COMPANY REGISTRATION NUMBER: 05060875

Ravensbourne Health Services Limited

Annual Report and Financial Statements

31 March 2018

Ravensbourne Health Services Limited

Annual Report and Financial Statements

Year Ended 31 March 2018

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Officers and Professional Advisers

The Board of Directors	Ross Driver Geoffrey Quaife (Resigned 6 November 2017) Rachel Turnbull (Served from 6 November 2017 to 31 October 2018) James Heath (Appointed 31 October 2018)
Company Secretary	Infrastructure Managers Limited
Registered Office	Cannon Place 78 Cannon Street London EC4N 6AF
Independent Auditors	KPMG LLP Chartered Accountants & Statutory Auditors 3 Assembly Square Britannia Quay Cardiff CF10 4AX
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP
Solicitors	CMS Cameron McKenna LLP Mitre House 160 Aldersgate Street London EC1A 4DD

Ravensbourne Health Services Limited

Directors' Report

Year Ended 31 March 2018

The directors present their report and the audited Annual Report and Financial Statements of Ravensbourne Health Services Limited ("the Company") for the year ended 31 March 2018.

Principal Activities

The principal activity of the Company during the year is that of a Private Finance Initiative (PFI) Concessionaire for the Ravensbourne Health Services Hospital Project, under the terms of a Project Agreement. The Agreement is for a term of 30 years and was entered into with Lewisham & Greenwich NHS Trust (the authority), providing additional facilities at the University Hospital, Lewisham.

Performance Review

The profit for the financial year, after taxation, amounted to £1,324,504 (2017: loss of £750,826).

The profit for the financial year will be transferred to reserves.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the covenants laid out in the Group loan agreement.

Going Concern

The directors acknowledge that the Company is in net liabilities, however this is primarily a result of the Interest rate and RPI swaps, which are significantly out of the money, creating a large liability in the Statement of Financial Position. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the Company's ability to meet its liabilities as they fall due.

On 15 January 2018, the Constructing Party to the contract, Carillion JM Limited ("CJML") and its Performance Guarantor, Carillion PLC ("Carillion") entered into compulsory liquidation. This resulted in the project entering technical default.

As a result, at the balance sheet date, the bank loans are classified as repayable on demand, resulting in a significant reduction in the net current asset position.

During the year to 31 March 2017, the Facilities Manager ("FM") was changed under a benchmarking exercise. The incumbent was Sovereign Hospital Services Limited ("Sovereign") (a subsidiary of Carillion) who was replaced by Bouygues E&S FM UK Limited ("Bouygues") in February 2017. As a result of the change in FM provider, a 'Condition Survey' was performed to establish the 'legacy items' left as a result of the Carillion termination. The survey identified several latent defects.

As the latent defects were identified prior to the expiration period of the guarantee for repairing latent defects of 2 November 2018, the responsibility to repair these defects was with CJML. However, following the liquidation of Carillion, the project became liable for these repairs, with a provision having been included within the financial statements representing the best estimate of the costs of the programme of works to rectify the defects. The Company has ringfenced the funds required for these works in the Maintenance Reserve Account and it has been determined that there is sufficient funding to meet these costs as they fall due. A programme of works has been identified and a plan put in place to ensure these are completed within agreed timescales.

The Company has re-forecast the project's financial model following the liquidation of CJML, with the additional costs incurred resulting from this event not having a material change to the overall project profitability and sufficient funding being available to meet these costs as they fall due. The project remains profitable over the remaining life of the project.

The Company is in the process of obtaining a waiver from the lenders which would end the event of default. The Directors are not aware of any indication that the Lenders will not approve the waiver or intend to call in the balances owed to them.

Given the above, at the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

However, there is no certainty that the lenders will not exercise their rights under the Event of Default until such time when all relevant parties agree the project can exit default.

As such there is a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the lenders exercising their rights as the directors have a reasonable expectation that the waiver will be finalized within the coming weeks.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

Ross Driver	
James Heath	(Appointed 31 October 2018)
Geoffrey Quaife	(Resigned 6 November 2017)
Rachel Turnbull	(Appointed 6 November 2017 and resigned 31 October 2018)

Dividends

The directors do not recommend the payment of a dividend (2017: £nil).

Principal risks and uncertainties

The Authority is the sole client of the Company but the directors consider that no strategic risk arises from such a small client base since the Secretary of State for Health has underwritten the Authority's obligations under the Project Agreement. 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 Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are credit risk, liquidity risk and interest rate risk.

Future prospects

The Company will continue to provide support to the Health Trust in its operation of the hospital under the PFI scheme.

Ravensbourne Health Services Limited

Directors' Report *(continued)*

Year Ended 31 March 2018

Financial Instruments

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company is credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash Flow and Liquidity risk

Many of the Cash Flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long term borrowings.

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all 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 auditors are aware of that information.

The auditors are deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 13 February 2019 and signed by order of the board by:

Infrastructure ~~Managers~~ Limited
Company Secretary

Ravensbourne Health Services Limited

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

Year Ended 31 March 2018

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- 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 the 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 Ravensbourne Health Services Limited

Year Ended 31 March 2018

Opinion

We have audited the financial statements of Ravensbourne Health Services Limited (the 'Company') for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as forecast results of the contract and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Material uncertainty related to going concern

We draw attention to note 3b to the financial statements which indicates that the project has entered technical default as a result of the liquidation of the construction party to the contract Carillion JM Limited on 15 January 2018. There is no certainty that the lenders will not exercise their rights under the Events of Default until such time when all relevant parties agree the project can exit default. These conditions, along with the other matters explained in note 3b, 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.

Directors' Report

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

Our responsibility is to read 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 Directors' Report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has 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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report, and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report.

We have nothing to report in these respects.

Directors' Responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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.

Richard Lomax (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

20 February 2019

Ravensbourne Health Services Limited

Statement of Comprehensive Income

Year Ended 31 March 2018

	Note	2018 £	2017 £
Turnover	4	**3,667,399**	3,269,507
Cost of sales		**(2,913,428)**	(1,016,697)
Gross profit		**753,971**	2,252,810
Administrative expenses		**(606,422)**	(714,561)
Operating profit	5	**147,549**	1,538,249
Other interest receivable and similar income	7	**5,839,920**	3,292,466
Interest payable and similar expenses	8	**(4,280,357)**	(5,739,283)
Profit/(loss) before taxation		**1,707,112**	(908,568)
Tax on profit/(loss)	9	**(382,608)**	157,742
Profit/(loss) for the financial year		**1,324,504**	(750,826)
Fair value movements on cash flow hedging instruments, net of tax		**1,572,016**	(2,773,035)
Total comprehensive income/expense for the financial year		**2,896,520**	(3,523,861)

All the activities of the Company are from continuing operations.

The notes on pages 13 to 27 form part of the Annual Report and Financial Statements.

Ravensbourne Health Services Limited

Statement of Financial Position

As at 31 March 2018

	Note	2018 £	2017 £
Current assets			
Debtors: amounts falling due within one year	**10**	**15,349,856**	15,159,001
Debtors: amounts falling due after more than one year	**10**	**45,130,894**	48,708,297
Cash at bank and in hand		**10,438,223**	6,879,015
		70,918,973	70,746,313
Creditors: amounts falling due within one year	**11**	**(59,165,339)**	(3,138,646)
Net current assets		**11,753,634**	67,607,667
Total assets less current liabilities		**11,753,634**	67,607,667
Creditors: amounts falling due after more than one year	**12**	**(33,068,272)**	(93,581,825)
Provisions for liabilities			
Other provisions	**13**	**(1,763,000)**	–
Net liabilities		**(23,077,638)**	(25,974,158)
Capital and reserves			
Called up share capital	**16**	**1,000**	1,000
Hedging reserve	**17**	**(22,091,311)**	(23,663,327)
Retained earnings	**17**	**(987,327)**	(2,311,831)
Total shareholders' deficit		**(23,077,638)**	(25,974,158)

The Annual Report and Financial Statements were approved by the board of directors and authorised for issue on .13 February 2019...., and are signed on behalf of the board by:

Ross Driver
Director

Company registration number: 05060875

The notes on pages 13 to 27 form part of the Annual Report and Financial Statements.

Ravensbourne Health Services Limited

Statement of Changes in Equity

Year Ended 31 March 2018

	Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 April 2016	1,000	(20,890,292)	(1,561,005)	(22,450,297)
Loss for the financial year			(750,826)	(750,826)
Other comprehensive expense for the year:				
Fair value movements on cash flow hedging instruments, net of tax	–	(2,773,035)	–	(2,773,035)
Total comprehensive income for the financial year	–	(2,773,035)	(750,826)	(3,523,861)
At 31 March 2017	1,000	(23,663,327)	(2,311,831)	**(25,974,158)**
Profit for the financial year			1,324,504	**1,324,504**
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	–	1,572,016	–	**1,572,016**
Total comprehensive income for the financial year	–	1,572,016	1,324,504	**2,896,520**
At 31 March 2018	1,000	(22,091,311)	(987,327)	**(23,077,638)**

Included in the fair value movement on cash flow hedging instruments is £2,791,151 (2017: £2,757,937) that was recycled through Interest Payable in the Statement of Comprehensive Income.

Ravensbourne Health Services Limited

Statement of Cash Flows

Year Ended 31 March 2018

	Note	2018 £	2017 £
Cash generated from operations	18	**6,166,585**	3,377,929
Interest paid		**(4,228,787)**	(5,662,024)
Interest received		**3,019,843**	3,182,545
Tax received/(paid)		**125,459**	(96,424)
Net cash from operating activities		**5,083,100**	802,026
Cash flows from financing activities			
Repayments of borrowings		**(1,503,185)**	(1,344,800)
Repayments of loans from Group undertakings		**(20,707)**	(818,255)
Net cash used in financing activities		**(1,523,892)**	(2,163,055)
Net increase/(decrease) in cash and cash equivalents		**3,559,208**	(1,361,029)
Cash and cash equivalents at beginning of year		**6,879,015**	8,240,044
Cash and cash equivalents at end of year		**10,438,223**	6,879,015

The notes on pages 13 to 27 form part of the Annual Report and Financial Statements.

1. General Information

Ravensbourne Health Services Limited ("the Company") is a private company limited by shares and is registered, incorporated and domiciled in the UK. The address of its registered office is Cannon Place, 78 Cannon Street, London, EC4N 6AF.

The principal activity of the Company during the year is that of a Private Finance Initiative (PFI) Concessionaire for the Ravensbourne Health Services Hospital Project, under the terms of a Project Agreement.

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

2. Statement of Compliance

The individual financial statements of Ravensbourne Health Services Limited have been prepared in compliance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

The directors acknowledge that the Company is in net liabilities, however this is primarily a result of the Interest rate and RPI swaps, which are significantly out of the money, creating a large liability in the Statement of Financial Position. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the Company's ability to meet its liabilities as they fall due.

On 15 January 2018, the Constructing Party to the contract, Carillion JM Limited ("CJML") and its Performance Guarantor, Carillion PLC ("Carillion") entered into compulsory liquidation. This resulted in the project entering technical default.

As a result, at the balance sheet date, the bank loans are classified as repayable on demand, resulting in a significant reduction in the net current asset position.

3. Accounting Policies *(continued)*

During the year to 31 March 2017, the Facilities Manager ("FM") was changed under a benchmarking exercise. The incumbent was Sovereign Hospital Services Limited ("Sovereign") (a subsidiary of Carillion) who was replaced by Bouygues E&S FM UK Limited ("Bouygues") in February 2017. As a result of the change in FM provider, a 'Condition Survey' was performed to establish the 'legacy items' left as a result of the Carillion termination. The survey identified several latent defects.

As the latent defects were identified prior to the expiration period of the guarantee for repairing latent defects of 2 November 2018, the responsibility to repair these defects was with CJML. However, following the liquidation of Carillion, the project became liable for these repairs, with a provision having been included within the financial statements representing the best estimate of the costs of the programme of works to rectify the defects. The Company has ringfenced the funds required for these works in the Maintenance Reserve Account and it has been determined that there is sufficient funding to meet these costs as they fall due. A programme of works has been identified and a plan put in place to ensure these are completed within agreed timescales.

The Company has re-forecast the project's financial model following the liquidation of CJML, with the additional costs incurred resulting from this event not having a material change to the overall project profitability and sufficient funding being available to meet these costs as they fall due. The project remains profitable over the remaining life of the project.

The Company is in the process of obtaining a waiver from the lenders which would end the event of default. The Directors are not aware of any indication that the Lenders will not approve the waiver or intend to call in the balances owed to them.

Given the above, at the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

However, there is no certainty that the lenders will not exercise their rights under the Event of Default until such time when all relevant parties agree the project can exit default. As such there is a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the lenders exercising their rights as the directors have a reasonable expectation that the waiver will be finalized within the coming weeks.

(c) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

3. Accounting Policies ***(continued)***

i) Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates and movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those instruments on its Statement of Financial Position. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by shareholders based on counterparty information that is independent of the Company, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments. There is also a judgement on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

ii) Deferred taxation

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Judgment is required in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgment requires the Directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

ii) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract.

iii) Remediation plan

A provision has been recognised for remediation works as a result of the liquidation of the construction company, Carillion JM Limited, and defects identified as a result of the change

3. Accounting Policies *(continued)*

in FM provider during the last benchmarking exercise.

The provision was recognised based on information such as cost estimates obtained from contractors and suppliers. Further detail can be obtained in note 3b.

(d) Finance debtor and service income

The Company is an operator of a PFI contract. The Company entered into its service concession arrangement before the date of transition to this FRS. Therefore its service concession arrangements have continued to be accounted for using the same accounting policies being applied at the date of transition to this FRS. The underlying asset is not deemed to be an asset of the Company under old UK GAAP, 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 Company 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.

(e) 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.

3. Accounting Policies *(continued)*

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences 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 recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(h) Restricted cash

Cash at bank includes £3,727,449 (2017: £3,820,836) restricted from use in the business held in the Company's reserve accounts under the terms of the Credit Agreement.

3. Accounting Policies *(continued)*

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

(k) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

(l) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps"). The Company has also entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its principal activity (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the statement of comprehensive income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the statement of comprehensive income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

4. Turnover

Turnover arises from:

	2018	2017
	£	£
Rendering of Services	**3,667,399**	3,269,507

The whole of the turnover is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

5. Operating Profit

Operating profit or loss is stated after charging:

	2018	2017
	£	£
Fees payable for the audit of the annual report and financial statements	**13,740**	10,910

In addition to the above, fees of £3,000 (2017: £3,000) were payable to the company's auditor for the provision of Taxation Compliance Services.

6. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2017: nil). The directors did not receive any remuneration from the Company during the year (2017: £nil). During the year the Company paid £116,828 (2017: £86,937) to Infrastructure Investments Holdings Limited, a related entity, for qualifying services by two directors.

7. Other Interest Receivable and Similar Income

	2018	2017
	£	£
Interest on cash and cash equivalents	**18,443**	24,942
Finance debtor interest receivable	**3,001,400**	3,157,603
Gain on financial instruments	**2,820,077**	109,921
	5,839,920	3,292,466

8. Interest Payable and Similar Expenses

	2018	2017
	£	£
Interest on bank loans and overdrafts	**3,606,260**	3,676,243
Interest due to Group undertakings	**674,097**	2,063,040
	4,280,357	5,739,283

9. Tax on Profit/(Loss)

Major components of tax expense/(income)

	2018	2017
	£	£
Current tax:		
UK current tax income	–	(77,313)

9. Tax on Profit/(Loss) *(continued)*

	2018	2017
	£	£
Deferred tax:		
Origination and reversal of timing differences	**382,608**	(104,400)
Impact of change in tax rate	**–**	23,971
Total deferred tax	**382,608**	(80,429)
Tax on profit/(loss)	**382,608**	(157,742)

Reconciliation of tax expense/(income)

The tax assessed on the profit for the year is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19% (2017: 20%).

	2018	2017
	£	£
Profit/(loss) before taxation	**1,707,112**	(908,568)
Profit/(loss) by rate of tax	**324,351**	(181,713)
Other timing differences	**58,257**	–
Effect of changes in tax rate	**–**	23,971
Total tax charge/(credit)	**382,608**	(157,742)

10. Debtors

Debtors amounts falling due within one year are as follows:

	2018	2017
	£	£
Trade debtors	**12,420**	6,750
Prepayments and accrued income	**23,213**	23,130
Corporation tax repayable	**1,873**	127,333
Finance debtor	**2,295,167**	2,295,138
Unitary Charge Control Account	**13,017,183**	12,706,650
	15,349,856	15,159,001

Debtors amounts falling due after more than one year are as follows:

	2018	2017
	£	£
Deferred tax asset	**4,759,467**	6,041,661
Finance debtor	**40,371,427**	42,666,636
	45,130,894	48,708,297

11. Creditors: amounts falling due within one year

	2018	2017
	£	£
Bank loans and overdrafts	**55,231,085**	1,459,881
Trade creditors	**740,017**	659,332
Amounts owed to Group undertakings	**333,172**	354,824
Accruals and deferred income	**2,264,201**	459,362
Taxation and social security	**596,864**	205,247
	59,165,339	3,138,646

The amounts owed to Group undertakings relates to accrued interest on loan notes of £333,172 (2017: £354,824). The balance is unsecured, bears no interest and is repayable on demand.

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

	2018	2017
	£	£
Bank loans and overdrafts	**–**	55,222,819
Amounts owed to Group undertakings	**6,452,234**	6,451,289
Derivative financial liability	**26,616,038**	31,907,717
	33,068,272	93,581,825

The Company's secured creditors have the benefit of first ranking charges granted by the Company over the whole of its investments, undertaking, property, assets, insurances and rights under certain contracts, both present and future, together with a first ranking charge over all of the ordinary shares of the Company and the Company's subordinated loan stock and those of its holding Company, Ravensbourne Health Services (Holdings) Limited.

The bank loan bears interest at LIBOR plus 0.85% per annum. The loan is repaid in six monthly instalments commencing September 2007 until March 2035.

Amounts owed to Group undertakings include Unsecured Loan Notes issued on 7 July 2004 between the Company and Ravensbourne Health Services (Holdings) Limited. These Loan Notes total £7,500,000 and are unsecured. Interest is payable on the Loan Notes at 10% per annum and this loan falls due for repayment in full in 2035.

Under the terms of the Equity Subscription Agreement dated 7 July 2004, the shareholders of the holding company subscribed for the Loan Notes of Ravensbourne Health Services (Holdings) Limited of £7,500,000 on the due date of January 2007. Ravensbourne Health Services (Holdings) Limited has in turn subscribed for the Loan Notes of the company. The proceeds of the Loan Note issues are being used by the Company to finance its obligations under its Project Agreement with Lewisham Hospital National Health Trust.

13. Provisions for Liabilities

	Other provision £
At 1 April 2017	–
Additions	**1,763,000**
At 31 March 2018	**1,763,000**

During the year to 31 March 2017, a number of latent defects were identified with the original construction. These would have originally been the responsibility of Carillion JM Limited to rectify, but following their liquidation in January 2018, the Company is now responsible for repairing the defect. A provision has been recognised for the best estimate of the cost of the programme of works required. They are expected to be completed within 12 months from the date of signing the waiver.

14. Deferred Tax

The deferred tax included in the statement of financial position is as follows:

	2018 £	2017 £
Included in debtors (note 10)	**4,759,467**	6,041,661

The deferred tax account consists of the tax effect of timing differences in respect of:

	2018 £	2017 £
Accelerated capital allowances	**1,713**	2,089
Unused tax losses	**339,463**	209,821
Derivative financial instruments	**4,524,726**	5,424,312
Short term timing differences	**(106,435)**	405,439
	4,759,467	6,041,661

The deferred tax asset expected to reverse in 2019 is £6,460. This primarily relates to the reversal of timing differences on capital allowances and short term timing differences.

	2018 £
Opening balance	6,041,661
Movement through the profit or loss	(382,608)
Movement through other comprehensive income	(899,586)
Closing balance	**4,759,467**

15. Financial Instruments

The carrying amount for each category of financial instrument is as follows:

	2018	2017
	£	£
Financial assets that are debt instruments measured at amortised cost		
Financial assets that are debt instruments measured at amortised cost	**42,666,594**	44,968,524
Financial liabilities measured at fair value through profit or loss		
Financial liabilities measured at fair value through profit or loss	**(26,616,038)**	(31,907,717)
Financial liabilities measured at amortised cost		
Financial liabilities measured at amortised cost	**(62,820,837)**	(64,148,144)

The fair values of the interest rate and RPI swap have been calculated by discounting the fixed cash flows at forecasted forward interest and RPI rates over the term of the financial instrument. The bank borrowing and finance debtor are both held at amortised cost.

15. Financial Instruments *(continued)*

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

Interest rate swaps
On 7 July 2004 the Company entered into two interest rate swaps with third parties for the notional amount of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon of 5.37%. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. Cash flows on both the loan and the interest rate swaps are paid semi-annually on 31 March and 30 30 September each year and expire on 31 October 2034.

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans meet the criteria set out in FRS 102 section 12.18 and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

RPI swaps
On 7 July 2004 the Company also entered into two arrangements with third parties for the purpose of exchanging the vast majority of variable cash inflows arising from the operation of the Company's service concession asset in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments.

Under the terms of the project agreements, the Company is permitted to charge its principal customer, The Lewisham and Greenwich NHS Trust, an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April using the current RPI for February against the base date RPI. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period. Cash flows on the revenue is received on a monthly basis whilst cash flows on the RPI swaps are paid on a semi-annual basis on 31 March and 30 September each year and expire on 2 November 2036.
The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges. The vast majority of the Company's cash outflows relate to borrowings (after interest rate swaps - see above) that carry a fixed coupon so that both the principal repayments, and coupon payments (after interest rate swaps - see above) are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Company can meet its obligations under the terms of its borrowing arrangements.

The Directors believe that the hedging relationship meet the criteria set out in FRS 102 section 12.18 and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments
All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 March 2018 amounted to net liabilities of £26,616,038 (2017: £31,907,717) comprising liabilities of £5,757,398 for RPI swaps (2017: £6,566,266) and liabilities of £20,858,640 for interest rate swaps (2017: £25,341,451). The effective portion of the movements in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £2,883,214 (2017: debit of £2,748,662). There is no ineffective portion.

16. Called Up Share Capital

Issued, called up and fully paid

	2018		2017	
	No.	£	No.	£
Ordinary shares of £1 each	**1,000**	**1,000**	1,000	1,000

17. Reserves

The hedging reserve records fair value movements on cash flow hedging instruments.

Retained earnings records retained earnings and accumulated losses.

18. Cash Generated from Operations

	2018	2017
	£	£
Profit/(loss) for the financial year	**1,324,504**	(750,826)
Adjustments for:		
Other interest receivable and similar income	**(5,839,920)**	(3,292,466)
Interest payable and similar expenses	**4,280,357**	5,739,283
Tax on profit/(loss)	**382,608**	(157,742)
Changes in:		
Trade and other debtors	**2,289,427**	1,978,124
Trade and other creditors	**1,966,609**	(138,444)
Provisions and employee benefits	**1,763,000**	–
	6,166,585	3,377,929

19. Related Party Transactions

The company is wholly owned by Ravensbourne Health Services (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

20. Controlling Party

The immediate parent undertaking is Ravensbourne Health Services (Holdings) Limited, which is also the smallest and largest group in which the Company's results are consolidated. The accounts of Ravensbourne Health Services (Holdings) Limited registered at Cannon Place, 78 Cannon Street, London, EC4N 6AF can be obtained from the Registrar of Companies.

The ultimate parent and controlling entity is HICL Infrastructure Company Limited, a company registered at East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3PP.