QE Facilities Limited

Annual report and financial statements

Registered number 09019497

Year ended 31 March 2019

Contents

Officers and professional advisers

Directors

Shaun Bowron, Chairman (non-executive director)
Peter Harding, CEO
Anthony Robson, Finance Director

Company Secretary

Robert Anderson

Registered Office

Estates Department
Queen Elizabeth Hospital
Old Durham Road
Sheriff Hill
Gateshead
NE9 6SX

External Auditor

Ernst & Young
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

Lloyds Banking Group
1st Floor
Black Horse House
91 Sandyford Road
Newcastle upon Tyne
NE1 8HQ

Legal Advisers

Womble Bond Dickinson
St Anns Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Strategic report

The directors present the strategic report for the year ended 31 March 2019.

Principal activities and review of the business

QE Facilities Limited ("QEF", "the company") is a company incorporated and domiciled in the UK. The company's registered office is at the Estates Department, Queen Elizabeth Hospital, Old Durham Road, Gateshead NE9 6SX. The company is wholly owned by Gateshead Health NHS Foundation Trust ("the Trust").

The principal activities of the company are to provide and operate hospitals, health care establishments and health care facilities and the provision of related services. The company aims to provide safe, efficient, sustainable and modern healthcare and working environments. As part of an agreement to provide managed healthcare services, the company operates a long term lease arrangement with Gateshead Health NHS Foundation Trust for the use of the newly constructed Emergency Care Centre at Queen Elizabeth Hospital. Although legal title to the property remains with this company, the lease agreement transfers substantially all the risks and rewards incidental to ownership of the Emergency Care Centre to Gateshead Health NHS Foundation Trust and therefore this asset has been recognised as a finance lease receivable in these financial statements.

On 1 December 2015 the company expanded the provision of operated healthcare services through the adoption of "Phase 2". The company acquired a leasehold interest in the Queen Elizabeth Hospital, Bensham Hospital and the Riverside Unit in order to provide a further extended Operated Healthcare Facility to the named sites via a leaseback.

The Courier Service, which provides specialist logistics for the collection and effective delivery of specialist pathological samples to the Pathology Centre of Excellence at the QE Hospital commenced trading on the 11 January 2016. The Courier service expanded successfully tendering for further NHS contract work in the west midlands.

The Outpatient Pharmacy operates under licence an independent outpatient service at QE Hospital and commenced activities on 24 January 2016. This facility now provides a base for the wholesale pharmacy store and a provision of services for medicine at home in conjunction with the courier service.

The company also receives rental income from some shorter term retail lets which are located within one of the hospital properties. The company commenced a joint venture with Synchronicity care ltd to provide an estate management service at Darlington Memorial Hospital in July 2017.

The company receives income from a successful joint venture to provide a compliant procurement framework for IT related equipment services. Also the company provides specialist consultancy and VAT related services to other NHS bodies nationally.

The company managed its responsibilities and effectively delivered the services that it intended to its customers during the year to 31 March 2019.

Key Performance Indicators

The gross profit of £6.5m *(31 March 2018: £6.2m)* resulted from turnover of £49.8m *(31 March 2018: £45.5m)* and cost of sales of £43.3m during the year *(31 March 2018: £39.3m)*.

Corporation tax on ordinary activities was a charge of £230k *(31 March 2018: £540k)* and the profit after tax reported for the year was £2.8m *(31 March 2018: £2.3m)*.

The strong liquidity position resulted in a positive cash balance of £3.1m at the end of the year *(2018: £2.4m)*.

Principal risks and uncertainties

The companies risk management strategy has been presented to the QEF board. It is important that QEF risk management strategy dovetails with the risk management arrangements for the Trust as assurance is inextricably linked to Trust performance and compliance requirements. All risks and uncertainties are recorded and given a rating in line with the group policy.

Strategic report *(continued)*

Future developments

The courier / transport service has successfully been chosen to provide the HPV contract as part of the Gateshead Health NHSFT bid. This will commence during 2019/20.

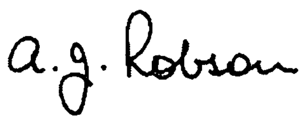
Events since the balance sheet date

No material events have been recorded.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 1 Accounting policies to the financial statements.



Anthony Robson
Director

Estates Department
Queen Elizabeth Hospital
Old Durham Road
Sheriff Hill
Gateshead
NE9 6SX

18 December 2019

Directors' report

The directors present their report and accounts for the year ended 31 March 2019.

Dividends

The directors do not recommend the payment of a dividend *(2018: £nil)*.

Directors

The following persons served as directors during the period:

Shaun Bowron	Chairman (non-executive director)
Peter Harding	Chief Executive Officer
Anthony Robson	Finance Director

Political donations

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

Employment of disabled persons

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

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in interest rates. Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Credit risk

The Company's principal financial assets are bank balances and cash, finance lease receivables, trade and other receivables, and investments.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. No impairments have been recognised in the period and substantially all receivables are due from the company's parent undertaking.

The Company does not consider there to be a significant risk from concentration of credit risk, given the nature of Gateshead Health NHS Foundation Trust.

Director's report *(continued)*

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance.

Further details regarding liquidity risk and going concern can be found in the Statement of accounting policies in the financial statements.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and EY LLP will therefore continue in office.

A.J. Robson

Anthony Robson
Director

Estates Department
Queen Elizabeth Hospital
Old Durham Road
Sheriff Hill
Gateshead
NE9 6SX

18 December 2019

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, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Accepted Accounting Practice), 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 judgments 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QE FACILITIES LIMITED

Opinion

We have audited the financial statements of QE Facilities Limited for the year ended 31 March 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22, including a summary of significant 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" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2019 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.

Opinion 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 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

Nicola Wright (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle-upon-Tyne
19 December 2019

Notes:

1. The maintenance and integrity of the QE Facilities Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Turnover	2	49,792	45,513
Cost of sales		(43,267)	(39,274)
Gross profit		6,525	6,239
Administrative expenses		(4,849)	(4,290)
Other operating income	3	656	304
Operating profit		2,332	2,253
Interest receivable and similar income	4	1,681	1,752
Interest payable and similar charges	4	(1,009)	(1,134)
Profit on ordinary activities before taxation	5	3,004	2,871
Tax on profit on ordinary activities	8	(230)	(540)
Profit on ordinary activities after taxation		2,774	2,332
Other comprehensive income for the year/period net of income tax		-	-
Total comprehensive income for the year/period		2,774	2,332

All results are derived from continuing operations.

Balance sheet
at 31 March 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets					
Tangible assets	9		413		426
Investment property	10		80		80
			493		506
Current assets					
Stocks	11	1,757		1,788	
Debtors: amounts falling due within one year	12	10,547		11,459	
Debtors: amounts falling due after more than one year	12	45,964		47,795	
Cash at bank and in hand		3,079		2,387	
		61,347		63,429	
Creditors: amounts falling due within one year	14	(10,723)		(11,875)	
Net current assets			50,624		51,554
Total assets less current liabilities			51,117		52,060
Creditors: amounts falling due after more than one year	15		(25,562)		(29,279)
Net assets			25,555		22,781
Capital and reserves					
Called-up share capital	16		16,824		16,824
Profit and loss account			8,731		5,957
Shareholders' funds			25,555		22,781

These financial statements were approved by the board of directors on 18 December 2019 and were signed on its behalf by:

A. J. Robson

Anthony Robson
Finance Director

Company registered number: 09019497

Statement of Changes in Equity
for the year ended 31 March 2019

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	16,824	3,625	20,449
Total comprehensive income for period			
Profit or loss	-	2,332	2,332
Total comprehensive income for the period	-	5,957	22,781
Transactions with owners recorded directly in equity			
Issue of shares	-	-	-
Total contributions by owners	-	-	-
Balance at 31 March 2018	**16,824**	**5,957**	**22,781**
Balance at 1 April 2018	16,824	5,957	22,781
Total comprehensive income for year			
Profit or loss	-	2,774	2,774
Total comprehensive income for the year	-	8,731	25,555
Transactions with owners recorded directly in equity			
Issue of shares	-	-	-
Total contributions by owners	-	-	-
Balance at 31 March 2019	**16,824**	**8,731**	**25,555**

Notes

1 Accounting policies

QE Facilities Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101").*

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's parent undertaking, Gateshead Health NHS Foundation Trust, includes the Company in its consolidated financial statements. The consolidated financial statements of Gateshead Health NHS Foundation Trust are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the website address given in note 22.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of the parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement, the disclosures required by IFRS 7 Financial Instrument Disclosures and the disclosures required by IFRS15 Revenue From Contracts With Customers.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investment property.

Notes *(continued)*

1 Accounting policies *(continued)*

Going concern

The company is funded by loans from its parent undertaking, Gateshead Health NHS Foundation Trust, together with share capital. The company has long term contracts in place with Gateshead Health NHS Foundation Trust and this is expected to generate income and cash more than sufficient to pay its long term loans as they fall due.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 Gateshead Health NHS 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. Leased assets

Leases of property, plant and equipment that transfer to the company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are 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 are accounted for in accordance with the accounting policy applicable to that asset.

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

iii. Lease payments

Payments made under operating leases are 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 are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is 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.

iv. Arrangements involving the legal form of a lease

A series of transactions that involve the legal form of a lease and which are linked are accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. The accounting reflects the substance of the arrangement with weight given to these aspects which have an economic effect.

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover from operational services represents the value of work performed in the period under the concession agreement, together with any additional services provided.

Turnover from the operated healthcare facility represents the balance of payments received, after accounting for the finance debtor interest and amortisation components (which together sum to a constant figure in each period, as in a lease). If necessary this figure is adjusted to ensure income recorded reflects the value of the economic benefits provided.

Turnover from other services is recognised as the service is performed.

Turnover from property rentals is recognised on a straight line basis over the period of the rent agreement.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Life cycle costs

Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods.

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- They include contractual obligations 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

- Where the instrument 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's 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 shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes *(continued)*

1 Accounting policies *(continued)*

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest bearing borrowings

Immediately after issue, debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. Subsequent to initial recognition interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Information technology	5 years
Buildings	88 years
Transport	5 years

Residual value is calculated on prices prevailing at the date of acquisition.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value.

In applying the fair value model in IAS 40 Investment Property:

i. investment properties are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and

ii. no depreciation is provided in respect of investment properties applying the fair value model.

Any gain or loss arising from a change in fair value is recognised in profit or loss.

A property interest held under an operating lease may also be accounted for as an investment property. IAS 40 allows the company to make this choice on a property-by-property basis.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

Notes *(continued)*

1 Accounting policies *(continued)*

Impairment excluding stocks, investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed if and only if the reasons for the impairment have ceased to apply.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes *(continued)*

1 Accounting policies *(continued)*

Post retirement benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Defined benefit plans

A number of employees are members of the NHS Pension Scheme which is an unfunded defined benefit scheme. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Revenue

Turnover represents the value of work performed in the period under the operated healthcare services agreement, together with additional services provided to the Trust.

2 Turnover

Analysis of turnover:

	2019 £000	2018 £000
Facilities management services	**44,808**	41,352
External estates management	**2,593**	1,975
External consultancy services	**1,248**	1,090
Rental income	**331**	365
Out-patient pharmacy services	**191**	155
Violence & Agression training	**20**	61
Catering income	**601**	515
	49,792	45,513

All of the above arises in the UK.

3 Other operating income

Analysis of other operating income:

	2019 £000	2018 £000
Renewable energy obligation certificate income (ROCs)	**176**	0
Fuel duty claims	**69**	43
Other	**411**	261
	656	304

Notes *(continued)*

4 Interest payable and interest receivable

	2019 £000	2018 £000
Interest payable on group loan	**(1,009)**	(1,134)
Interest receivable on finance lease and other similar arrangements	**1,681**	1,752

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2019 £000	2018 £000
Operating lease rentals:		
plant and machinery	**1,734**	1,586

The analysis of the auditor's remuneration is as follows:

	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**7**	8

6 Staff costs

The average monthly number of employees (including executive directors) was:

	2019	2018
Estates and facilities management	**601**	537
Administration	**62**	64
	663	601

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	**13,315**	11,968
Social security costs	**1,105**	953
Other pension costs (see note 18)	**1,038**	968
	15,458	13,889

Notes *(continued)*

7 Directors' remuneration and transactions

	2019 £000	2018 £000
Emoluments	**299**	300
Company contributions to defined benefit pension schemes	**14**	14
Sums paid to third parties in respect of directors' services	**0**	0
	313	314

The above amounts represent QEF's payroll in respect of the directors' remuneration. The amounts disclosed therefore represent amounts paid for qualifying services provided to the company.

Retirement benefits are accruing to 2 directors under defined benefit schemes.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £169,765 (*2018: £169,150*), and company pension contributions of £0 (*2018: £ 0*) were made to a defined benefit scheme on his behalf.

8 Tax on profit on ordinary activities

Recognised in the profit and loss account

	2019 £000	£000	2018 £000	£000
UK corporation tax				
Current tax on income for the period	**468**		441	
Adjustments in respect of prior periods	**-**		-	
Total current tax		**468**		441
Deferred tax (note 12)				
Origination and reversal of temporary differences	**101**		111	
Adjustments in respect of prior periods	**(339)**		(12)	
Total deferred tax		**(238)**		99
Tax on profit on ordinary activities		**230**		540

Notes *(continued)*

8 Tax on profit on ordinary activities *(continued)*

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year/period	2,774	2,332
Total tax charge/(credit)	230	540
Profit excluding taxation	3,004	2,871
Tax using the UK corporation tax rate of 19%	571	546
Non-deductible expenses	5	6
Over/ under provided in prior years	(334)	-
Amounts not recognised	-	-
Reduction in tax rate on deferred tax balances	(12)	(12)
Deferred tax recognised in the period previously not recognised	-	-
Total tax charge/(credit)	230	540

Factors that may affect the future current and total tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2018) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly.

At the end of the period the company had an unprovided deferred tax asset of £nil *(2018: £nil).*

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Property, plant and equipment	856	906	-	-	856	906
Investment property revaluation	-	-		(283)	-	(283)
Accrued pension	14	13	-	-	14	13
Tax assets/(liabilities)	870	919	-	(283)	870	637
Net tax assets/(liabilities)	870	919	-	(283)	870	637

Notes *(continued)*

9 Tangible fixed assets

	Freehold land and buildings	Plant and equipment	Information technology	Transport	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2018	232	17	151	87	487
Additions	39	-	-	-	39
At 31 March 2019	271	17	151	87	526
Depreciation					
At 1 April 2018	(3)	(3)	(44)	(11)	(61)
Charge for the year	(4)	(3)	(31)	(14)	(52)
At 31 March 2019	**(7)**	**(6)**	**(75)**	**(25)**	**(113)**
Net book value					
At 1 April 2018	229	14	107	76	426
At 31 March 2019	**264**	**11**	**76**	**62**	**413**

On completion of construction of the Emergency Care Centre ("ECC") onsite at Queen Elizabeth Hospital, Gateshead, the company entered into an arrangement with the Trust under which the company operates and maintains the ECC on behalf of the Trust. The Trust uses the assets to provide healthcare services.

The agreement transfers substantially all the risks and rewards incidental to ownership of the ECC asset to the Trust. Accordingly the asset has been derecognised in these financial statements and replaced by a finance lease receivable.

Finance lease receivable balances are secured over the property and equipment assets. The Company is not permitted to sell or re-pledge the collateral in the absence of default by the lessee.

10 Investment property

	£000
Valuation	
At 1 April 2018	80
At 31 March 2019	**80**
Net book value	
At 1 April 2018 and 31 March 2019	**80**

Investment properties, which are all freehold, were valued on the basis of an open market basis calculated as the value of the 25 year lease plus the residual value. Such properties are not depreciated. These properties comprise retail outlets on shorter term lets.

Notes *(continued)*

11 Stocks

	31 March 2019 £000	31 March 2018 £000
Consumables	**1,757**	1,789

Consumables recognised as cost of sales in the period amounted to £ 17,557,660 *(31 March 2018: £14,282,993).*

12 Debtors

	Due within one year 31 March 2019 £000	**Due after more than one year 31 March 2019 £000**	**Total 31 March 2019 £000**
Trade debtors	**1,175**	-	**1,175**
Amounts owed by Group undertakings	**6,292**	-	**6,292**
Other debtors	**301**	-	**301**
Prepayments and accrued income	**706**	-	**706**
Amounts due under finance leases and similar arrangements	**2,073**	**45,094**	**47,167**
Deferred tax asset (note 8)	-	**870**	**870**
	10,547	**45,964**	**56,511**

	Due within one year 31 March 2018 £000	Due after more than one year 31 March 2018 £000	Total 31 March 2018 £000
Trade debtors	878	-	878
Amounts owed by Group undertakings	5,503	-	5,503
Other debtors	714	(9)	705
Prepayments and accrued income	2,362	-	2,362
Amounts due under finance leases and similar arrangements	2,002	47,167	49,169
Deferred tax asset (note 8)	-	637	637
	11,459	47,795	59,254

Further details of finance leases receivables are included in note 13. All of the amounts due under finance leases and similar arrangements are due from the parent undertaking.

Notes *(continued)*

13 Finance leases and other similar arrangements

	2019	2018
	£000	£000
Amounts receivable under finance leases and other similar arrangements:		
Within one year	**3,681**	3,681
In the second to fifth years inclusive	**9,732**	11,240
After five years	**97,901**	100,074
	111,314	114,995
Less: unearned finance income	**(64,147)**	(65,826)
	47,167	49,169
Amounts receivable under finance leases and other similar arrangements:		
Within one year	**2,073**	2,002
In the second to fifth years inclusive	**3,768**	5,120
After five years	**41,326**	42,047
	47,167	49,169
Analysed as:		
Non-current	**45,094**	47,167
Current	**2,073**	2,002
	47,167	49,169

Phase 1

The finance lease relates to the Emergency Care Centre on site at Queen Elizabeth Hospital, Gateshead. On completion the company entered into an arrangement with Gateshead Health NHS Foundation Trust under which the company operates and maintains the Emergency Care Centre on behalf of Gateshead Health NHS Foundation Trust. Gateshead Health NHS Foundation Trust uses the assets to provide healthcare provision.

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 3.5 per cent per annum.

The agreement transfers substantially all the risks and rewards incidental to ownership of the Emergency Care Centre asset to Gateshead Health NHS Foundation Trust.

Phase 2 & further similar lease arrangements

On 1 December 2015, the company expanded the provision of operated healthcare services through the adoption of "Phase 2". The company acquired a leasehold interest in the Queen Elizabeth Hospital, Bensham Hospital and the Riverside Unit in order to provide a further extended Operated Healthcare Facility to the named sites via a leaseback arrangement.

As part of the lease and leaseback arrangements the company paid a substantial up front lease premium to Gateshead Health NHS Foundation Trust which will be repaid by Gateshead Health NHS Foundation Trust over the lease term together with interest. This has been treated as a financing arrangement.

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 3.5 per cent per annum.

Finance lease and other arrangements incorporating a lease balances are secured over the equipment leased. The Company is not permitted to sell or repledge the collateral in the absence of default by the lessee.

Notes *(continued)*

14 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Group loans	3,717	3,591
Trade creditors	790	267
Amounts owed to Group undertakings	70	135
VAT	117	302
Other creditors including taxation and social security	2,292	4,200
Accruals and deferred income	3,737	3,380
	10,723	11,875

15 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Group loans	23,618	27,335
Deferred income	1,944	1,944
	25,562	29,279

Borrowings are repayable as follows:

	2019 £000	2018 £000
Group loans		
Between one and two years	3,847	3,717
Between two and five years	12,368	11,950
After five years	7,403	11,668
	23,618	27,335
On demand or within one year	3,717	3,591
	27,335	30,926

The above is secured against the freehold title for the Emergency Care Centre Property.

Notes *(continued)*

16 Called-up share capital

	2019 £000	2018 £000
Allotted, called-up and fully-paid		
16,824,383 ordinary shares of £1 each	**16,824**	16,824

17 Financial commitments

Non-cancellable operating lease rentals are payable as follows:

	2019 £000	2018 £000
Less than one year	**1,719**	1,210
Between one and five years	**2,271**	2,339
More than five years	**30**	132
	4,020	3,681

18 Retirement benefit schemes

Defined contribution schemes

The Company operates a defined contribution retirement benefit schemes for all new employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

Defined benefit schemes

Pension costs: Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP 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, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

The total cost charged to income of £1,037,771 in respect of both schemes represents contributions payable by the Company at rates specified in the rules of the plans. As at 31 March 2019, contributions of £82k due in respect of the current reporting period had not been paid over to the schemes.

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, published annually.

Full actuarial (funding) valuation: The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates. The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2004. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes were suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions, and while future scheme terms are developed as part of the reforms to public service pension provision in 2015.

Notes *(continued)*

18 Retirement benefit schemes *(continued)*

Defined benefit schemes (continued)

The Scheme Regulations were changed to allow contribution rates to be set 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.

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 Scheme is a "final salary" scheme. 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.

Following discussions with Trade Unions and employer representatives on long-term contribution rates that will apply to all members since the new 2015 NHS Pension Scheme was implemented from 1 April 2015, the Department has implemented long term member contribution rates, which will remain the same for the four years from 1 April 2015 to 31 March 2019.

The main features of the proposed contribution rates structure are as follows:

- the headline contribution rates as set out in the Proposed Final Agreement published in March 2012 are retained,
- rates will remain tiered according to whole time equivalent (WTE) pay or earnings,
- the rates are the same as the current 2014/2015 Scheme year contribution rates except for a small adjustment to the tier 4/5 boundary; and
- both rates and tier boundaries will be fixed for four years from 1 April 2015 through to 31 March 2019.

The rates were implemented from 1 April 2015.

The NHS Pension Scheme Regulations introducing the contribution rates are subject to normal Parliamentary processes and approval. 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) will be used to replace the Retail Prices Index (RPI). 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.

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".

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 AVC's run by the Scheme's approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

Notes *(continued)*

19 Accounting estimates and judgements

Certain critical accounting judgements in applying the Company's accounting policies are described below.

Finance lease and amounts receivable under other arrangements containing a lease

It was judged that under Phase 1, substantially all the risks and rewards incidental to ownership of the Emergency Care Centre asset were retained by Gateshead Health NHS Foundation Trust. If this were not the case the tangible fixed asset would not have been derecognised and replaced by a finance lease receivable in the company's balance sheet.

Under the Phase 2 lease and leaseback arrangement it was judged that substantially all the risks and rewards incidental to ownership of the property assets are retained by Gateshead Health NHS Foundation Trust. Therefore the property, plant and equipment is not recognised on the balance sheet of QE Facilities Limited. Furthermore the upfront premium paid by QE Facilities Limited to the Trust, and which is effectively repaid together with interest over the life of the lease, has been treated as a financing arrangement and classified as other arrangements containing a lease.

Investment property

The fair value of investment property is assessed annually based on the lease arrangements in place. There is judgement involved in ensuring that the valuation of the retail space appropriately reflects material aggregate changes in value.

20 Subsequent events

Subsequent to the 2018 year end the company commenced the provision of both courier and pharmacy services. No such change events have occurred following the year end 31 March 2019.

21 Related party transactions

The Directors believe that the company is eligible to take advantage of the exemption in Financial Reporting Standard 101 relating to the disclosure of transactions with group companies and have elected not to disclose full details of transactions with Gateshead Health NHS Foundation Trust.

22 Controlling party

The Company is controlled by and a wholly owned subsidiary of Gateshead Health NHS Foundation Trust, a public benefit corporation which heads the largest and smallest group in which the results of the Company are consolidated. The consolidated financial statements of Gateshead Health NHS Foundation Trust are available from the following website: www.qegateshead.nhs.uk.