City Hospitals Independent Commercial Enterprises Limited

Report and Financial Statements

for the 12 month period ended 31 March 2017

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Registered company number
08808703
City Hospitals Independent Commercial Enterprises Limited ("the company") was incorporated under the Companies Act 2006 on 10 December 2013 and is a company limited by shares. Trading commenced on 4 August 2014.

Registered Address
City Hospitals Independent Commercial Enterprises Limited
Sunderland Royal Hospital
Kayll Road
Sunderland
Tyne and Wear
SR4 7TP

Banker
Lloyds Banking Group
54-55 Fawcett Street
Sunderland
SR1 1SF

Independent Auditors (appointed)
Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Strategic Report

Principal Activities and Review of the Business

The company is incorporated and domiciled in the UK, it is a wholly owned subsidiary company with the sole shareholder being the parent company City Hospitals Sunderland NHS Foundation Trust.
The principal activities of the company are to provide and operate hospitals, healthcare establishments and health care facilities and the provision of related services. The company aims to provide safe, effective, sustainable and modern health care and working environments.

As part of an agreement to provide managed health care services, the company operates a 10 year lease arrangement with City Hospitals Sunderland NHS Foundation Trust. On 1st February 2017 the company acquired a leasehold interest in the three main sites at Sunderland Royal Hospital, Sunderland Eye Infirmary and the Childrens Centre, in order to provide an Operated Healthcare Facility to the named sites via a leaseback arrangement.
The company operates under licence an independent outpatient pharmacy service at Sunderland Royal Hospital and Sunderland Eye Infirmary and commenced activities on 4 August 2014.
The company also receives rental income from shorter term retail and independent healthcare providers which are located in the hospital properties.
The company managed its responsibilities and effectively delivered the services that it intended to its customers during the period to 31 March 2017.

Key Performance Indicators

The operating profit of £505k resulted from turnover of £9.93m and operating expenses of £9.43m.

Corporation tax on ordinary activities was a charge of £58k and the profit for the financial year was £228k after tax.

The company made a charitable donation to a connected party, City Hospitals Sunderland NHS Foundation Trust Charitable Funds in the year, to be used in purchasing medical equipment. The total value of the donation was £60k.

The strong liquidity position resulted in a positive cash balance of £3.0m at the end of the financial year.

Principal Risks and Uncertainties

The company maintains a comprehensive risk register as part of its risk management strategy and this is reviewed at the companys monthly Board meeting. The expansion into healthcare facilities management and the associated transfer of staff and services to the company emphasises the importance of embedding a risk aware culture across the organisation.

The company has not suffered any significant financial risk and has met expectations of delivery of its financial commitments since incorporation.

Going concern

The financial statements have been prepared on a going concern basis. The company has recorded a profit before tax of £286,922 (2016: profit £226,610).

The company is forecasting sustained profitability from 2017-18, and has sufficient cash reserves to meet its liabilities as they fall due. The company is supported by intercompany loans from its ultimate parent entity of £1,000,000 and £27,749,722 of which £28,194,228 remains owing, and the directors have obtained assurances that this facility will not be withdrawn for a period of at least 12 months from the date of signing the financial statements.

Signed: .....(Paul Robinson, Finance Director)

Date: 24 November 2017

Directors' Report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2017.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors, who served throughout the year and up to the date of signing the financial statements except as noted, were as follows:

Dr I K Makinson, Managing Director

Mr P Robinson, Finance Director

Mr M Stouph, Non-executive Director (Chair)

Mr W Carr, Estates and Facilities Director (appointed 6th January 2017)

Political Donations

The company made no political donations nor incurred any political expenditure during the financial year.

Employment of Disabled Persons

It is the company's policy to give employment to disabled persons wherever practicable.

Directors' and Officers' Liability Insurance

During the period, the company has made indemnity provision for the benefit of its directors which remains in force at the date of this report.

Disclosure of Information to Auditor

The directors who held office at the date of the approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that they ought to have taken as director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Events after the balance sheet date

The directors are not aware of any events after the reporting period, commitments or contingencies other than those disclosed in the financial statements for the period ending 31 March 2017.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the directors have appointed Ernst & Young LLP as the company's registered auditor.

Signed on Behalf of the Board of Directors.

Ian Makinson

Managing Director

Date: 24 Nov 2017.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, 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 period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 *Reduced Disclosure Framework*. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY HOSPITALS INDEPENDENT COMMERCIAL ENTERPRISES LIMITED

We have audited the financial statements of City Hospitals Commercial Enterprises Limited for the year ended 31 March 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework";

and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

Ernst & Young LLP

Nicola Wright (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne
12 December 2017

Profit & Loss Account for the year ended 31 March 2017

	NOTE	Year ending 31 March 2017 £	Year ending 31 March 2016 £
Turnover	3	**9,930,630**	4,817,138
Operating Expenses	5	**(9,425,192)**	(4,565,202)
Operating Profit		**505,438**	251,936
Interest receivable and similar income	6	**35,361**	6
Interest payable and similar charges	6	**(253,877)**	(25,332)
Profit on ordinary activities before taxation		**286,922**	226,610
Tax on ordinary activities	9	**(58,448)**	(42,300)
Profit for the financial year		**228,474**	184,310

All profit and loss categories comprise of continuing operations.

The company has no items of comprehensive income in the current or prior period other than the profits reported. Accordingly, no statement of comprehensive income is presented.

Balance Sheet as at 31 March 2017

	NOTE	31 March 2017 £	31 March 2016 £
FIXED ASSETS			
Intangible assets	10	**4,200**	5,400
Tangible assets	11	**5,107**	7,055
		9,307	12,455
CURRENT ASSETS			
Stocks	12	**854,291**	578,300
Debtors: amounts falling due within one year	13	**11,923,742**	735,553
Debtors: amounts falling due after more than one year	13	**35,127,774**	-
Cash at bank and in hand		**3,002,795**	496,589
		50,908,602	1,810,442
CREDITORS: Amounts falling due within one year	16	**(14,815,530)**	(919,882)
NET CURRENT ASSETS		**36,093,072**	890,560
TOTAL ASSETS LESS CURRENT LIABILITIES		**36,102,379**	903,015
CREDITORS: Amounts falling due after more than one year	16	**(23,895,978)**	(800,000)
PROVISION FOR LIABILITIES	18	**15,373**	(2,242)
NET ASSETS		**12,221,774**	100,773
CAPITAL AND RESERVES			
Called up share capital	19	**11,892,527**	1
Profit and loss account		**329,247**	100,772
TOTAL SHAREHOLDER'S FUNDS		**12,221,774**	100,773

The financial statements of City Hospitals Independent Commercial Enterprises Limited (registered number 08808703) were approved by the Board of Directors and authorised for issue on 24 November 2017.

They were signed on its behalf by:

Signed: .....(Paul Robinson, Finance Director)

Date: 24 November 2017

Statement of Changes in Equity for the year ended 31 March 2017

	Called up Share Capital	Profit and Loss account	Total
	£	£	£
Balance at 31 March 2015	1	(83,537)	**(83,536)**
Profit for the period	-	184,310	**184,310**
Total comprehensive income for the financial year	-	**184,310**	**184,310**
Balance at 31 March 2016	**1**	**100,773**	**100,774**
Profit for the period	-	**228,474**	**228,474**
Total comprehensive income for the financial year	-	**228,474**	**228,474**
Issue of share capital	11,892,526	-	**11,892,526**
Balance at 31 March 2017	**11,892,527**	**329,247**	**12,221,774**

Notes to the financial statements

1. General Information

The company is incorporated in the United Kingdom under the Companies Act. The address of the registered office is given in the administrative details section of this report. The nature of the company's operations and its principal activities are set out in the business review section.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company is a wholly owned subsidiary of City Hospitals Sunderland NHS Foundation Trust.

These financial statements are separate financial statements, the company is exempt from the preparation of consolidated financial statements as it is included in the group accounts of City Hospitals Sunderland NHS Foundation Trust. The group accounts for City Hospitals Sunderland NHS Foundation Trust are available to the public and can be obtained as set out in note 20.

Notes to the financial statements (continued)

2. Statement of Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Format' as issued by the Financial Reporting Council.

As permitted by FRS 101, exemptions from applying the following requirements have been adopted:

IFRS 7 - Financial Instruments Disclosures
IAS 1 - Presentation of Financial Statements paragraphs 10(d), 10(f), 39(c) and 134-136
IAS 1 - Presentation of Financial Statements paragraph 38 (requirement to present comparative information) in respect of:
i - IAS 16 - Property Plant and Equipment paragraph 73(e)
ii - IAS 38 - Intangible Assets paragraph 118(e)
IAS 7 - Statement of Cash Flows
IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors paragraphs 30 and 31
IAS 24 - Related Party Disclosures paragraph 17

The company has also taken advantage of the exemption from the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the group where the parties to the transaction are wholly owned by a member of the group.

Going concern

The company has contracts with its main Shareholder for the provision of outpatient drug dispensing services and an operated healthcare facility. The directors believe that the company will be able to maintain positive cash flows for the foreseeable future and has obtained assurance of continued support from the ultimate parent company, City Hospitals Sunderland NHS Foundation Trust, regarding the ongoing availability of the intercompany loan facility. Therefore, the financial statements have been prepared on a going concern basis. The company has recorded a profit after tax of £228,475 (2016: profit £184,310).

Tangible fixed assets and depreciation

Tangible Fixed Assets are stated at cost net of depreciation and any provision for impairment. Assets begin depreciating in the quarter following their purchase, and are depreciated to a nil residual value. Depreciation is provided on all tangible fixed assets at rates to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

	Min Years	Max Years
Plant and Machinery	5	15

Intangible fixed assets and amortisation

Intangible Fixed Assets are stated at cost net of amortisation and any provision for impairment. Assets begin amortisation in the quarter following their purchase, and are amortised to a nil residual value. Amortisation is provided on all intangible fixed assets at rates to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

	Min Years	Max Years
Software	1	5

Stock

Stock is stated at the lower of cost or net realisable value, and are calculated on a first in first out basis.

Notes to the financial statements (continued)

2. Statement of Accounting Policies (continued)

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between the taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Turnover

Turnover is stated net of VAT and trade discounts. Turnover from the sale of goods is recognised when the goods are physically dispensed or delivered to the customer. Turnover also reflects the value of work performed in the period under the operated healthcare facilities agreement.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions;

a. they include no contractual obligation upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

b. where the instruments will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own share, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

Notes to the financial statements (continued)

3. Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax and arise from sales made solely in the UK.

4. Reconciliation between UK GAAP and IFRS

This is the first year that the company has prepared accounts under International Financial Reporting Standards (IFRS). The previous period's financial statements were prepared under UK Generally Accepted Accounting Practice. There are no differences to the reported financial position or financial performance arising from the transition.

5. Operating expenses

	year ending 31 March 2017 £	year ending 31 March 2016 £
Employee Expenses - Non-executive Director	**7,500**	7,500
Employee Expenses - Executive Directors	**73,312**	53,592
Employee Expenses - Staff	**1,237,824**	74,779
Drugs	**3,168,744**	3,619,581
Supplies and services - clinical	**33,534**	1,736
Supplies and services - general	**544,569**	-
Establishment	**187,976**	5,552
Transport	**24,907**	-
Premises (inc Operating Lease £528,748)	**3,200,383**	-
Depreciation on property, plant and equipment	**1,948**	1,829
Amortisation of intangible assets	**1,200**	600
External consultancy - tax services	**135,886**	75,872
Auditors remuneration - statutory audit	**10,000**	13,500
Shareholder service level agreement	**697,027**	645,216
Insurance	**40,382**	5,445
Charitable donation	**60,000**	60,000
	9,425,192	4,565,202

6. Interest payable and interest receivable

	year ending 31 March 2017 £	year ending 31 March 2016 £
Interest payable on group loans	**(253,877)**	(25,332)
Interest receivable on finance lease	**35,361**	-

7. Staff costs and numbers

Aggregate remuneration including non executive directors comprised;

	year ending 31 March 2017 £	year ending 31 March 2016 £
Wages and salaries	**1,121,944**	111,399
Social security costs	**94,119**	22,713
Pension costs	**102,572**	1,759
	1,318,636	135,871

In the period from 1st April 2016 to 30th January 2017 the company had only 1 employee, on the 1st February 2017 a further 279 employees transferred from the shareholder under TUPE regulations.

Notes to the financial statements (continued)

8. Directors' remuneration and transactions

	year ending 31 March 2017 £	year ending 31 March 2016 £
Emoluments - non executive directors	7,500	7,500
Emoluments - executive directors	17,944	-
Sums paid to third parties in respect of directors services	55,368	53,592
	80,812	61,092

Two of the directors received no remuneration directly from the company, the employment costs for these directors have been paid directly by the parent undertaking and the above amounts represent the amounts recharged to this company by the parent undertaking in respect of the directors' remuneration. One director received remuneration from the company starting on 1 February 2017 following their TUPE transfer into the company.
For the year ending 31 March 2017 the company paid pension contributions on behalf of the Directors totalling £8,978.

9. Tax on profit on ordinary activities

	31 March 2017 £	31 March 2016 £
Current tax:		
UK corporation tax on profits of the period	75,912	46,614
Adjustment in respect of previous periods	151	(3,579)
Total current tax	76,063	43,035
Deferred tax:		
Current year	(20,577)	(486)
Effect of changes in tax rates	2,962	(249)
	(17,615)	(735)
Tax on profit on ordinary activities	58,448	42,300

Factors Affecting Tax Charge for the Current Period
The charge for the period can be reconciled to the profit per the Income Statement as follows;

	31 March 2017 £	31 March 2016 £
Profit for the period - continuing activities	275,923	226,604
Tax on profit at standard UK tax rate of 20.0% (2016 19.25%)	55,185	45,321
Effects of :		
Adjustemnts in respect of prior years	151	(3,579)
Expenses not deductible	150	807
Tax rate changes	2,962	(249)
	58,448	42,300
Income tax expense reported in the income statement	58,448	

Notes to the financial statements (continued)

10. Intangible Assets

	Software Costs
	£
Cost at 1 April 2016	6,000
Additions purchased	-
Disposals	-
At 31 March 2017	**6,000**
Accumulated amortisation at 1 April 2016	600
Provided during the year	1,200
Disposals	-
Accumulated amortisation at 31 March 2017	**1,800**
Net book value	
Total at 31 March 2017	**4,200**
Total at 31 March 2016	**5,400**

11. Tangible Assets

	Plant and Machinery	Information Technology	Total
	£	£	£
Cost at 1 April 2016	8,551	1,188	9,739
Reclassification	-	-	-
Additions purchased	-	-	-
Disposals	-	-	-
At 31 March 2017	**8,551**	**1,188**	**9,739**
Accumulated depreciation at 1 April 2016	2,565	119	2,684
Provided during the year	1,710	238	1,948
Disposals	-	-	-
Depreciation at 31 March 2017	**4,275**	**357**	**4,632**
Net book value			
Total at 31 March 2017	**4,276**	**831**	**5,107**
Total at 31 March 2016	**5,986**	**1,069**	**7,055**

12. Stocks

	31 March 2017	31 March 2016
	£	£
Finished goods - drugs	**496,478**	578,300
Finished goods - other	**357,813**	-
	854,291	578,300

Notes to the financial statements (continued)

13. Debtors

	31 March 2017 £	31 March 2016 £
Amounts falling due within one year:		
Trade Debtors	**967,906**	-
Amounts owed by group undertakings	**1,150,836**	512,204
Other debtors	**330**	8,671
Prepayments	**171,045**	-
Operating lease prepayment	**3,171,611**	-
Amounts due under finance leases	**700,527**	-
VAT Debtor	**5,761,486**	214,677
	11,923,741	735,553
Amounts falling due after more than one year:		
Operating lease prepayment	**28,015,901**	-
Amounts due under finance leases	**7,111,873**	-
TOTAL	**47,051,515**	735,553

14. Finance leases and other similar arrangements

	31 March 2017 £	31 March 2016 £
Amounts receivable under finance leases and similar arrangements:		
Within one year	**919,274**	-
In the second to fifth years inclusive	**3,677,098**	-
After 5 years	**4,430,495**	-
	9,026,867	-
Less: unearned finance income	**(1,214,466)**	-
	7,812,400	-
Amounts receivable under finance leases and similar arrangements:		
Within one year	**700,527**	-
In the second to fifth years inclusive	**3,003,826**	-
After 5 years	**4,108,047**	-
	7,812,400	-
Analysed as:		
Non-current	**700,527**	-
Current	**7,111,873**	-
	7,812,400	-

The finance lease relates to equipment provided through the company's provision of a fully managed healthcare facility. On 1 February 2017, the company leased the buildings from the Trust under an operating lease which was paid in full and is shown in Note 13, the company then provides the Trust with an operated healthcare facility including certain equipment classes which were purchased by the company from the Trust and then provided back to the Trust under a finance lease arrangement. The agreement transfers substantially all the risks and rewards incidental to ownership of the equipment assets to City Hospitals Sunderland NHS Foundation Trust.

The interest rate inherent in the lease is fixed at the contract date for the full lease term. The average effective interest rate equates to 2.8% per annum.

Notes to the financial statements (continued)

15. Operating leases - as lessee

15.1 Analysis of operating lease expenditure

	year ending 31 March 2017 £	year ending 31 March 2016 £
Operating lease expenditure	528,748	-
	528,748	-

15.2 Arrangements containing an operating lease

	31 March 2017 £	31 March 2016 £
Future minimum lease payments:		
Within one year	3,171,611	-
In the second to fifth years inclusive	12,686,444	-
After 5 years	15,329,457	-
	31,187,512	-

The operating lease relates to an agreement between the company and City Hospitals Sunderland NHS Foundation Trust. This agreement is for the company to provide managed health care services to the Trust, which will operate via a 10 year lease arrangement. On 1st February 2017 the company acquired a leasehold interest in the three main sites at Sunderland Royal Hospital, Sunderland Eye Infirmary and the Childrens Centre, in order to provide an Operated Healthcare Facility to the named sites via a leaseback arrangement.

Notes to the financial statements (continued)

16. Creditors

	31 March 2017	31 March 2016
	£	£
Amounts falling due within one year:		
Trade creditors	8,294,016	357,490
Amounts owed to group undertaking	4,298,250	100,000
Taxation and social security	277,875	1,892
Corporation Tax	75,912	46,614
Accruals and deferred income	1,848,713	413,886
Other creditors	20,764	-
Sub Total	**14,815,530**	919,882
Amounts falling due after more than one year:		
Amounts owed to group undertaking - Group Loans	23,895,978	800,000
Sub Total	**23,895,978**	800,000
TOTAL	**38,711,508**	1,719,882

The original group 10 year loan of £1,000,000 was made on 1 August 2014 and became payable from 1 April 2015, payments are made in 6 monthly instalments and interest is charged at 2.5%. On 1 February 2017, to facilitate the introduction of the operated healthcare facilities agreement a further group loan of £27,749,722 was made. This loan is payable in monthly instalments over 10 years with interest charged at a rate of 5.24%.

Loans - payment of principal falling due

	Group Loans 31 March 2017	Group Loans 31 March 2016
	£	£
Amounts falling due:		
In one year	**4,298,250**	100,000
Between two and five years	**16,124,231**	400,000
Over five years	**7,771,746**	400,000
TOTAL	**28,194,227**	900,000

Notes to the financial statements (continued)

17. Retirement benefit schemes

Defined contribution schemes

The company operates a defined contribution retirement benefit scheme for all qualifying employees. The scheme is operated by NEST, a scheme set up by the government to aid the auto enrolment process. The assets of the scheme are held separately from those of the company in an independently administered fund. Pension costs associated with the period covered by these accounts were immaterial.

Defined benefit schemes

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that scheme for the accounting period.

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers.

The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The next actuarial valuation is to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders.

The NHS Pension Scheme provides defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.

The 1995 and 2008 Schemes are "final salary" schemes. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three years pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as "pension commutation".

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) has been used and replaced the Retail Prices Index (RPI).

Notes to the financial statements (continued)

17. Retirement benefit schemes (continued)

With effect from 1 April 2015 a pension scheme was introduced based on career average revalued earning (CARE) with benefits based on a proportion of pensionable earnings during an employee's career. There is a build-up rate of 1/54 of each year's pensionable earnings. The annual increase in this scheme is based on CPI plus 1.5%.

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the employer.

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVCs run by the Scheme's approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

18. Provision for Liabilities

Deferred tax (assets) / liabilities	**31 March 2017**	**31 March 2016**
	£	**£**
Provision at start of the period	**2,242**	2,977
Deferred tax charge in Profit & Loss Account for the period	**(17,615)**	(735)
Provision at end of the period	**(15,373)**	2,242

	31 March 2017	**31 March 2016**
	Booked	**Booked**
	£	**£**
Fixed Assets	**1,582**	2,242
Defferred tax charge for the period	**(16,955)**	-
Accelerated capital allowances	**(15,373)**	2,242

19. Called up share capital

	Nominal value	**2016 number**	**31 March 2016**
			£
Allotted, called up and fully paid: Ordinary shares	£1 each	1	1

	Nominal value	**2017 number**	**31 March 2017**
			£
Allotted, called up and fully paid: Ordinary shares	£1 each	11,896,527	11,896,527

The company was incorporated on 10 December 2013 through the issue of 1 share at £1 par value which was settled

Notes to the financial statements (continued)

20. Ultimate parent undertaking and controlling party

The immediate parent undertaking is City Hospitals Sunderland NHS Foundation Trust.

The ultimate parent undertaking and controlling party is City Hospitals Sunderland NHS Foundation Trust, an NHS Foundation Trust established in the United Kingdom.

A copy of the parents accounts, which include the group financial statements can be obtained from their registered office at:
Trust Headquarters
Kayll Road
Sunderland
SR4 7TP

21. Related party transactions

The Directors believe that the company is eligible to take advantage of the exemption in FRS 101 relating to the disclosure of transactions with group companies and have elected not to dislcose full details of the transactions with City