QE Facilities Limited

Annual report and financial statements

Registered number 09019497

Year ended 31 March 2020

Contents

Officers and professional advisers

Directors

Shaun Bowron, Chairman (non-executive director)
Hilary Parker (non-executive director appointed 1 October 2020)
John Robinson (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 LLP
One Colmore Square
Birmingham
B4 6HQ

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 2020.

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 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 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 and wider northern regions.

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 and in July 2020 commenced a similar estate management service relating to the wider estate of The Newcastle upon Tyne Hospitals NHS Foundation Trust.

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 2020.

Key Performance Indicators

The gross profit of £8.8m *(31 March 2019: £6.5m)* resulted from turnover of £54.7m *(31 March 2019: £49.8m)* and cost of sales of £45.9m during the year *(31 March 2019: £43.3m)*.

Corporation tax on ordinary activities was a charge of £646k *(31 March 2019: £230k)* and the profit after tax reported for the year was £3.3m *(31 March 2019: £2.8m)*.

The strong liquidity position resulted in a positive cash balance of £5.6m at the end of the year *(2019: £3.1m)*.

Principal risks and uncertainties

The company's 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 Covid-19 pandemic resulted in increased uncertainty but also provide the company with additional opportunities to apply the knowledge and experience of its dedicated workforce to react and manage the fast changing demands associated with regional PPE procurement and capital and infrastructure projects.

Section 172

The directors recognise their responsibilities in regard to the matters set out in section 172(1) (a) to (f) Companies Act 2006 in exercising their duty to promote the success of the Company for the benefit of its members as a whole. The board take long term decision making for the benefit of the organisation including, its employees, customers and those organisations dependent on its effective governance, including suppliers and the community.

The company has one shareholder, Gateshead Health NHS Foundation Trust ("the Trust"). The desires of the shareholder are therefore central to the decision making of the company and this has been particularly evident during the coronavirus pandemic where the company has played and continues to play a key role in many of the responses to the pandemic delivered by the Trust.

The best interests of the shareholder are always aligned with the best interests of company, our customers, the NHS, the community and our employees.

Our responsibilities to our stakeholders are reviewed monthly at departmental finance and performance meetings, senior management team meetings and QEF board meetings where existing services and opportunities are considered in the context of their likelihood to contribute to the success and sustainability of company, along with the benefits that they will bring to our stakeholders. The company recognises that the ownership structure demands an important role in maximising the value and benefit to the NHS and wider community beyond economic gain.

Supporting Long Term Decision Making

Annual business planning and strategic planning sessions take place to set out the desired direction and departmental goals with associated business cases created throughout the year that are submitted to the board for review and approval. The Trust is currently running a long term business transformation project with a number of key work streams and the company work alongside the Trust to ensure flexibility is maintained to meet changes in demand. All business cases take into account the benefit to be realised for stakeholders, the risks and longer term business impacts.

Reviewing Risk

There is an embedded culture of risk management within the NHS, the Trust and the company. It is important that company risk management strategy aligns exactly 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 and added to the risk register for monthly review across multiple committees. Business continuity plans are also aligned to the Trust policy and have been enacted from March 2020 in relation to the Coronavirus pandemic allowing a fast adaption to critical change in the group's operational environment.

All staff undertake mandatory core skills training tailored to the role they occupy within the company. This training is aligned to group standards which in turn are aligned to national NHS standards and requirements.

Stakeholder Accountability

The company use surveys, questionnaires, workshops and contractual key performance indicators ("KPI's") to review the organisations performance in terms of perception and feedback to and from the point of view of what is important to our customers, employees, suppliers and partners. Our KPI's are agreed in advance with the relevant parties and targets set in order to continuously monitor stakeholder satisfaction and the company to continue to deliver the high standards of business conduct and maintain a reputation as such. The company works with our stakeholders to address any shortcomings and rectify known issues no matter how small. Management and staff operate an open-door policy in relation to communication and ensure all stakeholders are given a point of contact or can find a point of contact online to direct any form of feedback and a response is given in a timely manner.

Employee Feedback

Along with the above the company and all staff participate in the initiatives of the Trust in relation to employees and their opportunity to be heard. The Trust operates 'Your Voice" which is a diversity and inclusion Corporate Steering

Group that brings together 3 staff networks; LGBT, BAME and Disability. The trust also operates a range of workshops and resources in relating to employee health and well-being addressing both mental and physical needs of our employees. Management encourage participation and contribute to raising awareness by taking part in and approving internal indicatives to meet the outcomes of the group.

Supplier Engagement

The company's workforce contains a number of senior qualified procurement officers and managers that are experienced in supplier relationship management and procurement. The company operates a scheme of delegation across it procurement systems with relevant escalation to shareholder level if required. As part of the company's service offering the company offers a fully compliant NHS framework procurement and supplier contract management service. Our procurement team are dedicated to ensuring the balance between value for money, product availability, demand needs and product quality is maintained. The team work with suppliers to enable this balance and also work with potential future suppliers to aid access to NHS supply frameworks. The company follow group policy in relation to public sector prompt supplier payment standards including the public sector procurement policy note issued by the Cabinet office during the Coronavirus pandemic.

Community and the environment

The Trust operates for the people of Gateshead and the company share the goals of the Trust when it comes to the people of Gateshead and beyond. The intention is to provide outstanding support to employees, helping them to deliver the highest standards of care and service. The Trust and the company is committed to promoting the human rights of its patients, staff and visitors to ensure that everyone is treated with dignity, fairness and respect.

The company head office is on the Trust site and accessible to employees via public transport. The company operate a park and ride service for Trust and company employees at the head office site and this improves offsite parking demand within the local community and ensures patient parking availability is maintained. Some of the company operations require satellite locations and when making decision on these additional work base locations management consider the needs and requirements of all connected stockholders. In recent months the company have improved staff rest areas and facilities at some of these satellite locations following the feedback received from employees.

The transport division is growing and although includes electric vehicles in the fleet the company continue to evaluate the technology with the intention to increase the use of electric vehicles in coming years. The company recently also acquired motorbikes to meet the changing demands of our customer and better manage emissions in congested city areas.

The Trust has a number of capital environmental improvement schemes, many delivered by the company, including the switch to efficient LED lighting and the energy efficient windows programme. Management teams are considering the environmental potential to be released through solar power and battery storage solutions. The company operates and maintains CHP generators that run on bio fuels and have a greater efficiency in electricity production than electricity consumption direct from the grid. The company reports on environmental KPI's monthly and this has helped our customers with their CO2 reduction targets and helped the Trust to exceed their CO2 reduction targets year on year.

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.

a.J. Robson

Anthony Robson
Director

Estates Department
Queen Elizabeth Hospital
Old Durham Road
Sheriff Hill
Gateshead
NE9 6S
16 December 2020

Directors' report

The directors present their report and accounts for the year ended 31 March 2020.

Dividends

The directors do not recommend the payment of a dividend *(2019: £nil)*.

Directors

The following persons served as directors during the period:

Shaun Bowron	Chairman (non-executive director)
John Robinson	(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

16 December 2020

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 (the 'company') for the year ended 31 March 2020 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 25, 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 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 Annual Report and Financial Statements, 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.

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

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 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
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

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

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 and Young LLP

Stephen Clark (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

Date: 21/12/2020

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2020

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Turnover	2	54,733	49,792
Cost of sales		(45,887)	(43,267)
Gross profit		8,846	6,525
Administrative expenses		(6,398)	(4,849)
Other operating income	3	848	656
Operating profit		3,296	2,332
Interest receivable and similar income	4	1,610	1,681
Interest payable and similar charges	4	(947)	(1,009)
Profit on ordinary activities before taxation	5	3,959	3,004
Tax on profit on ordinary activities	8	(646)	(230)
Profit on ordinary activities after taxation		3,313	2,774
Other comprehensive income for the year/period net of income tax		-	-
Total comprehensive income for the year/period		3,313	2,774

All results are derived from continuing operations.

Balance sheet
at 31 March 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Tangible assets	9		386		413
Right of use assets	10		5,354		-
Investment property	11		80		80
			5,820		493
Current assets					
Stocks	12	2,139		1,757	
Debtors: amounts falling due within one year	13	10,786		10,547	
Debtors: amounts falling due after more than one year	13	44,306		45,964	
Cash at bank and in hand		5,551		3,079	
		62,782		61,347	
Creditors: amounts falling due within one year	15	(14,463)		(10,723)	
Net current assets			48,319		50,624
Total assets less current liabilities			54,139		51,117
Creditors: amounts falling due after more than one year	16		(25,271)		(25,562)
Net assets			28,868		25,555
Capital and reserves					
Called-up share capital	17		16,824		16,824
Profit and loss account			12,044		8,731
Shareholders' funds			28,868		25,555

These financial statements were approved by the board of directors on 16 December 2020 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 2020

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2018	16,824	5,957	22,781
Total comprehensive income for period			
Profit or loss	-	2,774	2,774
Total comprehensive income for the period	-	2,774	2,774
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**
Balance at 1 April 2019	16,824	8,731	25,555
Total comprehensive income for year			
Profit or loss	-	3,313	3,313
Total comprehensive income for the year	-	3,313	3,313
Transactions with owners recorded directly in equity			
Issue of shares	-	-	-
Total contributions by owners	-	-	-
Balance at 31 March 2020	**16,824**	**12,044**	**28,868**

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 group companies;
- 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.

Changes in accounting policy

The company had to change its accounting policies as a result of adopting IFRS 16 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 2018 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 24. 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.

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 and all liabilities as they fall due.

Having achieved profits every year since incorporation in 2014 and forecast to do so next year the directors have an expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The cash balance has been adequate for our needs without the need to borrow more, notwithstanding the pursuance of new ventures in the last 12 months. The yearend cash balance trend has continued upward in line with profits and is forecast to remain on this trend for the next financial year ending 31 March 2021 and continues to remain significant in the company's most prudent 12 months forecast thereafter. The directors accept that there is a significant reliance on related party contracts and have gained assurances from our ultimate parent and controlling party, Gateshead Health NHS Foundation Trust, that they have the ability to provide support to meet any liabilities as they fall due on behalf of the company should the company not be in a position to do so for a period of at least 12 months from the date of approval of these financial statements. The directors therefore continue to adopt the going concern basis in preparing the annual report and financial statements.

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. 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 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.

Notes *(continued)*

1 Accounting policies *(continued)*

ii. Leases (continued)

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. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

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. 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 20.

As explained in 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 24. 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.

iii. 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:

	2020 £000	2019 £000
Facilities management services	48,368	44,808
External estates management	2,659	2,593
External consultancy services	1,092	1,248
External transport services	1,485	-
Rental income	218	331
Out-patient pharmacy services	182	191
Violence & Agression training	25	20
Catering income	704	601
	54,733	49,792

All of the above arises in the UK.

3 Other operating income

Analysis of other operating income:

	2020 £000	2019 £000
Renewable energy obligation certificate income (ROCs)	132	176
Fuel duty claims	48	69
Other	668	411
	848	656

Notes *(continued)*

4 Interest payable and interest receivable

	2020 £000	2019 £000
Interest payable on group loan	(884)	(1,009)
Lease liabilities	(63)	-
	(947)	(1,009)

The company adopted IFRS 16 at 1 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. In 2018 interest expense relating to lease liabilities is for finance lease under IAS 17 while in 2019 the interest expense is for lease liabilities under IFRS 16.

	2020 £000	2019 £000
Interest receivable on finance lease and other similar arrangements	1,610	1,681

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2020 £000	2019 £000
Operating lease rentals:		
plant and machinery	-	1,734
property	-	387

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

	2020 £000	2019 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	7	7

6 Staff costs

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

	2020	2019
Estates and facilities management	607	601
Administration	63	62
	670	663

Notes *(continued)*

6 Staff costs *(continued)*

Their aggregate remuneration comprised:

	2020 £000	2019 £000
Wages and salaries	14,281	13,315
Social security costs	1,179	1,105
Other pension costs (see note 19)	1,039	1,038
	16,499	15,458

The NHS Pension Scheme Employer Contribution rate has increased from 14.3% to 20.6% in the year as a result of The Department of Health and Social Care's consultation announcement, published in March 2019. The increase of £413,000 has been paid direct by NHS England and therefore is not reflected in these financial statements.

7 Directors' remuneration and transactions

	2020 £000	2019 £000
Emoluments	296	299
Company contributions to defined benefit pension schemes	15	14
Sums paid to third parties in respect of directors' services	-	-
	311	313

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 1 director under defined benefit schemes.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £165,919 (*2019: £169,765*), and company pension contributions of £0 (*2019: £ 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

	2020 £000	£000	2019 £000	£000
UK corporation tax				
Current tax on income for the period	665		468	
Adjustments in respect of prior periods	1		-	
Total current tax		666		468
Deferred tax (note 13)				
Origination and reversal of temporary differences	88		101	
Adjustments in respect of prior periods	(5)		(339)	
Effect of change in tax rate	(103)		-	
Total deferred tax		(20)		(238)
Tax on profit on ordinary activities		646		230

Notes *(continued)*

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

Reconciliation of effective tax rate

	2020 £000	2019 £000
Profit for the year	3,313	2,774
Total tax charge	646	230
Profit before taxation	3,959	3,004
Tax using the UK corporation tax rate of 19%	752	571
Non-deductible expenses	1	5
Over/ under provided in prior years	(4)	(334)
Amounts not recognised	-	-
Reduction in tax rate on deferred tax balances	(103)	(12)
Deferred tax recognised in the period previously not recognised	-	-
Total tax charge	646	230

Factors that may affect the future current and total tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on the 2nd July 2013. Further reductions to 19% (effective from the 1st April 2017) and to 18% (effective from the 1st April 2020) were substantively enacted on the 26th October 2015, and an additional reduction to 17% (effective on the 1 April 2020) was substantively enacted on the 6th September 2016. These previously enacted changes have been superseded on 19 March 2020 within the Finance Act 2020 and the UK corporation tax rate will remain unchanged at 19% (effective from the 1st April 2020). The deferred tax asset at 31 March 2020 has been calculated based on this rate.

At the end of the period the company had an unprovided deferred tax asset of £nil *(2019: £nil).*

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

	Assets		Liabilities		Net	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Property, plant and equipment	873	856	-	-	873	856
Investment property revaluation	-	-	-	-	-	-
Accrued pension	16	14	-	-	16	14
Tax assets/(liabilities)	889	870	-	-	889	870
Net tax assets/(liabilities)	889	870	-	-	889	870

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 2019	271	17	151	87	526
Additions	1	6	-	21	28
At 31 March 2020	272	23	151	108	554
Depreciation					
At 1 April 2019	(7)	(6)	(75)	(25)	(113)
Charge for the year	(4)	(4)	(31)	(16)	(55)
At 31 March 2020	**(11)**	**(10)**	**(106)**	**(41)**	**(168)**
Net book value					
At 1 April 2019	264	11	76	62	413
At 31 March 2020	**261**	**13**	**45**	**67**	**386**

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 Right of use assets and Leases

This note provides information for leases where the company is a lessee. In the previous year, the company policy was to only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. For adjustments recognised on adoption of IFRS 16 on 1 April 2019, please refer to note 24.

The company has lease contracts for various property, equipment and vehicles. The amounts recognised in the financial statements in relation to the leases are as follows:

Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

Right-of-use assets	31 March 2020 £000	1 April 2019 £000
Buildings	1,421	1,776
Equipment	3,225	3,955
Vehicles	708	375
Others	-	-
	5,354	6,106

Notes *(continued)*

10 Right of use assets and leases *(continued)*

	31 March 2020	1 April 2019
Lease liabilities	**£000**	**£000**
Current	1,782	1,333
Non-current	3,631	4,774
	5,413	6,107

Additions to the right-of-use assets during the financial year were £934,812

Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	31 March 2020	1 April 2019
Depreciation charge of right-of-use assets	**£000**	**£000**
Buildings	355	-
Equipment	1,085	-
Vehicles	247	-
Other	-	-
	1,687	-
Interest expense (included in finance cost)	63	-
Expense relating to short-term leases (included in cost of sales)	124	-
Expense relating to leases of low value assets that are not shown above as short-term leases (included in cost of sales)	41	-
Expense relating to variable lease payments not included in lease liabilities (included in cost of sales)	349	-

Future minimum lease payments as at 31 March 2020 are as follows:

	31 March 2020 £000	1 April 2019 £000
Not later than one year	1,862	1,719
Later than one year and not later than five years	3,591	2,271
Later than five years	112	30
Total gross payments	5,565	4,020
Impact of finance expenses	(152)	-
Carrying amount of liability	5,413	4,020

The company initially applied IFRS 16 at 1 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year is based on IFRS 16.

The total cash outflow for leases in 2020 was £2,286,000 (2019: £2,121,413).

Notes *(continued)*

11 Investment property

	£000
Valuation	
At 1 April 2019	80
At 31 March 2020	80
Net book value	
At 1 April 2019 and 31 March 2020	**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.

12 Stocks

	31 March 2020 £000	31 March 2019 £000
Consumables	2,139	1,757

Consumables recognised as cost of sales in the period amounted to £18,455,387 *(31 March 2019: 17,557,660)*.

13 Debtors

	Due within one year 31 March 2020 £000	Due after more than one year 31 March 2020 £000	Total 31 March 2020 £000
Trade debtors	1,053	-	1,053
Amounts owed by Group undertakings	7,208	-	7,208
Other debtors	-	-	-
Prepayments and accrued income	847	-	847
Amounts due under finance leases and similar arrangements	1,678	43,417	45,095
Deferred tax asset (note 8)	-	889	889
	10,786	44,306	55,092

Notes *(continued)*

13 Debtors *(continued)*

	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

Further details of finance leases receivables are included in note 14. All of the amounts due under finance leases and similar arrangements are due from the parent undertaking.

14 Finance leases and other similar arrangements

	2020 £000	2019 £000
Amounts receivable under finance leases and other similar arrangements:		
Within one year	3,214	3,681
In the second to fifth years inclusive	8,690	9,732
After five years	95,729	97,901
	107,633	111,314
Less: unearned finance income	(62,539)	(64,147)
	45,094	47,167
Amounts receivable under finance leases and other similar arrangements:		
Within one year	1,678	2,073
In the second to fifth years inclusive	2,837	3,768
After five years	40,579	41,326
	45,094	47,167
Analysed as:		
Non-current	43,416	45,094
Current	1,678	2,073
	45,094	47,167

Phase I

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.

Notes *(continued)*

14 Finance leases and other similar arrangements *(continued)*

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.

15 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Group loans	3,847	3,717
Trade creditors	905	790
Amounts owed to Group undertakings	9	70
Lease liabilities (note 10)	1,782	-
VAT	270	117
Other creditors including taxation and social security	3,125	2,292
Accruals and deferred income	4,525	3,737
	14,463	10,723

16 Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Group loans	19,771	23,618
Lease liabilities (note 10)	3,631	-
Deferred income	1,869	1,944
	25,271	25,562

Borrowings are repayable as follows:	2020 £000	2019 £000
Group loans		
Between one and two years	3,982	3,847
Between two and five years	12,801	12,368
After five years	2,988	7,403
	19,771	23,618
On demand or within one year	3,847	3,717
	23,618	27,335

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

Notes *(continued)*

17 Called-up share capital

	2020 £000	2019 £000
Allotted, called-up and fully-paid		
16,824,383 ordinary shares of £1 each	16,824	16,824

18 Financial commitments

Non-cancellable operating lease rentals are payable as follows:

	2020 £000	2019 £000
Less than one year	-	1,719
Between one and five years	-	2,271
More than five years	-	30
	-	4,020

19 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 2020, 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)*

19 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 2020.

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 2020.

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)*

20 Accounting estimates and judgements

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

Lessor accounting 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.

Lease accounting under first time adoption of IFRS 16

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.

To determine the incremental borrowing rate, the company has adopted that of parent company and owner Gateshead Health NHS Foundation Trust. A rate of 1.27% has been used in line with the guidance received from HM Treasury by Gateshead Health NHS Foundation Trust.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of property, vehicles and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).

- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).

- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options on vehicles and equipment leases have not been included in the lease liability, because the company can and has historically replaced the assets without significant additional cost or business disruption.

Most extension options on property leases have been included in the lease liability for five years from transition because the company has extended historically and intends to continue to extend such leases as they fall due. Management believe that many short term property leases carry the transaction substance of a longer term lease and have as such determined that a 5 year break clause is aligned to market conditions and the mid-term company outlook usage expectations as at today.

Notes *(continued)*

20 Accounting estimates and judgements *(continued)*

As at 31 March 2020, additional potential future cash outflows of £1,411,464 (discounted) have been included in the lease liability relating to property lease extensions because it is reasonably certain that these leases will be extended for the next five years being over and above the legal contracted terms.

As permitted under IFRS 16 management have decided to measure the right of use assets on transition at an amount equal to the lease liability subject to certain adjustments in relation to accrued and prepaid items and service and maintenance costs within the contracts. With no finance leases brought forward from prior years, this results in no impact on retained earnings brought forward.

21 Subsequent events

Subsequent to the 2019 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 2020.

22 Related party transactions

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 the directors have elected not to disclose full details of transactions with Gateshead Health NHS Foundation Trust.

23 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.

24 Effect of adoption of IFRS 16 – Leases

The company had to change its accounting policies as a result of adopting IFRS 16 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 2018 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. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The new accounting policies are disclosed in note 10.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 1.27%.

The company effectively had no leases recognised as finance leases at the transition date of 1 April 2019

Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

• Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;

• Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;

• Accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;

• Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

Notes *(continued)*

25 Effect of adoption of IFRS 16 – Leases *(continued)*

• Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Measurement of lease liabilities

	£000
Operating lease commitments disclosed as at 31 March 2019	4,020
Discounted using the lessee's incremental borrowing rate at the date of initial application	3,822
(Less) short term leases not recognised as a liability	(121)
(Less) low-value leases not recognised as a liability	(44)
(Less) maintenance and service elements not recognised as a liability	(574)
Add net adjustments as a result of a different treatment of extension and termination options	3,024
Lease liability recognised at 1 April 2019	6,107
Of which are;	
Current	1,333
Non-current	4,774
Carrying amount of liability	6,107

Measurement of right of use assets

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019.

Adjustments recognised in the statement of financial position on 1 April 2019

The change in accounting policy affected the following items in the statement of financial position on 1 April 2019:

• Right-of-use assets – increase by £6,107,000

• Lease liabilities – increase by £6,107,000

The net impact on retained earnings on 1 January 2019 was £nil.

Lessor accounting

The company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.