Shaw healthcare
wellness • happiness • kindness

Shaw healthcare (Group) Limited

# Annual Report & Financial Statements

For the year ended **31 March 2019**

Registered number: 05391089

Shaw healthcare (Group) Limited

# Annual Report & Financial Statements

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# Officers and professional advisers

## Directors

**A Thomas**, BA, FCA, Dr Economics *(Hon)* (Chairman)
**P J Nixey**, MA *(Oxon)* (Chief Executive)
**S D Hughes** *(resigned 9 May 2019)*
**R S Brown**, BSc, ACMA, ATII
**M J Smith** *(appointed 1 May 2019)*
**H M Black**
**S J MacSorley** *(appointed 1 April 2019)*
**E S Greenhalgh**
**A J T Pilgrim** *(appointed 26 April 2018)*

## Registered office

1 Links Court
Links Business Park
St Mellons
Cardiff
CF3 0LT

## Principal bankers

Allied Irish Bank
19 Whiteladies Road
Clifton
Bristol
BS8 1PB

## Solicitors

Blake Morgan Solicitors
One Central Square
Cardiff
CF10 1FS

## Auditor

Grant Thornton UK LLP
Statutory Auditor
3 Callaghan Square
Cardiff
CF10 5BT

## Actuary

Quantum Actuarial LLP
Cypress House
Pascal Close
Cardiff
CF3 0LW

# Year at a glance

**Contracted income**
£1.1 billion
*£1.1 billion*

**Turnover**
£99.6 million
*£94.6 million*

**Beds under management**
2,098
*2,098*

**Net debt**
£30.1 million
*£34.2 million*

**EBITDA**
£11.5 million
*£11.3 million*

**Net debt / EBITDA multiple** = 2.6
*3.0*

*Numbers in **red** represent 2019 figures*

*Numbers if **purple** represent 2018 figures*

# Strategic report

**The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006. This strategic report has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to Shaw healthcare (Group) Limited and its subsidiary undertakings when viewed as a whole.**

## Principal activities

The principal activity of the company and the group is that of the provision of care services. These encompass a range of specialist nursing, residential, domiciliary care and supported living services for the elderly and for people with dementia, learning disabilities and mental health problems.

## About us

Shaw healthcare (Group) Limited has grown from its origin as a registered housing association to one of the UK's leading healthcare providers largely through partnerships with public sector organisations responsible for both health and social care.

Shaw now employs close to 3,500 full and part-time staff to provide care to over 2,000 individuals and is unique as a major healthcare provider in being majority owned by its employees. It is the sixth largest employee-owned company in the United Kingdom.

Driven by the ethos to deliver "the quality of care we would want for our loved ones" and brand values of Wellness, Happiness and Kindness, Shaw operates from 77 registrations including 51 care homes across England, Wales and Scotland and enjoys strong relationships with Local Authorities and the NHS, from which it derives over half of its income through long-term contracts.

**'We provide a high standard of health and social care, placing the individual at the centre of all we do.'**

A large proportion of Shaw's services are based on the provision of adult and social care in a residential environment. Specialist knowledge in key areas of care means we are able to provide bespoke care packages based on the requirements of an individual, or a local authority's regional requirements.

Shaw provides a design, build and operate service for many local authorities with elderly care requirements. Our nurse-led dementia care based on the current best practices and our own therapeutic research has attracted overseas care providers, to whom we are delivering training in order for them to mirror Shaw methodologies for their residents. Our mental health services have received multiple awards for innovation and patient focused care – these services are designed for those with a primary diagnosis of mental illness with or without a physical disability, including patients who might have committed a criminal act. Other such specialised care services include learning disabilities, acquired brain injuries and intermediate care for those waiting for discharge from hospital care.

The operation of services also includes facilities management which we have developed to promote dignity at meal times, increasing hydration and facilitating dietary requirements to accommodate any cultural or medical consideration.

We also operate a home care service for those who wish to retain as much of their independence as possible and many of our services include extra care apartments where residents have their own front door key and letter box. Individuals can also visit our services for day care and respite when they wish to socialise or interact with their peer groups.

For some who wish to move on from residential care we also provide step-down services in a supported living environment.

# Strategic report (continued)

## Values

W H K

'Wellness : Happiness : Kindness'

Our vision is to provide the quality of care that we would want for our loved ones. Through prioritising the physical, mental and emotional wellness of our Service Users and employees, we will ensure they enjoy the quality of life they are entitled to.

Through our behaviour, we ensure happiness is a basic expectation of our Service Users, employees and customers when dealing with us. We will always treat everyone with integrity, kindness and respect.

## Operational developments

Care provision for the elderly is approaching crisis point in the United Kingdom due to funding pressures and the rapid growth in demand caused by an ageing population and rising life expectancy. The population of over 85-year-olds has increased by almost a third over the last decade to circa 1.5 million people, and is expected to double within the next 25 years further increasing the demand for dementia-related and other specialist care.

Expenditure on new business development continues and in the period we entered into agreements with both Liverpool and Poole County Councils to operate up to four services, funded and built by the Councils from 2019/2020.

Due to the strong cash and asset position of the group, the Board decided to recommend a final dividend payment of 0.25p per ordinary share for the previous year which was approved at the Annual General Meeting in October 2018. This was the first ever dividend payment made by the company and is testament to the dedication and hard work of our staff that have made the group what it is today. A number of those staff are shareholders of the company.

# Strategic report (continued)

## Developing our people

Operators in the care sector have long struggled with high staff turnover, which often has a detrimental effect on service quality. Shaw's focus on increased engagement, employee benefits, high quality training and development opportunities aims to reduce staff turnover and improve the quality and consistency of care which in turn can make Shaw a more attractive partner for health and social care commissioners.

Shaw provides most of its induction, foundation and advanced care training to its staff through its own training centre. In addition, trainers with significant specialisms have rewritten and developed support materials for the implementation of a number of operational processes. Moving away from solely providing training in the classroom is another efficiency which provides continuing professional development in a way which meets the needs and challenges of the business.

The vocational qualification element of the Learning and Development department is accredited by national awarding bodies: City and Guilds and Pearson Edexcel and, most recently, the Institute of Leadership and Management. We have students studying for level 3 and 5 QCF courses in addition to Levels 2 and 3 Care Apprenticeships and Levels 3 and 5 Management Apprenticeships.

# Strategic report (continued)

## Care services and employees by region

### Midlands

| | Homes | Beds | Employees | Day Care | Supported Living | Domiciliary Care | Residential Housing |
|---|---|---|---|---|---|---|---|
| 2019 | 26 | 926 | 1,466 | 657 | 1 | 40 | 86 |
| 2018 | 26 | 926 | 1,485 | 657 | 1 | 40 | 83 |

### Wales & South West

| | Homes | Beds | Employees | Day Care | Supported Living | Domiciliary Care | Residential Housing |
|---|---|---|---|---|---|---|---|
| 2019 | 8 | 219 | 394 | 50 | 43 | - | 295 |
| 2018 | 8 | 219 | 396 | 50 | 43 | - | 288 |

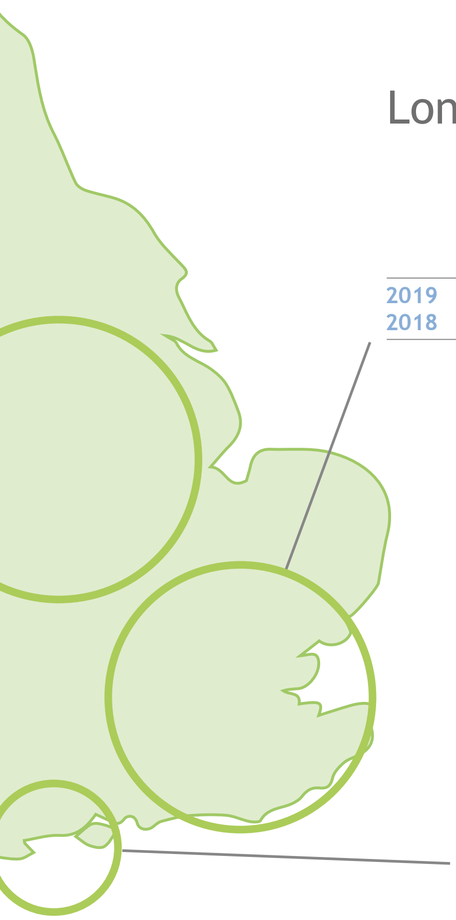
### Head office

| | Employees |
|---|---|
| 2019 | 162 |
| 2018 | 151 |

Within the above numbers are six homes, 163 beds and 283 employees which are legally owned/employed by The Shaw Foundation Limited (2018: six homes, 163 beds and 247 employees). These homes are classed as deferred assets in the balance sheet, representing assets and contracts which were acquired from The Shaw Foundation Limited on 1 October 2006 but which did not transfer to the company on that date. The assets and contracts are expected to transfer in the future when specific conditions have been met. As the assets are transferred the employees will also transfer. Further information is included in note 11 to the financial statements. The above figures represent total employees at 31 March including both full-time and part-time employees.

## Scotland

| | Homes | Beds | Employees | Day Care | Supported Living | Domiciliary Care | Residential Housing |
|---|---|---|---|---|---|---|---|
| 2019 | 1 | 21 | 150 | - | 9 | 80 | - |
| 2018 | 1 | 21 | 147 | - | 9 | 100 | - |



## London & South East

| | Homes | Beds | Employees | Day Care | Supported Living | Domiciliary Care | Residential Housing |
|---|---|---|---|---|---|---|---|
| 2019 | 16 | 932 | 1,192 | 400 | - | 10 | 35 |
| 2018 | 16 | 932 | 1,247 | 400 | - | 10 | 35 |

## South

| | Homes | Beds | Employees | Day Care | Supported Living | Domiciliary Care | Residential Housing |
|---|---|---|---|---|---|---|---|
| 2019 | - | - | 83 | - | - | 200 | - |
| 2018 | - | - | 64 | - | - | 170 | - |

## Total

| | Homes | Beds | Employees | Day Care | Supported Living | Domiciliary Care[1] | Residential Housing[2] |
|---|---|---|---|---|---|---|---|
| 2019 | 51 | 2,098 | 3,447 | 1,107 | 53 | 330 | 416 |
| 2018 | 51 | 2,098 | 3,490 | 1,107 | 53 | 320 | 406 |

[1] 1 unit = 10 care hours

[2] Within Residential Housing are 294 (2018:288) houses that are not used to deliver care services.

# Strategic report (continued)

## Key performance indicators

| Financial | 2019 | 2018 | Change |
|---|---|---|---|
| EBITDA [1] | £11.5m | £11.3m | £0.2m |
| Profit before tax | £4.4m | £7.7m | (£3.3m) |
| Net debt | (£30.1m) | (£34.2m) | £4.1m |
| Free cash [2] | £12.4m | £8.9m | (£5.1m) |
| **Operational** | | | |
| Services 'good' or above with regulator [3] | 80% | 84% | (4) |
| Services with registered manager [4] | 83% | 97% | (14) |
| Services with over 90% QoL score [6] | 52% | 61% | (9) |

The above key performance indicators are used by the Board on a monthly basis to monitor the ongoing performance of the business from both a financial and non-financial perspective. The financial information is obtained from monthly management accounts which are also used to compile these financial statements.

The reduction in the percentage of services at 'good' or above with the regulator corresponds to a decrease in one service whose effect was amplified due to an overall reduction in the number of registered services in the year. Operational management continue to implement additional quality controls in order to address the increased scope of the inspections being undertaken by the regulators. Our 'good' or above percentage in England stood at 80% compared with a national average of 79%.[5] Two of our services attained a CQC Outstanding rating in the period – Urmston House in the 'Effective' category and The Hawthorns in 4 categories (Effective; Caring; Responsive; Well-Led). The Hawthorns achieved an overall rating of Outstanding.

## Financial performance

Turnover increased during the period and gross profit after exceptional items was in line with prior year. An ability to improve occupancy in particular contributed to the maintenance of gross profit performance despite the impact of the national living wage continuing to increase our costs and agency spend increasing due to a shortage of available staff in the sector.

The group benefited from a number of non-trading exceptional item adjustments in the prior period which for transparency have been summarised on the next page. Normalised profit before tax increased on the prior period. The directors are pleased that net debt has fallen by a further £4.1 million and now stands at £30.1 million after netting off deferred finance costs. This represents 2.6 times EBITDA (2018: 3.0 times EBITDA).

[1] EBITDA comprises underlying operating profit before exceptional items, depreciation and amortisation.

[2] Free cash comprises non-ring-fenced cash.

[3] Services in England, Scotland and Wales are deemed to be fully compliant if, at their most recent inspection, that is, by the Care Quality Commission (CQC), they were assessed as meeting selected outcomes (as defined by CQC) from the essential standards of quality and safety that were reviewed during their inspection within their terms of the Health and Social Care Act. Services in Wales and Scotland are inspected in a similar way by the respective regulators but compliance is measured against different criteria under the Care Standards Act for Wales or the Regulation of Care (Scotland) Act.

[4] Includes services where a manager has been appointed and a registration application made but not yet processed by the regulator.

[5] Statistic from 'The state of health care and adult social care in England 2018/19' published by CQC in October 2018.

[6] Quality of Life (QoL) is our internal quality audit that is carried out at least annually across all care services.

# Strategic report (continued)

## Financial performance (continued)

| | 2019<br>£ million | 2018<br>£ million |
|---|---|---|
| **Reported profit before tax** | **4.4** | **7.7** |
| Movement on interest rate swaps | (0.5) | (2.3) |
| Revaluation of investment property | - | (0.9) |
| Exceptional gain on pension curtailment | - | (0.7) |
| Profit on disposal of investment | - | (0.3) |
| **Normalised profit before tax** | **3.9** | **3.5** |

The group has various long-term contracts for the provision of residential care services which expire between 2027 and 2041. The total value of contracted income, due up to the contract expiry dates on operational contracts, excluding domiciliary care is:

| | At 31 March 2019<br>£ million | At 31 March 2018<br>£ million |
|---|---|---|
| Total value | 1,063 | 1,114 |

## Future developments

Controlling labour costs (by improving staff retention and by reducing staff agency usage) and increasing market bed occupancy continue to be the group's immediate priorities. The fourth stage in the increase in the National Living Wage to £8.21 per hour in April 2019 will result in a significant increase in company staff costs which we anticipate will be difficult to fully recover from our customers. In an attempt to mitigate the impact of this on the group's financial performance we continue to seek cost efficiencies in the business in addition to exploring ways of increasing the group's revenue where possible through low capital intensive investments. To this end, agreements with both Liverpool to operate up to three new services and Poole County Council to operate one new service, funded and built by the Council will commence in stages between September 2019 and February 2020. In addition to this we have also agreed with Powys County Council to take over the management of 12 existing care homes from BUPA for a period of 3 years commencing from 1 June 2019.

Trading in the current year is lower than the equivalent period in the prior year. New business coming online over the remainder of the year will contribute positively to the results. However, the group anticipates the full year 2019/20 normalised profit to be below that achieved in 2018/19.

### Employee recognition

Shaw recognises the hard work and achievement of our staff through the annual Shaw Stars awards which celebrate the contribution and achievements of our people but also residents and families who play a pivotal role in delivering the group's core values. In addition to this, there is an Incentive Scheme allowing care home staff to be rewarded for a high level of regulatory compliance and financial management. Since its inception in 2015, this scheme has paid over £2.1 million to staff who have met the operational criteria.

We are committed to monitoring and improving Employee Engagement; during the forthcoming year we will conduct our third, whole-company Engagement Survey. In addition to a range of initiatives such as 'Employee of the Month' and a loyalty bonus to reward staff for their commitment to the group we carried out a comprehensive review of pay across all grades of staff during the period with the aim of being market leaders in rewarding our direct care staff where possible.

# Strategic report (continued)

## Principal risks and uncertainties

| Risk and Change from 2018 | Potential impact | Key controls and mitigating factors |
|---|---|---|
| **Legislative changes - cost impact** | The company is exposed to the risk of costs increasing in excess of inflation as a result of legislative changes introduced by the Government. This has included further increases to the National Living Wage and compulsory pension scheme auto-enrolment the company contributions of which have increased to a minimum of 3% for all employees. The gross impact of these changes in the 2019/20 budget is over £2m. | The directors attempt to mitigate the impact of these changes as far as possible by increasing revenue and operational efficiency. The directors remain concerned as to how these cost increases will be funded in the longer term as our local authority and NHS fees are not increasing in line with these cost uplifts. |
| **Staffing and retention** | Staff shortages are a significant risk within the industry as a whole. Agency workers are required to fill the employment voids which increases our operating cost base. We also rely on significant numbers of skilled labour from overseas countries, particularly from fellow EU countries. Post-Brexit there are questions as to whether this will continue to be possible and if so whether the additional administration and cost of sourcing EU staff will make it uneconomic in practice. | The risk is mitigated as far as possible by paying market rates of pay, extensive training and development and a staff incentive scheme which enables the employees to benefit from cash bonuses for achievement of key performance indicators. The economic implications resulting from the impact of Brexit are largely beyond the control of the company but in terms of staff recruitment, programmes in non-EU states are underway in an attempt to maintain a source of overseas skilled labour. |
| **Regulatory and contractual breaches** | If the group is judged by a contract partner or by the regulator to be providing poor care at any of its sites, and this can be proved, then it can be liable to financial penalties under a payment mechanism. If substantial and serious, the group's reputation is damaged and this can impair growth of the business. Any significant quality failing can also lead to a freeze in admissions into existing homes and a delay in the registration of new homes due to be commissioned. | The group has quality and training departments which exist to monitor and improve the quality of care services, while protecting against the reputational and commercial risks resulting from poor quality care. The quality department has a responsibility to report areas of concern to the Board of Directors on a monthly basis. The number of contractual financial penalties has remained at 1 in the period. |

# Strategic report (continued)

| | | |
|---|---|---|
| **No Deal Brexit** | Significant purchases are made from suppliers who source from outside the UK. A no deal Brexit could impact the supply and availability of supplies such as food, medical consumables and pharmaceuticals which could give rise to significant operational difficulties. | Detailed contingency plans have been developed by the Executive team who have been working with key suppliers both in terms of ensuring that they have advanced post Brexit plans in place including sourcing from the UK to ensure continuity of supply. |
| **Poor occupancy** | Over 40% of our income derives from the sale of bed places on the open market with the associated risk that sales of empty bed places fall below expectation, causing a drop in revenue and resultant pressure on cash flow. | The directors have mitigated this risk by developing a sales and marketing strategy across the group and ensuring that adequate management time and resources are devoted to its implementation. |
| **Current economic climate** | The current economic environment and pressure on public sector bodies to cut costs have an impact on the group's ability to achieve annual inflationary increases in non-contracted residential and nursing fees. This year, as in previous years, in many cases below inflationary increases were offered by many of our contract partners. | The risk is mitigated where possible by obtaining additional fees from our contract partners. The directors also look for commercial opportunities for diversification to lessen the impact of this risk on the business as a whole. Other financial risks are described in the Directors' report. |
| **Increasing dependency of residents** | The increasing frailty of elderly people referred in to the group's homes under its existing local authority and NHS contracts presents a significant risk of costs outgrowing revenues. As elderly people in our care homes become more frail, best practice obliges the group to provide more hours of care. However, the local authorities and NHS trusts which have contracted with the group to provide these elderly person care services are reluctant to pay more than the standard price agreed for the contract when the price was first determined by a competitive bid. | This risk is mitigated as far as possible through regular assessments of our residents' care needs, initiatives to continuously improve quality and efficiency of care delivery, and the development of strong relationships with our contract partners. |

## Approval

This report was approved by the Board of Directors on 26 September 2019 and signed on its behalf by:

P. J. Nixey

P J Nixey
*Chief Executive*

# Directors' report

The directors present their annual report on the affairs of the group, together with the audited financial statements, for the year ended 31 March 2019.

## Future developments and events after the balance sheet date

Details of future developments can be found in the Strategic report on page 13 and form part of this report by cross-reference.

## Going concern

After making enquiries, the directors have a reasonable expectation that the company and the group have 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.

A description of the key judgements supporting the adoption of the going concern basis can be found in note 1 to the financial statements.

## Financial risk management objectives and policies

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

## Cash flow risk

The group's activities expose it primarily to the financial risks of changes in interest rates. The group's interest rate risk arises from borrowings issued at variable rates that expose the group to interest rate cash flow risk. Where significant, this risk is managed through the use of interest rate swaps. Interest-bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

## Credit risk

The group's principal financial assets are bank balances and cash and trade and other receivables.

Most of the group's income derives from long-term contracts with public sector organisations; as such, the recoverability of amounts due is judged to be subject to low risk. The group has no significant concentration of credit risk with the balance of its income derived from the open market, with exposure spread over a number of counterparties and customers. Debtor amounts presented in the balance sheet are net of allowances for bad debts.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Certain bank loan agreements entered into by the group include covenant tests which must be met under the terms of the agreement. Covenants are monitored on an ongoing basis using actual and forecast financial information in order to ensure compliance.

## 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.

# Directors' report (continued)

## Defined benefit schemes

As described in note 25, the group participated in five defined benefit schemes during the year which had a net pension liability of £1,853,000 at 31 March 2019 (2018: £1,888,000). For existing schemes, the group employs actuaries and investment managers to manage the risks as far as possible. When assessing prospective new business opportunities, the board of directors takes into account the level of risk associated with participation in a defined benefit pension scheme.

## Dividends

The directors recommend the payment of a 0.25p dividend per ordinary share for the year (2018: 0.25p). No interim dividend has been recommended or paid (2018: £nil).

## Directors

The directors who served during the year and subsequently are as shown on page 5.

## Disabled employees

People with disabilities, whether registered or not, have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. In addition to complying with legislative requirements, procedures are in place to ensure that disabled employees are fairly treated and that their training and career development needs are carefully managed. For those employees becoming disabled during the course of their employment, the group is supportive, whether through re-training or re-deployment, so as to provide an opportunity for them to remain with the group.

## Employee involvement

During the financial year the company continued the arrangements aimed at providing employees systematically with information on matters of concern to them as employees; consulting employees or their representatives on a regular basis so that the views of the employees can be taken into account in making decisions which are likely to affect their interests and achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.

These arrangements include electronic and written communication as well as updates made to the intranet website.

## 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors on 26 September 2019 and signed on its behalf by:

P. J. Nixey

**P J Nixey**
*Chief Executive*

# Directors’ responsibilities statement

The directors are responsible for preparing the annual 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; 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 the group 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 the group 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 Shaw healthcare (Group) Limited

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Shaw healthcare (Group) Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019, which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated cash flow statement and notes to the financial statements, 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 Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's 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. We are independent of the group and the parent 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 group's or the parent 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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# Independent auditor's report to the members of Shaw healthcare (Group) Limited (continued)

## Other information (continued)

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

### Matter on which we are required to report under the Companies Act 2006

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

### Matters on which we are required to report by exception

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

# Independent auditor's report to the members of Shaw healthcare (Group) Limited (continued)

### Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 18, 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 group's and the parent 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 group or the parent 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: 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.

**Rhian Owen BSc FCA** *(Senior statutory auditor)*
for and on behalf of Grant Thornton UK LLP
Statutory Auditor
Cardiff, United Kingdom
Date 26 September 2019

# Consolidated profit and loss account

## For the year ended 31 March 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 99,636 | 94,575 |
| Operating costs (including in 2019 exceptional income of £Nil (2018: £746,000)) | | (78,578) | (73,594) |
| **Gross profit** | | 21,058 | 20,981 |
| Administrative expenses | | (12,476) | (11,915) |
| **Operating profit** | | 8,582 | 9,066 |
| Profit on disposal of operations | 13 | - | 278 |
| Gain arising on revaluation of investment property | 12 | - | 949 |
| Finance costs (net) | 4 | (4,172) | (2,612) |
| **Profit before taxation** | 5 | 4,410 | 7,681 |
| Tax on profit | 8 | (1,381) | (1,762) |
| **Profit for the financial year** | | 3,029 | 5,919 |

The results for both the current and prior year were all derived from continuing operations of the company.

# Consolidated statement of comprehensive income

For the year ended 31 March 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Profit for the financial year** | | 3,029 | 5,919 |
| Remeasurement of net defined benefit liability | 25 | 188 | 490 |
| Tax relating to components of other comprehensive income | | (31) | (88) |
| **Other comprehensive income** | | 157 | 402 |
| **Total comprehensive income** | | 3,186 | 6,321 |

# Consolidated balance sheet

## At 31 March 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets - goodwill | 10 | 1,089 | 1,225 |
| Deferred assets | 11 | 737 | 737 |
| Tangible assets | 12 | 77,781 | 79,711 |
| | | 79,607 | 81,673 |
| **Current assets** | | | |
| Debtors | | | |
| - due within one year | 14 | 4,020 | 4,690 |
| - due after one year | 14 | 315 | 358 |
| Cash at bank and in hand | | 39,695 | 43,929 |
| | | 44,030 | 48,977 |
| **Creditors: amounts falling due within one year** | 15 | (15,971) | (17,529) |
| **Net current assets** | | 28,059 | 31,448 |
| **Total assets less current liabilities** | | 107,666 | 113,121 |
| **Creditors: amounts falling due after more than one year** | 16 | (77,827) | (86,452) |
| **Provisions for liabilities** | 19 | (6,087) | (5,963) |
| **Net assets** | | 23,752 | 20,706 |
| **Capital and reserves** | | | |
| Called-up share capital | 22 | 50 | 50 |
| Other reserve | 22 | 796 | 743 |
| Equity reserve | 22 | 502 | 502 |
| Profit and loss account | 22 | 22,404 | 19,411 |
| **Shareholders' funds** | | 23,752 | 20,706 |

The financial statements of Shaw healthcare (Group) Limited, registered number 05391089, were approved by the Board of Directors and authorised for issue on 26 September 2019. They were signed on its behalf by:

**P J Nixey**

*Chief Executive*

**R S Brown**

*Chief Financial Officer*

# Company balance sheet

At 31 March 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Deferred assets | 11 | 737 | 737 |
| Tangible assets | 12 | 19,349 | 19,122 |
| Investments | 13 | 4,963 | 4,713 |
| | | 25,049 | 24,572 |
| **Current assets** | | | |
| Debtors | | | |
| - due within one year | 14 | 4,447 | 4,573 |
| - due after one year | 14 | 10,676 | 8,165 |
| Cash at bank and in hand | | 7,047 | 10,274 |
| | | 22,170 | 23,012 |
| **Creditors: amounts falling due within one year** | 15 | (3,826) | (4,295) |
| **Net current assets** | | 18,344 | 18,717 |
| **Total assets less current liabilities** | | 43,393 | 43,289 |
| **Creditors: amounts falling due after more than one year** | 16 | (13,623) | (14,060) |
| **Provisions for liabilities** | 19 | (2,464) | (2,421) |
| **Net assets** | | 27,306 | 26,808 |
| **Capital and reserves** | | | |
| Called-up share capital | 22 | 50 | 50 |
| Other reserves | 22 | 436 | 436 |
| Equity reserve | 22 | 502 | 502 |
| Profit and loss account | 22 | 26,318 | 25,820 |
| **Shareholders' funds** | | 27,306 | 26,808 |

The profit for the financial year dealt with in the financial statements of the parent company was £635,000 (2018: £352,000). The profit for the year included an exceptional provision against debtors of £1,174,000 (2018: £3,083,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

The financial statements of Shaw healthcare (Group) Limited, registered number 05391089, were approved by the Board of Directors and authorised for issue on 26 September 2019. They were signed on its behalf by:

P. J. Nixey

**P J Nixey**

*Chief Executive*

**R S Brown**

*Chief Financial Officer*

# Consolidated statement of changes in equity

At 31 March 2019

| | Called-up share capital £'000 | Other reserve £'000 | Equity reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 April 2017** | 50 | 689 | - | 13,087 | 13,826 |
| Profit for the financial year | - | - | - | 5,919 | 5,919 |
| Remeasurement of net defined benefit liability | - | - | - | 490 | 490 |
| Tax relating to items of other comprehensive income | - | - | - | (88) | (88) |
| **Total comprehensive income** | - | - | - | 6,321 | 6,321 |
| Transfer between reserves | - | 54 | - | (54) | - |
| Recognition of equity component of convertible preference shares | - | - | 502 | - | 502 |
| Credit to equity for equity-settled share-based payment | - | - | - | 57 | 57 |
| **At 31 March 2018** | 50 | 743 | 502 | 19,411 | 20,706 |
| Profit for the financial year | - | - | - | 3,029 | 3,029 |
| Remeasurement of net defined benefit liability | - | - | - | 188 | 188 |
| Tax relating to items of other comprehensive income | - | - | - | (31) | (31) |
| **Total comprehensive income** | - | - | - | 3,186 | 3,186 |
| Transfer between reserves | - | 53 | - | (53) | - |
| Dividends paid on equity shares | - | - | - | (170) | (170) |
| Credit to equity for equity-settled share-based payment | - | - | - | 30 | 30 |
| **At 31 March 2019** | 50 | 796 | 502 | 22,404 | 23,752 |

# Company statement of changes in equity

At 31 March 2019

| | Called-up share capital £'000 | Other reserve £'000 | Equity reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 April 2017** | 50 | 435 | - | 25,408 | 25,893 |
| Profit for the financial year | - | - | - | 352 | 352 |
| Re-measurement of net defined benefit liability | - | - | - | 3 | 3 |
| Tax relating to items of other comprehensive income | - | - | - | 1 | 1 |
| **Total comprehensive income** | - | - | - | 356 | 356 |
| Transfer between reserves | - | 1 | - | (1) | - |
| Recognition of equity component of convertible preference shares | - | - | 502 | - | 502 |
| Credit to equity for equity-settled share-based payment | - | - | - | 57 | 57 |
| **At 31 March 2018** | 50 | 436 | 502 | 25,820 | 26,808 |
| Profit for the financial year | - | - | - | 635 | 635 |
| Remeasurement of net defined benefit liability | - | - | - | 3 | 3 |
| Tax relating to items of other comprehensive income | - | - | - | - | - |
| **Total comprehensive income** | - | - | - | 638 | 638 |
| Transfer between reserves | - | - | - | - | - |
| Dividends paid on equity shares | - | - | - | (170) | (170) |
| Credit to equity for equity-settled share-based payment | - | - | - | 30 | 30 |
| **At 31 March 2019** | 50 | 436 | 502 | 26,318 | 27,306 |

# Consolidated cash flow statement

For the year ended 31 March 2019

| | Note | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| **Net cash flows from operating activities** | 23 | 9,251 | 10,763 |
| **Cash flows from investing activities** | | | |
| Purchase of equipment | | (844) | (987) |
| Interest received | | 78 | 70 |
| **Net cash flows from investing activities** | | (766) | (917) |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | | (8,469) | (4,378) |
| Interest paid | | (4,250) | (4,676) |
| Proceeds on issue of preference shares | | - | 8,682 |
| **Net cash flows from financing activities** | | (12,719) | (372) |
| **Net (decrease)/increase in cash and cash equivalents** | | (4,234) | 9,474 |
| **Reconciliation to cash at bank and in hand:** | | | |
| Opening balance | | 43,929 | 34,455 |
| Net (decrease)/increase in the year | | (4,234) | 9,474 |
| **Closing balance** | | 39,695 | 43,929 |

# Notes to the financial statements

For the year ended 31 March 2019

## 1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

### a. General information and basis of accounting

Shaw healthcare (Group) Limited is a private company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in Wales. The address of the registered office is given on page 4. The nature of the group's operations and its principal activities are set out in the strategic report on pages 7 to 15.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Shaw healthcare (Group) Limited is considered to be pound sterling because that is the currency of the primary economic environment in which the company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Shaw healthcare (Group) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

For the year ended 31 March 2019, Shaw healthcare (Brentry) Limited, company house number 06898750, was entitled to exemption from audit under S479A of the Companies Act 2006 relating to subsidiary companies.

### b. Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### c. Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. In addition, the Directors' report includes the group's objectives, policies and processes for managing its financial risk; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Approximately 54% of the group's operating income derives from long-term contracts with local authorities and NHS trusts, and is therefore secure. Most of the remainder derives from the sale of bed places on the open market, with the associated risk that sales of empty bed places fall below expectation, causing a drop in revenue and resultant pressure on cash flow. The directors have mitigated this risk by developing a sales and marketing strategy across the group and ensuring that adequate management time and resources are devoted to its implementation.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 1. Accounting policies (continued)

### c. Going concern (continued)

The group bears the risk of cost inflation although this is partly offset by annual indexation clauses in its long-term contracts. The group also bears the risk of poor cost control, especially in relation to staff costs and other direct costs such as food, energy, medical and cleaning supplies. This risk is mitigated through a comprehensive framework of controls and performance indicators and by entering into fixed price agreements where possible and appropriate.

The company and several of its subsidiaries are subject to bank covenant tests which are monitored regularly by management. With two exceptions, all tests have been, and are projected to be, achieved with adequate headroom. The exceptions relate to those businesses operating properties in Pembroke, and are described below.

The care facility operated by Shaw (Pembroke) Specialist Services Limited has remained closed during the year ended 31 March 2019 and the care facility operated by Surehaven (Pembroke) Limited reported operating losses for the year due to the facility not achieving the level of occupancy that was expected. This resulted in potential breaches of the combined banking covenants, incorporating the results of Shaw (Pembroke) Specialist Services Limited, when tested on a quarterly basis. The company's bankers have issued covenant deferral letters in respect of their covenant tests and the directors consider it likely that further covenant deferral letters will be issued by the bank in the future. Whilst these circumstances create uncertainties over the availability of finance, the company can rely on short-term support from the group to meet operating cash flow requirements, and written letters of support for the period 12 months after the date of signing the audit report, to this effect, have been received from subsidiaries of Shaw healthcare (Group) Limited. The group's formal commitment is to guarantee loan interest but not capital repayments.

The directors have considered the current and forecast performance of the remainder of the Shaw business and, in particular, the ability of the business to fund the operations of the entities described above. The directors have concluded that, while the circumstances described above represent uncertainty in the financial statements of the respective subsidiary companies, they do not affect the ability of the group as a whole to continue as a going concern.

Where compliance with loan covenants is achieved with minimal headroom, as is the case with those businesses running properties in Hereford, Ledbury and Nailsea, the group has the ability to improve cash flow through deferring the payment of inter-company fees and lending cash to the affected subsidiary. The majority of the property-owning subsidiaries have their own banking facilities and the security on these loans is ring-fenced from the rest of the group. These arrangements provide a degree of protection to the rest of the group as a last resort in the unlikely scenario that any of these individual businesses were to fail.

At 31 March 2019 the group held £12,406,000 of cash outside ring-fenced companies, and in total held £39,695,000 of cash (2018: £17,500,000 and £43,929,000 respectively). The strong cash position has been achieved as a result of continued tight control of working capital which gives the group the flexibility to address its business risks, reduce its indebtedness and invest in suitable new opportunities. In the period, the opportunity was taken to redeem a number of loans in order to reduce the cash interest burden going forward.

The directors have a reasonable expectation that the company and the group have 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.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 1. Accounting policies (continued)

### d. Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

### e. Deferred assets

Deferred assets represent net assets acquired by the company from The Shaw Foundation Limited (formerly Shaw healthcare (Homes) Limited) on 1 October 2006. These assets are classified as either "ten-year assets" – being those facilities which are expected to transfer to the company in the future, or "trust assets" – being those assets which, for legal and commercial reasons, are not expected to transfer but which, while operational, will continue to be run by The Shaw Foundation under existing arrangements. An agreement exists between the company and The Shaw Foundation whereby the company enjoys the benefits and bears the burdens of these deferred assets until the date of transfer or closure.

### f. Tangible fixed assets

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

| | | |
|---|---|---|
| Freehold buildings | - | 1.67% - 10% straight-line |
| Long leasehold land and buildings | - | Over the shorter of the lease term or 50 years |
| Furniture and equipment | - | 20% - 33.3% straight-line |
| Capitalised development costs | - | Over 30 years |

For buildings, depreciation is charged from the date the buildings were first put into use or, in the case of care homes, the date of registration.

For capitalised development costs, depreciation is charged from the date of completion of the construction project to which the development costs relate.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Investment properties for which fair value can be measured reliably without undue cost of effort on an ongoing basis are measured at fair value annually with any change recognised in the profit and loss account.

### g. Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 1. Accounting policies (continued)

### g. Financial instruments (continued)

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

**(a)** The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

**(b)** The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

**(c)** The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

**(d)** There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

**(e)** Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

**(f)** Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 1. Accounting policies (continued)

### g. Financial instruments (continued)

(ii) Investments

In the company balance sheet, investments in subsidiaries are measured at cost less impairment.

(iii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iv) Convertible financial instruments

The component parts of compound instruments issued by the group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. On initial recognition the financial liability component is recorded at its fair value. At the date of issue, in the case of a convertible instrument denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently remeasured.

Transaction costs are apportioned between the liability and equity components of the convertible instrument based on their relative fair values at the date of issue. The portion relating to the equity component is charged directly against equity. Where the financial liability component meets the criteria in (i) above, the finance costs of the financial liability are recognised over the term of the debt using the effective interest method. If those criteria are not met, the financial liability component is measured at fair value through profit and loss.

(v) Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

(vi) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

### h. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

**Non-financial assets**

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

## 1. Accounting policies (continued)

### h. Impairment of assets (continued)

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro rata basis.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro rata basis and then to any goodwill allocated to that CGU.

**Financial assets**

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

### i. Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries except where the group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

## 1. Accounting policies (continued)

### i. Taxation (continued)

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### j. Turnover

Turnover is stated net of VAT and arises in the United Kingdom. It is recognised when the significant risks and rewards are considered to have been transferred to the customer. The group recognises revenue for non-contracted market beds as care is provided for and contracted block beds as it is made available.

Development fees charged in respect of new contracts are recognised in the year that staff costs and overheads are charged to the profit and loss account. The development fees are allocated under "Housing and management services fees" in note 3.

Sales of residential properties which were constructed solely for resale are recorded as property sales in turnover. Revenue is recognised at the point of unconditional exchange of contracts. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

### k. Employee benefits

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

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

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 1. Accounting policies (continued)

### l. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Other exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income; and
- in the case of the consolidated financial statements, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) are recognised in other comprehensive income and reported under equity.

### m. Leases

**The group as lessee**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

**The group as lessor**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### n. Borrowing costs

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

### o. Share-based payment

**Company share option plan**

The company operates an equity-settled company share option plan for certain directors and employees. Equity-settled share-based payments arising from this plan are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured using the Black-Scholes pricing model. Expected volatility used in the model is determined by considering the potential change in value of the company's shares in the future based on management's best estimate of future performance. The expected life used in the model takes into consideration expected future performance and behavioural considerations.

At each balance sheet date, the company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and makes a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The latest options were granted in November 2016.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 1. Accounting policies (continued)

### p. Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Where a provision is measured using the cash flows estimated to settle the present obligations its carrying amount is the present value of those cash flows.

The liability for the cost of maintenance is recognised in the accounting period in which the work is carried out.

### q. Development contracts and stocks

All costs incurred on the development of new schemes are charged to the profit and loss account in the year in which they are incurred until the scheme is considered certain to proceed, at which point the costs are capitalised. Development work in progress is valued at the lower of cost and net realisable value.

## 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### Defined benefit pension scheme

The group contributes to a number of defined benefit pension schemes. The accounting cost of these benefits and the present value of the pension liabilities involve judgements about uncertain events including such factors as the life expectancy of the members, the salary progression of current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. Estimates are used for all of these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and judgement regarding future expectations and external actuarial specialists are also used to assist in this exercise. The value of the net pension liability as at the balance sheet date was £1,853,000 (2018: £1,888,000).

### Impairment of tangible assets

Tangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit (subsidiary) is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. Indicators that an impairment review is required are a subsidiary incurring a loss for the year or not performing in line with its operational model. The value-in-use calculations require judgement in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and discount rate for each subsidiary. The future cash flows used in the value-in-use calculations are based on the latest board-approved financial plans. The discount rate is derived from the group's post-tax weighted average cost of capital which is assessed each year and adjusted for the risk specific to the subsidiary for which the future cash flow estimates have not been adjusted. The carrying amount of tangible assets at the balance sheet date was £77,781,000 (2018: £79,711,000) after an impairment charge of £Nil (2018: £Nil).

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 3. Turnover and revenue

An analysis of the group's turnover by class of business is set out below.

| Turnover | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Care home residential fees | 85,986 | 82,793 |
| Domiciliary care fees | 3,265 | 2,622 |
| Housing and management services fees | 5,831 | 4,879 |
| Service contract income | 2,604 | 2,505 |
| Other income | 1,884 | 1,465 |
| Grants received | - | 253 |
| Property sales | 66 | 58 |
| | 99,636 | 94,575 |

An analysis of the group's turnover by geographical market is set out below.

| Turnover | 2019 £'000 | 2018 £'000 |
|---|---|---|
| United Kingdom | 99,458 | 94,389 |
| China | 178 | 186 |
| | 99,636 | 94,575 |

The turnover shown in the profit and loss account represents amounts recognised during the year in line with the group's revenue recognition policies, exclusive of any Value Added Tax.

An analysis of the group's revenue including turnover is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Turnover | 99,636 | 94,575 |
| Investment income | 78 | 61 |
| | 99,714 | 94,636 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 4. Finance costs (net)

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Interest payable and similar charges | 4,250 | 2,642 |
| Less: Investment income (see note 20) | (78) | (61) |
| Other finance costs | - | 31 |
| | 4,172 | 2,612 |

| **Investment income** | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Other interest receivable and similar income | 78 | 61 |

| **Interest payable and similar charges** | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Bank loans and overdrafts (see note 20) | 4,023 | 4,676 |
| Preference share dividends | 698 | 232 |
| Movement on interest rate swaps | (471) | (2,266) |
| | 4,250 | 2,642 |

| **Other finance costs (income)** | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Net interest on defined benefit liability (see note 25) | - | 31 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 5. Profit before taxation

Profit before taxation is stated after charging/(crediting):

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Depreciation of tangible fixed assets (note 12) | 2,755 | 2,571 |
| Amortisation of goodwill (note 10) | 136 | 414 |
| Impairment of trade debtors | 50 | 40 |
| Reversal of past impairment losses on trade debtors | - | (117) |
| Operating lease rentals | 1,222 | 1,287 |
| Loss on disposal of fixed assets | 20 | 46 |
| Profit on disposal of subsidiary | - | (278) |
| Settlement of deferred benefit pension deficit | - | (746) |

Impairments of tangible fixed assets are included in administrative expenses.

Amortisation of tangible fixed assets is included in administrative expenses.

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Fees payable to the company's auditor and its associates for the audit of the company's annual accounts** | 17 | 20 |
| **Fees payable to the company's auditor and its associates for other services to the group** | | |
| The audit of the company's subsidiaries | 61 | 66 |
| **Total audit fees** | 78 | 86 |
| Other assurance services | - | - |
| **Total audit and assurance fees** | 78 | 86 |
| Fees payable to the company's auditor and its associates in respect of accounts production | 13 | - |

No services were provided pursuant to contingent fee arrangements.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 6. Staff numbers and costs

The average monthly number of employees (including executive directors and part-time employees) was:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 Number | 2018 Number | 2019 Number | 2018 Number |
| Provision of care and related services | 2,946 | 3,025 | 710 | 705 |
| Administration | 271 | 247 | 190 | 177 |
| | 3,217 | 3,272 | 900 | 882 |

Their aggregate remuneration comprised:

| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|
| Wages and salaries | 51,187 | 49,675 | 18,073 | 16,904 |
| Social security costs | 3,600 | 3,461 | 1,491 | 1,390 |
| Other pension costs | 956 | 737 | 321 | 198 |
| Share based payment (note 9) | 30 | 57 | 30 | 57 |
| | 55,773 | 53,930 | 19,915 | 18,549 |

'Other pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 7. Directors' remuneration and transactions

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Directors' remuneration** | | |
| Emoluments | 741 | 737 |
| Sums paid to third parties in respect of director services | 18 | 6 |
| Company contributions to money purchase pension schemes | 40 | 40 |
| | 799 | 783 |

| | Number | Number |
|---|---|---|
| **The number of directors who:** | | |
| Are members of a money purchase pension scheme | 2 | 2 |
| Exercised options over shares in the company | - | 1 |
| Had awards receivable in the form of shares under a long-term incentive scheme | - | - |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Remuneration of the highest paid director:** | | |
| Emoluments | 251 | 250 |
| Company contributions to money purchase schemes | - | - |

The highest paid director did not exercise any share options in the year.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 8. Tax on profit

The tax charge comprises:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current tax on profit** | | |
| UK corporation tax | 1,237 | 1,378 |
| Adjustments in respect of prior years | (1) | - |
| **Total current tax** | 1,236 | 1,378 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 145 | 385 |
| Adjustments relating to prior years | - | (1) |
| **Total deferred tax** | 145 | 384 |
| **Total tax on profit** | 1,381 | 1,762 |

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Group profit before tax** | 4,410 | 7,681 |
| Tax on group profit at 19% (2018: 19%) | 838 | 1,459 |
| Effects of: | | |
| - Expenses not deductible for tax purposes | 223 | 197 |
| - Ineligible depreciation | 333 | 282 |
| - Effect of changes in tax rate | 4 | (74) |
| - Non-taxable income | (3) | (82) |
| - Adjustments to tax charge in respect of previous years | (1) | (1) |
| - Deferred tax not provided | - | (5) |
| - Other timing differences | (13) | (14) |
| **Group total tax charge for year** | 1,381 | 1,762 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 8. Tax on profit (continued)

Taxable losses of £1,484,000 (2018: £1,484,000) have been carried forward to set off against future profits.

The standard rate of tax applied to profit is 19% (2018: 19%). The Finance Act 2016, which provides for a further planned reduction in corporation tax to 17% from 1 April 2020, was substantively enacted on 15 September 2016. There is no expiry date on timing differences, unused tax losses or tax credits.

A deferred tax asset of £163,000 (2018: £163,000) has not been recognised in respect of tax losses carried forward and short-term timing differences. This asset has not been recognised as there is insufficient evidence that the asset can be utilised in the foreseeable future.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 9. Share-based payments

**Equity-settled share option schemes**

The company recognised share-based payments/charges in the year amounting to £30,000 (2018: £57,000) in respect of its equity-settled company share option plan.

**Equity-settled company share option plan**

The company set up a company share option plan in April 2009 for certain directors and employees. Options are exercisable at a price equal to the estimated fair value of the company's shares on the date of the grant. The fair value of the share options at the grant date was calculated using a model approximating the Black-Scholes model.

The options vest in four annual tranches. The grant of each tranche of options is conditional on participating directors and employees being employed on the relevant vesting anniversary. There are no other performance conditions attached to the options. The options expire if they remain unexercised after a period of ten years from the date of the grant.

Details of the share options outstanding during the year are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price (£) | Number of share options | Weighted average exercise price (£) |
| Outstanding at the beginning of the period | 9,575,000 | 0.059 | 11,555,000 | 0.05 |
| Granted during the period | - | - | - | - |
| Forfeited during the period | (1,150,000) | 0.074 | - | - |
| Exercised during the period | (1,000,000) | 0.004 | (1,980,000) | 0.004 |
| Expired during the period | - | - | - | - |
| Outstanding at the end of the period | 7,425,000 | 0.064 | 9,575,000 | 0.059 |
| Exercisable at the end of the period | 7,425,000 | 0.048 | 6,325,000 | 0.048 |

In the year no share options were granted (2018: 0) at an option price of £0 per share.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 10. Intangible fixed assets - goodwill

| Group | £'000 |
|---|---|
| **Cost** | |
| At 1 April 2018 and 31 March 2019 | 3,534 |
| **Amortisation** | |
| At 1 April 2018 | 2,309 |
| Charge for the year | 136 |
| At 31 March 2019 | 2,445 |
| **Net book value** | |
| At 31 March 2019 | 1,089 |
| At 31 March 2018 | 1,225 |

Goodwill is written off on a straight-line basis over its useful economic life, which is 20 years.

## 11. Deferred assets

On 1 October 2006 the company completed the acquisition of virtually the entire business of The Shaw Foundation Limited (then called Shaw healthcare (Homes) Limited) which included its care homes and the benefits and burdens of the contracts it had with local authorities and the NHS to develop and operate these facilities and services, and associated employees at home and head office level.

Although the entire sale was completed on 1 October 2006, some assets and contracts did not transfer to the company on that date as they were subject to specific conditions being met. The consideration for such assets and contracts is referred to as deferred assets. An agreement exists between the company and The Shaw Foundation whereby the company enjoys the benefits and bears the burdens of these deferred assets until the date of transfer.

Deferred assets amounting to £737,000 (2018: £737,000) are included under fixed assets.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 12. Tangible fixed assets

| Group | Investment properties £'000 | Freehold land and buildings £'000 | Long leasehold land and buildings £'000 | Capitalised development costs £'000 | Furniture and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 April 2018 | 17,199 | 60,284 | 28,874 | 823 | 7,335 | 114,515 |
| Additions | - | 25 | - | - | 819 | 844 |
| Revaluations | - | - | - | - | - | - |
| Disposals | - | (28) | - | - | (642) | (670) |
| At 31 March 2019 | 17,199 | 60,281 | 28,874 | 823 | 7,512 | 114,689 |
| **Depreciation** | | | | | | |
| At 1 April 2018 | - | 17,588 | 10,724 | 285 | 6,207 | 34,804 |
| Charge for the year | - | 899 | 1,356 | 32 | 468 | 2,755 |
| Disposals | - | (9) | - | - | (642) | (651) |
| At 31 March 2019 | - | 18,478 | 12,080 | 317 | 6,033 | 36,908 |
| **Net book value** | | | | | | |
| At 31 March 2019 | 17,199 | 41,803 | 16,794 | 506 | 1,479 | 77,781 |
| At 31 March 2018 | 17,199 | 42,696 | 18,150 | 538 | 1,128 | 79,711 |

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £8,946,000 (2018: £8,496,000). Capitalised finance costs written off in the profit and loss account during the year amounted to £248,000 (2018: £248,000). Such costs are included within land and buildings.

Freehold land and buildings include £6,748,694 (2018: £6,748,694) of land which is not depreciated.

### Investment properties

Investment properties are stated based on a valuation undertaken by Bruton Knowles in 2018. Bruton Knowles are independent RICS registered valuers with experience in the location and class of investment property being valued and the valuation was prepared in accordance with the Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors. The significant assumptions used were a discount rate of 8.25%, a discounted cash flow term of 35 years and a market valuation subject to existing tenancies rather than vacant possession. The directors do not believe that there has been any significant change to the assumptions or the property portfolio since the date of the valuation and continue to recognise the portfolio at this valuation.

Included within Housing and Management Services fees in note 3, rental income on these properties equated to £1,500,000 in both periods. No contingent rents have been recognised as income in either period. The rental agreements held with tenants do not obligate either party to long-term lease commitments. Over 98% of the balance relates to freehold properties with the remainder representing properties on a 999 year lease.

At the balance sheet date, if the investment properties had not been revalued they would have been included at a net book value of £1,062,000 (2018: £1,120,000).

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 12. Tangible fixed assets (continued)

| Company | Investment properties £'000 | Freehold land and buildings £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 April 2018 | 17,199 | 1,711 | 2,177 | 21,087 |
| Additions | - | - | 561 | 561 |
| Revaluations | - | - | - | - |
| Disposals | - | - | (463) | (463) |
| At 31 March 2019 | 17,199 | 1,711 | 2,275 | 21,185 |
| **Depreciation** | | | | |
| At 1 April 2018 | - | 381 | 1,584 | 1,965 |
| Charge for the year | - | 63 | 271 | 334 |
| Disposals | - | - | (463) | (463) |
| At 31 March 2019 | - | 444 | 1,392 | 1,836 |
| **Net book value** | | | | |
| At 31 March 2019 | 17,199 | 1,267 | 883 | 19,349 |
| At 31 March 2018 | 17,199 | 1,330 | 593 | 19,122 |

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £406,000 (2018: £406,000). Capitalised finance costs of £20,000 were expensed to the profit and loss account during the year (2018: £20,000).

Freehold land and buildings include £362,000 (2018: £362,000) of land which is not depreciated.

Further information on the investment properties basis of valuation and historical cost is disclosed on the previous page.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 13. Fixed asset investments

| Company | Shares in subsidiary undertakings £'000 |
|---|---|
| **Cost** | |
| At 1 April 2018 | 5,335 |
| Additions | 479 |
| Disposals | - |
| At 31 March 2019 | 5,814 |
| **Provision for impairment** | |
| At 1 April 2018 | 622 |
| Charge for the year | 229 |
| Disposals | - |
| At 31 March 2019 | 851 |
| **Net book value** | |
| At 31 March 2019 | 4,963 |
| At 31 March 2018 | 4,713 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 13. Fixed asset investments (continued)

### Group investments

The parent company and the group have investments in the following subsidiary undertakings:

| Subsidiary undertakings | Country of incorporation | Principal activity | Holding | % |
|---|---|---|---|---|
| Shaw healthcare Limited | England and Wales | Provision of care services to other Shaw companies and external clients | £1 ordinary shares | 100 |
| Shaw healthcare (FM Services) Limited | England and Wales | Provision of facilities management services to other Shaw companies and external clients | £1 ordinary shares | 100 |
| Shaw healthcare (Specialist Services) Limited | England and Wales | Development and operation of care homes for people with very challenging care needs | £1 ordinary shares | 100 |
| Shaw healthcare (Herefordshire) Limited | England and Wales | Development and management of five Herefordshire County Council (HCC) care homes, providing care and day care services under a 30 year contract with HCC; also the development of extra-care flats for sale and rental | £1 ordinary shares | 100 |
| Shaw healthcare (Developments) Limited | England and Wales | Purchase and development of land and facilities | £1 ordinary shares | 100 |
| Shaw healthcare (Ledbury) Limited | England and Wales | Development and operation of a community healthcare facility (GP surgery plus 24/7 minor injury service, NHS outpatients' facility and inpatients' beds) under a 25-year contract with Herefordshire Primary Care Trust together with nursing home and acquired brain injury unit | £1 ordinary shares | 100 |
| Shaw healthcare (Managed Services) Limited | England and Wales | Provision of management services to other Shaw companies and external clients | £1 ordinary shares | 100 |
| Shaw Community Living (DCA) Limited | England and Wales | Provision of domiciliary care and supported living services under contract to local authorities and as requested by individuals | £1 ordinary shares | 100 |
| Shaw healthcare (Barton) Limited | England and Wales | Development and operation of a community healthcare facility (GP surgery and NHS outpatients' facility plus inpatient beds) under a 30-year contract with East Staffordshire Primary Care Trust plus development and sale of extra-care flats | £1 ordinary shares | 100 |
| Shaw healthcare (de Montfort) Limited | England and Wales | Development and management of six Northamptonshire County Council (NCC) care homes, providing care services under a 30-year contract with NCC | £1 ordinary shares | 100 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 13. Fixed asset investments (continued)

| Subsidiary undertakings | Country of incorporation | Principal activity | Holding | % |
|---|---|---|---|---|
| Shaw healthcare (Northamptonshire) Limited | England and Wales | Development and management of four specialist reablement day and care centres under a 25-year PFI contract with Northamptonshire County Council | £1 ordinary shares | 100 |
| Shaw healthcare (North Somerset) Limited | England and Wales | Management of a redeveloped North Somerset County Council (NSCC) care home, providing care and day care services under a contract with NSCC | £1 ordinary shares | 100 |
| Surehaven Limited | England and Wales | The development of specialist care in medium and low-secure private hospitals | £1 ordinary shares | 100 |
| Shaw healthcare (West Sussex) Limited | England and Wales | Management of 12 West Sussex County Council (WSCC) care homes providing care and day care services under a 30-year contract with WSCC | £1 ordinary shares | 100 |
| Shaw healthcare (Nailsea) Limited | England and Wales | Development and operation of a residential, nursing and specialist care complex under a contract with North Somerset County Council | £1 ordinary shares | 100 |
| Shaw (Pembroke) Specialist Services Limited | England and Wales | Development and operation of care homes for people with very challenging care needs - facility closed in May 2011 | £1 ordinary shares | 100 (i) |
| Surehaven (Pembroke) Limited | England and Wales | The development of specialist care in medium and low-secure private hospitals | £1 ordinary shares | 100 (i) |
| Surehaven Glasgow Limited | England and Wales | The development of specialist care in medium and low-secure private hospitals | £1 ordinary shares | 100 (i) |
| Shaw Community Living (SLS) Limited | England and Wales | Provision of supported living services under contract to local authorities | £1 ordinary shares | 100 |
| Shaw healthcare (Hong Kong) Limited | Hong Kong | Intermediate holding company | £1,000 ordinary shares | 100 |
| Shaw healthcare (Brentry) Limited | England and Wales | Non-trading | £1 ordinary shares | 100 (i) |

(i) Wholly-owned by a subsidiary of the parent company.

All subsidiary undertakings have been included in the consolidation and share the same registered address as the parent company which is as noted on page 1.

The parent company also has an investment in Shaw healthcare Management Consulting (Shanghai) Co. Limited, a Wholly Foreign-Owned Enterprise, incorporated in China, registered at Room 62, 4F, Building B, LL Land Tower, No.580, West Nanjing Road, Shanghai. The company provides management, care advisory and training services to the care industry in China.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 14. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| **Amounts falling due within one year:** | | | | |
| Trade debtors | 2,182 | 2,642 | 550 | 584 |
| Amounts owed by group undertakings | - | - | 2,888 | 3,185 |
| Amounts owed by related parties | 387 | 603 | 349 | 356 |
| Other taxation and social security | - | - | 20 | 4 |
| Other debtors | 253 | 609 | 54 | 28 |
| Prepayments and accrued income | 1,198 | 836 | 586 | 416 |
| | 4,020 | 4,690 | 4,447 | 4,573 |
| **Amounts falling due after more than one year:** | | | | |
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Deferred tax | 315 | 339 | - | - |
| Amounts owed by group undertakings | - | - | 10,676 | 8,165 |
| Other debtors | - | 19 | - | - |
| | 315 | 358 | 10,676 | 8,165 |

Trade debtors are stated net of provisions totalling £167,000 (2018: £138,000).

Amounts owed to the parent company by group undertakings comprise 10 (2018: 10) loans repayable in instalments over periods from 5 to 21 years, and 7 (2018: 7) short-term loans with no defined repayment profile, but for which the parent company has guaranteed that repayment will not be demanded within one year. Interest charged on the loans during the year ranged from 0.5% to 15%. Loans receivable constitute financing transactions and are measured at the present value of the future cash flows, discounted at a market rate of interest.

Amounts owed by group undertakings are stated net of provisions totalling £10,681,000 (2018: £9,507,000).

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 15. Creditors – amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Bank loans and overdrafts (see note 17) | 3,991 | 3,753 | 480 | 450 |
| Other loans (see note 17) | 143 | 954 | 10 | 761 |
| Trade creditors | 2,454 | 2,472 | 674 | 611 |
| Amounts owed to related parties | - | 1 | - | - |
| Amounts owed to group undertakings | - | - | 7 | 18 |
| Corporation tax | 738 | 1,062 | 273 | 226 |
| Other taxation and social security | 1,840 | 1,829 | 367 | 406 |
| Other creditors | 792 | 918 | 74 | 75 |
| Accruals and deferred income | 6,013 | 6,540 | 1,941 | 1,748 |
| | 15,971 | 17,529 | 3,826 | 4,295 |

## 16. Creditors – amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Bank loans (see note 17) | 54,523 | 58,481 | 4,019 | 4,469 |
| Other loans (see note 17) | 2,615 | 6,553 | 320 | 331 |
| Other creditors | 1,371 | 1,744 | - | - |
| Accruals and deferred income | 2,913 | 2,925 | - | - |
| Debt component of preference shares | 8,545 | 8,418 | 8,545 | 8,418 |
| Derivative financial instruments (see note 21) | 7,860 | 8,331 | 739 | 842 |
| | 77,827 | 86,452 | 13,623 | 14,060 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 17. Borrowings

Borrowings are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019<br>£'000 | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
| **Bank loans** | | | | |
| Between one and two years | 4,087 | 3,991 | 511 | 480 |
| Between two and five years | 13,042 | 12,588 | 1,744 | 1,637 |
| After five years | 37,394 | 41,902 | 1,764 | 2,352 |
| On demand or within one year | 3,991 | 3,753 | 480 | 450 |
| | 58,514 | 62,234 | 4,499 | 4,919 |

A total of 10 (2018: 10) bank loans are secured over 25 (2018: 25) separate properties in addition to the group's remaining portfolio of residential houses in South Wales and its associated bank account. The loans are repayable in instalments over periods from one to 21 years. Interest charged during the year ranged from 2.54% to 6.72%. The loans are due to be repaid between 2019 and 2036.

| | Group | | Company | |
|---|---|---|---|---|
| | 2019<br>£'000 | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
| **Other loans** | | | | |
| Between one and two years | 158 | 227 | 11 | 10 |
| Between two and five years | 570 | 862 | 38 | 35 |
| After five years | 1,887 | 5,464 | 271 | 285 |
| On demand or within one year | 143 | 954 | 10 | 761 |
| | 2,758 | 7,507 | 330 | 1,091 |

A total of 4 (2018: 5) other loans are secured over 4 (2018: 13) separate properties and are repayable in instalments over periods from one to 18 years. Interest charged during the year ranged from 2.75% to 8.7%. The loans are due to be repaid between 2019 and 2038.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 17. Borrowings (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| **Preference shares** | | | | |
| After five years | 8,545 | 8,418 | 8,545 | 8,418 |

Preference shares comprise 5 million A Preference shares and 4.2 million B Preference shares issued for £1 per share in November 2017. Interest accrues and is paid annually at 8% on the A shares and 5% on the B shares until 2022 and 8% on the B shares after 2022.

All preference shares are to be redeemed at par in 2032. The B Preference shares can be converted into ordinary shares of the company at any time between the date of issue and November 2022 at a fixed value of £0.35 per ordinary share.

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| **Total borrowings** | | | | |
| Due after more than one year | 65,683 | 73,452 | 12,884 | 13,218 |
| On demand or within one year | 4,134 | 4,707 | 490 | 1,211 |
| | 69,817 | 78,159 | 13,374 | 14,429 |

The bank loans are stated net of deferred finance costs of £1,686,000 (2018: £1,876,000). These costs will be allocated to the profit and loss account over the term of the loan. Deferred finance costs written off during the year amounted to £190,000 (2018: £128,000).

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 18. Convertible preference shares

The preference shares are convertible into ordinary shares at a fixed price of £0.35 per share at any time prior to 30 November 2022. The net proceeds of £4,200,000 received from the issue of the convertible preference shares in November 2017 have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the group. The equity component upon recognition was £502,000, with the fair value of the liability component being £3,698,000. The value of the liability component at the year-end is detailed below:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Liability brought forward | 3,796 | 3,698 |
| Interest charged | 298 | 98 |
| Interest paid | (210) | - |
| Liability component at 31 March | 3,884 | 3,796 |

The liability component has been classified as basic and is consequently measured at amortised cost. The interest charged for the year is calculated by applying an effective interest rate of 8% to the liability component. The fair value of the embedded option is calculated as the difference between the effective interest rate and the actual interest rate of the preference shares for the period that they have conversion properties.

## 19. Provisions for liabilities

| | Deferred taxation<br>£'000 | Dilapidation provision<br>£'000 | Pension deficit (note 25)<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 April 2018 | 3,878 | 197 | 1,888 | 5,963 |
| Charged to profit and loss account | 154 | 5 | 153 | 312 |
| Credited to other comprehensive income | - | - | (188) | (188) |
| At 31 March 2019 | 4,032 | 202 | 1,853 | 6,087 |

| | Deferred taxation<br>£'000 | Dilapidation provision<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| **Company** | | | | |
| At 1 April 2018 | 2,224 | 197 | - | 2,421 |
| Charged to profit and loss account | 38 | 5 | - | 43 |
| At 31 March 2019 | 2,262 | 202 | - | 2,464 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 19. Provisions for liabilities (continued)

### Deferred tax

Deferred tax is provided as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Group** | | |
| Accelerated capital allowances | 2,945 | 3,283 |
| Potential gain on property revaluation | 2,429 | 2,429 |
| Tax losses available | (90) | (90) |
| Other timing differences | (1,567) | (2,083) |
| **Provision for deferred tax** | 3,717 | 3,539 |
| *Split* | | |
| Deferred tax asset relating to defined benefit pension (see note 14) | (315) | (339) |
| Deferred tax liability | 4,032 | 3,878 |
| | 3,717 | 3,539 |
| **Company** | | |
| Depreciation in excess of capital allowances | (23) | (41) |
| Potential gain on property revaluation | 2,429 | 2,429 |
| Other timing differences | (144) | (164) |
| **Provision for deferred tax** | 2,262 | 2,224 |

Deferred tax assets and liabilities are offset only where the group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the group. The provision is expected to unwind over the next 1-7 years.

### Dilapidation provision

The dilapidation provision relates to three leasehold properties. Under the terms of the leases, repair work will have to be undertaken, in addition to that charged to the profit and loss account, in order to maintain the properties to the required standard, as requested by the lessor. The provision is expected to unwind over the next 4-10 years.

### Defined benefit scheme liability

The provision for the defined benefit scheme liability is discussed in greater detail in note 25. The provision is expected to unwind over the next 5-10 years.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 20. Financial instruments

The carrying value of the group's financial assets and liabilities are summarised by the category below:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Financial assets** | | |
| Measured at undiscounted amount receivable - Trade and other debtors (see note 14) | 2,510 | 3,563 |
| **Financial liabilities** | | |
| Measured at amortised cost | | |
| - Loans payable (see note 16 ,17) | 61,272 | 69,741 |
| - Preference shares (see note 16 ,17) | 8,545 | 8,418 |
| Measured at fair value through profit and loss | | |
| - Derivative financial instruments (see note 21) | 7,860 | 8,331 |
| - Convertible preference shares (see note 18) | 3,884 | 3,796 |
| Measured at undiscounted amount payable | | |
| - Trade and other creditors (see note 15, 16) | 4,617 | 5,134 |
| | 85,728 | 95,420 |

The group's income, expense, gains and losses in respect of financial instruments are summarised below:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Interest income and expense** | | |
| Total interest income for financial assets at amortised cost (see note 4) | (78) | (61) |
| Total interest expense for financial liabilities at amortised cost (see note 4) | 4,721 | 4,939 |
| Movement on interest rate swaps (see note 4) | (471) | (2,266) |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 21. Derivative financial instruments

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

**Interest rate swap contracts**

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

| Outstanding 'receive floating pay fixed' contracts | Notional principal value | | Fair value | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| | 33,670 | 37,300 | (7,860) | (8,331) |

Interest rate swap agreements based on floating LIBOR have been entered into by the following group companies:

- Shaw healthcare (Group) Limited;
- Shaw healthcare (Ledbury) Limited;
- Shaw healthcare (Northamptonshire) Limited;
- Shaw healthcare (Barton) Limited;
- Shaw healthcare (Nailsea) Limited;
- Shaw healthcare (Herefordshire) Limited; and
- Surehaven Glasgow Limited.

Interest rates are fixed at rates ranging from 4.58% to 6.72% (excluding margin). The agreements expire between 30 June 2022 and 31 March 2035. The fair value of the agreement held by the parent company at 31 March 2019 was a liability of £739,000 (2018: £842,000).

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 22. Called-up share capital and reserves

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Allotted, called-up and fully-paid | | |
| 100 million ordinary shares of £0.0005 each | 50 | 50 |
| 5 million 8% A preference shares of £0.01 each | - | - |
| 4.2 million 5% B preference shares of £0.0014 each | - | - |

The company has one class of ordinary shares which carry no right to fixed income.

The convertible and non-convertible preference shares are presented as a liability with an equity component classified as an equity reserve (see note 17) and accordingly are excluded from called-up share capital in the balance sheet.

Options have been granted under the equity-settled share schemes to subscribe for ordinary shares of the company as described in note 9.

The group and company's other reserves are as follows:

The other reserve contains amounts transferred from the profit and loss reserve to reflect the intention of the group to carry out certain major repairs or replacement of equipment in the future where it is not appropriate to recognise a liability for the expense at the balance sheet date.

The equity reserve represents the equity component of the convertible preference shares.

The profit and loss reserve represents cumulative profits or losses, including unrealised profit on the remeasurement of investment properties, net of dividends paid and other adjustments.

# Notes to the financial statements (continued)
For the year ended 31 March 2019

## 23. Cash flow statement

**Reconciliation of operating profit to cash generated by operations:**

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Operating profit | 8,582 | 9,066 |
| Adjustment for: | | |
| Depreciation and amortisation | 2,891 | 2,985 |
| Loss on disposal of fixed assets | - | 46 |
| Share-based payment expense | 30 | 57 |
| UK corporation tax paid | (1,705) | (793) |
| Operating cash flow before movement in working capital | 9,798 | 11,361 |
| Decrease in debtors | 713 | 67 |
| Decrease in creditors | (1,384) | (11) |
| Increase in provisions | 124 | 5 |
| Adjustment for pension funding | - | (659) |
| **Cash generated by operations** | 9,251 | 10,763 |

**Restrictions on cash and cash equivalents**

Cash at bank and in hand as at 31 March 2019 includes £27,289,000 (2018: £26,429,000) held in ring-fenced companies.

**Analysis of changes in net debt:**

| | At 1 April 2018 £'000 | Cash flows £'000 | At 31 March 2019 £'000 |
|---|---|---|---|
| Cash at bank and in hand | 43,929 | (4,234) | 39,695 |
| Debt due within one year | (4,707) | 573 | (4,134) |
| Debt due after more than one year | (73,452) | 7,769 | (65,683) |
| | (34,230) | 4,108 | (30,122) |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 24. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| **Group** | | | | |
| - within one year | 784 | 341 | 739 | 412 |
| - between one and five years | 2,100 | 509 | 2,399 | 705 |
| - after five years | 1,380 | - | 1,775 | - |
| | 4,264 | 850 | 4,913 | 1,117 |
| **Company** | | | | |
| - within one year | 784 | 81 | 739 | 116 |
| - between one and five years | 2,100 | 190 | 2,399 | 194 |
| - after five years | 1,380 | - | 1,775 | - |
| | 4,264 | 271 | 4,913 | 310 |

### Purchase of Homefield House

On 27 March 2007 the company entered into an agreement with The Shaw Foundation which conferred on the company the option to purchase Homefield House, a registered care home owned and operated by The Shaw Foundation. The consideration for the purchase was fixed at £1,560,000, of which £312,000 was paid at the time of entering into the agreement. The option is effective until 30 September 2019.

Under the same agreement, if the above option expires without being exercised then The Shaw Foundation may require the company to purchase Homefield House for the same consideration within 30 days of the end of the option period described above.

The payment of £312,000 already made is included in debtors falling due within one year on the basis that, in the event that neither option is exercised, The Shaw Foundation will repay this amount to the company.

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 25. Employee benefits

### Group

#### Defined contribution schemes

The group participates in two defined contribution pension schemes: the Shaw Group Pension Scheme and NEST, the workplace pension scheme set up by the Government for auto-enrolment. The pension cost charge for the year for these schemes amounted to £600,000 (2018: £339,000). The group also participates in the Kent County Council Pension Fund which is treated as a defined contribution scheme on the grounds of materiality. Contributions to the scheme in the year were £2,000 (2018: £2,000).

#### Defined benefit schemes

During the year the group participated in the following defined benefit schemes:

- Northamptonshire County Council Pension Fund;
- Worcestershire County Council Pension Fund;
- West Sussex County Council Pension Fund;
- Avon Pension Fund; and
- Shaw healthcare (Group) Pension Fund.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2016. An approximate roll-forward of the liabilities of the schemes as at 31 March 2019 has been made by an actuary, taking into account known member movements and other cash flows over the period. The results of this are summarised below.

#### Defined benefit schemes

| | Valuation at | |
|---|---|---|
| | 2019 | 2018 |
| Key assumptions used: | | |
| Discount rate | 2.4% | 2.6% |
| Future pension increases | 2.4% | 2.4% |
| Inflation - CPI | 2.4% | 2.4% |
| Future salary increases | 2.6% | 2.6% |

## 25. Employee benefits (continued)

### Mortality assumptions

Investigations have been carried out within the past three years into the mortality experience of the group's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

| | Valuation at | |
|---|---|---|
| | 2019 years | 2018 years |
| **Retiring today:** | | |
| Males | 22.9 | 22.9 |
| Females | 24.9 | 24.9 |
| **Retiring in 20 years:** | | |
| Males | 25.1 | 25.0 |
| Females | 27.3 | 27.3 |

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Current service cost | (468) | (548) |
| Employer contributions | 316 | 459 |
| Net interest cost | - | (31) |
| Administration costs incurred during the period | (1) | (1) |
| Effect of any curtailments or settlements | - | 746 |
| | (153) | 625 |

Amounts recognised in the statement of other comprehensive income/changes in equity in respect of these defined benefit schemes are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Actuarial gain on assets | 1,440 | 556 |
| Actuarial (loss)/gain on liabilities | (1,232) | 596 |
| Pension assets not recognised in respect of schemes in surplus | (20) | (662) |
| | 188 | 490 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 25. Employee benefits (continued)

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Present value of defined benefit obligations | (37,485) | (35,776) |
| Fair value of scheme assets | 37,614 | 35,850 |
| Pension assets not recognised in respect of schemes in surplus | (1,982) | (1,962) |
| Net liability recognised in the balance sheet | (1,853) | (1,888) |

Movements in the present value of defined benefit obligations were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 April | 35,776 | 38,429 |
| Service cost | 468 | 548 |
| Interest cost | 924 | 917 |
| Actuarial gains and losses | 1,232 | (596) |
| Contributions from scheme participants | 67 | 76 |
| Effects of any curtailments or settlements | - | (2,528) |
| Benefits paid | (982) | (1,070) |
| At 31 March | 37,485 | 35,776 |

Movements in the fair value of scheme assets were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 April | 35,850 | 36,727 |
| Interest income | 924 | 886 |
| Actuarial gains and losses | 1,440 | 556 |
| Contributions from the employer | 316 | 459 |
| Contributions from scheme participants | 67 | 76 |
| Effects of any curtailments or settlements | - | (1,783) |
| Non-investment expenses | (1) | (1) |
| Benefits paid | (982) | (1,070) |
| At 31 March | 37,614 | 35,850 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 25. Employee benefits (continued)

The analysis of the major categories of scheme assets as a percentage of total assets at the balance sheet date was as follows:

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Equity instruments | 62 | 65 |
| Bonds | 24 | 24 |
| Property | 8 | 7 |
| Cash | 3 | 3 |
| Other | 3 | 1 |

The estimated amount of employer contributions expected to be paid to the scheme during the year ending 31 March 2020 is £317,000.

### Company

#### Defined benefit scheme

During the year the company participated in the Shaw healthcare (Group) Pension Fund.

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2016. An approximate roll-forward of the liabilities of the scheme as at 31 March 2019 has been made by an actuary, taking into account known member movements and other cash flows over the period. The results of this are summarised below.

| | Valuation at | |
|---|---|---|
| | 2019 | 2018 |
| Key assumptions used: | | |
| Discount rate | 2.4% | 2.6% |
| Future pension increases | 2.4% | 2.4% |
| Inflation - CPI | 2.4% | 2.4% |
| Future salary increases | 2.6% | 2.6% |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 25. Employee benefits (continued)

**Mortality assumptions**

Investigations have been carried out within the past three years into the mortality experience of the company's defined benefit scheme. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

| | Valuation at | |
|---|---|---|
| | 2019 years | 2018 years |
| Retiring today: | | |
| Males | 22.1 | 22.1 |
| Females | 24.2 | 24.1 |
| Retiring in 20 years: | | |
| Males | 23.5 | 23.4 |
| Females | 25.7 | 25.6 |

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Current service cost | (59) | (66) |
| Employer contributions | 45 | 53 |
| Net interest cost | 11 | 9 |
| | (3) | (4) |

Amounts recognised in the statement of other comprehensive income in respect of the defined benefit schemes are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Actuarial gain/(loss) on plan assets | 45 | (12) |
| Actuarial (loss)/gain on defined benefit obligation | (42) | 56 |
| Total gain pre-adjustment | 3 | 44 |
| Adjustment in respect of pension asset not recognised | - | (40) |
| Total gain/(loss) | 3 | 4 |

# Notes to the financial statements (continued)

For the year ended 31 March 2019

## 25. Employee benefits (continued)

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Present value of defined benefit obligations | (984) | (863) |
| Fair value of plan assets | 1,403 | 1,282 |
| Pension assets not recognised in respect of schemes in surplus | (419) | (419) |
| Net liability recognised in the balance sheet | - | - |

Movements in the present value of defined benefit obligations were as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| At 1 April | 863 | 835 |
| Interest cost | 24 | 22 |
| Current service cost | 59 | 66 |
| Member contributions | 7 | 9 |
| Actuarial loss/(gain) | 42 | (56) |
| Benefits paid | (11) | (13) |
| At 31 March | 984 | 863 |

Movements in the fair value of scheme assets were as follows:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| At 1 April | 1,282 | 1,214 |
| Interest income | 35 | 31 |
| Actuarial gain/(loss) | 45 | (12) |
| Member contributions | 7 | 9 |
| Employer contributions | 45 | 53 |
| Benefits paid | (11) | (13) |
| At 31 March | 1,403 | 1,282 |

The analysis of the major categories of scheme assets as a percentage of total assets at the balance sheet date was as follows:

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Equity instruments | 74 | 74 |
| Bonds | 26 | 26 |

The estimated amount of employer contributions expected to be paid to the scheme during the year ending 31 March 2020 is £45,000.

## 26. Related party transactions

**Other related party transactions**

The total remuneration for key management personnel for the period totalled the remuneration disclosed in note 7.

During the year the group recognised income of £1,586,000 (2018: £970,000) and costs including interest of £349,000 (2018: £843,000) in respect of transactions with The Shaw Foundation Limited, a company related by way of common directors. Amounts owed to The Shaw Foundation Limited of £213 (2018: £1,047) are disclosed under amounts owed to related parties in note 15 to the financial statements. Amounts owed from The Shaw Foundation Limited of £73,083 (2018: £101,912) are disclosed under amounts from related parties in note 14 to the financial statements. In addition as noted in note 24 to the financial statements, amounts owed by The Shaw Foundation Limited relating to a deposit paid linked to an option to purchase a leasehold property total £312,000 (2018: £312,000). Details relating to deferred assets with The Shaw Foundation Limited are included in note 11.

The group also made capital loan repayments during the year of £4,917,000 (2018: £917,000) in respect of loans owed to The Shaw Foundation Limited, which included early settlement in full of amounts owed by Shaw healthcare (Northamptonshire) Limited and Shaw healthcare (De Montfort) Limited to The Shaw Foundation Limited. No additional loans were granted by The Shaw Foundation Limited during the period (2018: £nil). Loans owed by the group to The Shaw Foundation of £1,923,000 (2018: £6,654,000) are included within other loans in note 16 to the financial statements.

My Care My Home Limited is a company related by way of a common director as disclosed in note 13. The group recognised income of £20,116 (2018: £64,461) in respect of transactions with the company. The group had trade debtors owed by My Care My Home Limited of £1,512 (2018: £nil). The group had gross loan amounts owed by My Care My Home Limited of £153,000 (2018: £343,000), an amount of £153,000 (2018: £153,000) has been provided against this amount due, and a repayment of £190,000 (2018: £nil) was received during the year. Amounts due from My Care My Home Limited at the year-end are disclosed in note 14 to the financial statements.

## 27. Controlling party

There is no ultimate controlling party as no corporate body or individual has more than a 30% holding in the share capital of the company.

1 Links Court | Links Business Park
St Mellons | Cardiff | CF3 0LT
**T:** 029 2036 4411
**E:** info@shaw.co.uk
Company Registration Number: 5391089