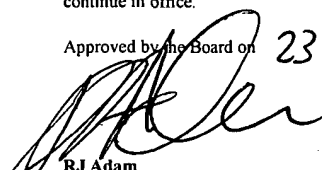
Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the 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 auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 23 September 2016 and signed on its behalf by:



RJ Adam
Director

84 Salop Street
Wolverhampton
WV3 0SR

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS101 Reduced Disclosure Framework.

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 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; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6QH
United Kingdom

Independent auditor's report to the members of Sovereign Hospital Services Limited

We have audited the financial statements of Sovereign Hospital Services Limited for the year ended 31 December 2015 set out on pages 7 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Peter Meehan
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

23 September 2016

Profit and loss account
for the year ended 31 December 2015

		2015 £000	2014 £000
Turnover	<i>Note 1</i>	68,929	72,956
Cost of sales		(61,874)	(61,594)
Gross profit		7,055	11,362
Administrative expenses		(3,550)	(3,119)
Operating profit		3,505	8,243
Interest receivable and similar income	5	1,019	617
Interest payable and similar charges	6	(532)	(319)
Profit on ordinary activities before taxation	2	3,992	8,541
Tax on profit on ordinary activities	7	(1,200)	(2,653)
Profit for the financial year		2,792	5,888

All amounts relate to continuing operations.

There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis in either the current or preceding financial year.

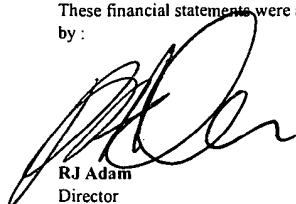
There were no recognised gains or losses in either the current or preceding financial year other than the profit or loss for those years.

The notes on pages 10 to 16 form part of these financial statements.

Balance sheet
at 31 December 2015

	Note	£000	2015 £000	2014 £000
Fixed assets				
Tangible assets	8		159	293
Current assets				
Stocks	9	257		262
Debtors	10	56,315		42,571
Cash at bank and in hand		919		1,177
		<u>57,491</u>		<u>44,010</u>
Creditors: amounts falling due within one year	11	<u>(45,155)</u>		<u>(34,600)</u>
Net current assets			<u>12,336</u>	<u>9,410</u>
Total assets less current liabilities, being net assets			<u><u>12,495</u></u>	<u><u>9,703</u></u>
Capital and reserves				
Called up share capital	13		-	-
Profit and loss account			12,495	9,703
Equity shareholders' funds			<u><u>12,495</u></u>	<u><u>9,703</u></u>

These financial statements were approved by the Board of Directors on *23 September* 2016 and were signed on its behalf by :



R.J. Adam
Director

Company registered number 3232308

Statement of changes in equity
for the year ended 31 December 2015

	Called up share capital	Profit and loss reserve	Total
	£000	£000	£000
Balance at 1 January 2014	-	3,815	3,815
Profit for the year	-	5,888	5,888
Balance at 31 December 2014	-	9,703	9,703
Profit for the year	-	2,792	2,792
Balance at 31 December 2015	-	12,495	12,495

Sovereign Hospital Services Limited
Notes
(forming part of the financial statements)

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial information.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. The transition to FRS 101 has not had an impact on the profit for the year or net assets.

In these financial statements, the company has applied the exemptions under FRS101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital and tangible fixed assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effect of new but not yet effective IFRSs;
- an additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- disclosures in respect of compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Carillion plc include the equivalent disclosures, the company has also taken the exemptions under FRS101 available in respect of the following disclosures:

- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS7 Financial Instrument disclosures.

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis except where specified certain assets and liabilities are stated at their fair value noted below.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic report.

The company participates in Carillion plc group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors, having assessed the responses of the directors of the company's ultimate parent Carillion plc to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Carillion group to continue as a going concern or its ability to continue with the current banking arrangements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result in the basis of preparation being inappropriate.

Tangible fixed assets

Depreciation is based on historical cost or revaluation, less the estimated residual values, and the estimated economic lives of the assets concerned. Other tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Plant, machinery and vehicles	3-10 years
Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the asset.	

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value.

Long-term contracts

When the outcome of a long-term contract can be assessed with reasonable certainty, contract turnover and costs are recognised by reference to the degree of completion of each contract, as measured by the proportion of total costs at the balance sheet date to the estimated total cost of the contract. Insurance claims, incentive payments, and variations arising from long-term contracts are included in revenue where it is probable that they will be recovered and are capable of being reliably measured.

When it is probable that total contract costs will exceed total contract turnover the expected loss is recognised immediately. Contract costs are recognised as expenses in the period in which they are incurred.

Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as amounts recoverable on contracts within debtors. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as payments received on account within creditors.

1. Principal accounting policies (continued)

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to all customers including fellow subsidiary undertakings. In respect of long term contracting activities, turnover reflects the value of work executed during the year. It also includes the company's proportion of work carried out by joint arrangements during the year.

All turnover and profits relate to support services provided in the United Kingdom

Leased assets

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Any lease incentives received are recognised in the profit and loss account as part of the total lease expense.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Pensions

For defined contribution pension schemes, amounts payable are charged to the profit and loss account as incurred.

Notes (continued)

2. Profit on ordinary activities before taxation

	2015 £000	2014 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets:		
-Owned	134	169
Operating lease rentals:		
-Plant and machinery	58	60
Auditor's remuneration - audit of these financial statements	3	3

Fees paid to the company's auditor, KPMG LLP and its associates, for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of the company's parent, Carillion plc, are required to disclose non-audit fees on a consolidated basis.

3. Staff numbers and costs

The average number of persons employed by the company during the year was:

	Number of employees	
	2015	2014
Direct labour and operatives	1,053	1,150

The aggregate payroll costs of these persons were as follows:

	2015 £000	2014 £000
Wages and salaries	31,670	32,758
Social security costs	2,313	2,380
Other pension costs	2,799	3,006
	36,782	38,144

4. Directors' remuneration

Some directors of the company, who served during the financial year, are directors of the company's ultimate parent company and as such, details regarding remuneration are disclosed in the financial statements of Carillion plc. The remaining directors are directors or employees of Carillion Construction Limited and are remunerated by that company. For those directors who are employees of Carillion Construction Limited and their remuneration is not disclosed in the financial statements of Carillion Construction Limited, their role as director of Sovereign Hospital Services Limited is of a non-executive director and no remuneration is apportioned to the company.

5. Interest receivable and similar income

	2015 £000	2014 £000
Interest receivable from group undertakings	1,019	455
Bank interest receivable	-	162
	1,019	617

6. Interest payable and similar charges

	2015 £000	2014 £000
Interest payable to group undertakings	532	319
	532	319

Notes (continued)

7. Tax on profit on ordinary activities

(a) Analysis of taxation charge in the year

	2015 £000	2014 £000
UK corporation tax		
Current tax	1,164	2,112
Adjustment in respect of prior periods	7	513
Total current taxation	1,171	2,625
Deferred taxation		
Accelerated capital allowances	20	25
Adjustment in respect of prior periods	-	3
Adjustment in respect of change in rate	9	-
Total deferred taxation	29	28
Total taxation on profit on ordinary activities	1,200	2,653

(b) Reconciliation of total tax charge

The total tax charge for the year is higher (2014: higher) than the standard rate of 20.25% (2014: 21.5%). The difference is explained below:

	2015 £000	2014 £000
Total tax reconciliation		
Profit on ordinary activities before taxation	3,992	8,541
Tax on profit on ordinary activities at 20.25% (2014: 21.5%)	808	1,836
Effects of:		
Permanent differences	376	301
Adjustment in respect of previous periods	7	516
Adjustment in respect of change in rate	9	-
Total tax charge for the year	1,200	2,653

(c) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 31 December 2015 has been calculated based on the rate in the period in which it is expected to unwind.

An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly.

Notes (continued)

8. Tangible fixed assets

	Plant, machinery and vehicles £000
Cost	
At beginning and end of year	<u>843</u>
Depreciation	
At beginning of year	550
Charge for the year	<u>134</u>
At end of year	<u>684</u>
Net book value	
At 31 December 2015	<u>159</u>
At 1 January 2015	<u>293</u>

9. Stocks	2015	2014
	£000	£000
Raw materials and consumables	<u>257</u>	<u>262</u>

10. Debtors	2015	2014
	£000	£000
Trade debtors	5,826	4,459
Amounts receivable on contracts	1,204	2,582
Amounts owed by group undertakings	49,098	34,223
Other debtors	-	1,077
Prepayments	10	24
Deferred tax asset (see note 12)	<u>177</u>	<u>206</u>
	<u>56,315</u>	<u>42,571</u>

Amounts owed by group undertakings attract interest at a rate which reflects the cost of borrowing to the group.

Notes (continued)

11. Creditors: amounts falling due within one year

	2015	2014
	£000	£000
Trade creditors	2,355	2,182
Amounts owed to group undertakings	32,853	24,137
Corporation tax	1,164	2,112
Other tax and social security costs	1,821	1,406
Other creditors	4,021	3,587
Accruals and deferred income	2,941	1,176
	<u>45,155</u>	<u>34,600</u>

Amounts owed to group undertakings bear interest at a rate which reflects the cost of borrowing to the group.

12. Deferred taxation

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to temporary differences relating to the following:

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	177	206	-	-	177	206
Net tax assets	177	206	-	-	177	206

Unrecognised deferred tax assets

There is no unrecognised deferred tax as at 31 December 2015 (2014: £nil).

Movements in temporary differences during the year are as follows:

	Balance 1 January 2015 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2015 £000
Property, plant and equipment	206	(29)	-	177
	<u>206</u>	<u>(29)</u>	<u>-</u>	<u>177</u>

	Balance 1 January 2014 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2014 £000
Property, plant and equipment	234	(28)	-	206
	<u>234</u>	<u>(28)</u>	<u>-</u>	<u>206</u>

13. Called up share capital

	2015	2014
	£	£
Allotted, called up and fully paid:		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

Notes (continued)

14. Commitments under operating leases

Total commitments under non-cancellable operating leases as follows:

	Plant and Machinery	
	2015	2014
	£000	£000
Operating leases rentals payable:		
Within one year	20	21
In the second to fifth year inclusive	75	66
After five years	-	13
	<u>95</u>	<u>100</u>

15. Pensions

The employees of the company are members of two pension schemes, the Mowlem Staff Pension and Life Assurance Scheme and the Mowlem (1993) Pension Scheme, which provide benefits based on final pensionable pay. The principal employers of these schemes are fellow subsidiaries of the Carillion Plc Group, with schemes accounted for in these financial statements as if they were defined contribution schemes.

Actuarial valuations of the Mowlem Staff scheme was undertaken by independent actuaries as at 31 December 2013 using the projected unit credit method. The market value of the schemes assets at 31 December 2013 were £503 million, representing approximately 75 per cent of the benefits that had accrued to members at that date on an on going basis, after allowing for future increases in salaries. The next actuarial valuation of the schemes by the Trustees' independent actuaries will be as at 31 December 2016.

An actuarial valuation of the Mowlem (1993) scheme was undertaken by independent actuaries as at 31 December 2011 using the projected unit credit method. The market value of the schemes' assets at that date were £75 million, representing approximately 78 per cent of the benefits that had accrued to members at that date on an on going basis, after allowing for future increases in salaries. The next actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2014 is currently being undertaken.

At 31 December 2015, the Mowlem Staff Scheme and Life Assurance scheme had a deficit of £160.6 million (2014: £196.8 million deficit) and the Mowlem (1993) scheme had a surplus of £14.0million (2014: £6.1 million surplus) on the basis of IAS 19 'Retirement Benefits'.

During the year the company made contributions of £1,810,000 (2014: £1,868,000) to Carillion Plc Group schemes and contributions of £989,000 (2014: £1,138,000) to an NHS defined contribution scheme.

16. Controlling and ultimate parent company

The company's controlling company is Carillion plc, its ultimate parent company, which is incorporated in Great Britain and registered in England and Wales.

Copies of the group financial statements of Carillion plc are available from 84 Salop Street, Wolverhampton, WV3 0SR.