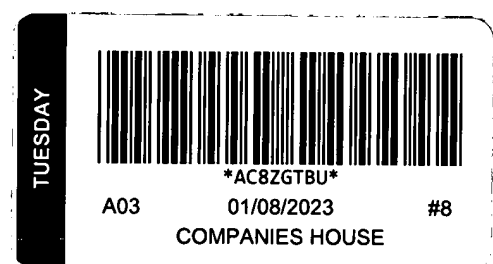


Registration number: 03693524

Mercia Healthcare Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2023



Mercia Healthcare Limited

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Mercia Healthcare Limited

Company Information

| | |
|-----------------------------|--|
| Directors | J N E Cowdell T Ryan H J W Pownall D North |
| Company secretary | Semperian Secretariat Services Limited |
| Registered office | Third Floor Broad Quay House Prince Street Bristol BS1 4DJ |
| Independent Auditors | PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Temple Quay Bristol BS2 0FR |

Mercia Healthcare Limited

Strategic Report for the Year Ended 31 March 2023

The directors present their strategic report for the year ended 31 March 2023.

Principal activity

The principal activity of the company is the design, construction and provision of certain non-clinical support services to an Acute Care Facility at Hereford County Hospital, under a 30 year contract, expiring in 2029, for Wye Valley NHS Trust (formerly Hereford Hospitals NHS Trust).

Results and review of business

The profit for the year is set out in the profit and loss account on page 10. The directors consider the performance of the company during the year and the financial position at the end of the year, to be in line with the long term expected performance of the project, and its prospects for the future to be satisfactory.

Principal risks and uncertainties

The company has taken on the activity, as detailed above, and is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts. In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations. The Board monitors the financial stability of its subcontractors and has contingency plans in place to ensure the continuity of service provision to its client, should a subcontractor become unable to perform its obligations. The financial risks and the measures taken to mitigate them are as detailed in the Directors' report.

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract which stipulates key performance criteria on operational activities as managed by the sub-contractor. For this reason, the company's directors believe that further operational key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business. In addition the directors monitor compliance with debt covenant ratios as specified in the senior loan agreement, in particular the Debt Service Cover Ratio, and no non-compliance has been noted.

S172 Statement

The following disclosure describes how the Board regards the matters set out in section 172 (1) (a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

The purpose of the company is to design, build, finance and operate the Hereford County Hospital over a concession period of 30 years under an agreement with our client, Wye Valley NHS Trust. The company's aim is to work in partnership with our client to provide suitable accommodation and maintain that accommodation to meet relevant legislation and agreed service levels. This shapes the company's values and objectives and defines long term success. Decisions are taken in the context of working in partnership with the client and other stakeholder groups. The company has long term funding in place, as described in the Directors' Report. A set of contracts set out the relationships with the client, debt funders, maintenance and operations contractors. These parties are the company's main stakeholders. The company also works with community groups to enable both their support for the client and the full use of the accommodation asset. The environmental impact of the accommodation is considered to support statutory and other reporting. Where changes to the accommodation impact the community, these are considered with the client. Debt funders are provided with operational and financial performance reports on a monthly basis. The operational management team work closely with the client and the maintenance and operations contractor, in order to programme lifecycle and major maintenance works to minimise disruption. The client receives regular updates on programmed works and access requests to enable those works.

The company does not have any employees but works with the maintenance and operations contractors to ensure that health and safety reporting is transparent, and the contractors provide a suitably skilled and sustainable workforce.

Mercia Healthcare Limited

Strategic Report for the Year Ended 31 March 2023 (continued)

The Board of Directors is an experienced team which is appointed by the shareholders to represent their interests and ensure their instructions are considered and implemented for the long-term success of the company. The board members have experience of working with the other key stakeholders, which assists them in identifying and considering the long-term consequences of principal decisions. The board meet on a quarterly basis and reports are provided at these meetings by the operational and financial management teams. These reports will have regard to health and safety matters, the operational and financial performance of the project, planned lifecycle and major maintenance work and relationships with the client, and the main subcontractor. The operational and financial management team make recommendations to the board of directors. These recommendations and reports are considered at the board meetings and actions arising are monitored. Decisions made by the Directors that have a financial impact are accounted for in a concession length forecast of financial performance.

Principal decisions of the company are those that are key to the company's success, these include but are not limited to: decisions impacting the relationships between the parties, decisions impacting the availability and safety of the accommodation, and decisions impacting the return to the shareholders.

The principal decisions made by the Board of Directors during the year ended 31 March 2023 were:

- Lifecycle and major maintenance expenditure
- Payment of dividends

Life cycle and major maintenance expenditure is planned following asset condition surveys to maintain the accommodation at the required statutory and contractual standards. It is also to ensure the asset will meet the required contractual standards at the end of the concession. The delivery of these works is carefully planned with the maintenance and operations contractors and client, to ensure minimum disruption to the users of the accommodation and the safety of the contractor's employees.

The Board's decisions ensure the relationships between the parties that work together, in partnership, continue and the accommodation is maintained with minimum disruption to users. The safety performance of the accommodation is maintained both in terms of users and the health and safety of the contractor's staff. These decisions ensure the long-term success of the project, which protects shareholder returns.

Dividends are declared only after having had regard to the company's ability to meet its debt payments and covenant ratios both now and in the future. This ensures the stability of the company to allow it to continue providing the accommodation to its client, for use by the public.

Approved by the Board on 17.July.2023. and signed on its behalf by:



.....
D North
Director

Mercia Healthcare Limited

Directors' Report for the Year Ended 31 March 2023

Registration number: 03693524

The directors present their report and the audited financial statements for the year ended 31 March 2023.

Future developments

No significant changes are expected to the company's activities, as set out in the Strategic Report, in the foreseeable future.

Dividends

A dividend of £1,394,000 (£1,394.00 per ordinary share) was paid during the year (2022: £1,788,000, £1,788.00 per ordinary share). On 29 June 2023 a dividend of £628,000 (£628.00 per ordinary share) was paid.

Financial risk management

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

Interest rate risk

The senior debt interest has been fixed through the use of fixed funding rates, plus a margin, as set out in note 12.

As described in note 2, the Company has negotiated consistent terms, rates and transition dates, with the respective counterparties. The transition to SONIA plus CAS completed on 5 April 2022 for both the LIBOR linked debt and swap. As the hedge effectiveness has been maintained, there is no change to the entity's overall risk management strategy as a result of the benchmark rate replacement.

Inflation risk

The company's project revenue and most of its costs were linked to inflation at the inception of the project, resulting in the project being largely insensitive to inflation.

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due.

Credit risk

The company receives the majority of its revenue from Wye Valley NHS Trust (formerly Hereford Hospitals NHS Trust) and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Major maintenance replacement risk

The company takes the risk that its projections for ongoing major maintenance replacement of the building and relevant equipment are adequate. These projections have been agreed with third parties and are subject to regular review by the directors.

Directors of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

J N E Cowdell

T Ryan

H J W Pownall

D North

Mercia Healthcare Limited

Directors' Report for the Year Ended 31 March 2023 (continued)

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements 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).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

Reappointment of auditors

The independent auditors, PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, have signified their willingness to continue in office.

Approved by the Board on17 July 2023..... and signed on its behalf by:



.....
D North
Director

Mercia Healthcare Limited

Independent Auditors' Report to the members of Mercia Healthcare Limited

Report on the audit of the financial statements

Opinion

In our opinion, Mercia Healthcare Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 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, including 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: balance sheet as at 31 March 2023; the profit and loss account, statement of comprehensive income and 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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' 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.

Mercia Healthcare Limited

Independent Auditors' Report to the members of Mercia Healthcare Limited (continued)

Reporting on other information (continued)

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 Strategic Report and 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.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2023 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 Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, 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.

Mercia Healthcare Limited

Independent Auditors' Report to the members of Mercia Healthcare Limited (continued)

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 auditors' 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 corporation tax legislation and Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and internal audit to enquire of any known instances of non-compliance with Laws and Regulations and Fraud
- Reading board minutes for evidence of breaches of regulations and reading relevant correspondence
- Challenging assumptions and judgements made by management in their significant accounting estimates
- Identifying and testing journal entries, in particular journal entries posted with unexpected account combinations
- Incorporating unpredictability into the nature, timing and/or extent of our testing

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.

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.

Mercia Healthcare Limited

**Independent Auditors' Report to the members of Mercia Healthcare Limited
(continued)**

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.



Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

28th July 2023
Date:

Mercia Healthcare Limited

Profit and Loss Account for the Year Ended 31 March 2023

| | Note | 2023 £ 000 | 2022 £ 000 |
|--|------|-----------------|-----------------|
| Turnover | 4 | 20,407 | 20,879 |
| Cost of sales | | <u>(16,305)</u> | <u>(17,429)</u> |
| Gross profit | | 4,102 | 3,450 |
| Administrative expenses | | <u>(935)</u> | <u>(775)</u> |
| Operating profit | 5 | 3,167 | 2,675 |
| Interest receivable and similar income | 6 | 4,343 | 4,305 |
| Interest payable and similar expenses | 7 | <u>(2,114)</u> | <u>(2,394)</u> |
| Profit before taxation | | 5,396 | 4,586 |
| Tax on profit | 8 | <u>(1,051)</u> | <u>(3,121)</u> |
| Profit for the financial year | | <u>4,345</u> | <u>1,465</u> |

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 March 2023

| | Note | 2023 £ 000 | 2022 £ 000 |
|--|------|---------------|---------------|
| Profit for the financial year | | <u>4,345</u> | <u>1,465</u> |
| Other comprehensive income / (expense): | | | |
| Change in value of hedging instrument | 17 | 135 | 219 |
| Reclassifications to profit and loss | 17 | 259 | 699 |
| Deferred tax arising on unrealised movements on cash flow hedges | 8 | <u>(99)</u> | <u>(150)</u> |
| Other comprehensive income / (expense) for the year, net of tax | | <u>295</u> | <u>768</u> |
| Total comprehensive income / (expense) for the year | | <u>4,640</u> | <u>2,233</u> |

The notes on pages 13 to 26 form an integral part of these financial statements.

Mercia Healthcare Limited

Balance Sheet as at 31 March 2023

| | Note | 2023 £ 000 | 2022 £ 000 |
|--|------|---------------|---------------|
| Current assets | | | |
| Debtors: Amounts falling due after more than one year | 9 | 39,022 | 44,461 |
| Debtors: Amounts falling due within one year | 10 | 6,309 | 5,659 |
| Cash at bank and in hand | | 19,501 | 17,325 |
| | | 64,832 | 67,445 |
| Creditors: Amounts falling due within one year | 11 | (11,098) | (10,631) |
| Total assets less current liabilities | | 53,734 | 56,814 |
| Creditors: Amounts falling due after more than one year | 11 | (15,904) | (21,524) |
| Provisions for liabilities | 13 | (7,897) | (8,603) |
| Net assets | | 29,933 | 26,687 |
| Capital and reserves | | | |
| Called up share capital | 14 | 1 | 1 |
| Cash flow hedge reserve | | (11) | (306) |
| Profit and loss account | | 29,943 | 26,992 |
| Total equity | | 29,933 | 26,687 |

The financial statements on pages 10 to 26 were approved by the Board of Directors on17 July 2023..... and signed on its behalf by:



.....
D North
Director

The notes on pages 13 to 26 form an integral part of these financial statements.

Mercia Healthcare Limited**Statement of Changes in Equity for the Year Ended 31 March 2023**

| | Note | Called up Share capital £ 000 | Cash flow hedge reserve £ 000 | Profit and loss account £ 000 | Total equity £ 000 |
|-------------------------------|------|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------|
| At 1 April 2021 | | 1 | (1,074) | 27,315 | 26,242 |
| Profit for the financial year | | - | - | 1,465 | 1,465 |
| Other comprehensive income | | - | 768 | - | 768 |
| Total comprehensive income | | - | 768 | 1,465 | 2,233 |
| Dividends | 15 | - | - | (1,788) | (1,788) |
| At 31 March 2022 | | 1 | (306) | 26,992 | 26,687 |

| | Note | Called up Share capital £ 000 | Cash flow hedge reserve £ 000 | Profit and loss account £ 000 | Total equity £ 000 |
|---|------|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------|
| At 1 April 2022 | | 1 | (306) | 26,992 | 26,687 |
| Profit for the financial year | | - | - | 4,345 | 4,345 |
| Other comprehensive income / (expense) | | - | 295 | - | 295 |
| Total comprehensive income / (expense) | | - | 295 | 4,345 | 4,640 |
| Dividends | 15 | - | - | (1,394) | (1,394) |
| At 31 March 2023 | | 1 | (11) | 29,943 | 29,933 |

The notes on pages 13 to 26 form an integral part of these financial statements.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023

1 General information

The principal activity of the company is the design, construction and provision of certain non-clinical support services to an Acute Care Facility at Hereford County Hospital, under a 30 year contract, expiring in 2029, for Wye Valley NHS Trust (formerly Hereford Hospitals NHS Trust).

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom.

The address of its registered office is:

Third Floor
Broad Quay House
Prince Street
Bristol
BS1 4DJ

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

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland' and the Companies Act 2006.

Basis of preparation

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

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 judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Interest rate benchmark reform

The entity has floating rate debt and related hedging instruments which are subject to SONIA, as disclosed in notes 12 and 17. The Company has negotiated consistent terms, rates and transition dates, with the respective counterparties, although formal transition was only achieved on 5 April 2022. In the meantime, synthetic LIBOR was applied.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

2 Accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises income when it has fully fulfilled its contractual obligations. The company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and cost of sales.

Where appropriate, income received under the PFI contract in respect of services provided during the operational phase of the contract is deferred to future periods in order to match those elements of income with the costs to which they relate. The turnover and cost of sales are recorded in the profit and loss account in the period in which the relevant costs are incurred.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

Finance debtor and interest receivable

The company has elected to take the exemption under FRS 102 paragraph 35.10 (i) to continue to apply its previous accounting treatment in respect of Service Concession Arrangements entered into prior to the date of transition to FRS 102. This has resulted in the measurement of the finance debtor being different from that which would have resulted had the requirements of FRS 102 Section 34 been fully adopted. The costs incurred in constructing the assets have been treated as a finance debtor. This treatment arose from applying the guidance within previous UK GAAP which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer.

The finance debtor represents the costs arising on the construction of the assets including initial tender costs. During asset construction, finance debtor interest income is recognised on an accruals basis and is capitalised within the finance debtor receivable. Once the project reached its operational phase and was accepted by the customer a constant proportion of the planned net revenue arising from the project was allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term the finance debtor is expected to be fully repaid.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income / (expense) is also recognised directly in other comprehensive income / (expense).

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

2 Accounting policies (continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Cash balances are held in bank accounts which are subject to controls, exercised by the providers of the company's long term debt facilities, under the terms of its facility agreements.

Financial Instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(a) Financial assets

Basic financial assets, including trade and other receivables, finance debtors, cash and bank balances, are initially recognised at transaction price, 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.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(b) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

2 Accounting policies (continued)

(b) Financial liabilities (continued)

Interest accrues on each debt instrument on a daily basis at the applicable rate. The entity has floating rate senior debt and related hedging instruments which are subject to SONIA plus CAS, as disclosed in notes 12 and 17. The entity has fixed rate subordinated debt, as disclosed in note 12.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(c) Offsetting

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

(d) Derivatives and Hedging arrangements

Derivatives, which may include interest rate swaps and RPI swaps, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate, unless they are included in hedging arrangements.

The company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income / (expense) is reclassified to the profit and loss account in the same period in which the hedged transaction is recognised in the profit and loss account or when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

2 Accounting policies (continued)

Called up share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Final dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. Interim dividends are recognised when paid. These amounts are recognised in the statement of changes in equity.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The exemptions which the company has taken are:

- the requirement to prepare a statement of cash flows;
- certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;

3 Critical accounting judgements and estimation uncertainty

Judgements, estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources.

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates made are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Actual results may subsequently differ from these estimates.

Certain critical accounting judgements and estimates as applicable, adopted by management, in applying the company's accounting policies are described below:

Judgements

Treatment of derivatives

The directors have adopted a policy of cash flow hedge accounting for derivative financial instruments and have assessed that the company's interest rate swaps meet the criteria for hedge accounting under FRS 102. This allows unrealised gains and losses to be deferred in a cash flow hedge reserve and only recognised through the profit and loss account at the same time as the hedged cash flows.

Estimates

Finance debtor and turnover recognition

The accounting for service concession contracts and finance debtors requires estimation of service margins (being forecast of contract income less estimates of operating and major maintenance replacement costs), finance debtor interest rates and associated amortisation profile which are based on the forecast results of the PFI contracts over the respective concession length. See notes 9 and 10 for the carrying value of the finance debtor and note 11 for amounts of turnover deferred to future periods.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

3 Critical accounting judgements and estimation uncertainty (continued)

Impairment of debtors

Management makes an estimate of the likely recoverable value of trade and other debtors by considering factors including the current credit rating, the ageing profile and the historical experience of the respective debtor. See notes 9 and 10 for the carrying value of the debtors.

Measurement of derivatives

Derivative financial instruments are recognised at fair value. The measurement of fair value is based on estimates of future market interest and inflation rates and will therefore be subject to change. The company has used a third party expert to assist with valuing such instruments. See note 17 for the fair value of the financial instruments.

Lifecycle

The accounting for life cycle and major maintenance expenditure requires estimation of forecast replacement costs, based on asset condition surveys, so as to maintain the accommodation at the required statutory and contractual standards throughout, and at the end, of the concession. See note 11 for amounts of turnover deferred to future periods, to be recorded in the profit and loss account in the period in which the relevant costs are incurred.

4 Turnover

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom.

5 Operating profit

The company had no employees during the year (2022: none). The emoluments of the directors are paid by the controlling parties. The directors' services to this company and to a number of fellow group companies are primarily of a non-executive nature and their emoluments are deemed to be wholly attributable to the controlling parties. The controlling parties charged £131,000 (2022: £118,000) to the company in respect of these services.

The audit fee in respect of the company was £11,513 for the year (2022: £9,709). The company also bore the audit fees of its immediate parent undertaking of £3,035 (year ended 31 March 2022: £2,624), during the year.

6 Interest receivable and similar income

| | 2023 £ 000 | 2022 £ 000 |
|---|---------------|---------------|
| Imputed interest receivable on finance debtor | 3,933 | 4,301 |
| Interest income on bank deposits | 410 | 4 |
| | <u>4,343</u> | <u>4,305</u> |

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

7 Interest payable and similar charges

| | 2023 £ 000 | 2022 £ 000 |
|---|---------------|---------------|
| Interest on bank borrowings | 321 | 181 |
| Interest rate swap costs | 259 | 699 |
| Interest payable on loans from group undertakings | 1,534 | 1,514 |
| | <u>2,114</u> | <u>2,394</u> |

8 Tax on profit

(a) Tax expense included in profit or loss

| | 2023 £ 000 | 2022 £ 000 |
|---|---------------|---------------|
| Current taxation | | |
| UK corporation tax | 1,856 | 1,550 |
| UK corporation tax adjustment to prior periods | - | (2) |
| Total current taxation | <u>1,856</u> | <u>1,548</u> |
| Deferred taxation | | |
| Arising from origination and reversal of timing differences | (805) | (679) |
| Arising from changes in tax rates and laws | - | 2,252 |
| Total deferred taxation | <u>(805)</u> | <u>1,573</u> |
| Tax on profit | <u>1,051</u> | <u>3,121</u> |

(b) Tax relating to items recognised in other comprehensive income / (expense) or equity

| | 2023 £ 000 | 2022 £ 000 |
|--|---------------|---------------|
| Deferred tax | | |
| Arising from origination and reversal of timing differences | 99 | 229 |
| Arising from changes in tax rates and laws | - | (79) |
| Total tax expense included in other comprehensive income / (expense) | <u>99</u> | <u>150</u> |

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

8 Tax on profit (continued)

(c) Reconciliation of tax charge

The tax on profit for the year is higher than the standard rate of corporation tax in the UK (2022: higher than the standard rate of corporation tax in the UK) of 19% (2022: 19%).

The differences are reconciled below:

| | 2023 £ 000 | 2022 £ 000 |
|---|---------------|---------------|
| Profit before taxation | 5,396 | 4,586 |
| Corporation tax at standard rate | 1,025 | 871 |
| Expenses not deductible for tax purposes | 219 | 163 |
| Adjustments to tax charge in respect of prior years | - | (2) |
| Tax increase from change in tax rate | (193) | 2,089 |
| Total tax charge | 1,051 | 3,121 |

(d) Tax rate changes

On the 3 March 2021 the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25% from 19%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9 Debtors: Amounts falling due after more than one year

| | 2023 £ 000 | 2022 £ 000 |
|----------------|---------------|---------------|
| Finance debtor | 39,022 | 44,461 |
| | 39,022 | 44,461 |

10 Debtors: Amounts falling due within one year

| | 2023 £ 000 | 2022 £ 000 |
|--------------------------------|---------------|---------------|
| Trade debtors | 28 | 6 |
| Finance debtor | 5,439 | 4,804 |
| Group relief receivable | - | 18 |
| Prepayments and accrued income | 842 | 831 |
| | 6,309 | 5,659 |

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

11 Creditors

| | Note | 2023 £ 000 | 2022 £ 000 |
|--|------|---------------|---------------|
| Amounts falling due within one year | | | |
| Senior debt | 12 | 5,273 | 4,934 |
| Trade creditors | | 52 | 1,418 |
| Amounts owed to group undertakings | | 735 | 738 |
| Other creditors including taxation and social security | | 658 | 406 |
| Other payables | | 2 | 2 |
| Corporation tax | | 63 | - |
| Accruals and deferred income | | 4,315 | 3,133 |
| | | <u>11,098</u> | <u>10,631</u> |
| Amounts falling due after more than one year | | | |
| Senior debt | 12 | 2,765 | 8,039 |
| Subordinated debt | 12 | 9,756 | 9,756 |
| Derivative financial instruments | 17 | 14 | 408 |
| Accruals and deferred income | | 3,369 | 3,321 |
| | | <u>15,904</u> | <u>21,524</u> |

Amounts due to related parties, included within creditors, are disclosed more fully in note 16.

12 Loans and borrowings

| | 2023 £ 000 | 2022 £ 000 |
|--|---------------|---------------|
| Loans and borrowings falling due within one year | | |
| Senior debt | 5,273 | 4,934 |
| | <u>5,273</u> | <u>4,934</u> |
| Loans and borrowings falling due between one and five years | | |
| Senior debt | 2,765 | 8,039 |
| | <u>2,765</u> | <u>8,039</u> |

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

12 Loans and borrowings (continued)

| | 2023 £ 000 | 2022 £ 000 |
|--|---------------|---------------|
| Loans and borrowings falling due after more than five years | | |
| Subordinated debt | 9,756 | 9,756 |
| | <u>9,756</u> | <u>9,756</u> |

Senior debt - Term Loan Facility

The tenure of the Term Loan is 25 years and it is repayable in 43 semi-annual instalments commencing on 16th April 2003. The senior debt balance was subject to LIBOR plus 1.1% margin until 11 April 2022, at which point it transitioned to SONIA plus CAS, plus 1.1% margin. All amounts drawn under the Term Loan Facility are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the company's undertakings and assets.

Subordinated debt

On the 16th April 2002, the stockholders subscribed for £8,496,320 subordinated loan notes in the company. The loan notes are to mature in full in 2029. The loan notes are unsecured and bear interest at 15%. Interest was rolled up on the loan notes until 16th October 2003, and thereafter the interest is paid 6 monthly. Where interest is not paid on the due date, penalty interest of 15% is applied to the unpaid interest.

Swap arrangements

The company has entered into interest rate swap agreements under the Term Loan, with a fixed rate of 5.0605%, which expires on 10th April 2024. The only derivative financial instruments held are the interest rate swaps, which, at the balance sheet date, convert the borrowings from rates linked to SONIA plus CAS to the fixed rates above.

All other amounts owed to or owed by group undertakings are interest free, unsecured and repayable on demand.

13 Provisions for liabilities

| | Deferred tax £ 000 |
|--|-----------------------|
| At 1 April 2022 | 8,603 |
| Additions dealt with in profit or loss | (805) |
| Additions dealt with in other comprehensive income | 99 |
| At 31 March 2023 | <u>7,897</u> |

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

13 Provisions for liabilities (continued)

The provision for deferred tax consists of the following deferred tax liabilities/(assets):

| | 2023 £ 000 | 2022 £ 000 |
|-------------------------------------|---------------|---------------|
| Accelerated capital allowances | 4,173 | 4,607 |
| Other timing differences | 3,727 | 4,098 |
| Fair value of financial instruments | (3) | (102) |
| | <u>7,897</u> | <u>8,603</u> |

The net deferred tax liability is expected to decrease in the next 12 months by £1,001,000.

14 Called up share capital

Allotted, called up and fully paid shares

| 2023 | | 2022 | |
|----------------------------|-------|------|-------|
| No. | £ 000 | No. | £ 000 |
| Ordinary shares of £1 each | 1,000 | 1 | 1,000 |

15 Dividends

| | 2023 £ 000 | 2022 £ 000 |
|---|---------------|---------------|
| Final dividend of £1,394.00 (2022 - £1,788.00) per ordinary share | <u>1,394</u> | <u>1,788</u> |

On 29 June 2023 a dividend of £628,000 (£628.00 per ordinary share) was paid.

16 Related party transactions

The following companies are fellow group undertakings of the shareholders of the immediate parent undertaking and together with undertakings within the individual groups of companies, are considered to be related parties to the company, as defined in FRS 102 - paragraph 33.9.

Sodexo Investment Services Limited
 Sodexo Limited
 Semperian Asset Management Limited (formerly Imagile Infrastructure Management Limited)
 Semperian Senior Funding PLC
 Semperian PPP Investment Partners No.2 Limited
 Imagile Professional Services Limited
 SCM ManCo 1 Limited

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

16 Related party transactions (continued)

The company incurred the following costs in respect of the provision of staff and support services:

| | Type of (income)/expense | Year ended 31 March 2023 £ 000 | Year ended 31 March 2022 £ 000 |
|--|------------------------------------|---|---|
| Sodexo Investment Services Limited | Support Services and loan interest | 417 | 408 |
| Sodexo Limited | Facilities Management | 17,642 | 17,081 |
| Sodexo Limited | Rent and support services | (45) | (51) |
| Semperian Senior Funding PLC | Senior Loan interest | 321 | 181 |
| Semperian PPP Investment Partners No.2 Limited | Support Services and loan interest | 1,249 | 1,224 |
| Semperian Asset Management Limited | Management Services | 600 | 574 |
| Imagile Professional Services Limited | Support Services | 29 | 162 |
| SCM ManCo I Limited | Support Services | 18 | - |

Amounts owed to/(from) at:

| | 31 March 2023 £ 000 | 31 March 2022 £ 000 |
|--|---------------------------|---------------------------|
| Sodexo Investment Services Limited | 2,626 | 2,732 |
| Sodexo Limited | 3,485 | 2,060 |
| Semperian Senior Funding PLC | 8,217 | 13,055 |
| Semperian PPP Investment Partners No.2 Limited | 7,854 | 7,853 |
| Semperian Asset Management Limited | 20 | 16 |
| Imagile Professional Services Limited | - | 6 |
| SCM ManCo I Limited | 18 | - |

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

17 Financial instruments

Fair value of derivatives used for hedging in the Balance Sheet

| | Note | 2023 £ 000 | 2022 £ 000 |
|---|------|---------------|---------------|
| Creditors: Amounts falling due after more than one year - Fair value of swaps | 11 | (14) | (408) |
| Net Fair value of swaps in the Balance Sheet | | (14) | (408) |

Movement in Fair value of derivatives used for hedging

| | 2023 £ 000 | 2022 £ 000 |
|---|---------------|---------------|
| Recognised through Other Comprehensive Income / (Expense) | 394 | 918 |
| | 394 | 918 |

The company has entered into interest rate swap agreements under the Term Loan, with a fixed rate of 5.0605% plus margin, which expires on 10th April 2024. The only derivative financial instruments held are the interest rate swaps, which convert the borrowings from rates linked to LIBOR, or SONIA plus CAS, to the fixed rates above. The fair value of this class of derivative financial instruments at 31 March 2023 is £(13,528) (2022: £(407,702)).

The interest rate swap was subject to synthetic LIBOR until 11 April 2022, at which point the rate transferred to SONIA plus CAS.

Cash flows on both the loan and the interest rate swaps are paid six monthly until April 2024. During 2023, a hedging gain of £135,000 (2022: £219,000 gain) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £259,000 (2022: £699,000) was reclassified from the hedge reserve to profit and loss.

The interest rate swaps are measured at fair value which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are forward interest rates.

Mercia Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 March 2023 (continued)

18 Parent and ultimate parent undertaking

The company's immediate parent undertaking is Mercia Healthcare (Holdings) Limited, registered in England and Wales. Mercia Healthcare (Holdings) Limited's shares are held by each of the following, both of which are registered in the United Kingdom:

| | Percentage Holding (%) |
|--|-------------------------------|
| Semperian PPP Investment Partners No.2 Limited | 75 |
| Sodexo Investment Services Limited | 25 |

The ultimate parent undertaking and controlling party is Semperian PPP Investment Partners Holdings Limited which is registered in Jersey. The smallest group and largest group to consolidate these financial statements is Semperian PPP Investment Partners Holdings Limited.

Consolidated financial statements for Semperian PPP Investment Partners Holdings Limited can be obtained from the Company Secretary at Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ.