

Registration number: 4870001

Octagon Healthcare Funding PLC

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Octagon Healthcare Funding PLC

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Octagon Healthcare Funding PLC

Company Information

Directors	N Rae (Alternate for A Birch) D J Brooking S J Clark (Alternate for D J Brooking) A Birch
Company secretary	Semperian Secretariat Services Limited
Registered office	Third Floor Broad Quay House Prince Street Bristol BS1 4DJ
Independent Auditors	BDO LLP Chartered Accountants and Statutory Auditors 55 Baker Street London W1U 7EU

Octagon Healthcare Funding PLC

Strategic Report for the Year Ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

Principal activity

The principal activity of the company is the raising of finance through the bond market and its onward loan to a related party, Octagon Healthcare Limited, during the refinancing of that company's operations in December 2003.

The Company raised finance to onward loan to Octagon Healthcare Limited, a company which has entered into a contract ("the Project") with the Norfolk and Norwich University Hospitals NHS Foundation Trust (previously known as the Norfolk and Norwich University Hospital NHS Trust) (the Trust) for the design and construction of a new 809 bed acute hospital, including the provision of a range of support services. In July 2000 the contract was extended to include the provision of a further 144 beds. Construction of the main hospital was completed in August 2001 and the extension in August 2002. During 2002 the Trust requested further large variations to the contract to provide further additional beds, specialist operating theatres, additional renal units and an expanded teaching facility. All of these additional facilities were completed by January 2003.

In December 2003 the Octagon Group refinanced its operations and negotiated an extension of the initial contract term with The Trust to 35 years, ending in 2037. Octagon Healthcare Group Limited (the ultimate parent company) was instrumental in the restructuring for the refinancing. The Group comprises of Octagon Healthcare Limited, Octagon Healthcare Holdings (Norwich) Limited, Octagon Healthcare Funding PLC and Octagon Healthcare Group Limited.

Results and review of business

The profit for the year is set out in the profit and loss account on page 15. The Company had net assets of £260,000 as at 31 December 2021 (2020 £232,000) and generated a profit for the year of £28,000 (2020: £31,000). The directors consider the performance of the company during the year and the financial position at the end of the year, to be in line with the long term expected performance of the Project operated by its sister company, Octagon Healthcare Limited, from which it receives payments of interest and repayment of the onward loan which the Company then uses to make interest and principal payments to bondholders, and its prospects for the future to be satisfactory.

S172

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

- *The likely consequences of any decision in the long term*

The company has made no decisions during the year that have material long term consequences.

- *The interests of the company's employees*

The company has no employees (2020: nil)

Octagon Healthcare Funding PLC

Strategic Report for the Year Ended 31 December 2021 (continued)

- *The impact of the company's operations on the community and the environment*

The company has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the company is committed to minimizing environmental disruption from its activities. The board upholds the company's environmental policy in all its activities and requires all parties to the arrangement to do the same.

The board recognises 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 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 affiliates to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense, but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

- *The need to act fairly between members of the company*

The members of the company are represented at board meetings by their appointed directors. Conflicts on matters to be discussed are identified at each meeting of the board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regards to it.

The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the company's key stakeholders and reflect the board's belief that the long term sustainable success of the company is linked directly to its key stakeholders.

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

The company's shareholders, bondholders and Credit Provider

Principal considerations of the board are whether the investment objective of the company is meeting shareholder and bondholder expectations and how the Management Service Agreement provider (Manager) implements the objective. These are discussed at all board meetings, which are held regularly throughout the year. There are regular bondholder briefing meetings to which all bondholders are invited.

The Bonds are secured by an irrevocable financial guarantee policy issued by the Credit Provider, the Board regularly discuss the obligations under this policy and how the manager is fulfilling these at board meetings. The board frequently engage with the Credit Provider and keep them updated on matters as required.

The Manager

The delivery by the manager of its services is fundamental to the long term success of the company. The board seeks to engage regularly with the manager at board meetings. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

The client

The board recognises the importance of working in partnership with its public sector client to successfully deliver a key public infrastructure asset. On behalf of the company, project company and group, the manager fosters this partnership through regular meetings with the client representative and other key managers. The manager provides regular monthly reporting to the public sector client on the performance of its obligations under the PFI arrangement. Periodically the directors of the group will also meet with the public sector client to discuss key service delivery matters.

Octagon Healthcare Funding PLC

Strategic Report for the Year Ended 31 December 2021 (continued)

The service providers

On behalf of the company, the manager seeks to maintain a constructive relationship with the service providers by meeting regularly. The service provider reports provided to the company contain service provision information and relevant information about the performance of the PFI contract. These reports are reviewed by both the manager and the board. Periodically the directors will also meet with the service provider to discuss key service delivery matters.

Principal risks and uncertainties

The Company's principal risk is the recoverability of its onward loan to Octagon Healthcare Limited to allow it meet the repayments due on its fixed rate bond.

The Trust is the sole client of Octagon Healthcare Limited but the directors consider that no significant risk arises from such a small client base since the Secretary of State for Health has underwritten the Trust's obligations.

Most of the performance risk under the Project Agreement and related contracts entered into by Octagon Healthcare Limited is passed to the service provider. The obligations of its subcontractors are underwritten by the parent company guarantee.

Going Concern

The Company had net assets of £260,000 as at 31 December 2021 (2020: £232,000) and generated a profit for the year then ended of £28,000 (2020: £31,000).

The Directors believe Octagon Healthcare Limited a fellow group company with common directors, has sufficient funding in place through the use of monthly cashflows with a full concession length financial forecast in order to settle the payments of principal and interest on the onward loan and expects the Company to be in compliance with its debt covenants even in downside scenarios arising from factors such as COVID-19. The impact of which is described in note 2.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Octagon Healthcare Funding PLC

Strategic Report for the Year Ended 31 December 2021 (continued)

Key performance indicators ('KPIs')

Financial performance and financial position

The Board have modelled the anticipated financial outcome of the Project across its full term. The Directors monitor actual financial performance and position against this forecast. As at 31 December 2021, the Company's performance against this measure was satisfactory.

For the year ended 31 December 2021, turnover for the Company was £nil (2020: £nil). Profit before tax for the year ended 31 December 2021 was £35,000 (2020: £38,000) and profit after tax was £28,000 (2020: £31,000).

The financial performance has decreased by £3,000 due to a small increase in administration expenses from the prior year and an expected decrease in the margin earned on the intercompany loan.

Octagon Healthcare Funding PLC has received all on loan payments contractually due from Octagon Healthcare Limited. Subsequently all scheduled Bond payments have been made and the Company is compliant with all its contractual covenants.

Approved by the Board on ~~27 April 2022~~ and signed on its behalf by:



.....
N Rae (Alternate for A Birch)
Director

Octagon Healthcare Funding PLC

Directors' Report for the Year Ended 31 December 2021

Registration number: 4870001

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Future developments

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

Dividends

No dividend was paid during the year (2020: £nil).

Financial risk management

The Company has outsourced the financial reporting function to Semperian Infrastructure Management Services Limited ("IIMS"). Authorities remain vested in the board members of Company. IIMS reports regularly to the board of the Company. The board receives monthly reports from IIMS which specifically summarise and address the financial, contractual and commercial risks that the company is exposed to, and are pertinent to the industry in which the company operates. The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on.

The Company does not have a separately constituted audit committee as the Board considers it adequately carries out the roles and responsibilities that such a committee is expected to undertake.

This process ensures that the Project remains robust and viable throughout the life of the contract. Further details of risks identified can be found in note 14.

Brexit risk

The directors have assessed the impact, on the company, arising from the terms of the United Kingdom's withdrawal from the European Union.

As the company operates solely in the United Kingdom the directors do not expect the company will be directly impacted by changes to the trading arrangements, with the EU and the rest of the world, however the directors continue to monitor any potential impact arising from the wider financial markets and the company's supply chain.

Interest rate risk

The senior debt interest has been fixed through the use of fixed funding rates, plus a margin, as set out in note 11.

Credit risk

The sister company with which the Company has its on loan agreement with, receives the majority of its revenue from the Trust and is not exposed to significant credit risk. Cash investments are with institutions of a suitable credit quality.

Directors of the company

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

N Rae (Alternate for A Birch)

D J Brooking

D North (resigned 20 September 2021)

S J Clark (Alternate for D J Brooking)

A Birch (appointed 20 September 2021)

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Directors' Report for the Year Ended 31 December 2021 (continued)

Streamlined energy and carbon reporting

The company is a low energy user, emitting and consuming less than 40MWh in the current and previous reporting period. Energy emissions from activities, including greenhouse gases (GHG), and the consumption of energy for the company's own use has been considered in making this assessment. As an operator of a Government Private Finance Initiative, the company:

- does not utilise any transportation
- had no employees during the year; and
- services provided under the Project Agreement and related contracts are outsourced to the subcontractor.

As such, the company is not required to make detailed disclosures of energy and carbon information under the Companies Act 2006

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for 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.

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Directors' Report for the Year Ended 31 December 2021 (continued)

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit and loss of the company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the company, together with a description of the principal risks and uncertainties that they face.

Directors' confirmations

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

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

The Directors confirm that:

- (i) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company: and
- (ii) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties they face.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Reappointment of auditors

BDO LLP were reappointed auditor for the year ending December 2021.

Approved by the Board on ~~27 April 2022~~ and signed on its behalf by:



N Rae (Alternate for A Birch)
Director

Octagon Healthcare Funding PLC

Independent Auditor's Report to the members of Octagon Healthcare Funding PLC

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Octagon Healthcare Funding PLC ("the Company") for the year ended 31 December 2021 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 1 March 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is two years, covering the years ending 31 December 2020 to 31 December 2021. We remain independent of Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained a copy of management's cash flow forecast used by the Company and the counterparty (the intra-group related party) and agreed the inputs to externally sourced data and signed contractual agreements. The forecast was then recalculated to ensure the mathematical accuracy of the forecast.
- We critically assessed the directors' going concern assessment, including the reasonableness of the assumptions used by the Company and the counterparty in their cash flow forecasts in order to settle the payments of principal and interest on the onward loan. We challenged management over the estimates of future lifecycle costs, which we identified as the key assumption. In particular, this included assessing the reasonability of the long-term lifecycle plan, reviewing lifecycle budgets with reference to costs incurred to date and the condition level of the assets.
- We inspected the forecast to check that sufficient cash reserves were maintained to settle obligations by the Company and the counterparty, after which headroom exists. This forecast was stress tested. Furthermore, we recalculated the applicable debt ratios to determine that debt covenants will continue to be met.

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Independent Auditor's Report to the members of Octagon Healthcare Funding PLC (continued)

- We inspected the forecast to check that sufficient cash reserves were maintained to settle obligations by the Company and the counterparty, after which headroom exists. This forecast was stress tested. Furthermore, we recalculated the applicable debt ratios to determine that debt covenants will continue to be met.
- We evaluated the achievability of the actions the Directors consider they would take to improve the position should risks materialise in relation to the counterparty. This evaluation considered the potential impact of the current economic conditions on the counterparty's contract performance, subcontractor performance and compliance with borrowing covenants.
- We assessed the accuracy and completeness of the matters covered in the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Key audit matters	2021 and 2020 Recoverability of inter-group receivables
Materiality	Financial statements as a whole £2.38m (2020: £2.50m) based on 1% of total assets (2020: 1%)

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Recoverability of inter-group receivables

Impairment of financial assets is accounted for as detailed in note 2: Financial Instruments. The carrying amount of the Company's intra-group receivables balances, held at amortised less impairment represents 100% of the Company's total assets. The recoverability of amounts due is directly linked to the ability of the counterparty to continue generating cash flows which can be used to repay this balance.

How the scope of our audit addressed the key audit matter

Our audit work included, but was not restricted to, the following:

- We obtained a copy of the counterparty (the intra-group related party) cash flow forecast and agreed the inputs to externally sourced data and signed contractual agreements. The forecast was then recalculated to ensure the mathematical accuracy of the forecast.

Octagon Healthcare Funding PLC

Independent Auditor's Report to the members of Octagon Healthcare Funding PLC (continued)

- We challenged management over the estimates of future lifecycle costs, which we identified as the key assumption in the counterparty forecast. In particular, this included assessing the reasonability of the long-term lifecycle plan, reviewing lifecycle budgets with reference to costs incurred to date and the condition level of the assets.
- We reviewed the counterparty forecasts to identify whether sufficient cash will be generated to allow the repayment of the debt, when it falls due.
- We compared the carrying amount of the intra-group receivable with the respective net asset value of the counterparty (the intra-group related party), excluding the intra-group liability due from Octagon Healthcare Limited, to identify whether the remaining net asset values of the counterparty are sufficient to repay the intra-group receivables.

Key observations:

Based on the work performed we found the assessment of the recoverability of the intra-group receivable to be acceptable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements
	2021 £m
Materiality	£2.38 million (2020: £2.50 million)
Basis of determining materiality	1% (2020: 1%) of total assets
Rationale for benchmark applied	The Company is asset driven, with the bond liability matching the receivable balance provided to the related party counterparty.
Performance materiality	£1.785m (2020: £1.625m)
Basis for determining performance materiality	75% (2020: 65%) of financial statement materiality which reflects the expected total value of likely misstatements based on past experience and other factors, and management's attitude toward proposed adjustments.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £47,000 (2020: £50,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Octagon Healthcare Funding PLC

Independent Auditor's Report to the members of Octagon Healthcare Funding PLC (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Octagon Healthcare Funding PLC

Independent Auditor's Report to the members of Octagon Healthcare Funding PLC (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company and industry, we identified the principal risk of non-compliance with laws and regulations that might have a material effect on the financial statements and direct impact on the preparation of the financial statements, to be Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Company's companies assets.

Audit procedures performed by the engagement team included:

- We considered the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the recoverability of intra-group receivable balances;
- We tested journal entries based on identified characteristics the audit team considered could be indicative of fraud, as well as large and unusual transactions based upon our knowledge of the business by agreeing to supporting documentation;
- We made enquiries of Management, those charged with governance and those responsible for legal and compliance procedures as to whether there was any correspondence from relevant regulators in so far as the correspondence related to financial statements;
- We held discussions with Management and the audit committee to consider any known or suspected instances of non-compliance with laws and regulations or fraud identified by them; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Octagon Healthcare Funding PLC

Independent Auditor's Report to the members of Octagon Healthcare Funding PLC (continued)

Use of our report

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.

 Jack Draycott

27 April 2022

.....#FB34D873A17477.....

Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

Chartered Accountants

55 Baker Street

London

W1U 7EU

Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Octagon Healthcare Funding PLC

Profit and Loss Account for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Turnover		-	-
Administrative expenses		<u>(14)</u>	<u>(13)</u>
Operating loss	4	(14)	(13)
Interest receivable and similar income	5	13,255	13,563
Interest payable and similar expenses	6	<u>(13,206)</u>	<u>(13,512)</u>
Profit before tax		35	38
Taxation	7	<u>(7)</u>	<u>(7)</u>
Profit for the financial year		<u><u>28</u></u>	<u><u>31</u></u>

The above results were derived from continuing operations.

The company has no other Comprehensive Income for the year other than the profit for the financial year stated above.

The notes on pages 18 to 26 form an integral part of these financial statements.

Octagon Healthcare Funding PLC

Balance Sheet as at 31 December 2021

	Note	2021 £ 000	2020 £ 000
Current assets			
Debtors: Amounts falling due within one year	8	15,097	11,963
Debtors: Amounts falling due after more than one year	9	223,258	238,302
Cash at bank and in hand		220	192
		<u>238,575</u>	<u>250,457</u>
Creditors: Amounts falling due within one year	10	<u>(15,057)</u>	<u>(11,923)</u>
Total assets less current liabilities		223,518	238,534
Creditors: Amounts falling due after more than one year	10	<u>(223,258)</u>	<u>(238,302)</u>
Net assets		<u>260</u>	<u>232</u>
Capital and reserves			
Called up share capital	12	50	50
Profit and loss account		<u>210</u>	<u>182</u>
Total equity		<u>260</u>	<u>232</u>

Approved and authorised by the Board on ~~27 April 2022~~ and signed on its behalf by:



N Rae (Alternate for A Birch)
Director

The notes on pages 18 to 26 form an integral part of these financial statements.

Octagon Healthcare Funding PLC

Statement of Changes in Equity for the Year Ended 31 December 2021

	Called up Share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2020	50	151	201
Profit for the financial year	-	31	31
Total comprehensive income	-	31	31
At 31 December 2020	50	182	232

	Called up Share capital £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2021	50	182	232
Profit for the financial year	-	28	28
Total comprehensive income	-	28	28
At 31 December 2021	50	210	260

The notes on pages 18 to 26 form an integral part of these financial statements.

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

The principal activity of the company is the raising of finance through the bond market and its onward loan to a related party, Octagon Healthcare Limited, during the refinancing of that company's operations in December 2003.

The company is a public company limited by shares and is incorporated and domiciled in England.

The address of its registered office is:

Third Floor
Broad Quay House
Prince Street
Bristol
BS1 4DJ

The company's functional and presentation currency is the pound sterling. Amounts have been rounded to the nearest £1,000.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Statement of compliance

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

Basis of preparation

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The Company had net assets of £260,000 as at 31 December 2021 (2020: £232,000) and generated a profit for the year then ended of £28,000 (2020: £31,000).

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

The Directors have prepared a cash flow forecast for the entire concession period. For a period of 14 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downside scenarios, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on Octagon Healthcare Limited, a fellow group company with common directors, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on Octagon Healthcare Limited's underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Health. If in any circumstance the Client is unable to meet its obligations under the Project Agreement, there is sufficient headroom in the Company's cash flow forecasts to meet its financial obligations.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

Octagon Healthcare Limited's operating cash inflows are largely dependent on unitary charge receipts receivable from the Norfolk and Norwich University Hospitals NHS Foundation Trust and the Directors expect these amounts to be received even in severe but plausible possible downside scenarios.

Octagon Healthcare Limited continues to provide the asset in accordance with the contract and is available to be used. As a result, the company does not believe there is any likelihood of a material impact to the unitary payment.

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

The Directors believe Octagon Healthcare Limited has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Cash and cash equivalents

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

Financial Instruments

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

(i) Financial assets

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Basic financial assets, including other receivables, group loans, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

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

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

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

(ii) Financial liabilities

Basic financial liabilities, including other payables, bonds and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

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

(iii) Offsetting

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

Called up share capital

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

Dividends

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

Exemptions for qualifying entities under FRS 102

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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

- (i) the requirement to prepare a statement of cash flows;
- (ii) certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (iii) the requirement to disclose related party transactions, with the members of the same group, that are wholly owned;

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

3 Critical accounting judgements and estimation uncertainty

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

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

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

Estimates

Impairment of debtors

Management makes an estimate of the likely recoverable value of amounts owed by group undertakings by considering factors including the current credit rating, the ageing profile and the historic experience of the respective debtor. Management estimate that the group loan will be satisfied in full on each calculation date. See note 8 and 9 for the carrying value of the debtors.

4 Operating loss

The company had no employees during the year (2020: none). The emoluments of the directors are paid by the controlling parties. The controlling parties charge directors fees for the provision of directors to the group as a whole, £22,000 (2020: £21,000) of which have been determined as being for qualifying services to the company for the year. The Project Company bears all charges from the controlling parties.

The audit fee of £10,000 (2020: £9,000) has been borne on the company's behalf by a related company, for which no recharge has been made during the current or previous year.

5 Interest receivable and similar income

	2021 £ 000	2020 £ 000
Interest receivable on loans to group undertakings	<u>13,255</u>	<u>13,563</u>

6 Interest payable and similar expenses

	2021 £ 000	2020 £ 000
Interest on Bonds issued	<u>13,206</u>	<u>13,512</u>

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

7 Tax on profit

(a) Tax expense included in profit or loss

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	7	7
Tax on profit on ordinary activities	7	7

(b) Reconciliation of tax charge

The tax on profit for the year is the same as the standard rate of corporation tax in the UK (2020: the same as the standard rate of corporation tax in the UK) of 19% (2020: 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit before taxation	35	38
Corporation tax at standard rate	7	7
Total tax charge	7	7

(c) Tax rate changes

The UK government announced in its 2021 budget an increase in the rate of Corporation Tax from 19% to 25% with effect from 1 April 2023. The Finance Bill received Royal Assent on 10 June 2021 becoming Finance Act 2021. The change in tax rates is expected to have no impact on the company.

8 Debtors: Amounts falling due within one year

	2021 £ 000	2020 £ 000
Amounts owed by group undertakings	15,044	11,910
Group balance	50	50
Prepayments and accrued income	3	3
	15,097	11,963

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Debtors: Amounts falling due after more than one year

	2021 £ 000	2020 £ 000
Amounts owed by group undertakings	<u>223,258</u>	<u>238,302</u>

The intra group loan is recoverable in half yearly instalments and is subject to a fixed rate of interest of 5.343% calculated on a half yearly basis. The loan is scheduled to mature in December 2035.

10 Creditors

	Note	2021 £ 000	2020 £ 000
Due within one year			
Bond	11	15,044	11,910
Trade creditors		6	3
Accruals and deferred income		-	3
Corporation tax		<u>7</u>	<u>7</u>
		<u>15,057</u>	<u>11,923</u>

Due after one year

Bond	11	<u>223,258</u>	<u>238,302</u>
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11 Loans and borrowings

	2021 £ 000	2020 £ 000
Loans and borrowings falling due within one year		
Bond proceeds	<u>15,044</u>	<u>11,910</u>

	2021 £ 000	2020 £ 000
Loans and borrowings falling due between one and five years		
Bond proceeds	<u>60,552</u>	<u>56,652</u>

	2021 £ 000	2020 £ 000
Loans and borrowings falling due after more than five years		
Bond proceeds	<u>162,706</u>	<u>181,650</u>

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

11 Loans and borrowings (continued)

The bond is secured by a fixed and floating charge over the assets of the Group. The bond is repayable in half-yearly instalments commencing December 2003 and is subject to a fixed interest rate of 5.333% calculated on a half yearly basis. The bond is scheduled to be repaid in the year ending December 2035.

12 Called up share capital

Allotted, called up and fully paid shares

	2021		2020	
	No.	£ 000	No.	£ 000
Ordinary shares of £1 each	50,000	50	50,000	50

13 Related party transactions

As a wholly owned subsidiary of Octagon Healthcare Group Limited, the company has taken advantage of the exemption under FRS 102 - paragraph 33.1A of the requirement to disclose transactions between it and other group companies.

14 Financial instruments

The Company's principal financial instrument comprises of a fixed rate bond, mirrored by an on loan facility to Octagon Healthcare Limited, a fellow subsidiary. The main purpose of the financial instrument is to ensure, via the terms of the financial instrument, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement of Octagon Healthcare Limited.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's activities. Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements between Octagon Healthcare Limited and The Trust.

Exposure to credit and interest rate risks arise in the normal course of the Company's business.

Liquidity risk

The Company has aligned the debt service costs with the expected revenues of Unitary Charge income of Octagon Healthcare Limited over the lifetime of the project.

Credit risk

Although The Trust is the only client of Octagon Healthcare Limited the directors are satisfied that The Trust will be able to fulfil its collateral obligations under the PFI contract that are in turn underwritten by the Secretary of State for Health and therefore will be able to settle its liabilities as they fall due for the foreseeable future. The Company is dependent on Octagon Healthcare Limited to settle the payments of principal and interest on the onward loan of the funding which the Company raised.

Octagon Healthcare Funding PLC

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Parent and ultimate parent undertaking

The company's immediate parent is Octagon Healthcare Group Limited, incorporated in England and Wales.

At 31 December 2021, Octagon Healthcare Group Limited was owned and jointly controlled by Innisfree Nominees Limited (which holds legal title on behalf of Innisfree M&G PPP LP as to 36.84% and Innisfree PFI Secondary Fund 2 LP as to 13.16%) and Semperian PPP Investment Partners No. 2 Limited which hold 50% each of the issued share capital of Octagon Healthcare Group Limited. In the directors' opinion there is no ultimate controlling party.

The smallest group and largest group to consolidate these financial statement is that headed by Octagon Healthcare Group Limited.

These financial statements are available up request from the Company Secretary at Third Floor, Broad Quay House, Prince Street, Bristol, BS1 4DJ.