

The Hospital Company (Oxford John Radcliffe) Limited

**Report and financial statements
for the year ended 31 December 2020**

Registered number 04868478

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Company information

Directors

C Leverd
M Wayment

Secretary

Pario Limited

Company Number

04868478

Auditor

KPMG LLP
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Bristol
BS1 4BE

Banker

National Westminster Bank Plc
16 South Parade
Nottingham
NG1 2JX

Solicitor

Osborne Clarke LLP
2 Temple Back East
Temple Quay
Bristol
BS1 6EG

Registered Office

Unit 18, Riversway Business Village
Navigation Way
Preston
PR2 2YP

Strategic report

The directors present their report and financial statements for the year ended 31 December 2020.

Principal activities and review of business

The Hospital Company (Oxford John Radcliffe) Limited (the "Company") is the sole subsidiary company of The Hospital Company (Oxford John Radcliffe) Holdings Limited (together, the "Group").

The principal activities of the Company 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 (since renamed 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.

The Company expects to operate in line with the contractual obligations for the remaining term of the Project Agreement. The Company has modelled its anticipated financial performance for the full term of the project and expects to perform in line with this for the remaining concession period. The operational model has forecast profits for the Company for the remainder of the term.

Company 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 Company'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) Limited (the "Directors").

Defect rectification risk

The Company is exposed to risk in relation to the defect rectification works, as discussed below under 'Development and performance of the business', and to any other defect works that may be required. The Directors have taken professional advice on the value of outstanding defects and believe that the risks have been adequately reflected in these financial statements and in cash forecasts prepared by the Directors.

Lifecycle risk

The Company holds 100% of the risks and rewards from any potential variance with the lifecycle profile modelled at financial close. The Company is therefore exposed to the risk that the actual cost for lifecycle in the future is above the modelled profile, and would therefore be liable to this additional cost which is not forecast. To date, the underspend against the profile is £1,556,000 (2019: £1,393,000), thus the Directors believe the risk of the Company being exposed to a deficit is low.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Interest rate risk

The Company's interest rate risk is reduced by the use of interest rate swaps. The Company 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 (see note 1.4) to the fixed above rate. The fair value of these financial instruments at 31 December 2020 was a liability of £45,221,000 (2019: liability of £42,257,000).

Inflation risk

Whilst the main elements of cash flow (unitary payments and facility management costs) are contractually linked to the Retail Prices Index (RPI), 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 are:

- (i) lifecycle costs, which historically have been within the original forecast cost profile, and
- (ii) insurance, although 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 Company's 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 2020 was a liability of £19,713,000 (2019: liability of £22,895,000).

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 the Trust and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

COVID-19 risk

The Company 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 Company itself is not considered to be significantly exposed, subcontractors with which it engages are considered to have exposure in relation to labour and the ability to continue to perform required services. 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.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Brexit risk

The Company is exposed to Brexit risk as a result of the impact of the trade deal between the UK and the European Union. Whilst the Company itself is not considered to be significantly exposed, subcontractors with which it engages 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. The Board continue to actively monitor developments.

Development and performance of the business

The Company had net liabilities of £89,903,000 as at 31 December 2020 and made a loss for the year then ended of £1,088,000. The Company made a pre-tax loss of £2,441,000 on turnover of £29,969,000, compared to a pre-tax loss of £23,409,000 on turnover of £29,085,000 in 2019. A provision of £30,799,000 (2019: £29,657,000) was made in these 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, and the procurement of a fixed price contract for the remediation works, the provision has been increased in the current year by £3,090,000, offset by amounts utilised in the year of £1,288,000. The increase in the provision is the main reason for the loss in the financial 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 were £163,000 (2019: £234,000), which represents approximately 0.5% (2019: 0.7%) of the unitary charge income, which the Directors consider to be an acceptable level of performance.

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 are performed which indicate that the Company will require additional funding, which has been 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.

Going concern

The Company had net liabilities of £89,903,000 as at 31 December 2020 and generated a loss for the year then ended of £1,088,000.

On 15 January 2018 the Construction Contractor for the Company, Carillion Construction Limited ("CCL") and its Performance Guarantor, Carillion Plc ("Carillion") entered into compulsory liquidation. This resulted in the Company having financial responsibility for all construction defects identified that previously would have been the responsibility of CCL within the defect liability period under the Construction contract.

Strategic report *(continued)*

Going concern *(continued)*

Total defect costs of £30,799,000 (2019: £28,997,000) have been provided for (see note 13 for details) and these defect rectification works are expected to be completed in 2023. As a consequence of these additional forecast costs the Company 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.

In addition, on 20 July 2020 the Company received a Fire Safety Enforcement Notice ("Enforcement Notice") from Oxfordshire County Council Fire and Rescue Service in respect of fire safety defects in the building envelope. This notice explains that the Company has failed to comply with Fire Safety law and legally requires the rectification of the defects within 2 and a half years of the notice ("fire safety remedial works period"). This is also a further specified Event of Default in the Finance Documents.

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 Events of Default described above has not been formally waived or deemed remedied by the Lenders at the date of signing these financial statements.

The impact of the above circumstances on the balance sheets at 31 December 2020 and 2019 is to classify the outstanding amounts of the bank loans as a current liability as the Company does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements, which indicate that, taking account of reasonably possible downside scenarios including the impact of Covid-19, the Company will require additional funding to meet its liabilities as they fall due. On 24 September 2021 the Company signed a loan agreement with its parent for up to a £28 million interest free loan which is not repayable until 30 September 2031. It is anticipated that this loan will be sufficient taking into account the scenarios referenced above to allow the Company to meet its liabilities as they fall due and complete all these defect works in the required period under the Enforcement

The Directors are in continuing discussions with the Lenders who are aware of the situation, the proposed mitigations and remain supportive of the project. As part of this the Lenders have signed an amendment to the Finance documents confirming that:

- during the fire safety remedial works period, subject to certain conditions being met by the Company, they will suspend their ability to exercise their rights following the Events of Default;
- Once the fire safety remedial works are complete and certified, the Event of Default linked to the Enforcement notice will be deemed remedied; and
- the Events of Default arising from the historic and future forecast breach of financial covenants will be deemed remedied once the Company is compliant with its financial covenants and the cladding works are complete which is currently forecast to be in March 2023.

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 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.

Strategic report *(continued)*

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 Company 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 2020.

Through working collaboratively and listening to feedback from the Company's stakeholders, the Directors believe that the Company is well positioned to use the feedback to deliver its vision. The Company 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 Company.

The Directors have identified the Company's main stakeholders as the following:

i. The Company's shareholders, and credit provider

One of the principal considerations of the board are whether the investment objective of the Company 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 Directors recognise the importance of working in partnership with the Company's 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 Company 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 client to discuss key service delivery matters.

iii. The service provider

The Directors recognise the importance of working in partnership with the Company's service provider. The offices of Pario Limited, the outsourced manager of the Company, at the hospital 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 manager. Quarterly board meetings also ensure that key service delivery matters are fully considered. Periodically the Directors will meet with the public sector client to discuss key service delivery matters.

Strategic report *(continued)*

Section 172 Companies Act 2006 Statement *(continued)*

iv. The manager

The management of the Company 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 Company. The manager in fulfilling its obligations, reviews the obligations of the PFI to ensure the stakeholders are appropriately informed.

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 Directors' decision making as and when

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 Company 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 Company. 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 Company 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 Company 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 Company's employees

As an externally managed company, the Company's activities are outsourced and therefore it does not have any employees. The Company does however pay due regard to the interests and safety of all those engaged by contractors to the Company to perform services on its behalf.

Strategic report *(continued)*

Section 172 Companies Act 2006 Statement *(continued)*

(c) The need to foster the Company's business relationships with suppliers, customers and others

Company 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 Company's obligations can be achieved.

(d) The impact of the Company's operations on the community and the environment

The Company has very limited impact on the environment as it has no greenhouse gas emissions. Nevertheless, the Company 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 Company 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 to the board and shareholders.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

The Company 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 28 October 2021 and signed on its behalf by:



C Leverd
Director

Unit 18, Riversway Business Village
Navigation Way
Preston
PR2 2YP

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2020.

Matters covered in the strategic report

Likely future developments in the business of the Company, and events affecting the Company, which have occurred since the end of the financial year, are discussed in the strategic report, under the 'Principal activities and review of business', 'Principal risks and uncertainties' and 'Development and performance of the business' headings.

The exposure of the Company to its principal risks is discussed in the strategic report, under 'Principal risks and uncertainties'.

The financial risk management objectives and policies of the Company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, are discussed in the strategic report under 'Principal risks and uncertainties'.

Proposed dividend

The Directors do not recommend the payment of a dividend (2019: £nil).

Directors

The directors holding office during the year and up to the date of this report are set out below.

C Leverd	
N Poupard	(resigned 11 June 2021)
M Wayment	(appointed 11 June 2021)

Indemnity provisions are in place whereby the Directors are entitled to be indemnified out of the assets of the Company 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 Company has no contracts of employment (2019: nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2019: £nil).

Directors' report *(continued)*

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 Company'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 Company's auditor is aware of that information.

Auditor

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

This report was approved by the Board on 28 October 2021 and signed on its behalf by:



C Leverd
Director

Unit 18, Riversway Business Village
Navigation Way
Preston
PR2 2YP

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 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 Company and of its profit or loss for that period. In preparing the 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;
- assess the 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of The Hospital Company (Oxford John Radcliffe) Limited ("the company") for the year ended 31 December 2020 which comprise the Profit and Loss account and Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, 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 company's affairs as at 31 December 2020 and of its 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 company 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 Company's ability to continue as a going concern is dependent on the continued financial support from its financing providers. 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 Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

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

Fraud and breaches of laws and regulations – ability to detect *(continued)*

Identifying and responding to risks of material misstatement due to fraud (continued)

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent turnover recognition, in particular the risk of bias in the accounting estimate for service concession contract turnover, the risk that profit is inappropriately recognised on costs unrelated to the service concession contract and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Recalculating service revenue based upon the costs incurred which relate to provision of services under the concession contract using the mark-up determined in the financial forecasts and compared this to the amounts recorded.
- Assessing the reasonableness of the cost forecasts (used to calculate service revenue) by considering the historical accuracy of the previous forecasts as well as changes to forecast cost estimates relating to future years and evaluating the appropriateness of cost estimates and assessing whether or not estimates showed any evidence of management bias based on our knowledge of the Company and experience of the industry in which it operates.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and from inspection of the Company's legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the Fire safety matter discussed in note 1.2 we have assessed the appropriateness of the disclosures against our understanding from legal correspondence.

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

Fraud and breaches of laws and regulations – ability to detect (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

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, 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Date: 29 October 2021

**Profit and loss account and statement of other comprehensive income
for the year ended 31 December 2020**

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Turnover	2	29,969	29,085
Other operating expenses		(31,271)	(51,488)
Operating loss		(1,302)	(22,403)
Interest receivable and similar income	4	7,353	7,578
Interest payable and similar expenses	5	(8,492)	(8,584)
Loss before taxation		(2,441)	(23,409)
Tax on loss	7	1,353	3,980
Loss for the financial year		(1,088)	(19,429)
Other comprehensive income			
Fair value gains on swap contracts		218	3,622
Deferred tax arising on fair value gains origination and reversal	10	(41)	(616)
change in tax rate	10	1,303	-
Other comprehensive income for the year		1,480	3,006
Total comprehensive income/(expense) for the year		392	(16,423)

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

The notes on pages 18 to 35 form part of these financial statements.

Balance sheet
as at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
Current assets			
Debtors: amounts receivable within one year	8	8,502	7,389
Debtors: amounts receivable after more than one year	9	118,486	119,397
Cash at bank and in hand		15,642	16,717
		142,630	143,503
Creditors: amounts falling due within one year	11	(124,565)	(125,907)
Net current assets		18,065	17,596
Creditors: amounts falling due after more than one year	12	(77,169)	(78,894)
Provisions for liabilities	13	(30,799)	(28,997)
Net liabilities		(89,903)	(90,295)
Capital and reserves			
Called up share capital	14	50	50
Profit and loss account		(37,357)	(36,269)
Cash flow hedge reserve		(52,596)	(54,076)
Equity shareholders' deficit		(89,903)	(90,295)

The notes on pages 18 to 35 form part of these financial statements.

These financial statements were approved by the board and authorised for issue on 28 October 2021 and were signed on its behalf by:



C Leverd
Director

**Statement of changes in equity
for the year ended 31 December 2020**

	Called up share capital £'000	Profit and loss account £'000	Cash flow hedge reserve £'000	Total equity £'000
Balance at 1 January 2019	50	(16,840)	(57,082)	(73,872)
Loss for the year	-	(19,429)	-	(19,429)
Other comprehensive income:				
Fair value gains on swap contracts	-	-	3,622	3,622
Deferred tax arising on fair value gains	-	-	(616)	(616)
Total comprehensive expense for the year	-	(19,429)	3,006	(16,423)
Balance at 31 December 2019	50	(36,269)	(54,076)	(90,295)
Loss for the year	-	(1,088)	-	(1,088)
Other comprehensive income:				
Fair value gains on swap contracts	-	-	218	218
Deferred tax arising on fair value gains	-	-	1,262	1,262
Total comprehensive income for the year	-	(1,088)	1,480	392
Balance at 31 December 2020	50	(37,357)	(52,596)	(89,903)

The notes on pages 18 to 35 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2020

1. Accounting policies

The Hospital Company (Oxford John Radcliffe) Limited is a company limited by shares and incorporated and domiciled in England in the UK. The registered number of the Company is 04868478 and the registered address is Unit 18, Riversway Business Village, Navigation Way, Preston, PR2 2YP.

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.

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

1.1 Measurement convention

The financial statements are prepared on the historical cost basis, other than derivative financial instruments, which are stated at their fair value.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.2 Going concern

The Company had net liabilities of £89,903,000 as at 31 December 2020 and generated a loss for the year then ended of £1,088,000.

On 15 January 2018 the Construction Contractor for the Company, Carillion Construction Limited ("CCL") and its Performance Guarantor, Carillion Plc ("Carillion") entered into compulsory liquidation. This resulted in the Company having financial responsibility for all construction defects identified that previously would have been the responsibility of CCL within the defect liability period under the Construction contract.

Total defect costs of £30,799,000 (2019: £28,997,000) have been provided for (see note 13 for details) and these defect rectification works are expected to be completed in 2023. As a consequence of these additional forecast costs the Company 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.

In addition, on 20 July 2020 the Company received a Fire Safety Enforcement Notice ("Enforcement Notice") from Oxfordshire County Council Fire and Rescue Service in respect of fire safety defects in the building envelope. This notice explains that the Company has failed to comply with Fire Safety law and legally requires the rectification of the defects within 2 and a half years of the notice ("fire safety remedial works period"). This is also a further specified Event of Default in the Finance Documents.

The implications 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 Events of Default described above has not been formally waived or deemed remedied by the Lenders at the date of signing these financial statements.

The impact of the above circumstances on the balance sheets at 31 December 2020 and 2019 is to classify the outstanding amounts of the bank loans as a current liability as the Company does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date.

The Directors have prepared cash flow forecasts covering a period of at least 12 months from the date of approval of these financial statements, which indicate that, taking account of reasonably possible downside scenarios including the impact of Covid-19, the Company will require additional funding to meet its liabilities as they fall due. On 24 September 2021 the Company signed a loan agreement with its parent for up to a £28 million interest free loan which is not repayable until 30 September 2031. It is anticipated that this loan will be sufficient taking into account the scenarios referenced above to allow the Company to meet its liabilities as they fall due and complete all these defect works in the required period under the Enforcement Notice.

The Directors are in continuing discussions with the Lenders who are aware of the situation, the proposed mitigations and remain supportive of the project. As part of this the Lenders have signed an amendment to the Finance documents confirming that:

- during the fire safety remedial works period, subject to certain conditions being met by the Company, they will suspend their ability to exercise their rights following the Events of Default;
- Once the fire safety remedial works are complete and certified, the Event of Default linked to the Enforcement notice will be deemed remedied; and
- the Events of Default arising from the historic and future forecast breach of financial covenants will be deemed remedied once the Company is compliant with its financial covenants and the cladding works are complete which is currently forecast to be in March 2023.

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 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 to the financial statements *(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 Company'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 2020 includes bank deposits of £nil (2019: £nil).

The Company is obligated to keep a separate cash reserves in respect of requirements in the Company's funding agreements. This restricted cash balance amounts to £8,679,000 at the year end (2019: £8,709,000).

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).

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.4 Other financial instruments *(continued)*

Cash flow hedges

The Company has entered into both interest rate swaps and an RPI swap and designated these as hedges for highly probable forecast transactions. 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.

Following the FCA's announcement that LIBOR will no longer be published after 31 December 2021, the Company has applied the December 2019 Amendments to FRS 102: Interest rate benchmark reform. The amendments provide relief in applying the requirements of hedge accounting to certain hedges, including allowing the Company to assume that interest rate benchmarks on which hedged cash flows are based (e.g. LIBOR) will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place and no additional ineffective portion of the hedge has been recognised. The Company has taken advantage of these amendments in relation to the LIBOR interest rate, on which the Company's hedging instruments are based. The transition from LIBOR has not yet occurred, but is expected to occur prior to 31 December 2021.

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 Company 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.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.6 Turnover recognition

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.

Service income is recognised in line with the service concession arrangements accounting policy in note 1.10.

Passthrough and other variation income is recognised when the service is delivered.

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.

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 financial reporting 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 years 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 financial reporting date. Deferred tax balances are not discounted.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.9 Related party disclosure

As the Company is a wholly owned subsidiary of HICL Infrastructure Plc, the 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 arrangements

The Company is an operator of a Public Finance Initiative ("PFI") contract. The Company entered into a project agreement (the "contract") in December 2003 with Oxford University Hospitals NHS Foundation Trust (the "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 Company 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 Company and the timing and extent of these works is a key assumption that will affect the cashflows of the Company. 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 Company.

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 Company 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.

There is a five 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.

As the Company entered into the contract prior to the date of transition to FRS102, the Company 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 Company 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.10 Service concession arrangements (continued)

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 old UK GAAP. The Company recognises revenue in respect of the services provided, including lifecycle servicing, which sits with the Company, 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.

2. Turnover

Turnover can be analysed by service as below. All turnover originates in the United Kingdom.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Service income	26,592	24,253
Passthrough income	2,911	4,339
Rental and other third party income	466	493
	29,969	29,085

3. Auditor remuneration

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Audit of the parent company's consolidated financial statements	1	1
Audit of these financial statements pursuant to legislation	22	16
Auditor remuneration	22	17

The auditor provided no non-audit services in either year.

Notes to the financial statements (continued)

4. Interest receivable and similar income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest on finance debtor	7,353	7,578

5. Interest payable and similar expenses

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Bank borrowings	(7,121)	(7,208)
Unsecured loans from shareholders	(1,366)	(1,311)
Amortisation of issue costs	-	(65)
Other interest payable	(5)	-
	(8,492)	(8,584)

6. Staff costs

There were no employees during the year (2019: none). The directors have no contract of service with the Company (2019: none). Amounts refunded in the current year by third parties, in respect of directors' services paid in the prior year, but subsequently waived, totalled £122,000 (2019: amounts paid £161,000).

Notes to the financial statements (continued)

7. Tax on loss

(a) Analysis of tax credit in the year

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Current tax		
UK corporation tax	-	-
Adjustment in respect of previous year	-	(3)
Deferred tax		
Tax losses recognised	(464)	(4,000)
Adjustment in respect of previous year	-	23
Change in tax rates	(889)	-
Tax on loss	(1,353)	(3,980)

(b) Factors affecting the tax credit for the year

The UK standard rate of corporation tax for the year is 19.00% (2019: 19.00%). The actual tax rate above is higher than (2019: lower than) the standard rate for the reasons set out below:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Loss for the year	(1,088)	(19,429)
Taxation	(1,353)	(3,980)
Loss before tax	(2,441)	(23,409)

Notes to the financial statements (continued)

7. Tax on loss (continued)

(b) Factors affecting the tax credit for the year (continued)

Loss multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	(464)	(4,448)
Effect of:		
Difference in tax rates	-	448
Adjustment in respect of change in previous year	-	20
Change in deferred tax rates	(889)	-
	<hr/>	<hr/>
Total tax charge/(credit) for the year on profit/loss	(1,353)	(3,980)
	<hr/>	<hr/>
Tax charge/(credit) included in other comprehensive income		
Deferred taxation		
Charge/(credit) to other comprehensive income (note 10)	1,262	(616)
	<hr/>	<hr/>
Total tax charge/(credit) included in other comprehensive income	1,262	(616)
	<hr/>	<hr/>
Impact of future changes in tax rates		

The UK Budget 2021 announcements on 3 March 2021, included measures to support economic recovery as a result of the ongoing COVID-19 pandemic.

These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023.

These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the year end. If these changes had been enacted, there would have been an increase of £6,709,000 on the deferred tax asset held.

Notes to the financial statements (continued)

8. Debtors: amounts receivable within one year

	31 December 2020 £'000	31 December 2019 £'000
Trade debtors	834	35
Corporation tax	219	219
Prepayments	351	520
Accrued income	3,572	3,331
Finance debtor	3,526	3,284
	8,502	7,389

9. Debtors: amounts receivable after more than one year

	31 December 2020 £'000	31 December 2019 £'000
Deferred tax (see note 10)	21,246	18,631
Finance debtor	97,240	100,766
	118,486	119,397

10. Deferred tax asset

	31 December 2020 £'000	31 December 2019 £'000
At beginning of year	18,631	15,270
Credit to the profit and loss account	1,353	3,977
Credit/(charge) to other comprehensive income	1,262	(616)
At end of year	21,246	18,631

Notes to the financial statements (continued)

10. Deferred tax asset (continued)

The elements of the deferred tax asset are as follows:

Deferred tax on revaluation of fair value of derivatives	12,338	11,076
Trading losses carried forward	8,908	7,555
	<hr/>	<hr/>
Total	21,246	18,631
	<hr/>	<hr/>

Deferred tax assets are recognised on the revaluation of the swap derivatives, on both the RPI and Interest rate swaps held by the Company, 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 12) and the movement of the deferred tax asset is shown through the cash flow hedge reserve.

11. Creditors: amounts falling due within one year

	31 December 2020 £'000	31 December 2019 £'000
	<hr/>	<hr/>
Bank borrowings	112,569	117,326
Trade creditors	2,694	378
Interest due on unsecured loans from shareholders	4,018	2,609
Social security and other taxation	316	536
Accruals	4,968	5,058
	<hr/>	<hr/>
	124,565	125,907
	<hr/>	<hr/>

Accruals include accrued interest of £1,726,000 (2019: £1,790,000) on bank borrowings and interest rate swaps.

Notes to the financial statements (continued)

11. Creditors: amounts falling due within one year (continued)

	31 December 2020 £'000	31 December 2019 £'000
The bank borrowings, notwithstanding their classification, are repayable in instalments as follows:		
Within one year	5,173	4,210
Between one and two years	5,410	5,173
Between two and five years	12,773	14,013
Greater than five years	89,213	93,930
	112,569	117,326

Bank borrowings relate to term loan facilities granted by the Royal Bank of Scotland plc. 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 2020 of £112,569,000 (2019: £117,326,000) has been drawn, comprising £92,083,000 (2019: £96,729,000) term loan A, £19,865,000 (2019: £19,944,000) term loan B and £621,000 (2019: £653,000) standby facility. The bank borrowings are classified as 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 Company'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 (see note 1.4). The Company 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 2020 was a liability of £45,221,000 (2019: £42,257,000). The standby loan is repayable in 38 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 Company, and by a first floating charge over all its assets.

Notes to the financial statements *(continued)*

12. Creditors: amounts falling due after more than one year

	31 December 2020 £'000	31 December 2019 £'000
Deferred income	4,109	6,243
Other financial instruments (see note 15)	64,934	65,152
Less: unamortised issue costs on bank borrowings	-	(670)
	69,043	70,725
Unsecured loans from shareholders	8,126	8,169
	77,169	78,894

The shareholders advanced loans of £8,294,000 (2019: £8,294,000) to the Company. The unsecured loans bears interest at 12.5%. The final payment falls due no later than 31 March 2035 as follows:

	31 December 2020 £'000	31 December 2019 £'000
Unsecured loans from shareholder		
Greater than five years	8,294	8,294

Notes to the financial statements (continued)

13. Provision for liabilities

	31 December 2020 £'000	31 December 2019 £'000
At beginning of year	28,997	7,019
Utilised during the year	(1,288)	(660)
Provision increased during the year	3,090	22,638
At end of year	30,799	28,997

The provision relates to anticipated costs for rectification of construction defects following the compulsory liquidation of Carillion Construction Limited that the Company is now obligated to undertake. The rectifications works are programmed over a three year period and are expected to be completed in 2023. See note 18.

14. Called up share capital

	31 December 2020 £'000	31 December 2019 £'000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

Ordinary share rights

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.

Notes to the financial statements (continued)

15. Financial instruments

(a) Carrying amounts of financial instruments

	31 December 2020 £'000	31 December 2019 £'000
Assets measured at amortised cost		
Finance debtor	100,766	104,050
Trade debtors	834	35
Accrued Income	3,572	3,331
	105,172	107,416
Liabilities measured at amortised cost		
Trade and other creditors	(2,694)	(378)
Accruals	(4,968)	(5,058)
Deferred income	(4,109)	(6,243)
Senior loan	(112,569)	(116,656)
Unsecured loans from shareholders	(8,126)	(8,169)
Interest due on unsecured loans from shareholders	(4,018)	(2,609)
	(136,484)	(139,113)
Liabilities measured at fair value through profit and loss		
Interest rate and RPI swaps	(64,934)	(65,152)

(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 Company 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.

As the unitary charge is subject to annual inflationary change as part of the contract, to limit the impact on future profits, the Company has entered into an RPI swap to manage its exposure to inflation in respect of the unitary charge. 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.

Notes to the financial statements (continued)

15. Financial instruments (continued)

(d) Fair values

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

	31 December 2020 £'000	31 December 2019 £'000
Interest rate swaps	(45,221)	(42,257)
RPI swap	(19,713)	(22,895)
	<u>(64,934)</u>	<u>(65,152)</u>

16. Operating leases

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

	31 December 2020 £'000	31 December 2019 £'000
Less than one year	386	453
Between one and five years	1,454	1,706
More than five years	349	527
	<u>2,189</u>	<u>2,686</u>

17. Parent undertakings

The Company is a subsidiary of The Hospital Company (Oxford John Radcliffe) Holdings Limited, a company incorporated in England and registered at Unit 18, Riversway Business Village, Navigation Way, Preston, PR2 2YP.

The ultimate beneficial owner of the Company is HICL Infrastructure Plc, a company incorporated in England, listed on the London Stock Exchange and registered at One Bartholomew Close, Barts Square, London, EC1A 7BL.

Notes to the financial statements (continued)

18. 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 Company'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 Company'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.
- 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 Company reviews and reassesses these costs on a periodic basis and whenever additional information is made available. In the current period, the increase of £3,090,000 in the defect provision, offset by £1,288,000 utilised in the year, has been driven by assessments that the nature and scope of the required defect remediations works has increased. The works have now been secured by a fixed price contract and a three year programme, which is expected to be completed in 2023. The revised defect provision of £30,799,000 as at 31 December 2020 is seen as sufficient to cover the expected defect rectification costs.

19. Post Balance Sheet Event

On 24 September 2021, the Company signed a loan agreement with its parent for up to a £28 million interest free loan which is not repayable until 30 September 2031.