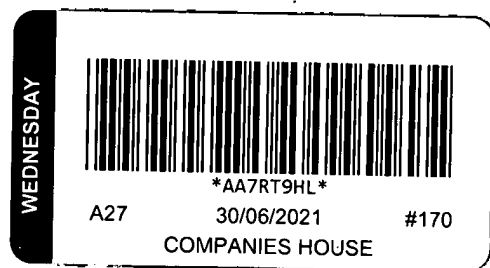


Company Registration No. 05314236 (England and Wales)

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

COMPANY INFORMATION

Directors	Ms H O' Gorman Mr A Watson Mrs G Birley-Smith Mr J S Gordon
Secretary	Vercity Social Infrastructure (UK) Limited (formerly 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 2020

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

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 substantially 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.

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

The going concern assessment and cash flow forecasts for the Company are therefore dependent on the SPV's going concern assessment and cash flow forecasts. Historically (during the years ending 31 December 2017 and 2018), the level of service provided by the principal subcontractor of the SPV, 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 Company notified its lenders (the "Majority Creditors") on 27 November 2017 that sufficient Service Failure Points ("SFPs") 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 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 Company'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 SPV 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 SPV 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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Business Review

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"). 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 SPV 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.

The Directors have prepared cash flow and covenant compliance forecasts for the Company and the SPV 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 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 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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Principal Risks and Uncertainties

The Company has exposures to a variety of financial risks which are managed with the purpose of minimising any potentially adverse effect on the Company'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 SPV's operating cash inflows are almost entirely 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 SPV continues to provide the asset in accordance with the contract and it is available to be used.

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

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 SPV is exposed to Brexit risk as a result of the UK's exit from the European Union. Whilst the SPV 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. The discussions to replace this are in the advanced stages. 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

Financial performance

Interest receivable decreased to £16,183,000 (2019: £21,631,000). 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 in interest payable to £16,146,000 (2019: £21,594,000).

The impact of these movements has resulted in a profit of £30,000 (2019: £30,000) for the year.

Financial position

At 31 December 2020 the Company had net assets of £521,000 (2019: net assets of £491,000).

Borrowings have moved due to a combination of: repayments of senior debt of £14,777,000 (2019: £14,304,000); offset by an indexation uplift of £5,149,000 (2019: £10,330,000); and further offset by additional accrued interest of £3,565,000 (2019: £3,695,000) on subordinated debt which has not been paid due to the ongoing Events of Default.

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 2020

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 2020 against this measure was considered satisfactory.

Section 172 Companies Act 2006 Statement

The Directors have a duty to promote the success of 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 Company's main stakeholders as the following:

- i. The Company's shareholders, bondholders and credit provider
Principal considerations of the board are whether the investment objective of the Company is meeting shareholder and bondholder expectations and how the 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 Company. 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:

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

(a) The likely consequences of any decision in the long term

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

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

The Company is committed to upholding the underlying principle of PFI of working in partnerships with all parties to the arrangement. As noted above, the Company has policies and procedures to ensure regular communication is maintained between the parties.

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

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

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

The Company is committed, in its day to day operations and dealings with all 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 Company's key stakeholders and reflect the board's belief that the long term sustainable success of the Company is linked directly to its key stakeholders.

On behalf of the board



Mr A Watson

Director

29 June 2021

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

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

Results and dividends

The results for the year are set out on page 15.

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.

Inflation 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.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate this risk by closely monitoring the timing of cash flows within the Company.

Interest rate risk

The company is exposed to interest rate risk on bank balances with floating interest rates, however the directors do not consider this exposure to be significant.

The guaranteed secured loan and bond, and the unsecured subordinated loan notes, all have fixed rates until 2038, 2041 and 2043 respectively, thus there is no interest rate risk associated with these financial liabilities (senior debt is index linked).

Credit risk

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 2020

Financial reporting risk and internal control

The company has outsourced the financial reporting function to Vercity Social Infrastructure (UK) Limited ("Vercity"). Authorities remain vested in the Board members of the company. Vercity reports regularly to the Board of the company. The Board receives monthly reports from Vercity 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, 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 4 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 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

Disclosure Transparency Rules require Public Listed Entities to have a body which is responsible, as a minimum, for monitoring the financial reporting process, monitoring the internal controls and risk management of the company and monitoring the statutory audit and the independence of the statutory auditor. The Board considers it adequately performs the equivalent functions, roles and responsibilities that such a body is expected to undertake. The primary duties of the body, 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

29 June 2021

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

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 its profit or loss 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

29 June 2021

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 2020 which comprise the Statement of 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 2020 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 Board of Directors.

We were first appointed as auditor by the directors during May 2018. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. 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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

2 Material uncertainty relating to going concern

We draw attention to note 1.2 to the financial statements which indicates that the company's ability to continue as a going concern is dependent on the continued financial support of its financing providers following unremedied events of default prior to the balance sheet date and a potential event of default in the severe but 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 company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The risk

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.

That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

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 considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including that sufficient details were provided concerning the material uncertainty by reference to: the Settlement agreement negotiations; third party reports in respect of ongoing service delivery; communications from the lenders; and enquiries of the Board of directors.

Our assessment of management's going concern assessment also included:

- Critically assessing the directors' going concern assessment, including the reasonableness of the key assumptions used in the cash flow forecasts and the level of severe but plausible downside sensitivities applied using our knowledge of scenarios being applied by other PFI entities.

We performed the tests above rather than seeking to rely on any of the company's controls because the nature of the area is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the going concern disclosure in note 1 with a material uncertainty to be acceptable (2019 result: 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 a significant key audit matter and is described in section 2 above. We did not identify any further key audit matters (unchanged from 2019). For key audit matters, in arriving at our audit opinion above, we list our key audit procedures to address the matters 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 financial statements as a whole was set at £2.3 million (2019: £2.3 million), determined with reference to a benchmark of total assets of which it represents 0.61% (2019: 0.60%).

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £1.7 million (2019: £1.7 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £110,000 (2019: £115,000), 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 Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company, or to cease its operations, and as they have concluded that the company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out section 2 of our report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions.

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.

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

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

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 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.

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.

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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

7 We have nothing to report on the Strategic report and Directors' report

The directors are responsible for the Strategic report and Directors' report together with the financial statements. Our opinion on the financial statements does not cover those reports and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion 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 our 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.

8 We have nothing to report on the other 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 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.

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 8, 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 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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

10 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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) FINANCE PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Interest receivable and similar income	5	16,183	21,631
Interest payable and similar expenses	6	(16,146)	(21,594)
Profit before taxation		<u>37</u>	<u>37</u>
Tax on profit	7	(7)	(7)
Profit for the financial year		<u>30</u>	<u>30</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>30</u>	<u>30</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 2020

	Notes	2020 £000	£000	2019 £000	£000
Current assets					
Debtors falling due after more than one year	9	347,803		357,734	
Debtors falling due within one year	9	27,776		23,930	
		<u>375,579</u>		<u>381,664</u>	
Creditors: amounts falling due within one year	10	(375,058)		(381,173)	
Net current assets			<u>521</u>		<u>491</u>
Capital and reserves					
Called up share capital	12		50		50
Profit and loss reserves			<u>471</u>		<u>441</u>
Total equity			<u>521</u>		<u>491</u>

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:



Mr A Watson
Director

Company Registration No. 05314236

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

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	50	411	461
Year ended 31 December 2019:			
Profit and total comprehensive income for the year	-	30	30
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	50	441	491
Year ended 31 December 2020:			
Profit and total comprehensive income for the year	-	30	30
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	<hr/> <hr/> 50	<hr/> <hr/> 471	<hr/> <hr/> 521

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

1.2 Going concern

The Company is a special purpose vehicle formed to act as financing conduit for the activities of a fellow subsidiary with common directors, Healthcare Support (Newcastle) Limited ("SPV").

The financial statements are prepared on a going concern basis notwithstanding that in order to settle its own financial obligations and meet the covenant compliance requirements of its external borrowings, the Company is dependent on the SPV, a fellow group company with common Directors, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the external funding which the Company raised. The Company lent the proceeds raised from these external borrowings to SPV on similar terms.

The going concern assessment and cash flow forecasts for the Company are therefore dependent on the SPV's going concern assessment and cash flow forecasts.

Historically (during the years ended 31 December 2017 and 2018), the level of service provided by the principal subcontractor of the SPV, Mitie FM Limited (previously named Interserve (Facilities Management) Limited) (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 SPV, and warning notices issued in turn from the SPV to the Service Provider as well as triggering Events of Default in the finance documents governing the lending arrangement in respect of the Company'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 SPV 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 SPV 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.

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 to the SPV 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 SPV disputes the level of deductions levied by the Trust, 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.

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 SPV 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.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Going concern (continued)

The SPV and the Trust 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 SPV and Trust 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 Company does not have an unconditional right to avoid repayment for at least 12 months at the balance sheet date. As a result, £321,103,000 (2019: £331,011,000) 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'.

In addition, under the terms of the shareholder agreement (to which the Company is a party), as a result of the Events of Default, the Company's payables to group undertakings 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. These payables are subordinate to the amounts due to the Majority Creditors therefore, whilst they are technically repayable on demand, the counterparty are only able to do so if the Majority Creditors exercise their rights of requiring immediate repayment.

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 SPV'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 for the Company and the SPV 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 Company 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 as set above, and the possible Event of Default referred to below.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Going concern (continued)

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 from the SPV 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 SPV engages a third party to complete the fire rectification works, and the SPV 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 Company 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 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.

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

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 2020

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.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

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 through 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 company's contractual obligations expire or are discharged or cancelled.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

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.

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.

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

	2020	2019
	£000	£000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	11	9
	<u>11</u>	<u>9</u>

The fees payable of £11,000 (2019: £9,000) to the company's auditor for the audit of the company's annual accounts is borne by Healthcare Support (Newcastle) Limited, who will not seek reimbursement.

4 Employees

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

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

5 Interest receivable and similar income

	2020 £000	2019 £000
Interest income		
Interest receivable from group companies	16,183	21,631
	<u>16,183</u>	<u>21,631</u>
Investment income includes the following:		
Interest on financial assets not measured at fair value through profit or loss	16,183	21,631
	<u>16,183</u>	<u>21,631</u>

6 Interest payable and similar expenses

	2020 £000	2019 £000
Interest on financial liabilities measured at amortised cost:		
Interest on bonds and loans	12,581	17,899
Interest payable to parent undertakings	3,565	3,695
	<u>16,146</u>	<u>21,594</u>

7 Taxation

	2020 £000	2019 £000
Current tax		
UK corporation tax on profits for the current period	7	7
	<u>7</u>	<u>7</u>

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	37	37
	<u>37</u>	<u>37</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	7	7
	<u>7</u>	<u>7</u>
Taxation charge in the financial statements	7	7
	<u>7</u>	<u>7</u>

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 rate reduction to 17% would no longer be taking effect.

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

8 Financial instruments

	2020 £000	2019 £000
Carrying amount of financial assets		
Measured at amortised cost	375,579	381,664
Carrying amount of financial liabilities		
Measured at amortised cost	375,051	381,166

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.

Inflation 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.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate this risk by closely monitoring the timing of cash flows within the Company.

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.

9 Debtors

	2020 £000	2019 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	27,776	23,930

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

9 Debtors (Continued)

	2020 £000	2019 £000
Amounts falling due after more than one year:		
Amounts owed by group undertakings	347,803	357,734
Total debtors	375,579	381,664

10 Creditors: amounts falling due within one year

	Notes	2020 £000	2019 £000
Bank loans and bonds	11	336,064	345,692
Amounts due to parent undertakings	11	37,152	33,587
Corporation tax		7	7
Senior debt accrued interest		1,835	1,887
		375,058	381,173

As at 31 December 2020 and at 31 December 2019, 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.

Included within Amounts due to parent undertakings is £24,337,000 (2019: £24,337,000) of principal borrowing (see note 12) and £12,815,000 (2019: £9,250,000) of accrued interest. Amounts due to parent undertakings is subordinate to the Bank loans and Bonds.

11 Loans and overdrafts

	2020 £000	2019 £000
Bond	213,139	218,866
Bank loan	122,925	126,826
Loans from parent undertakings	24,337	24,337
	360,401	370,029
Payable within one year	360,401	370,029

HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

11 Loans and overdrafts

(Continued)

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 21 years and 18 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 £24,607,000; this was drawn down in March 2010. The facility accrues interest at an agreed rate of 12% per annum. This facility is subordinate to the bond and bank loan facilities.

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.

12 Share capital

	2020	2019
	£000	£000
Ordinary share capital		
Issued and fully paid		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

13 Ultimate 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.