Mercia Healthcare Limited

Annual report and financial statements

for the year ended 31 March 2011

Registration number 3693524

Mercia Healthcare Limited

Annual report and financial statements for the year ended 31 March 2011

Mercia Healthcare Limited

Directors and advisors

Directors

S A Carter
J N E Cowdell (Alternate)
S P Hornby
R J W Manley
H J W Pownall

Company secretary

Semperian Secretariat Services Limited

Registered office

St Martins House
1 Gresham Street
London
EC2V 7BX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Mercia Healthcare Limited

Registration number: 3693524

Directors' report
for the year ended 31 March 2011

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

Results, principal activities and review of business

The company is engaged in a 30-year contract, expiring in 2029, with Hereford Hospitals NHS Trust for the design and construction of an Acute Care Facility, and in the provision of certain non-clinical support services at Hereford County Hospital

The profit for the year is set out in the profit and loss account on page 5 The directors consider that the level of business during the year, the year end financial position and the prospects for the future to be satisfactory

Dividends

No dividend was paid during the year (year ended 31 March 2010 £nil)

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 Private Finance Initiative ('PFI') contracts In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations The financial risks and the measures taken to mitigate them are as detailed in the following section

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 board has policies for managing each of these risks and they are summarised below

Interest rate risk

The senior and subordinated debt interest have been fixed through the use of fixed funding rates, plus a margin Details of these can be found on page 14

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 bulk of its revenue from 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

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 For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business

Directors

The directors of the company during the year, and up to the date of signing the financial statements, are set out below

S A Carter
J N E Cowdell (Alternate)
S P Hornby
R J W Manley
H J W Pownall

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure of information to auditors

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 PricewaterhouseCoopers LLP ('PwC') are unaware, and the director has 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 PwC are aware of that information

Independent auditors

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

By order of the board

Seebaluck

M. SEEBALUCK

On behalf of Semperian Secretariat Services Limited
Company secretary

18 JULY 2011

Independent auditors' report to the members of Mercia Healthcare Limited

We have audited the financial statements of Mercia Healthcare Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the statement of cash flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view 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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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

Paul Nott

Paul Nott (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Birmingham
22 July 2011

Mercia Healthcare Limited

Profit and loss account
for the year ended 31 March 2011

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Turnover	1	**12,139**	10,684
Cost of sales		**(10,312)**	(9,235)
Gross profit		**1,827**	1,449
Administrative expenses		**(646)**	(481)
Operating profit	2	**1,181**	968
Interest receivable and similar income	3	**6,136**	6,125
Interest payable and similar charges	4	**(4,706)**	(4,878)
Profit on ordinary activities before taxation		**2,611**	2,215
Tax on profit on ordinary activities	5	**(309)**	(638)
Profit for the year	12	**2,302**	1,577

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

There are no material differences between the profit as shown in the profit and loss account above and its historical cost equivalent

The company has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented

The movements on reserves are shown in note 12 to the financial statements

Mercia Healthcare Limited

Balance sheet
as at 31 March 2011

	Note	31 March 2011	31 March 2010
		£'000	£'000
Current assets			
Debtors amounts falling due within one year	6	**1,901**	1,177
Debtors amounts falling due after more than one year	7	**72,509**	73,131
Cash at bank and in hand		**7,930**	7,449
		82,340	81,757
Creditors: amounts falling due within one year	8	**(8,403)**	(8,182)
Net current assets		**73,937**	73,575
Creditors: amounts falling due after more than one year	9	**(60,194)**	(62,443)
Provision for liabilities and charges	10	**(5,908)**	(5,599)
Net assets		**7,835**	5,533
Capital and reserves			
Called up share capital	11	**1**	1
Profit and loss reserve	12	**7,834**	5,532
Total shareholder's funds	12	**7,835**	5,533

The financial statements on pages 5 to 18 were approved by the Board on 18 JULY 2011 and signed on its behalf by

R. MANLEY
Director

18 JULY 2011

Mercia Healthcare Limited

Statement of cash flows
for the year ended 31 March 2011

	Note	**Year ended 31 March 2011**	Year ended 31 March 2010
		£'000	£'000
Net cash inflow from operating activities	15 (a)	**1,786**	2,014
Returns on investments and servicing of finance			
Interest paid		**(5,089)**	(4,399)
Interest received		**6,136**	6,125
Net cash inflow from returns on investments		**1,047**	1,726
Financing			
Repayment of loans	15 (b)	**(2,352)**	(2,006)
Net cash outflow from financing activities		**(2,352)**	(2,006)
Increase in cash during the year	15 (c)	**481**	1,734

Notes to the financial statements
for the year ended 31 March 2011

1 Principal accounting policies

A summary of the company's principal accounting policies, which have been consistently applied, is set out below

Basis of preparation of accounts

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting and financial reporting standards in the United Kingdom

Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes All turnover originates in the United Kingdom

The company recognises income when it has fully fulfilled its contractual obligations In accordance with Financial Reporting Standard 5 – Application Note G, 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

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

In accordance with Financial Reporting Standard (FRS) 5 – Application Note F, the costs incurred in constructing the assets have been treated as a finance debtor This treatment arose from applying the guidance within the Application Note 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

Debt issue costs

Debt issue costs incurred have been offset against the related debt and will be charged to the profit and loss account at a constant rate on the carrying value of the debt

Interest rate swaps

Interest rate swaps are used to hedge the company's exposure to movements on interest rates The interest payable on such swaps is accrued in the same way as interest arising on the related borrowings Interest rate swaps are valued using market value, for disclosure purposes

Major maintenance replacement

As noted in the directors' report, the company is responsible for the major maintenance replacement risk associated with its principal activity Where appropriate, income is deferred to future periods, based on a forecast of the future major maintenance expenditure, in order to match that element of income with the costs to which it relates The turnover and costs of sales are recorded, in the profit and loss account, in the period in which the costs of major maintenance replacement are incurred

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Principal accounting policies (continued)

Deferred taxation

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 average 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

2 Operating profit

The company had no employees, other than the directors, during the year (year ended 31 March 2010 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 £81,000 (year ended 31 March 2010 £75,000) to the company in respect of these services

The audit fee in respect of the company was £7,000 for the year (year ended 31 March 2010 £7,000) Fees payable to the auditors for non-audit services (tax) were £nil (year ended 31 March 2010 £nil) The company also bore the audit fees of its immediate parent undertaking of £2,000 (year ended 31 March 2010 £2,000), during the year

3 Interest receivable and similar income

	Year ended 31 March 2011	Year ended 31 March 2010
	£'000	£'000
Imputed interest receivable on finance debtor	**6,078**	6,103
Interest receivable on bank deposits	**58**	22
	6,136	6,125

4 Interest payable and similar charges

	Year ended 31 March 2011	Year ended 31 March 2010
	£'000	£'000
Interest payable on debt	**3,012**	3,162
Other interest – subordinated loan notes	**1,694**	1,716
	4,706	4,878

5 Tax on profit on ordinary activities

(a) Analysis of tax charge for the year

	Year ended 31 March 2011	Year ended 31 March 2010
	£'000	£'000
Current tax:	**-**	-
Deferred tax:		
Origination and reversal of timing differences (note 14)	**763**	638
Impact of 26% tax rate adjustment arising from Finance Act 2011 (note 14)	**(454)**	-
Tax charge on profit on ordinary activities	**309**	638

5 Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed for the year is lower (year ended 31 March 2010 lower) than the standard rate of corporation tax in the UK of 28% (year ended 31 March 2010 28%) The differences are explained below

	Year ended 31 March 2011	Year ended 31 March 2010
	£'000	£'000
Profit on ordinary activities before taxation	**2,611**	2,215
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (year ended 31 March 2010 28%)	**731**	620
Effects of		
Movement in accelerated capital allowances	**(542)**	-
Other timing differences	**(52)**	(52)
Utilisation of tax losses	**(137)**	(568)
Current tax charge for the year (note 5(a))	**-**	-

(c) Factors that may affect future tax charges

The current tax charge will continue to be affected by timing differences, although these timing differences will have an opposite impact on the deferred tax charge so there should be no overall impact on the tax charge The Finance Act (No 3) 2011, which was substantively enacted on 29 March 2011, includes legislation reducing the corporation tax rate from 28 per cent to 26 per cent from 1 April 2011 The deferred tax liability at 31 March 2011 has been re-measured accordingly

Further annual reductions in the corporation tax rate of 1% until 1 April 2014 have been announced, when the corporation tax rate reaches 23% As at the balance sheet date these further proposed changes to rates had not been substantively enacted and, therefore, are not recognised in these financial statements If all of these potential changes are enacted the overall effect on the deferred tax balances would be to further reduce the deferred tax liability by £682,000

Mercia Healthcare Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

6 Debtors: amounts falling due within one year

	31 March 2011 £'000	31 March 2010 £'000
Trade debtors	**906**	447
Amount due from related parties	**5**	-
Finance debtor	**621**	418
Prepayments and accrued income	**369**	312
	1,901	1,177

7 Debtors: amounts falling due after more than one year

	31 March 2011 £'000	31 March 2010 £'000
Finance debtor	**72,509**	73,131

8 Creditors: amounts falling due within one year

	31 March 2011 £'000	31 March 2010 £'000
Senior debt	**2,481**	2,352
Trade creditors	**1,234**	365
Amounts owed to related parties	**2,928**	3,249
Taxation and social security	**349**	426
Accruals and deferred income	**1,411**	1,790
	8,403	8,182

Notes to the financial statements for the year ended 31 March 2011 (continued)

9 Creditors: amounts falling due after more than one year

(a) Total	31 March 2011 £'000	31 March 2010 £'000
Debt (as analysed in (b) below)	**55,982**	58,463
Deferred income	**4,212**	3,980
	60,194	62,443

(b) Debt	31 March 2011 £'000	31 March 2010 £'000
Senior debt	**48,165**	50,517
Subordinated debt	**10,298**	10,298
	58,463	60,815
Less included in creditors falling due within one year	**(2,481)**	(2,352)
	55,982	58,463

(c) Maturity of debt	31 March 2011 £'000	31 March 2010 £'000
Less than one year	**2,481**	2,352
Between one and two years	**2,901**	2,481
Between two and five years	**7,774**	8,025
In more than five years	**45,307**	47,957
	58,463	60,815
Less creditors falling due within one year	**(2,481)**	(2,352)
	55,982	58,463

9 Creditors: amounts falling due after more than one year (continued)

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 Interest charged on amounts drawn under the facility is based on the floating LIBOR rate, plus a margin of 1 10% The Term Loan Facility has been syndicated to a consortium of banks 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

In addition, Sodexo Investment Services Group subscribed for £541,666 subordinated loan notes in the company on 1st March 2006 The loan notes are unsecured and bear no interest They are due for repayment in four equal repayments from June 2012 to December 2013

Swap arrangements
The company has entered into interest rate swap agreements under the Term Loan A fixed rate of 5 58%, plus margin, applied to all amounts drawn under the Term Loan and the Shareholder Credit Facility, until April 2009, when the original swap agreement in relation to the Term Loan Facility expired A new swap agreement has been entered into from April 2009, 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 convert the borrowings from rates linked to LIBOR to the fixed rates above The fair value of this class of derivative financial instruments at 31 March 2011 is £(5,402,289) (2010 £(5,912,381))

Mercia Healthcare Limited

Notes to the financial statements
for the year ended 31 March 2011 (continued)

10 Provision for liabilities and charges

	31 March 2011	31 March 2010
	£'000	£'000
Deferred taxation	**5,908**	5,599

The movements in deferred taxation during the year are as follows

At 1 April	**5,599**	4,961
Charge to the profit and loss account (note 5 (a))	**309**	638
At 31 March	**5,908**	5,599

The deferred tax liability consists of

Accelerated capital allowances	**5,786**	5,737
Other timing differences	**3,218**	3,333
Tax losses recognised	**(3,096)**	(3,471)
	5,908	5,599

11 Called up share capital

	31 March 2011	31 March 2010
	£'000	£'000
Authorised		
50,000 Ordinary shares of £1 each	**50**	50
Allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	**1**	1

12 Reconciliation of movements in total shareholder's funds and on reserves

	Share capital	Profit and loss reserve	Total shareholder's funds
	£'000	£'000	£'000
At 1 April 2009	1	3,955	3,956
Profit for the year	-	1,577	1,577
At 1 April 2010	1	5,532	5,533
Profit for the year	-	2,302	2,302
At 31 March 2011	**1**	**7,834**	**7,835**

13 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 Financial Reporting Standard 8 - Related Party Disclosures'

Sodexo Investment Services Limited
Sodexo Limited
Semperian Asset Management Limited
Semperian Senior Funding PLC
Semperian PPP Investment Partners No2 Limited

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

Costs incurred:

	Type of expense	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Sodexo Investment Services Limited	Support Services and loan interest	**444**	442
Sodexo Limited	Facilities Management	**5,107**	4,688
Semperian Senior Funding PLC	Senior Loan interest	**1,003**	1,326
Semperian PPP Investment Partners No2 Ltd	Support Services and loan interest	**1,332**	1,327
Semperian Asset Management Ltd	Management Services	**513**	509

Mercia Healthcare Limited

Notes to the financial statements
for the year ended 31 March 2011 (continued)

13 Related party transactions (continued)

The company earned the following income in respect of the provision of staff and support services

Income earned:

	Type of income	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Sodexo Limited	Facilities Management and rental income	**31**	-

Amounts owed to/(from) at·

	31 March 2011 £'000	31 March 2010 £'000
Sodexo Investment Services Limited	**3,456**	3,537
Sodexo Limited	**(5)**	-
Sodexo Limited	**533**	580
Semperian Senior Funding PLC	**48,647**	50,955
Semperian PPP Investment Partners No2 Ltd	**8,744**	8,987
Semperian Asset Management Ltd	**11**	3

All transactions with Related Parties were carried out on arms length terms

14 Ultimate parent undertaking and controlling party

The company is a wholly owned subsidiary of Mercia Healthcare (Holdings) Limited, a company which is incorporated 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 St Martins' House, 1 Gresham Street, London, EC2V 7BX

Mercia Healthcare Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

15 Notes to the statement of cash flows

(a) Reconciliation of operating result to net cash inflow from operating activities

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Operating profit	**1,181**	968
Increase in debtors	**(102)**	(3)
Increase in creditors	**707**	1,049
Net cash inflow from operating activities	**1,786**	2,014

(b) Analysis of changes in net debt

	At 31 March 2010 £'000	Cash Flow £'000	Other non-cash changes £'000	At 31 March 2011 £'000
Cash at bank	7,449	481	-	**7,930**
Loans due within one year	(2,352)	2,352	(2,481)	**(2,481)**
Loans due after one year	(58,463)	-	2,481	**(55,982)**
Total	**(53,366)**	**2,833**	-	**(50,533)**

Non cash movements represent changes in the classification of between less than and greater than one year

(c) Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Increase in cash during year	**481**	1,734
Cash outflow from movement in loans	**2,352**	2,006
Other non-cash movements	-	-
Movement in net debt	**2,833**	3,740
Net debt at 31 March 2010	**(53,366)**	(57,106)
Net debt at 31 March 2011	**(50,533)**	(53,366)