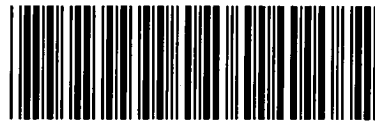


Company Registration No. 05314236 (England and Wales)

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

COMPANY INFORMATION

Directors Ms H O' Gorman
Mr A Watson
Mrs G Birley-Smith
Mr J S Gordon (Appointed 30 April 2019)

Secretary HCP Social Infrastructure (UK) Limited

Company number 05314236

Registered office 8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditor KPMG LLP
66 Queen Square
Bristol
BS1 4BE

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

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HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

Business Review

The Company is principally engaged in providing financing to Healthcare Support (Newcastle) Limited (the "SPV"), a fellow subsidiary undertaking of Healthcare Support (Newcastle) Holdings Limited for the construction of new extensions to the Royal Victoria Infirmary and Freeman Hospital, on behalf of the Newcastle Upon Tyne Hospitals NHS Foundation Trust (the "Trust"). The Company raised external and shareholder financing in the form of a bond, bank loans and loans from its parent company which it then lent to the SPV on the same terms.

The Company continues to hold £115,000,000 in an index linked loan with the European Investment Bank and holds £197,800,000 in index linked bond debt with the Bank of New York Mellon. The Company continues to lend this debt to the SPV to fund its construction and operational expenditure.

In March 2010 the Company drew down £24,607,000 of subordinated debt from the shareholders.

As discussed in more detail in Note 1, during 2017 and 2018, the level of service provided by the principal subcontractor of Healthcare Support (Newcastle) Limited to the Trust was below that required and as a result the Company notified its lenders (the "Lenders") on 27 November 2017 that sufficient Service Failure Points ("SFP"s) had been awarded against the SPV that Events of Default had occurred under the terms of the Company's finance documents which govern the lending arrangement in respect of the Company's bond and bank loan (the "Finance Documents").

In addition, on 15 March 2019 the parent company of Interserve (Facilities Management) Limited (the "Subcontractor"), 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 implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring that the amounts owing under the Finance Documents are immediately repaid in full. The Directors have discussed the current levels of service and the administration of Interserve PLC with the Lenders and received assurances that the Lenders do not currently intend to exercise their rights following the Events of Default to require repayment of the outstanding borrowings immediately.

As at the balance sheet date there were Events of Default that had not been waived or formally deemed remedied by the Lenders. Consequently, the Company's borrowings have been classified as due within 1 year in the balance sheet.

The SPV Directors have sought legal advice and prepared, with the support of an external specialist, a plan of remedial actions (the "Plan") which they would undertake in order to improve service levels and to reduce the levels of SFPs so that further Events of Default would not occur. The Plan was presented to the Lenders on 29 January 2018 and accepted by them. Since the implementation of the plan the levels of service have improved which is demonstrated by a reduction in the level of agreed SFPs incurred in the financial year. Notwithstanding the disputed SFPs in relation to several specific areas, the Trust have acknowledged the improved performance of the Subcontractor. The SPV Directors remain focused on resolving the specific areas of alleged service failures with the Trust. Good progress is being made in monthly Liaison Committee meetings between the Trust, Healthcare Support (Newcastle) Limited and Interserve (Facilities Management) Limited.

The Directors have modelled the forecast financial performance of the Company and the SPV, and taking into consideration reasonably possible changes to operations including the potential consequences of revenue deductions for service delivery failures and also associated costs for further remedial activity, they consider that the SPV will remain in operational existence for the foreseeable future and will be able to make repayments of the Company's receivables sufficient to allow the Company to repay the interest on its borrowings and the principal amounts of bond and bank loans which would be due in the event that the Lenders do not accelerate the repayments of principal as set out above.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Business Review

The Directors have concluded that until the Events of Default have been waived or deemed remedied by the Lenders these issues represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern and that therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after considering the uncertainties described above, the Directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. For these reasons, the Directors consider that it is appropriate to prepare the accounts on a going concern basis.

Principal Risks and Uncertainties

The company's activities expose it to a number of financial risks including liquidity risk, interest rate risk and credit risk. These risks are further explained in the Directors' Report.

Brexit

The risks from Brexit are a result of the risk it poses to the sub-contracted service provider of Healthcare Support (Newcastle) Limited (the "SPV"), rather than the company itself. This is therefore linked to the service performance and service provider failure risks discussed above. The SPV is insulated from these risks because non-performance will result in deductions being passed down to the SPV's service provider, however there remains a risk that in extreme circumstances non-performance may result in the Trust having the right to terminate the Project Agreement with the SPV.

The service provider has performed a review of its exposure to Brexit. The relevant concerns relate to spare parts, materials and EU labour, with primary concerns revolving around delays in delivery and increased transportation costs of those supplies which come from the EU.

While there will likely be some disruption, the service provider has a strategy in place to keep this to a minimum. This will result in higher costs to the service provider, however this will not impact the company itself. The company is comfortable that the increased costs and disruption will not threaten the service provider to such an extent as to put the SPV's project at risk.

Development and performance

Financial performance

Interest receivable decreased to £22,564,000 (2017: £22,797,000). Interest is charged to fellow subsidiary, Healthcare Support (Newcastle) Limited, to cover the cost of the loan and bond interest payable, plus a mark up of 0.5%. As such, the interest receivable by the company will be directly affected by fluctuations in indexation as the underlying debt is index-linked. There is a compensating decrease on bond and loan interest payable to £19,237,000 (2017: £19,800,000). The interest payable to parent undertakings for subordinated debt has however increased to £3,288,000 (2017: £2,959,000). Previously unpaid interest has been added to the outstanding balance, therefore increasing the interest payable.

The impact of these movements has resulted in a profit of £32,000 (2017: £31,000).

Financial position

At 31 December 2018 the company had net assets of £461,000 (2017: £429,000).

As explained above, the bond and bank loan and the subordinated loan have been classified in the current and prior years as due within one year. As a result, £335,497,000 of bond and bank loan, and £24,337,000 of subordinated 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.

During the year, the company has repaid £5,266,000 of the loan and £8,516,000 of the Secured Guaranteed Bonds; a total of £13,782,000. Scheduled loan repayment dates are 31 March and 30 September each year. In the previous financial year, the company repaid a total of £13,154,000.

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

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Key Performance Indicators

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 discussed above the company's performance as at 31 December 2018 against this measure was considered satisfactory.

On behalf of the board



Mr A Watson

Director

27 June 2019

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Directors

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

Mr R Marsden	(Resigned 14 January 2019)
Ms H O' Gorman	
Mr A Watson	
Mr J C Heath	(Resigned 30 April 2018)
Mrs G Birley-Smith	
Mr D Bradbury	(Appointed 30 April 2018 and resigned 30 April 2019)
Mr J S Gordon	(Appointed 30 April 2019)

Results and dividends

The results for the year are set out on page 11.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

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.

Financial instruments

Financial risk management objectives and policies

An explanation of the company's objectives, policies and strategies for the role of financial instruments in managing the risks of the company in its activities, as well as other numerical disclosures in respect of financial instruments, is given below.

Liquidity risk

The company has issued a public bond which is subject to indexation in line with RPI. The company mitigates this RPI risk by having an inter-company loan with Healthcare Support (Newcastle) Limited, a fellow group undertaking, which tracks the movement in RPI in bank financed debt, therefore inflationary risk is mitigated.

Inflation risk

The company's borrowings expose it to cash flow risk primarily due to the financial risks of changes in inflation. The company has index-linked debt to manage the risk and reduce its exposure to changes in RPI.

Credit risk

The company's principal financial assets are cash, financial assets and trade and other receivables. The company's credit risk is attributable to its receivables with Healthcare Support (Newcastle) Limited from cashflow it receives from its client, the Newcastle Upon Tyne NHS Foundation Trust. In the opinion of the board of directors this risk is limited as the receivables are with Newcastle Upon Tyne Hospital NHS foundation Trust and guaranteed by the Department of Health.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial reporting risk and internal control

The company has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the Board members of the company. HCP reports regularly to the Board of the company. The Board receives monthly reports from HCP 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. Supporting this process, HCP 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

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

Auditor

In accordance with the company's articles, a resolution proposing that KPMG LLP be reappointed as auditor of the company will be put at a General Meeting.

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

Audit committee

EU legislation providing a new EU regulatory framework for statutory audit was adopted in April 2014 requiring EU Public Listed Entities to constitute an Audit Committee that would be responsible for satisfying itself that the financial affairs of the company are conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The Company has exercised the exemption available under Article 39.1 from constituting a separate audit committee as the Board considers it adequately performs the equivalent functions, roles and responsibilities that such a committee is expected to undertake. The primary duties of the Audit Committee which are fulfilled by the Board of Directors are to:

- monitor the integrity of the financial statements of the Company and to review significant judgements contained therein;
- monitor the level and effectiveness of the internal financial controls;
- assess the scope and effectiveness of systems to identify, assess, manage, and monitor financial and non-financial risk;
- make recommendations concerning the appointment and terms of engagement of external auditors; and
- review and monitor the independence of the statutory auditor and the provision of additional services by the auditor to the Company.

On behalf of the board



Mr A Watson

Director

27 June 2019

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that 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 company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

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

On behalf of the Board



Mr A Watson
Director
27 June 2019

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

1 Our opinion is unmodified

We have audited the financial statements of Healthcare Support (Newcastle) Finance Plc ("the Company") for the year ended 31 December 2018 which comprise the Statement of Total Comprehensive Income, Balance sheet, Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors during May 2018. The period of total uninterrupted engagement is for the 2 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Material uncertainty relating to Going concern

We draw attention to note 1.2 to the financial statements which indicates that there is a material uncertainty relating to the Company's ability to continue as a going concern. Under the Company's financing agreements events of default occurred prior to the balance sheet date and subsequently which have not been waived or deemed remedied. These events and conditions, along with the other matters explained in note 1.2, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The risk

Disclosure quality

There is little judgement involved in the directors' conclusion that risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.

However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.

Our response

Our procedures included:

Assessing transparency: We assessed the accuracy and clarity of the matters covered in the going concern disclosures including that sufficient details were provided concerning the material uncertainty by reference to: the Company's remediation plans; third party reports in respect of ongoing service delivery; communications from the lenders and enquiries of the Board.

Our results

We found the disclosures included in note 1.2 made by the Directors, including the material uncertainty description to be acceptable (2017: acceptable).

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

3 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. Going concern is the only key audit matter and is described in section 2 above. There we summarise the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address the matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

4 Our application of materiality and an overview of the scope of our audit

Materiality for the statutory financial statements as a whole was set at £2.3 million (2017: £2.2 million), determined with reference to a benchmark of total assets of £381.9 million (2017: £380.8 million), of which it represents 0.60% (2017: 0.58%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £115,000 (2017: £95,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

5 We have nothing to report on the strategic report and the 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 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 those reports;
- in our opinion the information given in the strategic report and the directors' report 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.

6 We have nothing to report on the matters 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), 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, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Irregularities - ability to detect

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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management 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.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company 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.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

8 The purpose of our audit work and to whom we owe our responsibility

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

27 June 2019

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Interest receivable and similar income	6	22,564	22,797
Interest payable and similar expenses	7	(22,525)	(22,759)
Profit before taxation		<u>39</u>	<u>38</u>
Tax on profit	8	(7)	(7)
Profit for the financial year		<u><u>32</u></u>	<u><u>31</u></u>

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

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £000	£000	2017 £000	£000
Current assets					
Debtors falling due after more than one year	10	362,215		364,992	
Debtors falling due within one year	10	19,724		15,853	
		<u>381,939</u>		<u>380,845</u>	
Creditors: amounts falling due within one year	11	<u>(381,478)</u>		<u>(380,416)</u>	
Net current assets			<u>461</u>		<u>429</u>
Capital and reserves					
Called up share capital	13		50		50
Profit and loss reserves			411		379
Total equity			<u>461</u>		<u>429</u>

The financial statements were approved by the board of directors and authorised for issue on 27 June 2019 and are signed on its behalf by:



Mr A Watson
Director

Company Registration No. 05314236

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2017	50	348	398
Year ended 31 December 2017:			
Profit and total comprehensive income for the year	-	31	31
Balance at 31 December 2017	50	379	429
Year ended 31 December 2018:			
Profit and total comprehensive income for the year	-	32	32
Balance at 31 December 2018	50	411	461

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Healthcare Support (Newcastle) Finance Plc is a public company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

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 under the historical cost convention. The principal accounting policies adopted are set out below.

The company's parent undertaking, Healthcare Support (Newcastle) Holdings Limited, includes the company in its consolidated financial statements. The consolidated financial statements of Healthcare Support (Newcastle) Holdings Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

In these financial statements, the company is considered a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

As the company is a wholly owned subsidiary of Healthcare Support (Newcastle) Holdings Limited, the company has taken advantage of the exemption in section 33 of FRS 102 to not disclose transactions entered into between itself and the other members of the group.

1.2 Going concern

During the years ended 31 December 2017 and 2018, the level of service provided by Interserve (Facilities Management) Limited (the "Subcontractor"), who is the principal subcontractor of Healthcare Support (Newcastle) Limited (the "SPV") (A fellow subsidiary of Healthcare Support (Newcastle) Holdings Limited), was below that required under the agreements between the SPV and The Newcastle upon Tyne NHS Foundation Trust (the "Trust") and also that is required under the finance documents governing the lending arrangement in respect of the Company's bond and bank loan (the "Finance Documents").

The financial impact of the service level breach on the agreement with the Trust (the "Project Agreement") is that financial penalties of £830,500 (2017: £490,000) were incurred as a deduction from the revenues due under the Project Agreement in the year ended 31 December 2018. These were passed on in full to the Subcontractor. In addition, deductions of £600,071 were incurred in relation to unavailability caused by fire rectification works, £538,416 of these deductions were passed down to the Subcontractor and Laing O'Rourke (the "Building Contractor"). Healthcare Support (Newcastle) Limited disputes the level of deductions levied by the Trust and discussions remain ongoing regarding the level of deductions. However, to protect the financial stability of the SPV all deductions are passed down to subcontractors to the fullest extent possible in line with the contractual framework.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

There were under the terms of the Project Agreement service failure points ("SFPs") awarded against the SPV. Under the terms of the Finance Documents, the level of points awarded was sufficient to trigger Events of Default as defined in the Finance Documents. This was notified to the Company's lenders (the "Lenders") on 27 November 2017.

Since May 2018 the agreed level of SFPs has been below the threshold of an Event of Default under the Finance Documents. However, there are several alleged service failure issues in relation to which the Trust has claimed a level of SFPs and financial deductions that the SPV does not accept. The parties are committed to resolving these differences with regular meetings between senior management of both sides being held. The impact of these disputed deductions is mostly cash and profit neutral as they have been passed down to the Subcontractor and Building Contractor to the fullest extent possible.

On 15 March 2019 the parent company of the Subcontractor, 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 Lenders were notified of the situation on 29 March 2019. Once the parties are satisfied as to IGL's financial position, a parent company guarantee ("PCG") from IGL will be obtained and remedy the Event of Default. The parties remain in discussion regarding a replacement PCG with a solution expected to be found in 2019.

Substantial resources have been invested by IGL in improving service performance of the Subcontractor and the Directors considers the likelihood of a failure of the Subcontractor to be low. However, as continuity of service delivery is of paramount importance, the SPV has a Business Continuity Plan which details how the SPV would deal with a service provider failure. Sufficient cash reserves are maintained within the SPV to enable it to take the appropriate action should the need arise.

The above Events of Default have not been waived or deemed remedied by the Lenders. The implications of an Event of Default are that the Lenders have a number of rights/remedies available to them which include requiring that the amounts owing under the Finance Documents are immediately repaid in full.

The impact of this on the balance sheets at 31 December 2018 and 2017 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 Company does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £335,497,000 (2017: £338,290,000) 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.

As a result of the Events of Default, the Directors have sought legal advice and prepared, with the support of an external specialist, a plan of remedial actions (the "Plan") which they would undertake along with the Subcontractor in order to improve service levels and to reduce the levels of SFPs so that further Events of Default would not occur. The Plan was presented to the Lenders on 29 January 2018 and accepted by them. The Lenders have appointed a third party to monitor the implementation of the Plan and to report the level of SFPs arising. Since the implementation of the Plan the levels of service have improved which is demonstrated by a reduction in the level of agreed SFPs incurred in the financial year. Notwithstanding the disputed SFPs on several specific areas, the Trust has acknowledged the improved performance of the Subcontractor. The SPV Directors remain focused on resolving the specific areas of alleged service failures with the Trust. Good progress is being made in monthly Liaison Committee meetings between the Trust, the SPV and the Subcontractor.

The Directors have discussed the current levels of service and the administration of Interserve PLC with the Lenders and received assurances in June 2019 that the Lenders do not currently intend to exercise their rights following an Event of Default to require repayment of the outstanding borrowings immediately.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

In addition, there are contained within the Finance Documents covenants with regard to financial performance. The Directors have modelled the forecast financial performance of the Company and the SPV, and taking into consideration reasonably possible changes to operations including the potential consequences of revenue deductions for service delivery failures and also associated costs for further remedial activity or service provider failure, they consider that the SPV will remain in operational existence for the foreseeable future and will be able to make repayments of the Company's receivables sufficient to allow the Company to repay the interest on its borrowings and the principal amounts of bond and bank loans which would be due in the event that the Lenders do not accelerate the repayments of principal as set out above. The SPV has not declared any dividends in the year ended 31 December 2018 and retains a robust balance sheet to ensure it is able to deliver on its obligations.

The Directors have concluded that until the Events of Default have been waived or deemed remedied by the Lenders these issues represent a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern and that therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, considering the uncertainties described above, the Directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. For these reasons, the Directors consider that it is appropriate to prepare the accounts on a going concern basis.

1.3 Financial instruments

The company 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 company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with 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 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. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

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.

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 company 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 company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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 payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

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

Derecognition of financial liabilities

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

1.4 Equity instruments

Equity instruments issued by the company 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 company.

1.5 Taxation

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

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

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 company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

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 when the company has 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.

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 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.

Due to the nature of the company, the directors consider there to be no critical accounting judgements or sources of estimation uncertainty.

3 Auditor's remuneration

	2018	2017
	£000	£000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	9	6
	<u>9</u>	<u>6</u>

The fees payable of £8,700 (2017: £5,700) to the company's auditors for the audit of the company's annual accounts is borne by Healthcare Support (Newcastle) Limited, who will not seek reimbursement.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4 Employees

The company had no employees during the year (2017: nil).

5 Directors' remuneration

	2018 £000	2017 £000
Sums paid to related parties for directors' services	11	41

6 Interest receivable and similar income

	2018 £000	2017 £000
Interest income		
Interest receivable from group companies	22,564	22,797

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	22,564	22,797
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7 Interest payable and similar expenses

	2018 £000	2017 £000
Interest on financial liabilities measured at amortised cost:		
Interest on bonds and loans	19,237	19,800
Interest payable to parent undertakings	3,288	2,959
	22,525	22,759

8 Taxation

	2018 £000	2017 £000
Current tax		
UK corporation tax on profits for the current period	7	7

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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:

	2018 £000	2017 £000
Profit before taxation	39	38
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	7	7
Taxation charge in the financial statements	7	7

A reduction in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly.

9 Financial instruments

	2018 £000	2017 £000
Carrying amount of financial assets		
Debt instruments measured at amortised cost	381,939	380,845
Carrying amount of financial liabilities		
Measured at amortised cost	381,471	380,409

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

9 Financial instruments

(Continued)

The Company's principal financial assets comprise amounts owed by group undertakings. The financial liabilities comprise accruals, bank loans, index linked bonds and subordinated debt. These are all classified as financial liabilities held at amortised cost.

The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Concession Agreement.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instruments and the company's ability to do so is restricted by covenants in its existing agreements.

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

Liquidity risk

The Company has issued a public bond which is subject to indexation in line with RPI. The Company mitigates this RPI risk by having an inter-company loan with Healthcare Support (Newcastle) Limited, a fellow group undertaking, which tracks the movement in RPI in bank financed debt, therefore inflationary risk is mitigated.

Inflation risk

The Company's borrowings expose it to cash flow risk primarily due to the financial risks of changes in inflation. The Company has index linked debt to manage the risk and reduce its exposure to changes in RPI.

Credit risk

The Company's principal financial assets are amounts owed by group undertakings. The Company's credit risk is attributable to its receivables with Healthcare Support (Newcastle) Limited from cash flow it receives from its client, the Newcastle Upon Tyne NHS Foundation Trust. In the opinion of the board of directors this risk is limited as the receivables are with Newcastle Upon Tyne NHS Foundation Trust and guaranteed by the Department of Health.

Capital risk management

The Company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings.

10 Debtors

	2018	2017
	£000	£000
Amounts falling due within one year:		
Amounts owed by group undertakings	19,724	15,853
	<u>19,724</u>	<u>15,853</u>
	2018	2017
	£000	£000
Amounts falling due after more than one year:		
Amounts owed by group undertakings	362,215	364,992
	<u>362,215</u>	<u>364,992</u>
Total debtors	381,939	380,845
	<u>381,939</u>	<u>380,845</u>

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Creditors: amounts falling due within one year

	Notes	2018 £000	2017 £000
Bank loans and bonds	12	349,666	351,877
Amounts due to parent undertakings		29,892	26,604
Corporation tax		7	7
Senior debt accrued interest		1,913	1,928
		<u>381,478</u>	<u>380,416</u>

As at the balance sheet date, and at 31 December 2017, there were Events of Default subsisting pursuant to the Company's finance documents and the company's lenders had not formally waived or deemed remedied those Events of Default. Consequently, the company's loans and amount due to parent undertaking are classified as due within 1 year in the balance sheet.

12 Loans and overdrafts

	2018 £000	2017 £000
Bond	221,109	222,310
Bank loan	128,557	129,567
Loans from parent undertakings	24,337	24,337
	<u>374,003</u>	<u>376,214</u>
Payable within one year	<u>374,003</u>	<u>376,214</u>

The company has a publicly offered bond from the Bank of New York Mellon for £197.8 million. In line with this bond, the company also has the capacity to issue a further £40 million of variations bonds if required, this has not been drawn upon to date. The company also has a loan with the European Investment Bank of £115 million. The public bond and loan debt are repayable in instalments based on an agreed percentage amount of the total facilities per annum over the next 23 years and 20 years respectively, subject to the right of the lenders to require immediate repayment should the company incur an Event of Default.

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 by RPI (all items).

In addition, Healthcare Support (Newcastle) Holdings Limited has provided a credit facility of £24,658,000; this was drawn down in March 2010. The facility accrues interest at an agreed rate of 12% per annum.

The company has on lent the proceeds of the bond, loan and borrowings from its parent to Healthcare Support (Newcastle) Limited and charges interest to Healthcare Support (Newcastle) Limited at a 0.5% mark-up on the same terms as it is charged by EIB and Bank of New York Mellon.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Share capital

	2018 £000	2017 £000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

14 Controlling party

The company's immediate and ultimate parent company and controlling entity is Healthcare Support (Newcastle) Holdings Limited, which is incorporated in the United Kingdom, registered at 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG. The smallest and largest group in which its results are consolidated is Healthcare Support (Newcastle) Holdings Limited. Copies of the consolidated accounts are available from Companies House, Crown Way, Cardiff, CF14 8UZ.