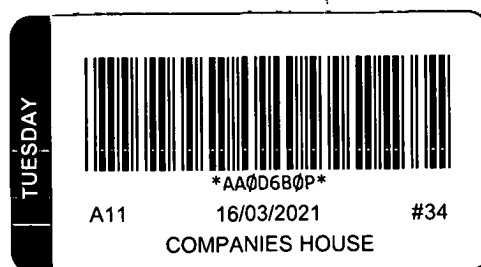


City Hospitals Independent Commercial Enterprises Limited

Report and Financial Statements

for the year ended 31 March 2020



City Hospitals Independent Commercial Enterprises Limited

Registered company number: **08808703**

City Hospitals Independent Commercial Enterprises Limited ("the company" or "CHOICE") 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 South Tyneside and Sunderland NHS Foundation Trust.

The principal activities of the company are to provide and operate hospitals, healthcare establishments and healthcare facilities and the provision of related services. The company aims to provide safe, effective, sustainable and modern healthcare and working environments.

As part of an agreement to provide managed healthcare services, the company operates a 10-year lease arrangement with South Tyneside and 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 Children's Centre, in order to provide an Operated Healthcare Facility to the named sites via a leaseback arrangement.

In March 2019 a new 25-year leasing agreement was made between South Tyneside and Sunderland NHS Foundation Trust and Assura for the Durham Treatment Centre facility that CHOICE is now operating on behalf of the Trust.

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 2020.

Key Performance Indicators

The operating profit of £4.3m resulted from turnover of £72.8m and operating expenses of £68.4m.

Corporation tax on ordinary activities was a charge of £380k and the profit for the financial year was £2.9m after tax.

The company made a charitable donation to a connected party, City Hospitals Sunderland NHS Foundation Trust Charitable Fund in the year, to be used in purchasing medical equipment. The value of the donation was £300k.

The strong liquidity position resulted in a positive cash balance of £2.3m at the end of the financial year.

Principal Risks and Uncertainties

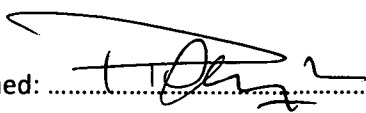
The company maintains a comprehensive risk register as part of its risk management strategy and this is reviewed at the company's monthly Board meeting. The expansion into healthcare facilities management and the associated transfer of staff and services to the company emphasises the importance of embedding 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 £3,318,640 (2019: profit £3,189,551).

The company is forecasting sustained profitability from 2020/21 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 £15,537,182 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:  (Pat Taylor, Chief Finance Officer)

Date: 8th February 2021

Directors' Report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2020.

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:

Mr W Carr, Estates and Facilities Director

Mr P N Farquhar, Non-executive Director (appointed 01 December 2019)

Dr I K Makinson, Managing Director

Mr P Robinson, Finance Director (to 31 December 2020)

Mr M Stouph, Non-executive Director (Chair)

Mrs P Taylor, Chief Finance Officer (appointed 01 December 2019)

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

CHoICE and the wider NHS have been significantly impacted by the COVID-19 pandemic since March 2020. However, demand for our services remains high, as it does for health services in general, and CHoICE continues to successfully deliver a fully managed healthcare facility.

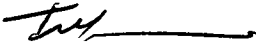
As the national lockdown commenced prior to the year end date of 31 March 2020, COVID-19 is not a post balance sheet event.

On 1 August 2020 CHoICE acquired 100% of the ordinary share capital of Food Network Corporation Limited, a food manufacturing and distribution business based in Middlesbrough, which is a key supplier of patient food provision to CHoICE.

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:

A handwritten signature in black ink, appearing to be 'Ian', followed by a horizontal line.

Ian Makinson
Managing Director

Date: 8th February 2021

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

Opinion

We have audited the financial statements of City Hospitals Independent Commercial Enterprises Limited (the 'company') for the year ended 31 March 2020 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 19, including the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the strategic report and directors' report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other

information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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.

Responsibilities of directors

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 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young LLP

**Andrew Brittain (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
12 February 2021**

Profit & Loss Account for the year ended 31 March 2020

		Year ended 31 March 2020	Year ended 31 March 2019
	NOTE	£	£
Turnover	3	72,751,652	59,887,245
Operating Expenses	4	(68,410,740)	(55,664,514)
Operating Profit		4,340,912	4,222,731
Interest receivable and similar income	5	178,986	199,129
Interest payable and similar charges	5	(1,201,258)	(1,232,310)
Profit on ordinary activities before taxation		3,318,640	3,189,551
Tax on ordinary activities	8	(380,357)	(621,762)
Profit for the financial year		2,938,283	2,567,789

All profit and loss categories comprise of continuing operations.

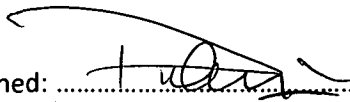
The company has no items of comprehensive income in the current or prior period other than the profits reported.

Accordingly, no statement of comprehensive income is presented.

Balance Sheet as at 31 March 2020

	NOTE	Year ended 31 March 2020 £	Year ended 31 March 2019 £
NON-CURRENT ASSETS			
Intangible assets	9	602	1,800
Tangible assets	10	875,189	856,212
		<u>875,791</u>	<u>858,012</u>
Receivables: amounts falling due after more than one year	12	38,120,503	27,272,847
CURRENT ASSETS			
Stocks	11	2,407,100	2,126,962
Receivables: amounts falling due within one year	12	22,815,423	16,634,923
Cash at bank and in hand		2,260,151	2,194,022
		<u>27,482,674</u>	<u>20,955,907</u>
PAYABLES: Amounts falling due within one year	14	(21,123,705)	(17,428,085)
NET CURRENT (LIABILITIES/ASSETS)		<u>6,358,969</u>	<u>3,527,822</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>45,355,263</u>	<u>31,658,681</u>
PAYABLES: Amounts falling due after more than one year	14	(26,281,896)	(15,537,569)
PROVISION FOR LIABILITIES	16	(11,614)	(10,110)
NET ASSETS		<u>19,061,753</u>	<u>16,111,002</u>
CAPITAL AND RESERVES			
Called up share capital	17	11,892,527	11,892,527
Revaluation reserve		97,468	85,000
Profit and loss account		7,071,758	4,133,475
TOTAL SHAREHOLDER'S FUNDS		<u>19,061,753</u>	<u>16,111,002</u>

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 8th February 2021. They were signed on its behalf by:

Signed:  (Pat Taylor, Chief Finance Officer)
Date: 8th February 2021

Statement of Changes in Equity for the year ended 31 March 2020

	Called up Share Capital	Profit and Loss account	Revaluation Reserve	Total
	£	£		£
Balance at 31 March 2018	11,892,527	1,565,686	0	13,458,213
Profit for the period	0	2,567,789	0	2,567,789
Revaluation	0	0	85,000	85,000
Total comprehensive income for the financial year	0	2,567,789	85,000	2,652,789
Balance at 31 March 2019	11,892,527	4,133,475	85,000	16,111,002
Profit for the period	0	2,938,283	0	2,938,283
Revaluation			13,537	13,537
Transfer to revaluation reserve I&E	0	0	(1,069)	(1,069)
Total comprehensive income for the financial year	0	2,938,283	12,468	2,950,751
Balance at 31 March 2020	11,892,527	7,071,758	97,468	19,061,753

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 fully owned subsidiary of South Tyneside and Sunderland NHS Foundation Trust and was included in the group accounts of South Tyneside and Sunderland NHS Foundation Trust.

The financial statements of the company are included in the Group Accounts of South Tyneside and Sunderland NHS Foundation Trust. They are available to the public and can be obtained as set out in note 18.

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 & 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 at least 12 months from the date of signing and has obtained assurance of continued support from the ultimate parent company, South Tyneside and 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 £2,938,283 (2019: profit £2,567,789).

Notes to the financial statements (continued)

2. Statement of Accounting Policies (continued)

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
Land and Buildings	38	43

Measurement and Revaluation policy

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. The carrying values of property, plant and equipment are reviewed for impairment in years if events, or changes in circumstances, indicate the carrying value may not be recoverable. The costs arising from financing the construction of the property, plant and equipment asset are not capitalised but are charged to the Profit and Loss Account in the year to which they relate.

An item of property, plant and equipment which is surplus to CHOICE's requirements with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.

All assets are measured subsequently at fair value.

All land and buildings are restated to current value using professionally qualified valuers in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual. Valuations are carried out every 5 years with an interim review every 3 years. These valuations may be carried out annually where economic conditions cause fluctuations in building cost indices. During 2019/20 a revaluation was conducted by Cushman and Wakefield (a member of RICS) to revalue CHOICE's land and buildings.

Land and buildings used for CHOICE's services or for administrative purposes are stated in the Balance Sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Fair values are determined as follows:

- Land and non-specialised buildings – market value for existing use
- Specialised buildings – depreciated replacement cost

Assets in the course of construction are valued at cost and are valued by professional valuers when they are brought into use as part of the subsequent annual revaluation exercise.

Plant and equipment is valued at net current replacement cost. Equipment surplus to requirements is valued at net recoverable amount.

Notes to the financial statements (continued)

2. Statement of Accounting Policies (continued)

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 is calculated on a first in first out basis.

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.

Notes to the financial statements (continued)

2. Statement of Accounting Policies (continued)

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.

Changes in accounting policy

The company had to change its accounting policies as a result of adopting IFRS 16 Leases for the first time. The company elected to adopt the new modified retrospective approach to transition and recognised the cumulative effect of initially applying the new standard on 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. IFRS 16 is a new accounting standard effective for all periods beginning on or after 1 January 2019 and has had a material impact on the company's financial statements – see note 20. There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 March 2020 that have had a material impact on the company's financial statements.

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.

Amounts receivable under a finance lease and other arrangements incorporating a lease or involving the legal form of a lease

Amounts receivable under the agreement with the Foundation Trust relating to the hospital facilities transferred are included in debtors and represent the total amount outstanding under the agreement less unearned interest. Finance lease and similar income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

At inception of an arrangement, the company determines whether the arrangement is or contains a lease.

i. Determining whether an arrangement contains a lease

At inception or on reassessment of an arrangement that contains a lease, the company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

ii. Leases

The company leases various property, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 5 years but may have extension options. Contracts may contain

Notes to the financial statements (continued)

2. Statement of Accounting Policies (continued)

both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Notes to the financial statements (continued)

2. Statement of Accounting Policies (continued)

The company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 13.

As explained above, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 20. Prior to this change, leases of property, plant and equipment that transfer to the company substantially all of the risks and rewards of ownership were classified as finance leases. The leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and are not recognised in the company's statement of financial position.

Lease payments that were made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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.

Notes to the financial statements (continued)**4. Operating expenses**

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Employee Expenses - Non-executive Director	25,081	11,839
Employee Expenses - Executive Directors	297,404	271,374
Employee Expenses - Staff	14,820,822	13,699,127
Drugs	6,291,403	5,165,476
Supplies and services - clinical	24,014,067	16,184,248
Supplies and services - general	3,384,042	6,118,894
Establishment	1,152,282	1,178,415
Transport	197,018	133,451
Premises (inc. Finance Lease £3,171,611)	16,472,201	11,534,893
Depreciation on property, plant and equipment	58,123	1,948
Amortisation of intangible assets	1,198	1,200
External consultancy incl. tax services	66,662	39,807
Auditors remuneration - statutory audit	12,500	10,000
Shareholder service level agreement	1,072,819	797,154
Insurance	243,118	215,286
Charitable donation	302,000	301,400
	68,410,740	55,664,514

5. Interest payable and interest receivable

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Interest payable on group loans	(1,012,997)	(1,232,310)
Interest expense on leases	(188,261)	0
	(1,201,258)	(1,232,310)
Interest receivable on finance Leases	178,986	199,129

6. Staff costs and numbers

Aggregate remuneration including non-executive directors comprised:

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Wages and salaries	13,397,388	12,302,146
Social security costs	983,000	933,504
Pension costs	762,919	746,690
	15,143,307	13,982,340

For the year ended 31 March 2020 CHOICE employed 653 employees (2019: 634), split as follows: 604 (2019: 607) in CHOICE facilities, 1 (2019: 1) in Pharmacy, 42 (2019: 22) in Procurement and 6 (2019: 4) Board members.

Notes to the financial statements (continued)**7. Directors' remuneration and transactions**

	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
Emoluments - non-executive directors	25,081	11,839
Emoluments - executive directors	250,595	225,067
Sums paid to third parties in respect of director's services	42,809	42,307
Car allowance	4,000	4,000
	<u>322,485</u>	<u>283,213</u>

For the year ended 31 March 2020 the highest paid Director Remuneration was £109,515 (2019: £108,219), exclusive of employer's pension contribution of £15,272 (2019: £15,045). For the year ended 31 March 2020 the company paid pension contributions on behalf of the Directors totalling £38,391 (2019: £38,168).

8. Tax on profit on ordinary activities

	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
Current tax:		
UK corporation tax on profits of the period	619,749	621,083
Adjustment in respect of previous periods	(237,888)	2,199
Total current tax	<u>381,861</u>	<u>623,282</u>
Deferred tax:		
Current year	(102)	(1,699)
Adjustment in respect of previous periods	(190)	0
Effect of changes in tax rates	(1,212)	179
	<u>(1,504)</u>	<u>(1,520)</u>
Tax on profit on ordinary activities	<u>380,357</u>	<u>621,762</u>

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;

	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
Profit for the period - continuing activities	<u>3,318,640</u>	<u>3,189,551</u>
Tax on profit at standard UK tax rate of 19.0% (2019 19%)	616,570	619,384
Effects of:		
Adjustments in respect of prior years	(238,078)	2,199
Expenses not deductible	3,077	0
Tax rate changes	(1,212)	179
	<u>380,357</u>	<u>621,762</u>
Income tax expense reported in the profit and loss account	<u>(380,357)</u>	<u>(621,762)</u>

Notes to the financial statements (continued)

9. Intangible Assets

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Cost at the beginning of the year	6,000	6,000
Additions during the year	0	0
Accumulated amortisation	(4,200)	(3,000)
Amortisation during the year	(1,198)	(1,200)
Net Book Value	<u>602</u>	<u>1,800</u>

10. Tangible Assets

	Information Technology £	Plant and Machinery £	Land and Buildings £	ROU Asset Vehicles £	Total £
Cost at the beginning of the year	1,188	8,551	855,000	0	864,739
Additions	0	0	0	133,483	133,483
Adjustment to brought forward balance	0	0	(65,000)	0	(65,000)
Net disposals during the year	0	0	(51,069)	0	(51,069)
Accumulated depreciation	(832)	(7,695)	0	0	(8,527)
Depreciation during the year	0	(856)	(14,751)	(42,516)	(58,123)
Revaluation (upward charged to Opex)	0	0	46,149	0	46,149
Revaluation	0	0	13,537	0	13,537
Net Book Value					
Total at 31 March 2020	<u>356</u>	<u>0</u>	<u>783,866</u>	<u>90,967</u>	<u>875,189</u>
Total at 31 March 2019	<u>356</u>	<u>856</u>	<u>855,000</u>	<u>0</u>	<u>856,212</u>

11. Stocks

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Finished goods - drugs	730,091	725,229
Finished goods - other	1,677,009	1,401,734
	<u>2,407,100</u>	<u>2,126,962</u>

Notes to the financial statements (continued)**12. Receivables**

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Amounts falling due within one year:		
Contract Receivables	511,387	8,139,881
Amounts owed by group undertakings	14,198,806	4,220,409
VAT receivables	1,460,432	0
Other receivables	74,780	22,113
Prepayments	379,693	289,346
Finance lease prepayment	3,171,611	3,171,611
Amounts due under finance leases	3,018,714	791,563
	22,815,423	16,634,923
Amounts falling due after more than one year:		
Finance lease prepayment	18,501,065	21,672,677
Amounts due under finance leases	19,619,438	5,600,170
	38,120,503	27,272,847
TOTAL	60,935,926	43,907,770

13. Finance leases and other similar arrangements

	Year ended 31 March 2020	Year ended 31 March 2019
<i>Amounts receivable under finance leases and similar arrangements:</i>		
Within one year	3,176,989	919,275
In the 2 to 5 years inclusive	9,743,866	3,677,097
After 5 years	10,334,911	2,591,945
	23,255,766	7,188,317
Less: unearned finance income	(617,618)	(796,587)
	22,638,148	6,391,730
<i>Amounts receivable under finance leases and similar arrangements:</i>		
Within one year	3,018,714	791,563
In the 2 to 5 years inclusive	9,330,047	3,122,743
After 5 years	10,289,387	2,477,424
	22,638,148	6,391,730
<i>Analysed as:</i>		
Non-current	3,018,714	791,563
Current	19,619,434	5,600,167
	22,638,148	6,391,730

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 South Tyneside and Sunderland NHS Foundation Trust.

Notes to the financial statements (continued)**13. Finance leases and other similar arrangements (continued)**

Under IFRIC 12 this is a service concession and the Right of Use Asset sits with the Trust. The Company has limited Right of Use Assets (Vehicles) that are linked to the fully operated healthcare facility.

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.

13.1 Analysis of finance lease expenditure

	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
Finance lease expenditure	3,171,611	3,171,611
Finance lease expenditure - Durham Treatment Centre	540,743	450,619
	<u>3,712,354</u>	<u>3,622,230</u>

13.2 Arrangements containing a finance lease

	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
<i>Future minimum lease payments:</i>		
Within one year	3,712,354	3,622,231
In the 2 to 5 years inclusive	14,849,418	15,390,161
After 5 years	15,547,995	19,305,412
	<u>34,109,767</u>	<u>38,317,804</u>

The two finance leases relate to agreements between the company and South Tyneside and Sunderland NHS Foundation Trust. The first 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 Children's Centre, in order to provide an Operated Healthcare Facility to the named sites via a leaseback arrangement. The second agreement is for Durham Treatment Centre (DTC) where the company provides a managed healthcare service to the Trust, this operates via a 25-year lease arrangement that commenced 1st June 2018.

Notes to the financial statements (continued)**14. Payables**

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Amounts falling due within one year:		
Trade Payables	6,550,944	3,834,827
Amounts owed to group undertaking	7,473,415	4,128,611
Taxation and social security	367,315	100,562
Corporation Tax	0	621,083
Accruals and deferred income	4,176,815	8,006,091
VAT payables	0	663,997
Other payables	22,730	72,915
Finance lease payable	2,532,486	0
Sub Total	21,123,705	17,428,085
Amounts falling due after more than one year:		
Amounts owed to group undertaking - Group Loans	11,552,886	15,537,569
Finance lease payable (between two and five years)	6,066,769	0
Finance lease payable (over five years)	8,662,241	0
Sub Total	26,281,896	15,537,569
TOTAL	47,405,601	32,965,654

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

	Year ended 31 March 2020 £	Group Loans 31 March 2019 £
Amounts falling due:		
In one year	3,984,296	4,128,611
Between two and five years	8,492,683	10,830,904
Over five years	3,060,203	4,706,850
TOTAL	15,537,182	19,666,365

15. Retirement benefit schemes**NHS Pension Scheme**

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions.

Notes to the financial statements (continued)

15. Retirement benefit schemes (continued)

Both schemes are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. They are 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.

Employer's pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time CHoICE commits itself to the retirement, regardless of the method of payment.

In order that the defined benefit obligations recognised in the accounts do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM (Financial Reporting Manual) requires that 'the period between formal valuations shall be four years, with approximate assessments in intervening years'.

An outline of these follows:

a) Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period.

This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2020 is based on valuation data as 31 March 2019, updated to 31 March 2020 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts. These accounts can be viewed on the NHS Pensions website and are published annually. Copies can also be obtained from The Stationery Office.

b) Full actuarial (funding) valuation

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 latest actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from April 2020. The DHSC have recently laid Scheme Regulations confirming that the employer contribution rate will increase to 20.6% of pensionable pay from this date.

Notes to the financial statements (continued)

15. Retirement benefit schemes (cont'd)

The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation. Following a judgment from the Court of Appeal in December 2018 Government announced a pause to that part of the valuation process pending conclusion of the continuing legal process.

c) Scheme provisions

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).

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.

National Employment Savings Trust (NEST)

The Pensions Act 2008 (the Act) introduced a new requirement for employers to automatically enrol any eligible job holders working for them into a workplace pension scheme that meets certain requirements and provide a minimum employer contribution.

Notes to the financial statements (continued)**15. Retirement benefit schemes (continued)**

Where an employee is eligible to join the NHS Pension Scheme then they will be automatically enrolled into this scheme, even if they have previously opted out. However, where an employee is not eligible to join the NHS Pension Scheme (e.g. flexible retiree employees) then an alternative scheme must be made available by CHOICE.

CHOICE has chosen NEST as the main scheme for CHOICE (as new CHOICE employees are not eligible to join the NHS Pension Scheme). NEST is a defined contribution pension scheme that was created as part of the government's workplace pensions reforms under the Pensions Act 2008.

Employers' pension cost contributions for both schemes are charged to operating expenses as and when they become due.

16. Provision for Liabilities

Deferred tax (assets) / liabilities	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Provision at start of the period	(10,110)	(8,590)
Adjustment in respect of prior years	(190)	0
Deferred tax charge in Profit & Loss Account for the period	(1,314)	(1,520)
Provision at end of the period	(11,614)	(10,110)

	Year ended 31 March 2020 Booked £	Year ended 31 March 2019 Booked £
Fixed Assets	128	512
Deferred tax charge for the period	0	(10,622)
Temporary trading differences	(11,742)	0
Accelerated capital allowances	(11,614)	(10,110)

17. Called up share capital

	Nominal value	2020 number	31 March 2020 £
Allotted, called up and fully paid: Ordinary shares	£1 each	11,892,527	11,892,527

	Nominal value	2019 number	31 March 2019 £
Allotted, called up and fully paid: Ordinary shares	£1 each	11,892,527	11,892,527

The company was incorporated on 10 December 2013 through the issue of 1 share at £1 par value which was settled in cash. In order to fully finance the introduction of the operated healthcare facility, part of the funding required was raised through a share issue transacted on 1 February 2017. The total funding, £39,655,086, required by the company was financed by a group loan and a share issue based on an industry standard 70:30 ratio which results in a share value increase of £11,892,527.

Notes to the financial statements (continued)

18. Ultimate parent undertaking and controlling party

The immediate parent undertaking is South Tyneside and Sunderland NHS Foundation Trust.

A copy of the parent's accounts, which include the group financial statements can be obtained from their registered office at:

Trust Headquarters
Kayll Road
Sunderland
SR4 7TP

19. 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 disclose full details of the transactions with South Tyneside and Sunderland NHS Foundation Trust.