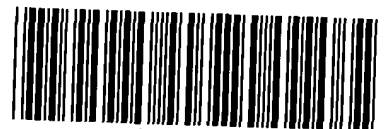


**THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE)
HOLDINGS LIMITED**

**Annual report and financial statements
For the year ended 31 December 2019**

Registered number 04868468

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THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Strategic report

Group objectives

The Hospital Company (Oxford John Radcliffe) Holdings Limited ("The Company") is the holding company for The Hospital Company (Oxford John Radcliffe) Limited (together, "The Group").

The principal activities of the Group are the financing and maintenance of a new acute general hospital and the provision of non-clinical services for a period of thirty years pursuant to and in accordance with the terms of an agreement with Oxford Radcliffe Hospitals National Health Service Trust (now known as Oxford University Hospitals NHS Foundation Trust). This agreement together with a loan facilities agreement, a construction contract, a facilities management contract, and other related contracts was signed on 19 December 2003. Construction of the hospital commenced in December 2003 and was completed in December 2006.

Group strategy

A strategy to implement processes, policies, and procedures to comply with the control matrices stipulated in the project documentation was committed to at the inception of the project. This includes minimising performance and availability deductions, cash monitoring and maintenance of good working relationships between all stakeholders.

Principal risks and uncertainties

As the project is currently in its operational phase, operational risks are monitored closely. This takes the form of full-time representation on site through the Group's management services agent and periodic reporting by the independent Technical Assessor, plus regular dialogue with the directors of The Hospital Company (Oxford John Radcliffe) Holdings Limited.

Whilst the main elements of cash flow (unitary payments, facility management costs and lifecycle costs) are contractually linked to the RPI index, a relatively small proportion of costs is not. A rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history to date is good and historic and current premium renewals have not been excessive.

An RPI hedge is in place to fix indexation on an element of the group project revenue. This is a Swap agreement based on a fixed rate of 2.525% per annum from 31 March 2007 until 30 September 2034. The fair value of this financial instrument at 31 December 2019 was a liability of £22,895,000 (2018: liability of £27,636,000).

The Group's interest rate risk is reduced by the use of interest rate swaps. The group has entered into two interest rate swap agreements in relation to the two bank loans which expire in September 2032 and September 2034. A fixed rate on each swap of 5.18% and 5.12% respectively applies to all amounts drawn under the loan facilities. The interest rate swaps convert the borrowings from the rates linked to LIBOR to the fixed above rate. The fair value of these financial instruments at 31 December 2019 was a liability of £42,257,000 (2018: liability of £41,138,000).

On 15 January 2018, the Facilities Manager for the Group, Carillion Services Limited, ("CSL"), the Construction Contractor for the Group, Carillion Construction Limited, ("CCL") and its Performance Guarantor, Carillion PLC ("Carillion") entered into compulsory liquidation. PricewaterhouseCoopers ("PWC") were appointed as Special Managers to ensure services continued whilst an alternative service provider can be put in place. On 15 April, CSL was terminated as Facilities Management provider and Bouygues E&S FM UK was appointed Interim Manager to deliver the Facilities Management Services. Bouygues E&S FM UK were appointed as permanent Facilities Manager on 5 December 2019. Further

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Strategic report (*continued*)

Principal risks and uncertainties (*continued*)

details on the effect of this with respect to the going concern assumption for the group and parent company can be found in note 1.2 to the financial statements.

The Group is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the Group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The Group is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, performance risk under the Project Agreement and related contracts are passed on to the service provider. The obligations of this subcontractor is underwritten by performance guarantees issued by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments. Further information of the Directors' assessment including the consideration of the impact of COVID-19 is contained in note 1.2.

The Brexit risk assessment has also been reviewed considering both the trust and service provider. The Group is exposed to Brexit risk as a result of the inherent uncertainty around the future of the UK's relationship with the European Union, following the transition period (which is expected to end on 31 December 2020). Whilst the Group itself is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

Development and performance of the business

The Group had net liabilities of £90,295,000 as at 31 December 2019 and generated a loss for the year then ended of £19,429,000. The Group made a pre-tax loss of £23,409,000 on turnover of £29,085,000, compared to a pre-tax profit of £4,302,000 on turnover of £23,396,000 in 2018. A provision for £7,019,000 had been made in the 2018 financial statements for construction related defects that will need to be rectified and would previously have been managed and completed at its own cost by the original construction company, Carillion Construction Limited. After revised estimates, as a result of an increase in the scope and nature of the defect remediation works, the provision has been increased by £22,638,000 in the 2019 financial statements. The increase in the provision is the main reason for the loss in the financial year. The interest result will improve year on year, whilst lifecycle turnover will be more variable year to year.

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator. These are reported quarterly to the Board and have been extremely small in relation to total unitary payments. During the year, the availability and performance deductions represented approximately 0.7% of the unitary charge income which is an acceptable level of performance (2018: 0.7%). Of the total deductions, 0% of the deductions were passed down to the Service Provider (2018: 0%); however, 65% of deductions has been included in right of set off claims against CSL (2018: 100%).

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Strategic report (*continued*)

Key performance indicators (*continued*)

Another key indicator is the ratio of operating cash flow to the senior debt service amount. The ratio is tested at six-monthly intervals. These ratios have been breached as a result of additional costs incurred in relation to the collapse of Carillion and expected defect rectification work to be carried out. Regular review of cash forecasts is being maintained which indicate that the Group will require additional funding, which is expected to be provided by the parent company, please see note 1.2 for more details. No shareholder distributions will be requested until the ratios are back to satisfactory levels.

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole (having regard to the stakeholder's and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

Through working collaboratively and listening to feedback from the Group's stakeholders, the directors believe that the Group is well positioned to use the feedback to deliver its vision. The Group assesses the impact of its activities on its stakeholders, in particular customers and suppliers and the wider community. Relevant matters are reviewed at board meetings and assessed against strategic priorities; this collaborative approach helps promote the long-term vision of the Group.

The directors have identified the Group's main stakeholders as the following:

i. The Group's shareholders, and credit provider

One of the principle considerations of the board are whether the investment objective of the Group is meeting shareholder and lender expectations and how these objectives are achieved. The board and management company have regular dialogue with these stakeholders and the quarterly board meetings would focus on any aspects that could affect the achievement of these objectives.

ii. The client

The board recognises the importance of working in partnership with its public sector client, the hospital trust to successfully deliver a key public infrastructure asset. This is achieved through regular meetings with the client representatives at various management levels. Monthly management reports are provided which show how the Group is performing its obligations under the PFI arrangement. The quarterly board meetings also ensure that client focus is fully considered. Periodically the directors will meet with the public sector clients to discuss key service delivery matters.

iii. The service provider

The board recognises the importance of working in partnership with its service provider. The Group manager's offices are next to the service provider's offices to ensure close working arrangements and so any issue can be dealt with efficiently. There are regular structure meetings with the service provider's representatives at various management levels. The service provider's monthly management reports are reviewed by the managers. The quarterly board meetings also ensure that key service delivery matters are fully considered. Periodically the directors will meet with the public sector clients to discuss key service delivery matters.

iv. The Managers

The management of the Group has been outsourced to Pario Limited, the manager. The delivery by the manager of its services is essential to the long-term success of the group. The manager in fulfilling its obligations, reviews the obligations of the PFI to ensure the stakeholders are appropriately informed.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Strategic report (*continued*)

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (*continued*)

There are regular structure meetings with both the hospital trust and the service provider's representatives at various management levels. Regular dialogue and reporting to both the shareholders and lenders is maintained. Quarterly board reports are provided, and the manager will alert the board to any changes to regulations or market practices and other items that will inform the board's decision making as and when required.

Throughout the year the board has made due consideration during its discussions and decision making of the matters set out in section 172 and the following paragraphs provide an overview of how the Directors performed these duties.

- (a) *The likely consequences of any decision in the long term.* The management of the Group has been outsourced to Pario Limited, the manager. The delivery by the manager of its services is essential to the long-term success of the Group. The board seeks to engage on a regular basis with the manager through a number of forums including at quarterly board meetings, other management meetings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager which will alert the board to changes to regulation or market practice, or other items which will inform the board's decision making.

As part of the quarterly board meetings the Risk register is reviewed, including business continuity plans of the Group and its service provider. Individual risk assessments have been carried out on the impact of Brexit and COVID-19 and the risk seen as minimal. Operational models are updated semi-annually for the lenders and various iterations modelled for different risk assumptions to provide assurance that the Group can financially cover these revenue and expenditure obligations. Particular emphasis during the year has been around the planned delivery of lifecycle and defect rectification over the next 3 years.

- (b) *The interests of the Group's employees.* As an externally managed company, the Group's activities are outsourced and therefore it does not have any employees. The Group does however pay due regard to the interests and safety of all those engaged by contractors to the Group to perform services on its behalf.
- (c) *The need to foster the Group's business relationships with suppliers, customers, and others.* The Group is committed to upholding the underlying principles of PFI - working in partnership. The Group has policies and procedures to ensure regular communications are maintained between all parties and to ensure that the supply chain is managed effectively in order that the Group's obligations can be achieved.
- (d) *The impact of the Group's operations on the community and the environment.* The Group has very limited impact on the environment as it has no greenhouse gas emissions. Nevertheless, the Group recognises its commitment to minimizing environmental disruption from its activities and requires all parties to the arrangement to do the same. The board recognise that the Group is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering environmental, social and governance (ESG) values and initiatives to achieve socially responsible investing. The quarterly board reports require consideration of ESG and there is separate ESG reporting.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Strategic report (*continued*)

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (*continued*)

- (e) *The desirability of the Group maintaining a reputation for high standards of business conduct.* The Group is committed in its day to day operations and dealings with all stakeholders to uphold the highest standard of business conduct and integrity. There are a number of company policies and procedures which are reviewed on an annual basis and any concerns around a deficiency in business conduct would be addressed.
- (f) *The need to act fairly between members of the Group.* The Group is solely owned by one business entity and therefore has no fairness considerations needed to be made during decision making.

By order of the Board 24 September 2020 and signed on its behalf by:



C Leverd
Director

2 Hunting Gate
Wilbury Way
Hitchin, Hertfordshire
United Kingdom
SG4 0TJ

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2019.

Financial instruments

The Group has entered into two interest rate swaps and one RPI income rate swap.

Proposed dividend

The directors do not recommend the payment of a dividend (2018: £Nil).

Directors

The directors who held office during the year were as follows:

C Leverd
G Quaife Resigned 17 September 2019
N Poupard Appointed 30 January 2019

Indemnity provisions are in place whereby the directors are entitled to be indemnified out of the assets of the Group against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the directors.

Employees

The Group has no contracts of employment (2018: Nil).

Political contributions

The Group made no political donations or incurred any political expenditure during the year (2018: £Nil).

Disclosure of information to 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 Group's auditor is unaware; and each director has taken steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Directors' report (*Continued*)

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.

This report was approved by the board on 24 September 2020 and signed on its behalf by:



C Leverd
Director

2 Hunting Gate
Wilbury Way
Hitchin, Hertfordshire
United Kingdom
SG4 0TJ

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 group and the parent company and of their profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of The Hospital Company (Oxford John Radcliffe) Holdings Limited

Opinion

We have audited the financial statements of The Hospital Company (Oxford John Radcliffe) Holdings Limited ("the company") for the year ended 31 December 2019 which comprises the consolidated profit and loss account and statement of other comprehensive income, the consolidated balance sheet, the company balance sheet, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.2 to the financial statements which indicates that the Group's ability to continue as a going concern is dependent on the continued financial support of its financing providers following events of default prior to the balance sheet date. These events and conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of The Hospital Company (Oxford John Radcliffe) Holdings Limited (*Continued*)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group'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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

NChrimes

Nathan Chrimes (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
25 September 2020

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Consolidated profit and loss account and statement of other comprehensive income
for the year ended 31 December 2019

	<i>Notes</i>	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Turnover	<i>2</i>	29,085	23,396
Other operating expenses		(51,488)	(18,378)
Operating (loss)/profit	<i>3</i>	(22,403)	5,018
Net interest payable	<i>4</i>	(1,006)	(716)
(Loss)/profit before taxation		(23,409)	4,302
Tax on (loss)/profit	<i>6</i>	3,980	(730)
(Loss)/profit for the financial year		(19,429)	3,572
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Effective portion of fair value changes in cash flow hedges	<i>15</i>	3,622	4,282
Tax recognised in relation to change in fair value cash flow hedges	<i>12</i>	(616)	(728)
Other comprehensive income for the year		3,006	3,554
Total comprehensive (loss)/income for the year		(16,423)	7,126

The results reported above derive from continuing operations in a single class of business within the United Kingdom.

The notes on pages 17 to 32 form part of these financial statements

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Consolidated balance sheet
at 31 December 2019

	<i>Notes</i>	2019 £000	2018 £000
Current assets			
Debtors: amounts falling due within one year	<i>7</i>	7,389	22,015
Debtors: amounts falling due after more than one year	<i>8</i>	119,397	119,320
Total debtors		126,786	141,335
Cash at bank		16,717	18,378
		143,503	159,713
Current liabilities			
Creditors: amounts falling due within one year	<i>10</i>	(125,907)	(142,090)
Total assets less current liabilities		17,596	17,623
Creditors: amounts falling due after more than one year	<i>11</i>	(78,894)	(84,476)
Provisions for liabilities	<i>13</i>	(28,997)	(7,019)
Net liabilities		(90,295)	(73,872)
Capital and reserves			
Called up share capital	<i>14</i>	50	50
Profit and loss account		(36,269)	(16,840)
Cash flow hedge reserve		(54,076)	(57,082)
Equity shareholders' deficit		(90,295)	(73,872)

The notes on pages 17 to 32 form part of these financial statements

These financial statements were approved by the board of directors 24 September 2020 and were signed on its behalf by:



C Leverd
Director

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Company balance sheet
at 31 December 2019

	<i>Notes</i>	2019 £000	2018 £000
Fixed assets			
Investments	9	50	50
Current assets			
Debtors: amounts falling due within one year	7	2,609	1,298
Debtors: amounts falling due after more than one year	8	8,294	8,294
Total debtors		<u>10,903</u>	<u>9,592</u>
Current liabilities			
Creditors: amounts falling due within one year	10	(2,609)	(1,298)
Net current assets		<u>8,294</u>	<u>8,294</u>
Total assets less current liabilities		8,344	8,344
Creditors: amounts falling due after more than one year	11	(8,294)	(8,294)
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	14	50	50
Equity shareholders' funds		<u>50</u>	<u>50</u>

The notes on pages 17 to 32 form part of these financial statements. As permitted by s408 of the Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's result for the year was £nil (2018: £nil).

These financial statements were approved by the board of directors on 24 September 2020 and were signed on its behalf by:



C Leverd
Director

Registered number 04868468

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Consolidated statement of changes in equity

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total equity £'000
Balance as at 1 January 2018	50	(60,636)	(20,412)	(80,998)
Total comprehensive income for the year				
Profit /(loss)	-	-	3,572	3,572
Other comprehensive income	-	3,554	-	3,554
Total comprehensive income for the year	-	3,554	3,572	7,126
Balance at 31 December 2018	50	(57,082)	(16,840)	(73,872)
Balance as at 1 January 2019	50	(57,082)	(16,840)	(73,872)
Total comprehensive income for the year				
Loss	-	-	(19,429)	(19,429)
Other comprehensive income	-	3,006	-	3,006
Total comprehensive loss for the year	-	3,006	(19,429)	(16,423)
Balance at 31 December 2019	50	(54,076)	(36,269)	(90,295)

The notes on pages 17 to 32 form part of these financial statements

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Company statement of changes in equity

	Called up Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
Balance as at 1 January 2018	50	-	-	50
Total comprehensive income for the year				
Result	-	-	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Balance at 31 December 2018	50	-	-	50
Balance as at 1 January 2019	50	-	-	50
Total comprehensive income for the year				
Result	-	-	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Balance at 31 December 2019	50	-	-	50

The notes on pages 17 to 32 form part of these financial statements

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Consolidated cash flow statement
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
(Loss)/profit for the financial year		(19,429)	3,572
Adjustments for:			
Interest receivable	4	(7,578)	(7,798)
Interest payable	4	8,584	8,514
Taxation	6	(3,980)	730
Decrease/(increase) in trade and other debtors		18,129	(3,312)
(Decrease)/increase in trade and other creditors		(15,927)	8,224
Increase/(decrease) in provisions		21,978	(3,981)
Cash flows from operations		1,777	5,949
Income taxes (paid)/received		(217)	6
Cash flows generated from operating activities		1,560	5,955
 Cash flows from investing activities			
Interest received		7,578	7,808
Cash flows from investing activities		7,578	7,808
 Cash flows from financing activities			
Interest paid		(7,302)	(7,452)
Repayment of borrowings		(3,497)	(3,602)
Repayment of shareholder loans		-	-
Cash flows used in financing activities		(10,799)	(11,054)
 Net (decrease)/increase in cash and cash equivalents		(1,661)	2,709
Cash and cash equivalents at beginning of year		18,378	15,669
Cash and cash equivalents at end of year		16,717	18,378

The notes on pages 17 to 32 form part of these financial statements

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes

(forming part of the financial statements)

1 Accounting policies

The Hospital Company (Oxford John Radcliffe) Holdings Limited (the “Company”) is a company limited by shares and incorporated and domiciled in England in the UK. The registered number of the Company is 04868468 and the registered address is 2 Hunting Gate, Wilbury Way, Hitchin, Hertfordshire, United Kingdom, SG4 0TJ.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”). The presentation currency of these financial statements is sterling. All the amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 18.

The parent company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- No separate parent company cash flow statement with related notes is included; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Group proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

1.2 Going concern

The Group had net liabilities of £90,295,000 as at 31 December 2019 and generated a loss for the year then ended of £19,429,000. The Parent Company has net assets of £50,000. The loss before tax in the Group is principally the result of £22,638,000 defect costs recognised in the year. The negative profit and loss reserve account principally relates to cumulative interest costs and £29,657,000 of total defect costs.

On 15 January 2018 the Facilities Manager (“FM”) for the Group, Carillion Services Limited (“CSL”), the Construction Contractor for the Group, Carillion Construction Limited (“CCL”) and its Performance Guarantor, Carillion Plc (“Carillion”) entered into compulsory liquidation. This resulted in the project entering technical default, as the liquidation of the FM provider is a specified Event of Default in the finance documents governing the Company’s loan agreement (the “Finance Documents”), PricewaterhouseCoopers (“PWC”) were appointed as Special Manager to ensure services continued whilst an alternative service provider was put in place.

The Directors took action to mitigate this event of default. On 15 April 2018, CSL was terminated as FM and Bouygues E&S FM UK was appointed Interim Manager to deliver the Facilities Management Services. Bouygues E&S FM UK were appointed as permanent Facilities Manager on 5 December 2019, this resulted in the cure of the technical default in relation to the liquidation of the previous FM.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 *Going concern (continued)*

Separately, as a result of the total defect costs noted above, the Group notified the bank lenders (the “Lenders”) that it was in breach of the financial covenants as set out in the Finance Documents. This is also a specified Event of Default in the Finance Documents. The defect rectification works being undertaken are expected to be completed in 2023.

The Directors have prepared cash flow forecasts covering a period of 12 months from the date of approval of these financial statements, through to September 2021 (including the rectification works) which indicate that the Group will require additional funding. The Directors anticipate that this additional funding will be obtained from the Group’s parent undertaking. The parent undertaking has indicated their intention to provide the funding which the forecasts indicate is required. 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.

Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Health. In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Group’s operating cash inflows are largely dependent on unitary charge receipts receivable from Oxford University Hospitals NHS Foundation Trust and the Directors expect these amounts to be received even in severe but plausible downside scenarios. The Group continues to provide the asset in accordance with the contract and is available to be used. As a result, the Group does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Group, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Group has its own business continuity plans to ensure that service provision will continue.

The Event of Default described above which relates to the breach of financial covenants have not been formally waived or deemed remedied by the Lenders at the date of signing these financial statements. The implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring that the amounts owing under the Finance Documents are immediately repaid in full. The Directors are in continuing discussions with the Lenders who are aware of the situation, the proposed mitigations and remain supportive of the project. The Directors are not aware of any indication that the Lenders intend to exercise their rights following an Event of Default to require repayment of the outstanding borrowings immediately.

The impact of the above circumstances on the balance sheets at 31 December 2019 and 2018 is to classify the outstanding amounts of the bank loans as a current liability as the Group does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date.

The directors have concluded that until the Events of Default have been formally waived or deemed remedied, these issues together with the other matters referred to above represent a material uncertainty that may cast significant doubt on the Group and Company’s ability to continue as a going concern and therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Notes (continued)

1 Accounting policies (continued)

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

1.3 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash at bank includes fixed term bank deposits which can be recalled by notice within 1 day. Cash at bank as at 31 December 2019 includes bank deposits of £Nil (2018: £Nil).

1.4 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition, other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

The Group has entered into both Interest rate swaps and a RPI swap and designated these as hedges for highly probable forecast transaction. The effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

1 Accounting policies (continued)

1.5 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.6 Finance debtor and service income

The Group is an operator of a PFI contract. The underlying asset is not deemed to be an asset of the Group under FRS102 section 34C, because the risks and rewards of ownership as set out in that Standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

Amounts received in relation to operating leases (as lessor) are included as part of turnover, as inherently linked to the overall principal activity of the business.

The previous accounting treatment of UK GAAP was grandfathered across in the adoption of FRS 102.

1.7 Expenses

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Notes (continued)

1 Accounting policies (continued)

1.8 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

1.9 Related party disclosure

As the Parent Company is a wholly owned subsidiary of Infrastructure Investments Portsmouth Limited, the Parent Company has taken advantage of the exemption contained in FRS 102 paragraph 33.1a and has therefore not disclosed transactions with wholly owned subsidiaries which form part of the group. Balances held with such counterparties are shown within the debtors and creditors notes.

1.10 Service concession accounting

The Group is an operator of a Public Finance initiative ("PFI") contract. The Group entered into a project agreement (the "contract") in December 2003 with Oxford University Hospitals NHS Foundation Trust ("Trust"). This included the design, build and finance of the new West Wing and Children's Hospital extensions and to operate and maintain services for both of these extensions. Construction works commenced December 2003 and the project has been fully operational since December 2006 and the concession ends in December 2036. During the operational period, the Group is contracted to provide hard and soft maintenance services to Trust and to provide major maintenance works (lifecycle) to ensure the assets are maintained to the conditions required from the project agreement. The hard and soft maintenance obligations have been passed down to Bouygues E&S FM UK Limited. Lifecycle risk remains with the Group and the timing and extent of these works is a key assumption that will affect the cashflows of the Group. To manage this risk a Lifecycle management company, WSP Limited, are engaged to review all lifecycle requests and to approve the works taking into account the operational model profile to ensure the costs forecast are in line with this. Continuous review of the lifecycle profile is undertaken to assess that the allowance over the full project concession is adequate. Further information is provided in Note 18. The contract does not entitle the Trust to any share of the profits of the Group.

The Trust is entitled to terminate the contract in accordance with the steps identified in the project agreement which would be instigated by issuing formal warning notices. If the contract were terminated, they would be liable to pay the Group compensation as set out in the project agreement, which would include the senior debt, redundancy costs and other FM provider losses and the market value of the subordinated debt. The Trust remain supportive of the project and have never issued a warning notice and did not exercise any termination rights following the collapse of Carillion Services limited.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

1 Accounting policies (continued)

1.10 Service concession accounting (continued)

There is a 5 year insurance sharing mechanism in which the Trust would be entitled to a payment. The calculations are updated annually, and an insurance sharing accrual recognised in the financial statements as a committed cost. The Group is into the third of the 5 year sharing reviews and the insurance sharing payment has been agreed by both parties.

As the Group entered into the contract prior to the date of transition to FRS102, the Group has taken advantage of the exemption in section 35.10 (i) of FRS102 which permits it to continue to account for service concession arrangements under the accounting policies adopted under old UK GAAP. In particular the underlying asset is not deemed to be an asset of the Group under old UK GAAP; because the risk and rewards of ownership as set out in that standard are deemed to lie principally with the Trust.

During the construction phase of the project all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor which is amortised over the life of the concession. During the operational phase, the Trust pay Project Co. a fixed unitary charge payment as determined in the contract and which is inflated by RPI. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Group recognises revenue in respect of the services provided, included lifecycle services (which sits with the Group), as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services. The operating margin applied to these services is as set out in the operational models. As both the unitary charge and service provider annual payment apply the same indexation and any addition to the annual fee such as new variations are the same on both the unitary charge and service provider annual payment there is no operational risk.

2 Turnover

The Group's sole business is that described in the Strategic Report and all turnover is derived in the United Kingdom.

3 Operating (loss)/profit

The auditor remuneration was incurred during the year and borne by the subsidiary undertaking:

	Year ended 31 December 2019	Year ended 31 December 2018
	£000	£000
Audit of these financial statements	1	1
Audit of the subsidiary accounts pursuant to legislation	16	16
Non audit services: taxation	-	4
Auditor remuneration	<u>17</u>	<u>21</u>

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

4 Net interest payable

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Interest payable and similar expenses		
Bank borrowings	(7,208)	(7,417)
On unsecured loans from shareholders	(1,311)	(1,037)
Amortisation of issue costs	(65)	(60)
	<u>(8,584)</u>	<u>(8,514)</u>
Interest receivable and similar income		
Interest on contract receivable	7,578	7,787
Bank interest receivable	-	11
	<u>7,578</u>	<u>7,798</u>
Net interest payable	<u>(1,006)</u>	<u>(716)</u>

5 Staff costs

There were no employees during the year (2018: none). The directors have no contract of service with the Group (2018: none). Amounts paid to third parties in respect of directors' services totalled £161,000 (2018: £157,000).

6 Tax on (loss)/profit

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
<i>a) Analysis of tax (credit)/charge for the year</i>		
Current tax		
UK corporation tax	-	2
Adjustment in respect of previous period	(3)	(9)
Deferred tax (see note 12)		
Tax losses utilised	(4,000)	729
Adjustment in respect of previous period	23	8
Tax on (loss)/profit	<u>(3,980)</u>	<u>730</u>

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

6. Tax on (loss)/profit (continued)

b) Factors affecting the tax (credit)/charge for the year

The UK standard rate of corporation tax for the year is 19.00% (2018: 19.00%). The actual tax rate above is lower than (2018: lower than) the standard rate for the reasons set out below:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
(Loss)/profit for the year	(19,429)	3,572
Taxation	(3,980)	730
(Loss)/profit before tax	<u>(23,409)</u>	<u>4,302</u>
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	(4,448)	817
Effect of:		
Lower rate of corporation tax applied against current year trading tax loss (2018: profits relieved by utilised tax losses)	448	(86)
Adjustment in respect of change in previous period	20	(1)
Total tax (credit)/charge for the year in profit or loss	<u>(3,980)</u>	<u>730</u>
Tax charge included in other comprehensive income		
Deferred taxation		
Charge to other comprehensive income (note 12)	(616)	(728)
Total tax charge included in other comprehensive income	<u>(616)</u>	<u>(728)</u>

c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the Group's future current tax charge accordingly and increase the deferred tax asset by £889,000.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

7 Debtors: Amounts falling due within one year

	2019	2018	2019	2018
	£000	£000	£000	£000
	Company	Company	Group	Group
Trade debtors	-	-	35	15,327
Corporation tax	-	-	219	-
Prepayments	-	-	520	418
Accrued income	-	-	3,331	3,210
Amounts owed by group undertaking	2,609	1,298	-	-
Contract receivable	-	-	3,284	3,060
	<u>2,609</u>	<u>1,298</u>	<u>7,389</u>	<u>22,015</u>

Amounts owed by group undertakings are unsecured, bear interest at 12.5% and are repayable in instalments on or before 31 March 2035.

8 Debtors: Amounts falling due after more than one year

	2019	2018	2019	2018
	£000	£000	£000	£000
	Company	Company	Group	Group
Deferred tax (see note 12)	-	-	7,555	3,578
Deferred tax on revaluation of fair value derivatives (see note 12)	-	-	11,076	11,692
Amounts owed by group undertaking	8,294	8,294	-	-
Contract receivable	-	-	100,766	104,050
	<u>8,294</u>	<u>8,294</u>	<u>119,397</u>	<u>119,320</u>

Amounts owed by group undertakings are unsecured, bear interest at 12.5% and are repayable in instalments on or before 31 March 2035.

9 Fixed asset investment – Company

	2019	2018
	£000	£000
Shares in subsidiary undertaking		
Cost and net book value		
Investment in subsidiary undertaking at beginning and end of year	<u>50</u>	<u>50</u>

Shares in subsidiary undertaking represents a holding of 100% of the ordinary share capital of The Hospital Company (Oxford John Radcliffe) Limited. This company is incorporated in the United Kingdom and its sole purpose is design, build, maintain, and operate the Oxford John Radcliffe hospital under the Private Finance Initiative. The address of The Hospital Company (Oxford John Radcliffe) Limited is 2 Hunting Gate, Wilbury Way, Hitchin, Hertfordshire, United Kingdom, SG4 0TJ.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

10 Creditors: Amounts falling due within one year

	2019	2018	2019	2018
	£000	£000	£000	£000
	Company	Company	Group	Group
Bank Borrowings	-	-	117,326	120,823
Trade Creditors	-	-	378	14,565
Interest due on unsecured loans from shareholders	2,609	1,298	2,609	1,298
Corporation tax	-	-	-	1
Social security and other taxation	-	-	536	867
Accruals	-	-	5,058	4,536
	<u>2,609</u>	<u>1,298</u>	<u>125,907</u>	<u>142,090</u>

Included in accruals is £1,790,000 of accrued interest on the bank borrowings and interest rate swaps (2018: £1,884,000).

11 Creditors: Amounts falling due after more than one year

	2019	2018	2019	2018
	£000	£000	£000	£000
	Company	Company	Group	Group
Deferred income	-	-	6,243	8,269
Other Financial instruments (see note 15)	-	-	65,152	68,774
Bank borrowings	-	-	-	-
Less: unamortised issue costs	<u>-</u>	<u>-</u>	<u>(670)</u>	<u>(746)</u>
	-	-	70,725	76,297
Unsecured loans from shareholders	8,294	8,294	8,294	8,294
Less: unamortised issue costs	<u>-</u>	<u>-</u>	<u>(125)</u>	<u>(115)</u>
	8,294	8,294	8,169	8,179
	<u>8,294</u>	<u>8,294</u>	<u>78,894</u>	<u>84,476</u>

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

11 Creditors: Amounts falling due after more than one year (continued)

	2019 £000 Group	2018 £000 Group
The bank borrowings (see note 10) notwithstanding their classification are repayable in instalments as follows:		
Within one year	4,210	3,497
Between one and two years	5,173	7,706
Between two and five years	14,013	15,360
Greater than five years	93,930	94,260
	<u>117,326</u>	<u>120,823</u>

Bank borrowings relate to term loan facilities granted by the Royal Bank of Scotland plc, a related party of Royal Bank Project Investments Ltd. The loan facility was for a total value of £165,300,000 and this reduces in line with repayment obligations. The balance as at 31 December 2019 of £117,326,000 (2018: £120,823,000) has been drawn comprising £96,729,000 (2018: £100,202,000) term loan A, £19,944,000 (2018: £19,944,000) term loan B and £653,000 (2018: £677,000) standby facility. The bank borrowings have been reclassified to due within one year as a result of Annual Debt Service cover ratios being below the default level of 1.05, which constitutes an event of default under the Group's loan agreement, in relation to which the lender's remedies include repayment on demand.

Interest is charged on amounts drawn under the facilities based on floating LIBOR. The Group has entered into interest hedging agreements, with Mitsubishi UFJ Security International plc, to be applied to the expected future borrowings under the facilities. These are (i) a swap agreement which fixes the interest rate at 5.18% per annum to 30 September 2032 in respect of the term loan A facility and (ii) a swap agreement which fixes the interest rate at 5.12% per annum to 30 September 2034 in respect of the term loan B facility. The cumulative fair value of these financial instruments at 31 December 2019 was a liability of £42,257,000 (2018: £41,138,000 liability). The standby loan is repayable in thirty-eight six-monthly instalments commencing on 30 September 2013. Interest is charged on amounts drawn under the facilities based on floating LIBOR.

The facilities are secured by a first legal mortgage over any freehold or leasehold property; a first fixed charge over any freehold or leasehold property, investments, plant and machinery, credit balances (except those secured by a prior fixed charge), book debts, other contracts, insurances, intellectual property, uncalled capital and goodwill of the Group; and by a first floating charge over all its assets.

The shareholders advanced loans of £8,294,000 (2018: £8,294,000) to The Hospital Company (Oxford John Radcliffe) Holdings Limited. In turn these funds were passed on to The Hospital Company (Oxford John Radcliffe) Limited, the subsidiary undertaking. The unsecured loans bears interest at 12.5%. The final payment falls due no later than 31 March 2035 as follows:

Unsecured loans from shareholder	2019 £000	2018 £000
Greater than five years	8,294	8,294
	<u>8,294</u>	<u>8,294</u>

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

12 Deferred tax asset - Group

	2019 £000	2018 £000
At beginning of year	15,270	16,735
Credit/(charge) to the profit and loss account	3,977	(737)
Charge to the other comprehensive income	(616)	(728)
At end of year	<u>18,631</u>	<u>15,270</u>
The elements of the deferred tax asset are as follows:		
Deferred tax on revaluation of fair value of derivatives	11,076	11,692
Trading losses carried forward	7,555	3,578
Total	<u>18,631</u>	<u>15,270</u>

Deferred tax assets are recognised on the revaluation of the SWAP derivatives on both the RPI and Interest rate SWAPs held by the Group; and the trading losses carried forward where there is expected to be suitable taxable profits from which future reversal of the underlying timing differences can be deducted.

The revaluation of the SWAP derivatives is accounted for under cash flow hedges (see note 15) and the movement of the deferred tax asset is shown through the cash flow hedge reserve.

13 Provisions for liabilities - Group

	2019 £000	2018 £000
At beginning of year	(7,019)	(11,000)
Charge to the profit and loss account	-	-
Utilised during the year	660	-
Provision (increased)/reversed during the year	(22,638)	3,981
At end of year	<u>(28,997)</u>	<u>(7,019)</u>

The provision relates to anticipated costs for rectification of construction defects following the compulsory liquidation of Carillion Construction Limited that the Group is now obligated to undertake. The rectifications will be programmed over a three-year period which commenced in 2019. See note 18.

14 Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

15 Financial instruments

(a) Carrying amount of financial instruments

	2019 £'000	2018 £'000
Assets measured at amortised cost		
- Contract receivable	104,050	107,110
-Trade and other debtors	35	15,327
	<u>104,085</u>	<u>122,437</u>
Assets measured at cost less impairment		
-Cash and cash equivalents	16,717	18,378
	<u>16,717</u>	<u>18,378</u>
Liabilities measured at Amortised Cost		
-Trade and other creditors	(378)	(16,723)
-Senior loan	(116,656)	(120,077)
-Subordinated debt	(8,169)	(8,179)
	<u>(125,203)</u>	<u>(144,979)</u>
Liabilities measured at fair value through profit and loss		
-Interest and RPI rate swaps	(65,152)	(68,774)

(b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated cash flows based upon the terms of each contract and using market interest rates for a similar instrument at the measurement date.

(c) Hedge Accounting

The Group has entered into two interest rate swap agreements in relation to the two bank loans which expire in September 2032 and September 2034. A fixed rate on each swap of 5.18% and 5.12% respectively applies to all amounts drawn under the facilities. The interest rate swap converts the borrowings from the rates linked to LIBOR to the fixed above rate. Cashflows are paid six-monthly in March and September each year.

In addition, the Group has also entered into an RPI swap to manage its exposure to inflation in respect of the unitary charge. The unitary charge is subject to annual inflationary change as part of the contract and to limit the impact on future profits this swap has been entered into. The swap fixes inflation at 2.525% and runs until the end of the concession. Cashflows are paid six-monthly in March and September each year.

(d) Fair Values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2019 £'000	2018 £'000
Interest Rate SWAP contracts	(42,257)	(41,138)
RPI Swap	(22,895)	(27,636)
	<u>(65,152)</u>	<u>(68,774)</u>

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

16 Operating leases

The future minimum lease payments receivable under non-cancellable leases are as follows:

	2019 £000 Group	2018 £000 Group
Less than one year	453	338
Between one and five years	1,706	1,259
More than five years	527	377
	<u>2,686</u>	<u>1,974</u>

17 Parent undertakings

The Company is a subsidiary of Infrastructure Investments (Portsmouth) Limited, a company incorporated in the United Kingdom and registered at 12 Charles Street II, London, United Kingdom, SW1Y 4QU. The ultimate controlling party is HICL Infrastructure Plc, a company incorporated in the United Kingdom and listed on the London Stock Exchange and registered at 12 Charles II Street, London, SW1Y 4QU.

On the 1 April 2019, HICL Infrastructure Company Limited transferred all of its assets to HICL Infrastructure Plc. As a result, the ultimate beneficial owner of the Company changed from HICL Infrastructure Company Limited to HICL Infrastructure Plc.

18 Post Balance Sheet events

On the 30 March 2020, a settlement deed was executed with Carillion Services Limited. This concluded a long negotiation process that commenced in May 2018 with the Special Manager acting on behalf of Carillion Services in accepting that the post liquidation amounts unpaid and which had not been previously accepted by the company were credited as part of the settlement. A right of set off claim against the unpaid pre-liquidation Carillion debt was also accepted and credit notes issued. This has allowed the trade creditor position to be cleared and as the transactions related to 2019 and earlier periods the adjustments have been reflected in these financial statements.

The COVID-19 pandemic continues to cause significant impact to the UK's economy; however, the Company has continued to be paid in full since the year end in accordance with Government guidance and the concession contract and does not expect this position to change. The project remains fully operational.

Notes (continued)

19 Accounting estimates and judgements

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The 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. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised 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.

Certain critical accounting judgements in applying the Group's accounting policies are described below:

- Accounting for the service concession contract and finance debtors requires an estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the Group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast. If total forecast lifecycle costs were to increase or decrease by 1%, this would not result in a decrease / increase on profit in the current year, as due to the current uncertainty over the forecasts costs to be incurred by the Group, a fixed margin is currently being taken on lifecycle costs incurred to date, with nothing recognised based upon future expected lifecycle costs.
- The estimate applied to the provision for defect costs is based upon information provided by expert third-party companies who have carried out defect condition surveys or assessments based upon that data. The Group reviews and reassesses these costs on a periodic basis and whenever additional information is made available. In the current period, the increase of £22,638,000 in the defect provision has been driven by assessments that the nature and scope of the required defect remediations works has increased materially, with the most significant change being the building envelope work required. The works are expected to be completed within a three year programme, which commenced in 2019. The revised defect provision of £28,997,000 as at 31 December 2019 is seen as sufficient to cover the expected defect rectification costs.

THE HOSPITAL COMPANY (OXFORD JOHN RADCLIFFE) HOLDINGS LIMITED

Notes (continued)

20 Net Debt

The below is an analysis of changes in net debt of the Group from the beginning to the end of the current reporting period:

Group	Borrowings due within one year £000	Borrowings due after one year £000	Other financial instruments due after one year £000	Subtotal £000	Cash and cash equivalents £000	Net debt £000
Net debt analysis						
Balance at 1 January						
2019	122,121	7,433	68,774	198,328	(18,378)	179,950
Cash flows	(3,497)	-	-	(3,497)	1,661	(1,836)
Fair value changes	-	-	(3,622)	(3,622)	-	(3,622)
Other non-cash changes	1,311	66	-	1,377	-	1,377
Balance at 31						
December 2019	119,935	7,499	65,152	192,586	(16,717)	175,869

The bank borrowings have been reclassified to due within one year as a result of Annual Debt Service cover ratios being below the default level of 1.05, which constitutes an event of default under the Group's loan agreement, in relation to which the lender's remedies include repayment on demand.