Company Registration No. 04420880 (England and Wales)

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mr A Watson Ms H O' Gorman Mrs G Birley-Smith Mr J S Gordon
Secretary	Vercity Social Infrastructure (UK) Limited (formerly HCP Social Infrastructure (UK) Limited)
Company number	04420880
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	KPMG LLP 66 Queen Square Bristol BS1 4BE

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

CONTENTS

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report for the year ended 31 December 2020.

Business Review
The company has 100% shareholdings in Healthcare Support (Newcastle) Limited and Healthcare Support (Newcastle) Finance Plc, together the "Group". The principal activity of the Group is to design, develop and finance the construction of new extensions to the Royal Victoria Infirmary and Freeman Hospital, together with providing the ongoing maintenance and lifecycle services to these extensions, on behalf of the Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust"). Financial close was achieved on 4 May 2005. The concession period is 38 years.

The financial statements are prepared on a going concern basis notwithstanding that, historically (during the years ending 31 December 2017 and 2018), the level of service provided by the principal subcontractor of the Group, Mitie FM Limited ("Mitie") (previously named Interserve (Facilities Management) Limited) (the "Service Provider") to the Trust was below that required and as a result the Group notified its lenders (the "Majority Creditors") on 27 November 2017 that sufficient Service Failure Points ("SFPs") had been awarded against the Group that Events of Default had occurred under the terms of the Group's finance documents which govern the lending arrangement in respect of the Group's bond and bank loan (the "Finance Documents").

In addition, on 15 March 2019 the former parent company of the Service Provider, Interserve PLC, went into administration with its lenders taking control of a newly formed parent company, Interserve Group Limited ("IGL"). Under the Finance Documents the administration of Interserve PLC triggered an Event of Default. On 1 December 2020 Mitie PLC acquired the Support Services division of IGL, including the Service Provider. Discussions to finalise a replacement parent company guarantee ("PCG") from Mitie Plc are ongoing between the Majority Creditors and Mitie Plc. The directors expect this replacement PCG to be obtained, but this is outside of the directors' control. Once a new PCG is in place, the directors expect the Majority Creditors will deem this Event of Default to have been remedied under the Finance Documents.

The implications of an Event of Default are that the Majority Creditors have a number of rights/remedies available to them which include requiring that the amounts owing under the Finance Documents are immediately repaid in full. The Directors have discussed the current levels of service, the ongoing negotiations to reach a settlement agreement and the requirement to obtain a parent company guarantee with the Majority Creditors and received assurances that the Majority Creditors do not currently intend to exercise their rights following the Events of Default to require repayment of the outstanding borrowings immediately. However these had not been formally waived or deemed remedied by the Majority Creditors. Consequently, the Group's borrowings have been classified as due within 1 year on the balance sheet.

As a result, in conjunction with the Service Provider and with the consent of the Majority Creditors, the Group put in place a service performance improvement plan, which has now been substantially delivered. The Trust has recognised the improvement in service delivery by the Service Provider. Since May 2018 the agreed declared level of SFPs has remained below the thresholds for an Event of Default under the Finance Documents. However, there are several alleged service failure issues (outside of the fire rectification works discussed below) in relation to which the Trust has claimed a level of SFPs and financial deductions over 2018 to 2020 that the Group does not accept. The quantum of these SFPs under dispute, if agreed in the Trust's favour, would lead to a further Event of Default under the Finance Documents.

Fire rectification works being undertaken by the Building Contractor were scheduled to be complete in February 2020 (claimed by the Trust to be the "Longstop Date"). However, due to repeated restrictions of access to certain areas of the hospital these works are still continuing. In relation to these fire rectification works, the Trust has claimed a level of SFPs and financial deductions over 2020 and 2021 that the Group does not accept. The Dispute Avoidance Committee ("DAC"), set up under the Project Agreement, has ruled in March 2021 that there is no valid Longstop Date as there was no valid Notice of Fireworks Programme Approval. Under this ruling, the Trust was not, and is not, entitled to levy deductions and SFPs for any failure to rectify fire deficiencies by this date. The Trust has the right to appeal the decision of the DAC until 22 July 2021 by taking the matter to Adjudication. In the event that the outcome of any appeal made by the Trust is favourable to the Trust, the quantum of the SFPs in relation to the fire rectification works would likely lead to a further Event of Default under the Finance Documents. The Board consider this to be a low risk and not plausible.

The parties are committed to resolving all service performance SFPs, and financial deductions, and negotiations are ongoing to reach a settlement agreement on all these disputed service performance items. The Majority Creditors have indicated that a settlement agreement that achieved these objectives would remedy all the service performance related Events of Default referred to above under the Finance Documents. In relation to the fire rectification works, the parties are committed to concluding these works and discussions are ongoing to agree a revised programme to complete them.

The Directors have prepared cash flow and covenant compliance forecasts for the Group and Company covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downside scenarios, including the potential consequences of financial deductions in respect of fire defect works and also the potential costs of failure of the Building Contractor, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period and there are no forecast covenant breaches. This assumes the Majority Creditors do not accelerate the repayments of principal. The failure of the building contractor would be a further Event of Default if this were to occur.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and that it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. See note 1.2 for further details.

Principal Risks and Uncertainties
The Group has exposures to a variety of financial risks which are managed with the purpose of minimising any potentially adverse effect on the Group's performance. The directors have policies for managing each of these risks and they are summarised below:

COVID-19
The COVID-19 pandemic continues to be the main challenge to the UK healthcare system and the global economy. The Group's operating cash inflows are largely dependent on unitary charge receipts receivable from the Trust and the Directors expect these amounts to be received even in reasonably possible downside scenarios. The Group continues to provide the asset in accordance with the contract and it is available to be used.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract other than as described above. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. Substantial resources have been invested by Mitie in improving service performance of the Service Provider and the Group considers the likelihood of a failure of the Service Provider to be low. However, as continuity of service delivery is of paramount importance, the Group has a Business Continuity Plan which details how it would deal with a Service Provider failure. Sufficient cash reserves are maintained within the Group to enable it to take appropriate action should the need arise.

Lifecycle
A risk borne by the Group is that lifecycle costs exceed those forecast in the financial model. This risk is mitigated by future estimates of lifecycle expenditure being prepared by maintenance experts on an asset-by-asset basis and by the periodic technical evaluations of the physical condition of the facilities. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

Availability
Investment in the project is funded primarily by the Loan, Bond and subordinated unsecured loan stock. During the operational phase the principal source of funds available to meet its liabilities under the Loan and Bond is the unitary charge received from the Trust under the Project Agreement. Failure to achieve the forecast levels of availability would result in lower than forecast revenues and this may adversely affect the Group's ability to make payments to the Majority Creditors. Deductions of £888,058 (2019: £3,176,390) were incurred in the year, of which £821,741 (2019: £3,002,039) was recovered from the Service Provider and the Building Contractor, resulting in a net cash outflow of £66,317 (2019: £137,611.) The Group disputes the level of financial deductions levied by the Trust. However, to protect the financial stability of the Group, deductions are passed down to the Service Provider and the Building Contractor as appropriate and to the fullest extent possible in line with the contractual framework.

Service Performance
Financial risk under the Project Agreement and related contracts is substantially passed on to the Service Provider and the Building Contractor. However, poor performance may result in the Trust having the right to terminate the Project Agreement due to the level of SFPs being above the thresholds stated in the Project Agreement. The remedial plan agreed in January 2018 and subsequently implemented has assisted in reducing agreed SFPs to below the termination threshold. Service Provider performance in particular continues to improve and agreed SFPs were below the termination threshold throughout 2020 and the first half of 2021.

Service Provider failure
The likelihood of this risk is assessed through the review of the Service Provider financial statements and through discussions with the Service Provider. On 15th March 2019 the parent company of the Service Provider, Interserve PLC, went into administration with its lenders taking control of a newly formed parent company, Interserve Group Limited ("IGL"). On 1 December 2020 Mitie Plc acquired Interserve Support Services and services are now being provided by Mitie FM Limited ("Mitie"). There have been no disruption in the services provided since the acquisition. Discussions to finalise a parent company guarantee ("PCG") from Mitie Plc are in advanced stages. Once a new PCG is in place the related Event of Default will be remedied under the finance documents. Substantial resources have been invested in improving service performance of the Service Provider by Mitie and the Group currently considers the likelihood of a failure of the Service Provider to be low. However, as continuity of service delivery is of paramount importance, the Group has a Business Continuity Plan which details how it would deal with a service provider failure. Sufficient cash reserves are maintained within the Group to enable it to take appropriate action should the need arise.

Brexit
The Group is exposed to Brexit risk as a result of the UK's exit from the European Union. Whilst the Group is not considered to be significantly exposed, subcontractors which it engages with are considered to have exposure in relation to labour and the cost of supplies. Performance risk under the Project Agreement and related contracts is passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten by parent company guarantees, however the replacement PCG from Mitie PLC is not yet in place. Due to the evolving nature of the risk, the Board continue to actively monitor developments, however there has been no disruption to the service provision to date.

Development and performance
Turnover in the year increased to £15,900,000 (2019: £13,548,000) due to an increase in income from variations carried out in the year and an increase in costs on which service margin is recognised. Gross profit increased to £4,415,000 (2019: £3,789,000). The prior year reduction in profit was driven by higher legal and professional costs in respect of the alleged historic service failure issues. These costs were one off in nature and hence were not included in any calculation of turnover on the contract. As a similar level of legal and professional costs has not occurred in the current year, gross profit has increased accordingly.

Interest receivable and similar income, which is largely comprised of interest earned on the finance debtor balance, decreased to £15,840,000 (2019: £20,891,000) due to a decrease in indexation and the annual repayment of the outstanding finance debtor balance.

Loan and bond interest payable, which is also index-linked, has decreased to £13,584,000 (2019: £18,920,000) due to a decrease in indexation and the continuing repayment of the Group's borrowings. Interest payable on the subordinated loan has decreased to £3,565,000 (2019: £3,696,000). The reduction is due to a cumulative effective interest rate adjustment being recognised in the year.

The impact of these movements has resulted in a profit before taxation of £3,106,000 (2019: £2,064,000).

At 31 December 2020 the Group had net assets of £12,044,000 (2019: £9,528,000).

During the year the Group has not repaid any of the subordinated unsecured loan stock as scheduled repayments do not commence until 2043.

The Group has not declared any dividends to shareholders in the year ended 31 December 2020 (2019: £nil).

At 31 December 2020 the Company had net assets of £51,000 (2019: £51,000). The increase in Debtors: amounts falling due within one year of £3,565,000 (2019: £3,695,000), and the corresponding increase in Creditors: amounts falling due within one year, is due to accrued interest on the subordinated debt.

Key Performance Indicators
Financial penalties and SFPs are levied by the Trust in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The level of financial deductions and SFPs currently being levied by the Trust are disputed by the Group and negotiations are ongoing between all parties to resolve the associated issues.

The directors have modelled the anticipated financial outcome of the project across the term of the contract up to the end of the concession. The directors monitor actual performance against this anticipated performance. As a result, the directors deem that the Group's performance as at 31 December 2020 against this measure is considered satisfactory.

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the Group and the Company for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies act 2006 ("section 172").

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

i. The Group's shareholders, bondholders and credit provider
Principal considerations of the board are whether the investment objective of the Group is meeting shareholder and bondholder expectations and how the manager implements the objective. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder and bondholder briefing meetings to ensure that shareholder and bondholder engagement is optimized.

ii. The manager
The delivery by the manager of its services is fundamental to the long term success of the Group. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

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:

(a) The likely consequences of any decision in the long term
The Group has outsourced the management of the Group to Vercity Social Infrastructure (UK) Limited ("Vercity"), the manager. The delivery by the manager of its services is fundamental to the long term success of the Group. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

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

(c) The need to foster the Group's business relationships with suppliers, customers and others
The Group is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the Group has policies and procedures to ensure regular communication is maintained between the parties.

Section 172 Companies Act 2006 Statement (continued)

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

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

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

The Group is committed, in its day to day operations and dealings with all 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.

(f) The need to act fairly between members of the Company

The members of the company are represented at board meetings by their appointed director(s). 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 Group's key stakeholders and reflect the board's belief that the long term sustainable success of the Group is linked directly to its key stakeholders.

On behalf of the board

Mr A Watson
Director
29 June 2021

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

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr A Watson
Ms H O' Gorman
Mrs G Birley-Smith
Mr J S Gordon

Results and dividends

The results for the year are set out on page 14.

No ordinary dividends were paid (2019: £nil). The directors do not recommend payment of a further dividend.

Financial risk management objectives and policies

Treasury operations and financial instruments

The group's financial instruments result in the group's exposure to liquidity, credit and interest rate risks. Further information on the financial instruments employed by the group can be seen below.

Liquidity Risk

The group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the group negotiated debt facilities with an external party to ensure that the group has sufficient funds over the life of the PFI concession.

Interest Rate Risk

The group has external loan and bond debt which is index linked to RPI (all items). The group mitigates this RPI risk by having an index linked unitary contract with the Newcastle Upon Tyne Hospitals NHS Trust, thereby mitigating inflationary risk.

Credit Risk

The group's principal financial assets are cash, financial assets and trade and other receivables. The group's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with Newcastle Upon Tyne Hospitals NHS Foundation Trust and underwritten by the Department of Health.

Financial reporting risk and internal control

The group has outsourced the financial reporting function to Vercity Social Infrastructure (UK) Limited ("Vercity"). Authorities remain vested in the Board members of the group. Vercity reports regularly to the Board of the group. The Board receives monthly reports from Vercity which specifically summarise and address the financial, contractual and commercial risks that the group is exposed to, and are pertinent to the industry in which the group 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 group and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, Vercity evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

Future developments, events that have occurred after the balance sheet date and statement of how directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that, including on the principal company decisions.

Details of future developments, events that have occurred after the balance sheet date and the directors' statement can be found in the strategic report on page 1 and page 5 and form part of this report by cross-reference.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

On behalf of the board

Alastair C Watson

Mr A Watson
Director
29 June 2021

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *the financial reporting standard applicable in the UK and the Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of its profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

Opinion

We have audited the financial statements of Healthcare Support (Newcastle) Holdings Limited ("the company") for the year ended 31 December 2020 which comprise the Group Statement of Comprehensive Income, Group Balance Sheet, Company Balance Sheet, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's 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 group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.2 to the financial statements which indicates that the Group and Company's ability to continue as a going concern is dependent on the continued financial support of the Group's financing providers following unremedied events of default prior to the balance sheet date and a potential event of default in the severe and plausible downside scenario. These events and conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Going concern basis of preparation

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

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

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We did not identify any additional fraud risks.

We performed procedures including:

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

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

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

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

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

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

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

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

The purpose of our 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.

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

30 June 2021

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Turnover	3	15,900	13,548
Cost of sales		(11,485)	(9,759)
Gross profit		4,415	3,789
Interest receivable and similar income	6	15,840	20,891
Interest payable and similar expenses	7	(17,149)	(22,616)
Profit before taxation		3,106	2,064
Tax on profit	8	(590)	(393)
Profit for the financial year		2,516	1,671
Other comprehensive income		-	-
Total comprehensive income for the year		2,516	1,671

Total comprehensive income for the year is all attributable to the owners of the parent company.

The Group Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2020

		2020		2019	
	Notes	**£000**	**£000**	**£000**	**£000**
Current assets					
Debtors falling due after more than one year	**11**	298,770		305,542	
Debtors falling due within one year	**11**	37,479		42,503	
Cash at bank and in hand		50,370		46,130	
		386,619		394,175	
Creditors: amounts falling due within one year	**12**	(374,575)		(384,647)	
Net current assets			12,044		9,528
Capital and reserves					
Called up share capital	**14**		51		51
Profit and loss reserves			11,993		9,477
Total equity			12,044		9,528

The financial statements were approved by the board of directors and authorised for issue on 29 June 2021 and are signed on its behalf by:

Alastair Watson

Mr A Watson
Director

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2020

	Notes	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Investments	**9**		51		51
Current assets					
Debtors falling due after more than one year	**11**	24,337		24,337	
Debtors falling due within one year	**11**	12,815		9,250	
		37,152		33,587	
Creditors: amounts falling due within one year	**12**	(37,152)		(33,587)	
Net current assets			-		-
Total assets less current liabilities			51		51
Capital and reserves					
Called up share capital	**14**		51		51

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £nil (2019: £nil).

The financial statements were approved by the board of directors and authorised for issue on 29 June 2021 and are signed on its behalf by:

Alastair Watson

Mr A Watson
Director

Company Registration No. 04420880

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Profit and loss reserves	Total
	£000	£000	£000
Balance at 1 January 2019	51	7,806	7,857
Year ended 31 December 2019:			
Profit and total comprehensive income for the year	-	1,671	1,671
Balance at 31 December 2019	51	9,477	9,528
Year ended 31 December 2020:			
Profit and total comprehensive income for the year	-	2,516	2,516
Balance at 31 December 2020	51	11,993	12,044

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £000
Balance at 1 January 2019	51
Year ended 31 December 2019:	
Profit and total comprehensive income for the year	-
Balance at 31 December 2019	51
Year ended 31 December 2020:	
Profit and total comprehensive income for the year	-
Balance at 31 December 2020	51

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020		2019	
	Notes	**£000**	**£000**	**£000**	**£000**
Cash flows from operating activities					
Cash generated from operations	**17**		27,758		27,888
Income taxes paid			(699)		(602)
Net cash inflow from operating activities			27,059		27,286
Investing activities					
Interest received		1		55	
Settlement of fixed term deposits		-		24,803	
Net cash generated from investing activities			1		24,858
Financing activities					
Interest paid		(8,043)		(8,162)	
Repayment of bank loans		(14,777)		(14,304)	
Net cash used in financing activities			(22,820)		(22,466)
Net increase in cash and cash equivalents			4,240		29,678
Cash and cash equivalents at beginning of year			46,130		16,452
Cash and cash equivalents at end of year			50,370		46,130

1 Accounting policies

Company information

Healthcare Support (Newcastle) Holdings Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The group consists of Healthcare Support (Newcastle) Holdings Limited and all of its subsidiaries.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

1.2 Going concern

The financial statements are prepared on a going concern basis notwithstanding that the Group has unremedied historical Events of Default at the date of approval of these financial statements in relation to its borrowings arising from historical service performance issues and due to a replacement parent company guarantee not yet being obtained in relation to the Group's principal subcontractor, Mitie FM Limited (previously named Interserve (Facilities Management) Limited) (the "Service Provider").

Historically (during the years ended 31 December 2017 and 2018), the level of service provided by the Service Provider), gave rise to declared Service Failure Points ("SFPs") that exceeded threshold levels within various contract documents. This led to warning notices from the Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust") to the Group, and warning notices issued in turn from the Group to the Service Provider as well as triggering Events of Default in the finance documents governing the lending arrangement in respect of the Group's bond and bank loan facilities (the "Finance Documents"). The last such Event of Default arose in July 2018.

As a result, in conjunction with the Service Provider and with the consent of the bond and bank loan lenders (the "Majority Creditors"), the Group put in place a service performance improvement plan, which has now been substantially delivered. The Trust has recognised the improvement in service delivery by the Service Provider. Since May 2018 the agreed declared level of SFPs has remained below the thresholds for an Event of Default under the Finance Documents. However, there are several alleged service failure issues (outside of the fire rectification works discussed below) in relation to which the Trust has claimed a level of SFPs and financial deductions over 2018 to 2020 that the Group does not accept. The quantum of these SFPs under dispute, if agreed in the Trust's favour, would lead to a further Event of Default under the Finance Documents.

1 Accounting policies (Continued)

Going concern (continued)

The financial impact of shortfalls in service performance was that the Trust claimed entitlement to deductions of £271,000 (2019: £2,509,000) from the revenues due under the agreement with the Trust (the "Project Agreement") in the year ended 31 December 2020. These were passed on in full to the Service Provider. In addition, deductions of £617,000 (2019: £631,000) were incurred in relation to unavailability caused by fire rectification works; £551,000 (2019: £493,000) of these deductions were passed down to the Service Provider and Laing O'Rourke (the "Building Contractor"). The Group disputes the level of deductions levied by the Trust, however, to protect the financial stability of the Group all deductions are passed down to subcontractors to the fullest extent possible in line with the contractual framework.

Fire rectification works are being undertaken by the Building Contractor, these were scheduled to complete in February 2020 (claimed by the Trust to represent the "Longstop Date"). However, due to repeated restrictions of access to certain areas of the hospital these works are still continuing. In relation to these fire rectification works, the Trust has claimed a level of SFPs and financial deductions over 2020 and 2021 that the Group does not accept. The Dispute Avoidance Committee ("DAC"), set up under the Project Agreement, has ruled in March 2021 that there is no valid Longstop Date as there was no valid Notice of Fireworks Programme Approval. Under this ruling, the Trust was not, and is not, entitled to levy deductions and SFPs for any failure to rectify fire deficiencies by this date. The Trust has the right to appeal the decision of the DAC until 22 July 2021 by taking the matter to Adjudication. In the event that the outcome of any appeal made by the Trust is favourable to the Trust, the quantum of the SFPs in relation to the fire rectification works would likely lead to a further Event of Default under the Finance Documents. The Board consider this to be a low risk and not plausible.

The parties are committed to resolving all disputed service performance SFPs and financial deductions, and negotiations are ongoing to reach a settlement agreement on all these disputed service performance items. The Majority Creditors have indicated that a settlement agreement that achieved these objectives would remedy all the service performance related Events of Default referred to above under the Finance Documents. In relation to the fire rectification works, the parties are committed to concluding these works and discussions are ongoing to agree a revised programme to complete them.

In addition, on 15 March 2019, the former parent company of the Service Provider, Interserve PLC, went into administration with its lenders taking control of a newly formed parent company, Interserve Group Limited ("IGL"). Under the Finance Documents the administration of Interserve PLC triggered an Event of Default. The Majority Creditors were notified of the situation on 29 March 2019. On 1 December 2020 Mitie Plc purchased the Service Provider. To date there has been no change to the operating structure or delivery of the service by the Service Provider. Discussions to finalise a replacement parent company guarantee ("PCG") from Mitie Plc are ongoing between the Majority Creditors and Mitie Plc, and the directors expect this replacement PCG to be obtained, but this is outside of the directors' control. Once a new PCG is in place, the directors expect the Majority Creditors will deem this Event of Default to have been remedied under the Finance Documents.

The Events of Default described above have not been formally waived or deemed remedied by the Majority Creditors at the date of signing these financial statements. The implications of an Event of Default are that the Majority Creditors have a number of rights/remedies available to them which include requiring that the amounts owing under the Finance Documents are immediately repaid in full.

The impact of the above circumstances on the balance sheets at 31 December 2020 and 2019 is to classify the outstanding amounts of the bond and the bank loan and associated amounts of interest payable as a current liability as the Group does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £315,527,000 (2019: £324,997,000) of bond and bank loan which would otherwise be classified as 'Creditors: Amounts due after more than one year' have been included in 'Creditors: Amounts due within one year'.

1 Accounting policies **(Continued)**

Going concern (continued)
In addition, as a result of the Events of Default, the Group's and Company's loans from shareholders also become repayable on demand and hence this balance of £24,337,000 (2019: £24,337,000) has been classified as current at 31 December 2020 and 2019. The counterparty would only be able to recall this debt on demand if the Majority Creditors were to exercise their rights of requiring immediate repayment. These payables are subordinate to the amounts due to the Majority Creditors.

The Directors have discussed the current levels of service, the ongoing negotiations to reach a settlement agreement, and the requirement to obtain a parent company guarantee with the Majority Creditors and received assurances that the Majority Creditors do not currently intend to exercise their rights following an Event of Default to require repayment of the outstanding borrowings immediately. The Majority Creditors are provided with monthly updates from the Directors to ensure that they are kept informed of the Group's progress in remedying all outstanding Events of Default.

In addition, the Finance Documents contain covenants with regard to financial performance. The Directors have prepared cash flow and covenant compliance forecasts covering a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downside scenarios, as set out below, including the impact of Covid-19, the Group and Company will have sufficient funds to meet their liabilities as they fall due for that period and there are no forecasted covenant breaches, except for the ongoing Events of Default as set above, and the possible Event of Default referred to below.

Both the base case and the severe but plausible downside scenarios incorporate cash outflows in relation to the finalisation of the settlement agreement, and assume that the Majority Creditors will not accelerate the repayments of principal as a result of the ongoing Events of Default as set out above, or the possible Event of Default referred to below.

The severe but plausible downside scenarios have also assumed/include the following:
- the potential consequences of financial deductions in relation to the fire rectification works;
- the potential costs of a failure of the Building Contractor, which would be a further Event of Default if this occurred, but which would be deemed remedied under the Finance Documents one year after the defect liability period ends in February 2022. This downside assumes that the Group engages a third party to complete the fire rectification works, and the Group would have to bear the costs of these works and any potential financial deductions related to these works;
- the Trust will continue to meet its obligations under the Project Agreement which is underwritten by the Secretary of State for Health.

In all scenarios performed, the forecasts show that the Group will have sufficient funds to meet its liabilities as they fall due for that period and there are no forecasted covenant breaches, except for the ongoing Events of Default and the potential Event of Default as set above.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and that they may therefore be unable to realise their assets and discharge their liabilities in the normal course of business.

The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.3 Turnover
Turnover in relation to service revenue is recognised in accordance with the service concession contract accounting policy. Turnover in relation to pass-through revenue and variation income is recognised when the services are performed.

1 Accounting policies **(Continued)**

1.4 Fixed asset investments

In the separate financial statements of the company, investments in subsidiaries are carried at cost less impairment.

1.5 Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

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.

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method 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.

Trade and other debtors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The group is obligated to keep separate cash reserves in respect of requirements in the group's funding agreements. This restricted cash balance amounts to £26,413,000 at the year end (2019: £27,274,000).

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. 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.

1 Accounting policies **(Continued)**

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

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 group after deducting all of its liabilities.

Basic financial liabilities, including trade and other creditors, Bonds and subordinated loans, 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.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings classified as basic financial instruments

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

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.6 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.7 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.8 Service Concession Accounting

The Group is an operator of a Public Finance Initiative ("PFI") contract. The Group entered into a project agreement (the "Contract") with the Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust") to design, develop and finance the construction of new extensions to the Royal Victoria Infirmary and Freeman Hospital, together with providing the ongoing maintenance and lifecycle services to these extensions. Financial close was achieved on 4 May 2005. The concession period is for 38 years, during this period the Group has contracted to provide hard services to the Trust. The Group has passed these obligations down to the Service Provider via a subcontract. The obligation to provide major maintenance works (lifecycle) is undertaken by the Service Provider, however, as discussed in the strategic report, the risk that the costs exceed those forecast in the financial model is borne by the Group. The timing and extent of the major maintenance works is a key assumption that will affect the cashflows of the Group, further information is shown in note 2. The Contract entitles the Trust to a share in any savings made by the Group on the actual insurance premiums incurred versus those assumed during the contract negotiations. Any savings are shared with the Trust on a triennial basis.

The Trust are entitled to terminate the Contract at anytime by giving 6 months written notice. If the Trust exercise this right they are liable to pay the Group compensation as set out in the Contract, which would include the senior debt, redundancy costs and other Service Provider losses and the market value of the subordinated debt and shareholder equity.

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

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase the Trust pay the Group a fixed Unitary Charge payment, as determined in the Contract, that is inflated by RPI each year. Income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The Group recognises revenue in respect of the services provided, including lifecycle services, 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.

1 Accounting policies **(Continued)**

1.9 Interest receivable and payable

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

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

2 Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting estimates in applying the group's accounting policies are described below:

Critical estimates

Service concession agreement

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2020	2019
	£000	£000
Turnover		
Service fee income	14,933	13,152
Pass through income	70	84
Variation income	645	66
Rental income	252	246
	15,900	13,548

4 Auditor's remuneration

	2020	2019
Fees payable to the company's auditor and associates:	£000	£000
For audit services		
Audit of the financial statements of the group and company	44	35

The fees payable of £44,000 (2019: £35,000) to the group's auditor for the audit of the company and the group's financial statements is borne by Healthcare Support (Newcastle) Limited, who will not seek reimbursement. Within the group fee is £3,000 (2019: £2,000) for the audit of the company.

5 Employees

The company had no employees during the year (2019: nil).

6 Interest receivable and similar income

	2020	2019
	£000	£000
Interest income		
Interest on bank deposits	-	55
Other interest income	1	-
Interest on finance debtor	15,839	20,836
	15,840	20,891

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	15,839	20,891

7 Interest payable and similar expenses

	2020	2019
	£000	£000
Interest on financial liabilities measured at amortised cost:		
Interest on bond and loans	13,584	18,920
Subordinated debt interest payable	3,565	3,696
	17,149	22,616

8 Taxation

	2020	2019
	£000	£000
Current tax		
UK corporation tax on profits for the current period	590	393

8 Taxation **(Continued)**

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2020 £000	2019 £000
Profit before taxation	3,106	2,064
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	590	393
Taxation charge in the financial statements	590	393

For the year ended 31 December 2020, the UK Corporation tax rate of 19% is applied.

The Finance Act 2016 reduced the corporation tax rate to 17% with effect from 1 April 2020. In the Budget of 11 March 2020, the Chancellor of the Exchequer announced that the planned reduction to 17% would no longer be taking effect.

9 Fixed asset investments

		Group		Company	
		2020	2019	2020	2019
	Notes	£000	£000	£000	£000
Investments in subsidiaries	10	-	-	51	51

Movements in fixed asset investments
Company

	Shares in group undertakings £000
Cost or valuation	
At 1 January 2020 and 31 December 2020	51
Carrying amount	
At 31 December 2020	51
At 31 December 2019	51

10 Subsidiaries

Details of the company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct
Healthcare Support (Newcastle) Finance Plc	UK*	To finance a PFI hospital project involved in developing the Royal Victoria Infirmary and Freeman Hospital in Newcastle Upon Tyne	Ordinary shares	100.00
Healthcare Support (Newcastle) Limited	UK*	To design, build, finance and operate a PFI hospital project involved in developing the Royal Victoria Infirmary and Freeman Hospital in Newcastle Upon Tyne	Ordinary shares	100.00

The aggregate capital and reserves and the profit for the year of the subsidiaries noted above was as follows:

Name of undertaking	Profit/(Loss)	Capital and Reserves
	£000	£000
Healthcare Support (Newcastle) Finance Plc	30	521
Healthcare Support (Newcastle) Limited	2,486	11,523

* The full registered office is the same as that disclosed in the company information.

11 Debtors

	Group 2020 £000	2019 £000	Company 2020 £000	2019 £000
Amounts falling due within one year:				
Trade debtors	1,103	5,221	-	-
Corporation tax recoverable	146	38	-	-
Amounts owed by group undertakings	-	-	12,815	9,250
Finance debtor	6,772	6,382	-	-
Other debtors	848	1,319	-	-
Prepayments and accrued income	138	162	-	-
Accrued concession income	28,472	29,381		
	37,479	42,503	12,815	9,250
Amounts falling due after more than one year:				
Amounts owed by group undertakings	-	-	24,337	24,337
Finance debtor	298,770	305,542	-	-
	298,770	305,542	24,337	24,337
Total debtors	336,249	348,045	37,152	33,587

12 Creditors: amounts falling due within one year

	Notes	Group 2020 £000	2019 £000	Company 2020 £000	2019 £000
Bank loans and bonds	13	330,050	339,230	-	-
Trade creditors		857	3,896	-	-
Amounts due to shareholders		37,152	33,587	37,152	33,587
Other taxation and social security		1,164	1,025	-	-
Other creditors		-	1,812	-	-
Bond and loan accrued interest		1,972	2,028		
Accruals and deferred income		3,380	3,069	-	-
		374,575	384,647	37,152	33,587

12 Creditors: amounts falling due within one year (Continued)

As at the balance sheet date there were Events of Default subsisting pursuant to the Group's finance documents and the Group's lenders had not formally waived or deemed remedied those Events of Default. Consequently, the Group's bank loan and bond amounts due to shareholders loan are classified as due within one year in the balance sheet. Upon remediation of the Events of Default and receipt of a waiver from the Group's lenders amounts falling due within one year of £315,527,000 (2019: £324,997,000) and £24,337,000 (2019: £24,337,000) respectively would be transferred to Creditors: amounts falling due after more than one year.

Included within Amounts due to shareholders is £24,337,000 (2019: £24,337,000) of principal borrowing (see note 13) and £12,815,000 (2019: £9,250,000) of accrued interest.

All financial liabilities above are held at amortised cost.

13 Loans and borrowings

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank loans and bonds	330,050	339,230	-	-
Loans from shareholders	24,337	24,337	24,337	24,337
Payable within one year	354,387	363,567	24,337	24,337

The group originally had a publicly offered bond from Royal Bank of Canada for £197.8 million and a loan with European Investment Bank (EIB) of £115 million. On 7 April 2014, the Principal Paying Agency Agreement novated from the Royal Bank of Canada to the Bank of New York Mellon, London Branch. The debt is repayable in instalments based on an agreed percentage amount of the total facilities per annum over the next 18 - 21 years (the EIB loan having the shorter maturity). The loans are secured under the security document by a charge over all the assets of the company.

Interest on the public bond is fixed at 2.187% per annum and interest on the EIB loan is fixed at 2.1492% per annum (coupon of 1.9592% and margin of 0.19%). Both the public bond and EIB loan are index linked.

In addition, the group was provided with a credit facility of £24,607,000 from its shareholders, drawn down in March 2010. This facility accrues interest at an agreed rate of 12% per annum. This facility is subordinate to the bond and bank loan facilities.

14 Share capital

	Group and company	
	2020	2019
Ordinary share capital	£000	£000
Issued and fully paid		
51,000 Ordinary shares of £1 each	51	51

15 Related party transactions

Transactions with related parties
During the year the group entered into the following transactions with related parties:

	Management fees	
	2020	**2019**
	£000	**£000**
Group		
Vercity Social Infrastructure (UK) Limited	612	684
Vercity Management Services Limited	-	86

	Sub-ordinated debt interest	
	2020	**2019**
	£000	**£000**
Group		
Equion Health (Newcastle) Limited	2,852	2,957
Newcastle (Healthcare Support) Limited	713	739

The following amounts were outstanding at the reporting end date:

Amounts due to related parties	**2020**	**2019**
	£000	**£000**
Group		
Newcastle (Healthcare Support) Limited	7,430	6,717
Equion Health (Newcastle) Limited	29,722	26,870
	37,152	33,587

Vercity Social Infrastructure (UK) Limited, Vercity Management Services Limited and Innisfree PFI Secondary Fund are under common control. Innisfree PFI Secondary Fund is an ultimate shareholder of Healthcare Support (Newcastle) Holdings Limited.

16 Controlling party

The company is a joint venture between Equion Health (Newcastle) Limited (80%) and Newcastle (Healthcare Support) Limited (20%). Both of these companies are incorporated in the United Kingdom and registered in England and Wales.

17 Cash generated from group operations

	2020 £000	2019 £000
Profit for the year after tax	2,516	1,671
Adjustments for:		
Taxation charged	590	393
Interest payable and similar expenses	17,149	22,616
Interest receivable and similar income	(15,840)	(20,891)
Movements in working capital:		
Decrease in debtors	27,743	19,096
(Decrease)/increase in creditors	(4,400)	5,003
Cash generated from operations	27,758	27,888

18 Analysis of changes in net debt - group

	1 January 2020 £000	Cash flows £000	Other non-cash changes £000	31 December 2020 £000
Cash at bank and in hand	46,130	4,240	-	50,370
Borrowings excluding overdrafts	(339,230)	14,777	(5,597)	(330,050)
Bond and loan accrued interest	(2,028)	8,043	(7,987)	(1,972)
Loans from shareholders	(24,337)	-	-	(24,337)
Interest accrued on loans from shareholders	(9,250)	-	(3,565)	(12,815)
	(328,715)	27,060	(17,149)	(318,804)