Shaw healthcare (Group) Limited

Annual Report & Financial Statements

For the year ended 31 March 2016

Shaw healthcare
wellness • happiness • kindness

Shaw healthcare (Group) Limited

Annual Report & Financial Statements

Contents

Officers and professional advisers

Directors

A Thomas, BA, FCA *(Chairman)*
P J Nixey, MA (Oxon) *(Chief Executive)*
S D Hughes
R S Brown, BSc, ACMA, ATII
A C Savery, AIQS
M Heywood-Briggs *(resigned 8 April 2015)*
K Miller *(resigned 31 March 2016)*
H M Black *(appointed 31 March 2016)*

Registered office

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

Principal bankers

Allied Irish Bank
2 Callaghan Square
Cardiff
CF10 5AZ

Solicitors

Blake Morgan Solicitors
One Central Square
Cardiff
CF10 1FS

Auditor

Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT

Actuary

Quantum Actuarial LLP
Summers House
Pascal Close
Cardiff
CF3 0LW

Year at a glance

Contracted income
£1.2 billion
£1.3 billion

Turnover
£93.0 million
£87.8 million

Beds under management
2,152
2,092

Net debt
£45.9 million
£49.5 million

EBITDA
£10.5 million
£10.3 million

$\frac{\text{Net debt}}{\text{EBITDA}}$ = 4.4
4.8

Numbers in italics represent the comparative period.

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 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.

We are unique as a major healthcare provider in being 82% owned by our employees and 18% by The Shaw Foundation, a grant-making charity.

Shaw has forged successful partnerships with Clinical Commissioning Groups (CCGs), Health Boards and Social Care teams across Scotland, England and Wales, developing care services and facilities for people with specific needs at the request of care commissioners.

We provide a spectrum of services from comprehensive care packages through to low-level support in the community for older people and adults with physical, sensory or mental health support needs. Shaw now employs over 3,800 full and part time people to provide care to over 3,000 individuals. We have links with UK universities to research and develop leading-edge care practice and as a learning organisation we are committed to supporting the ongoing training and education of all our staff.

'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 one of our residential environments. Our 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. Mental health services established by Shaw have received multiple awards for innovation and patient focussed 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.

Strategic report (continued)

The operation of services also includes facilities management and we have developed these services 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

'Wellness : Happiness : Kindness'

These three words best describe the values of the group. We believe that their meanings should be reflected in all that Shaw healthcare do - not only for the residents and people we care for but also for employees.

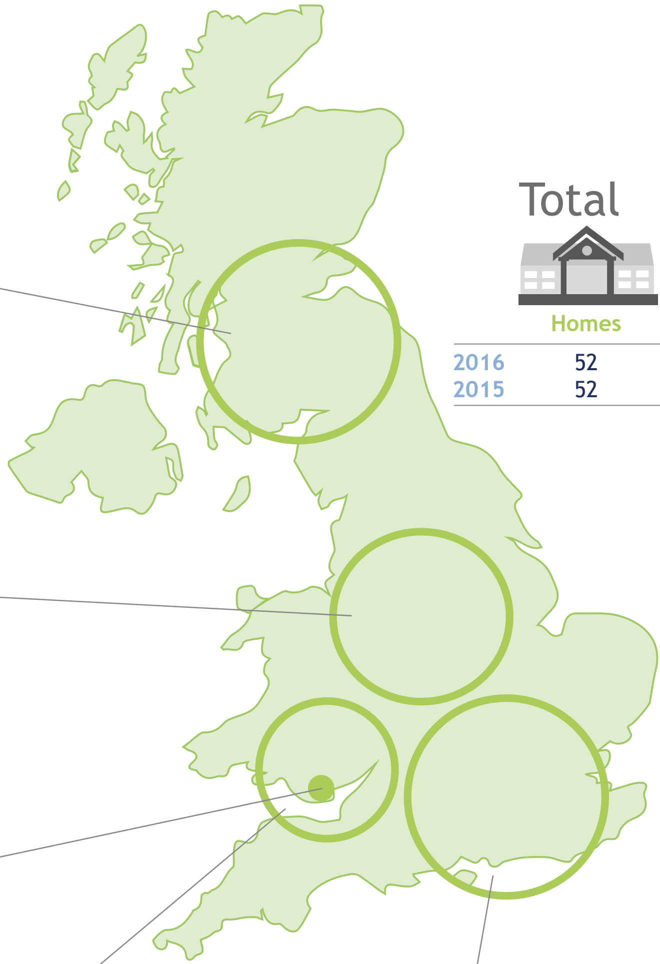
Care and housing services provided

	2016	2015
Care services provided		
Registered care home beds [1]	2,152	2,092
Day care places	1,397	1,397
Supported living service beds	58	53
Domiciliary care service units *(1 unit = 10 care hours)*	580	609
Residential houses/flats	118	118
Non core housing services		
Residential houses	288	288

[1]Registered care home beds includes 187 beds relating to deferred assets.

Strategic report (continued)

Care homes and employees by region



Scotland

	Homes	Beds	Employees
2016	1	21	148
2015	1	21	129

Total

	Homes	Beds	Employees
2016	52	2,152	3,803
2015	52	2,092	3,871

Midlands

	Homes	Beds	Employees
2016	26	956	1,663
2015	26	956	1,716

Head office

	Employees
2016	159
2015	162

Wales & South West

	Homes	Beds	Employees
2016	8	219	540
2015	8	219	580

London & South East

	Homes	Beds	Employees
2016	17	956	1,293
2015	16	896	1,284

Within the above numbers are seven homes, 187 beds and 244 employees which are legally owned/ employed by The Shaw Foundation Limited (2015 – seven homes, 187 beds and 299 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 12 to the financial statements. The above figures represent total employees at 31 March including both full-time and part-time employees.

Strategic report (continued)

Key performance indicators

Financial	2016	2015	Change
EBITDA [2]	£10.5m	£10.3m	£0.2m
Profit/(loss) before tax	£1.9m	(£1.2m)	£3.1m
Net debt	£45.9m	£49.5m	(£3.7m)
Free cash [3]	£6.4m	£6.1m	£0.3m
Operational			
Services fully compliant with regulator [4]	83%	89%	(6)
Services with registered manager [5]	95%	94%	1
People			
Training days provided [6]	2,230	1,953	277

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. Despite a reduction in services fully compliant with the regulator in the period, the number of services rated as 'good' were above the national average by 7 percentage points at 66%. Management has implemented additional quality controls at the services in order to address the increased scope of the inspections being undertaken by the regulators, particularly CQC for our English services.

Financial performance

2015/2016 was a satisfactory year. These are the first financial statements presented under the new UK GAAP framework which has resulted in a significant change to the results previously reported under the old framework. The key accounting change required relates to the recognition of the derivative fair values on our balance sheet with movements in their fair value being recognised within interest payable within the profit and loss account. Due to the long-term nature of the interest rate swaps which were a requirement of the associated bank lending and the current base rate of interest, these swaps have a large negative fair value. In addition our portfolio of houses which generate rental income rather than providing care are now valued at fair value and classed as investment properties. The impact of these accounting changes is a £2.9 million decrease in 2015 profit together with a £2.7 million increase in previously reported net assets.

The gross profit generated from operational activities was slightly ahead of the previous year as was operating profit before exceptional items.

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

[3] Free cash comprises non-ring-fenced cash excluding property cash on deposit.

[4] 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), the independent regulator of health and social care in England, 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.

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

[6] The unit of measure used for this indicator has been changed from training courses provided to training days provided; the directors consider this to be a more accurate measure of the company's training activity.

Strategic report (continued)

Financial performance (continued)

Administrative expenses before exceptional items rose by 5% relating mainly to new business development. Profit on ordinary activities before taxation increased by £3.1m to £1.9 million despite an impairment charge of £1.5 million relating to Pembroke Dock in Surehaven Pembroke as occupancy levels were lower than anticipated.

The directors are pleased that net debt has fallen by a further £3.6 million and now stands at £45.9 million, representing 4.4 times EBITDA (2015: 4.8 times EBITDA).

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 is:

	At 31 March 2016 £ million	At 31 March 2015 £ million
Total value	1,209	1,263

Future outlook

The short-term priorities for the group remain the control of labour costs through improved staff retention and recruitment together with increased market bed occupancy. The introduction of the National Living Wage of £7.20 per hour in April 2016 has resulted in a significant increase in company staff costs which are difficult to recover from customers. Cost reduction and efficiency plans have been put in place in order to try to mitigate the impact of this and actual performance for 2016/17 to date and forecasts for the full year indicate a similar level of profitability compared to 2015/16.

Developing our people

Shaw recognises the importance of minimising staff turnover, and our Learning and Development department aims to address this by giving new staff a comprehensive induction to the company while providing a range of development opportunities for established staff. We have previously implemented the Care Certificate, a transferable award, and our internally developed workbook has received praise from CQC inspectors. We have also implemented a Management Competency Framework to define ‘what good looks like’ within Shaw healthcare which has now led to a suite of management training courses which are being offered to Shaw employees.

Shaw provides most of its introductory and advanced care training to its staff through its own training centre. In addition, trainers with significant specialisms have spent time out of training delivery rewriting and developing 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. During the year we enrolled 395 (2015: 267) students to level 2, 3 and 5 QCF courses, including additional Certificates and Awards, and issued 256 (2015: 211) accredited qualifications.

Recognising the importance of attracting high calibre graduates into the business, and to develop a pipeline of future successful managers, the Shaw Graduate Scheme was launched in the period with over 100 applications for 8 places. The 2 year programme for 8 graduates commenced in October.

Shaw recognises the hard work and achievement of our staff through the Shaw Star awards which celebrate the contribution and achievements of our people but also residents and families who play a pivotal role in the group’s core values. In addition to this, during the year an Incentive Scheme was introduced allowing care home staff to be rewarded for high level of regulator compliance and financial management.

As in previous years, our staff also received independent recognition in a number of external national award ceremonies, many of which include entrants from every sector of the care industry around the UK.

Strategic report (continued)

Principal risks and uncertainties

Risk	Potential impact	Change from 2015	Key controls and mitigating factors
The risk of cost increases as a result of legislative changes	The company is exposed to the risk of costs increasing in excess of inflation as a result of legislative changes introduced by the Government. In recent years this has included increases to the National Living Wage and compulsory pension scheme auto-enrolment.	↑	The directors attempt to mitigate the impact of these changes as far as possible by increasing revenue and operational efficiency. Planned cost reductions will be realised to identify and mitigate the financial impacts in the short term but the directors remain concerned as to how these cost increases will be funded in the longer term.
Risks relating to the 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, it was necessary in many cases to maintain the same fee levels.	↑	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.
Staff retention and agency cost	Staff shortages are a significant risk within the industry as a whole. Agency workers are required to fill the employment voids which increase our operating cost base. In addition, high staff turnover is not conducive to building strong relationships with our service users and can also impact morale at the care service.	↑	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.

Strategic report (continued)

Risk	Description	Mitigation
The increasing dependency of residents	The increasing frailty of elderly people referred 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 who have contracted with the group to provide these elderly person care services are understandably reluctant to pay more than the standard price agreed for the block 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.
The risk that bed places for sale on the open market are not filled	Approximately 54% of the group's income derives from long-term contracts with local authorities and the NHS, and is therefore secure (2015: 55%). 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.
The risk of poor performance leading to regulatory and contractual penalties	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. Delays in commissioning a new home adds to the cost of the development.	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.

Strategic report (continued)

Regulatory and market risk	Periodically care industry regulators (CSSIW, CQC and Scotland's Care Inspectorate) change the regulations under which registered care operators can provide services. Altered regulations, which may be introduced within less than 12 months of initial notification of intent to change, can affect the profitability and even the commercial viability of specific care services. A significant proportion of the market for care services in the community is funded by local authorities or the NHS. Any reduction in the volume of services which these public sector bodies are themselves funded by the Treasury to purchase is therefore a very significant risk to operators. As well as operators being exposed to significant volume risk because of a reduction in funds allocated by the Treasury, changes are also being made to the way care services are purchased by the state on behalf of individuals. The Government's personalisation agenda aims to allocate the money to procure care directly to the recipients of this care. This principle is set to become fully embedded in the funding of care services for elderly people and mental health services as changes in recent legislation (notably the Care Act in England and the Social Services and Wellbeing Act in Wales) take effect over the next five years. The changed method of allocation represents a risk to the income presently earned from existing one to five-year block contracts for care home places or domiciliary care services.	The group counters the above risks by remaining as flexible as possible in the structuring and delivery of its services and by remaining alert to potential change. Commercial opportunities for well-regarded services to win a greater share of their local market will hopefully mitigate the current changes expected in the short term.

Approval

This report was approved by the Board of Directors on 29 September 2016 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 2016.

Future developments and events after the balance sheet date

Details of future developments can be found in the Strategic report on page 11 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. Further details regarding liquidity risk can be found in the Statement of accounting policies in the notes to the financial statements.

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 £2,228,000 at 31 March 2016 (2015: £2,735,000). For existing schemes, the group employs actuaries and investment managers to manage the risks as far 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 do not recommend the payment of a dividend for the year (2015: £nil).

Directors

The directors who served during the year and subsequently are as shown on page 4.

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:

1. Providing employees systematically with information on matters of concern to them as employees;
2. 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;
3. 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.

Deloitte 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 29 September 2016 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report to the members

We have audited the financial statements of Shaw healthcare (Group) Limited for the year ended 31 March 2016 which comprise the Group Profit and Loss Account, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Independent auditor’s report to the members (continued)

Matters on which we are required to report by exception

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

- Adequate accounting records have not been kept 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.

David Hedditch

David Hedditch *(Senior statutory auditor)*
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom
Date 29 September 2016

Consolidated profit and loss account

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	3	92,952	87,814
Operating costs (including in 2016 exceptional costs of £111,000 (2015: £57,000))		(73,717)	(69,304)
Gross profit		19,235	18,510
Administrative expenses (including in 2016 exceptional costs of £1,514,000 (2015: £173,000))		(12,836)	(10,937)
Operating profit		6,399	7,573
Gain arising on revaluation of investment property	13	350	-
Finance costs (net)	4	(4,802)	(8,791)
Profit/(loss) on ordinary activities before taxation	5	1,947	(1,218)
Tax on profit/(loss) on ordinary activities	8	(501)	(58)
Profit/(loss) for the financial year		1,446	(1,276)

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

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Profit/(loss) for the financial year		1,446	(1,276)
Remeasurement of net defined benefit liability	25	681	(743)
Tax relating to components of other comprehensive income		(177)	130
Other comprehensive income/(expense)		504	(613)
Total comprehensive income/(expense)		1,950	(1,889)

Consolidated balance sheet

At 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets - goodwill	11	1,803	1,967
Deferred assets	12	737	737
Tangible assets	13	83,020	86,171
		85,560	88,875
Current assets			
Debtors			
- due within one year	15	3,573	4,053
- due after one year	15	647	799
Cash at bank and in hand		31,542	30,545
		35,762	35,397
Creditors: amounts falling due within one year	16	(13,584)	(15,647)
Net current assets		22,178	19,750
Total assets less current liabilities		107,738	108,625
Creditors: amounts falling due after more than one year	17	(90,630)	(92,990)
Provisions for liabilities	19	(5,945)	(6,470)
Net assets		11,163	9,165
Capital and reserves			
Called-up share capital	22	50	50
Other reserves		637	635
Profit and loss account		10,476	8,480
Shareholders' funds		11,163	9,165

The financial statements of Shaw healthcare (Group) Limited, registered number 5391089, were approved by the Board of Directors and authorised for issue on 29 September 2016. They were signed on its behalf by:

P. J. Nixey

P J Nixey

Chief Executive

R S Brown

Chief Financial Officer

Company balance sheet

At 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Deferred assets	12	737	737
Tangible assets	13	17,687	17,383
Investments	14	4,364	4,454
		22,788	22,574
Current assets			
Debtors			
- due within one year	15	2,967	3,215
- due after one year	15	8,729	14,166
Cash at bank and in hand		1,208	2,330
		12,904	19,711
Creditors: amounts falling due within one year	16	(2,207)	(4,246)
Net current assets		10,697	15,465
Total assets less current liabilities		33,485	38,039
Creditors: amounts falling due after more than one year	17	(8,497)	(7,876)
Provisions for liabilities	19	(2,320)	(2,478)
Net assets		22,668	27,685
Capital and reserves			
Called-up share capital	22	50	50
Other reserves		435	435
Profit and loss account		22,183	27,200
Shareholders' funds		22,668	27,685

The financial statements of Shaw healthcare (Group) Limited, registered number 5391089, were approved by the Board of Directors and authorised for issue on 29 September 2016. 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 2016

	Called-up share capital £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 31 March 2014 as previously stated	50	593	5,170	5,813
Changes on transition to FRS 102 *(see note 28)*	-	-	5,183	5,183
At 1 April 2014 as restated	50	593	10,353	10,996
Loss for the financial year	-	-	(1,276)	(1,276)
Remeasurment of net defined benefit liability	-	-	(743)	(743)
Tax relating to items of other comprehensive income	-	-	130	130
Total comprehensive income	-	-	(1,889)	(1,889)
Transfer between reserves	-	42	(42)	-
Credit to equity for equity settled share based payment	-	-	58	58
At 31 March 2015	50	635	8,480	9,165
Profit for the financial year	-	-	1,446	1,446
Remeasurement of net defined benefit liability	-	-	681	681
Tax relating to items of other comprehensive income	-	-	(177)	(177)
Total comprehensive income	-	-	1,950	1,950
Transfer between reserves	-	2	(2)	-
Credit to equity for equity-settled share-based payment	-	-	48	48
At 31 March 2016	50	637	10,476	11,163

Company statement of changes in equity

At 31 March 2016

	Called-up share capital £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 31 March 2014 as previously stated	50	435	15,217	15,702
Changes on transition to FRS 102 *(see note 28)*	-	-	11,185	11,185
At 1 April 2014 as restated	50	435	26,402	26,887
Profit for the financial year	-	-	751	751
Remeasurment of net defined benefit liability	-	-	(14)	(14)
Tax relating to items of other comprehensive income	-	-	3	3
Total comprehensive income	-	-	740	740
Credit to equity for equity settled share based payment	-	-	58	58
At 31 March 2015	50	435	27,200	27,685
Loss for the financial year	-	-	(5,064)	(5,064)
Remeasurement of net defined benefit liability	-	-	1	1
Tax relating to items of other comprehensive income	-	-	(1)	(1)
Total comprehensive income	-	-	(5,064)	(5,064)
Credit to equity for equity-settled share-based payment	-	-	47	47
At 31 March 2016	50	435	22,183	22,668

Consolidated cash flow statement

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Net cash flows from operating activities	23	8,943	12,397
Cash flows from investing activities			
Proceeds from sale of equipment		314	-
Purchase of equipment		(577)	(1,359)
Interest received		132	93
Net cash flows from investing activities		(131)	(1,266)
Cash flows from financing activities			
Repayments of borrowings		(2,685)	(2,785)
Interest paid		(5,130)	(5,635)
Net cash flows from financing activities		(7,815)	(8,420)
Net increase in cash and cash equivalents		997	2,711
Reconciliation to cash at back and in hand			
Cash at bank and in hand		31,542	30,545

Notes to the financial statements

For the year ended 31 March 2016

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 company incorporated in the United Kingdom under the Companies Act 2006. 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 6 to 14.

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 prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 28.

The functional currency of Shaw healthcare (Group) Limited is considered to be pounds 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.

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 55% 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.

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.

Notes to the financial statements

For the year ended 31 March 2016

1. Accounting policies (continued)

c. Going concern (continued)

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.

In May 2011 the directors took the decision to close the care facility operated by Shaw (Pembroke) Specialist Services Limited while considering its future. The facility has remained closed during the year ended 31 March 2016 and is expected to remain closed for the foreseeable future. This resulted in breaches of the combined banking covenants, incorporating the results of Surehaven (Pembroke) Limited, during the year when tested on a quarterly basis. The company's bankers have issued covenant deferral letters in respect of these tests and the directors consider it likely that further covenant deferral letters will be issued by the bank while the facility remains closed. Whilst these circumstances create material 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, up to a maximum of £255,000 for the period 12 months after the date of signing the audit report, to this effect has been received from Shaw healthcare Limited (£50,000) and Shaw healthcare (FM Services) Limited (£205,000), both subsidiaries of Shaw healthcare (Group) Limited. The group's formal commitment is to guarantee loan interest but not capital repayments.

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 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 these 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 material 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, up to a maximum of £450,000 for the period 12 months after the date of signing the audit report, to this effect has been received from Shaw healthcare Limited (£100,000) and Shaw healthcare (FM Services) Limited (£350,000), both 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 material uncertainty in the accounts 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 and Wraxall, 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 2016 the group held £6,412,000 of cash outside ring-fenced companies, and in total held £31,542,000 of cash. 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.

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

For the year ended 31 March 2016

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 and contracts did not transfer to the company on that date, but were expected to do so in the future subject to specific conditions being met. 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.

On 3 January 2012 the directors signed a deed of amendment (the Deed) varying the original terms of the business transfer agreement between the company and The Shaw Foundation in respect of the clauses relating to the deferred assets. The effect of the Deed was to classify the deferred assets as either "ten-year assets" – being those facilities which are expected to transfer to the company in the future as originally intended – 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 with benefits and burdens passing to the company as described above.

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.

1. Accounting policies (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.

1. Accounting policies (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) 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.

(v) 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.

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.

Notes to the financial statements

For the year ended 31 March 2016

1. Accounting policies (continued)

h. Impairment of assets (continued)

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.

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.

Notes to the financial statements

For the year ended 31 March 2016

1. Accounting policies (continued)

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 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. Remeasurement 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.

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.

Notes to the financial statements

For the year ended 31 March 2016

1. Accounting policies (continued)

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 last options were granted in November 2014.

Share incentive plan

The company operates an equity-settled share incentive plan whereby all qualifying employees receive an entitlement to free shares subject to certain conditions being met. Where material, the company recognises the fair value of free shares issued in the profit and loss account, and makes a corresponding adjustment to equity.

p. Liability for maintenance costs

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.

Costs incurred on the development of extra-care flats are capitalised as tangible fixed assets in the course of construction until complete, at which point they are transferred to current asset stocks before being sold as part of operating activities.

Notes to the financial statements

For the year ended 31 March 2016

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 £2,228,000 (2015: £2,735,000).

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 their 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 £83,020,000 (2015: £86,171,000) after an impairment charge of £1,514,000 (2015: £173,000).

Notes to the financial statements
For the year ended 31 March 2016

3. Turnover

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

Turnover	2016 £'000	2015 £'000
Care home residential fees	79,031	75,601
Domiciliary care fees	5,048	4,564
Housing and management services fees	3,920	3,960
Service contract income	2,363	2,343
Other income	2,311	1,088
Grants received	214	195
Property sales	65	63
	92,952	87,814

The turnover shown in the profit and loss account arises wholly in the United Kingdom and represents amounts recognised during the year in line with the group's revenue recognition policies, exclusive of Value Added Tax. Grants represent amounts received in respect of the business development of My Care My Home Limited and are included in note 26.

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

	2016 £'000	2015 £'000
Turnover	92,952	87,814
Investment income	132	93
	93,084	87,907

Notes to the financial statements

For the year ended 31 March 2016

4. Finance costs (net)

	2016 £'000	2015 £'000
Interest payable and similar charges	4,855	8,797
Less: Investment income (see note 20)	(132)	(93)
Other finance costs	79	87
	4,802	8,791

Interest payable and similar charges	£'000	£'000
Bank loans and overdrafts (see note 20)	5,130	5,635
Movement on interest rate swaps	(275)	3,162
	4,855	8,797

Investment income	£'000	£'000
Other interest receivable and similar income	132	93

Other finance costs	£'000	£'000
Net interest on defined benefit liability (see note 25)	79	87

Notes to the financial statements

For the year ended 31 March 2016

5. Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets (note 13)	2,316	2,336
Impairment of tangible fixed assets (note 13)	1,514	173
Amortisation of goodwill (note 11)	164	164
Restructuring costs	111	57
Operating lease rentals - other	817	795
Operating lease rentals – plant and machinery	839	811
Profit on disposal of fixed assets	(64)	-
Foreign exchange loss	4	-

Restructuring costs of £111,000 (2015: £57,000) were recognised during the year relating to internal restructuring changes.

An impairment charge of £1,514,000 was recognised during the year in respect of one of the freehold facilities at Pembroke Dock (2015: £173,000 relating to facilities at Wraxall and Pembroke Dock). The impairment charge recognised takes into account revised cash flow forecasts in light of anticipated future occupancy levels at the facility.

Restructuring costs are included in operating costs. 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:

	2016 £'000	2015 £'000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	20	20
Fees payable to the company's auditor and its associates for other services to the group		
The audit of the company's subsidiaries	69	67
Total audit fees	89	87
Other assurance services – FRS 102 transition	7	-
Total audit and assurance fees	96	87
Fees payable to the company's auditor and its associates in respect of associated pension schemes	7	5

No services were provided pursuant to contingent fee arrangements.

Notes to the financial statements

For the year ended 31 March 2016

6. Staff numbers and costs

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

	2016 Number	2015 Number
Provision of care and related services	3,261	3,245
Administration	273	301
	3,534	3,546

Their aggregate remuneration comprised:

	£'000	£'000
Wages and salaries	50,783	48,393
Social security costs	3,321	3,114
Other pension costs (see note 25)	842	761
Share based payment (note 10)	48	58
	54,994	52,326

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

Notes to the financial statements

For the year ended 31 March 2016

7. Directors' remuneration and transactions

	2016 £'000	2015 £'000
Directors' remuneration		
Emoluments	709	830
Compensation for loss of office	30	-
Company contributions to money purchase pension schemes	65	83
	804	913

	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	4	5
Exercised options over shares in the company	1	-
Had awards receivable in the form of shares under a long-term incentive scheme	-	-

	£'000	£'000
Remuneration of the highest paid director:		
Emoluments	207	206
Company contributions to money purchase schemes	21	21

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

Notes to the financial statements

For the year ended 31 March 2016

8. Tax on profit/(loss) on ordinary activities

The tax charge comprises:

	2016 £'000	2015 £'000
Current tax on profit/(loss) on ordinary activities		
UK corporation tax	583	492
Adjustments in respect of prior years	(31)	(19)
Total current tax	552	473
Deferred tax		
Origination and reversal of timing differences	(10)	(414)
Adjustments relating to prior years	(41)	(1)
Total deferred tax	(51)	(415)
Total tax on profit/(loss) on ordinary activities	501	58

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/(loss) before tax is as follows:

	£'000	£'000
Group profit/(loss) on ordinary activities before tax	1,947	(1,218)
Tax on group profit/(loss) on ordinary activities at 20% (2015: 21%)	389	(256)
Effects of:		
- Expenses not deductible for tax purposes	70	77
- Ineligible depreciation	256	231
- Effect of changes in tax rate	(434)	20
- Impairment of fixed assets	303	29
- Adjustments to tax charge in respect of previous periods	(72)	(20)
- Deferred tax not provided	2	-
- Other timing differences	(13)	(23)
Group total tax charge for year	501	58

Notes to the financial statements

For the year ended 31 March 2016

8. Tax on profit/(loss) on ordinary activities (continued)

Taxable losses of £1,517,000 (2015: £2,239,000) have been carried forward to set off against future profits.

The standard rate of tax applied to profit/(loss) on ordinary activities is 20% (2015: 21%). The Finance Act 2015, which provides for the main rate of corporation tax to remain at 20% effective from 1 April 2016, was substantively enacted on 26 March 2015. Further reductions in the main rate of corporation tax to 19% effective from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015. The 2016 Budget included a planned reduction in corporation tax to 17% from 1 April 2020. These changes were not substantively enacted at the balance sheet date. There is no expiry date on timing differences, unused tax losses or tax credits.

A deferred tax asset of £50,000 (2015: £55,000) 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.

9. Profit attributable to the company

The loss for the financial year dealt with in the financial statements of the parent company was £5,064,000 (2015: profit of £751,000). The loss for the year included an exceptional provision against debtors of £6,576,000 (2015: £nil). 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.

Notes to the financial statements

For the year ended 31 March 2016

10. Share-based payments

Equity-settled share option schemes

The company recognised share-based payments/charges in the year amounting to £48,000 (2015: £58,000), comprising £5,000 (2015: £15,000) in respect of its equity-settled company share option plan and £43,000 (2015: £43,000) in respect of its equity-settled share incentive 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 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:

	2016		2015	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	15,440,000	0.004	15,660,000	0.004
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	(300,000)	0.004	(220,000)	0.004
Expired during the period	(1,000,000)	0.004	-	-
Outstanding at the end of the period	14,140,000	0.004	15,440,000	0.004
Exercisable at the end of the period	14,140,000	0.004	11,840,000	0.004

No share options were granted during the year.

Equity-settled share incentive plan

In January 2010 the company set up an equity-settled share incentive plan whereby all qualifying employees received an entitlement to free shares which vest over a three-year period or sooner in certain circumstances. In the year ended 31 March 2010, 1,500,000 shares were issued valued at £0.004. Based on this valuation, the fair value of grant of shares was negligible, and accordingly no cost was recognised in the profit and loss account in that year.

On 26 April 2013, 1,500,000 shares were issued valued at £0.085 which vest over a three-year period. Accordingly, the company recognised a related expense of £43,000 to equity-settled share-based payments in 2016 (2015: £43,000).

Notes to the financial statements

For the year ended 31 March 2016

11. Intangible fixed assets - goodwill

Group	£'000
Cost	
At 1 April 2015 and 31 March 2016	3,534
Amortisation	
At 1 April 2015	1,567
Charge for the year	164
At 31 March 2016	1,731
Net book value	
At 31 March 2016	1,803
At 31 March 2015	1,967

12. 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.

On 3 January 2012 the directors signed a deed of amendment (the Deed) varying the original terms of the business transfer agreement between the company and The Shaw Foundation in respect of the clauses relating to the deferred assets. The effect of the Deed was to classify the deferred assets as either "ten-year assets" – being those facilities which are expected to transfer to the company in the future as originally intended – 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 with benefits and burdens passing to the company as described above.

Deferred assets amounting to £737,000 (2015: £737,000) are included under fixed assets.

Notes to the financial statements

For the year ended 31 March 2016

13. 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						
At 1 April 2015	15,900	59,801	28,875	823	6,642	112,041
Additions	-	374	-	-	203	577
Revaluations	350	-	-	-	-	350
Disposals	-	(250)	-	-	-	(250)
At 31 March 2016	16,250	59,925	28,875	823	6,845	112,718
Depreciation						
At 1 April 2015	-	12,890	7,121	189	5,670	25,870
Charge for the year	-	901	913	32	470	2,316
Impairment losses	-	1,514	-	-	-	1,514
Disposals	-	(2)	-	-	-	(2)
At 31 March 2016	-	15,303	8,034	221	6,140	29,698
Net book value						
At 31 March 2016	16,250	44,622	20,841	602	705	83,020
At 31 March 2015	15,900	46,911	21,754	634	972	86,171

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £8,028,000 (2015: £8,028,000). Capitalised finance costs written off in the profit and loss account during the year amounted to £216,000 (2015: £242,000).

An impairment charge of £1,514,000 was recognised during the year (2015: £173,000) in respect of one of the freehold facilities at Pembroke Dock. The impairment charge recognised takes into account revised cash flow forecasts in light of anticipated future occupancy levels at the facility.

Freehold land and buildings include £6,748,694 (2015: £6,748,694) of land which is not depreciated.

Investment properties

Investment properties are stated based on a valuation undertaken by Bruton Knowles in 2016. 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 Standards 2014 Global and UK 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.

As included in note 3, rental income on these properties equated to £1,400,000 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 £1,235,700 (2015: £1,294,000).

Notes to the financial statements

For the year ended 31 March 2016

13. Tangible fixed assets (continued)

Company	Investment properties £'000	Freehold land and buildings £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 April 2015	15,900	1,408	1,565	18,873
Additions	-	355	165	520
Revaluations	350	-	-	350
Disposals	-	(250)	-	(250)
At 31 March 2016	16,250	1,513	1,730	19,493
Depreciation				
At 1 April 2015	-	224	1,266	1,490
Charge for the year	-	81	237	318
Disposals	-	(2)	-	(2)
At 31 March 2016	-	303	1,503	1,806
Net book value				
At 31 March 2016	16,250	1,210	227	17,687
At 31 March 2015	15,900	1,184	299	17,383

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £406,000 (2015: £406,000). Capitalised finance costs of £20,000 were written off in the profit and loss account during the year (2015: £20,000).

Freehold land and buildings include £361,696 (2015: £361,696) of land which is not depreciated.

14. Fixed asset investments

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2015 and 31 March 2016	4,573
Provision for impairment	
At 1 April 2015	119
Charge for the year	90
At 31 March 2016	209
Net book value	
At 31 March 2016	4,364
At 31 March 2015	4,454

Notes to the financial statements

For the year ended 31 March 2016

14. Fixed asset investments (continued)

Principal group investments

The parent company and the group have investments in the following 21 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	Taking over management then redeveloping six 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 Services 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	Taking over management then redeveloping seven 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

For the year ended 31 March 2016

14. 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	Taking over management then redeveloping two North Somerset County Council (NSCC) care homes, 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	Taking over management of 16 West Sussex County Council (WSCC) care homes and building 12 new care homes providing care and day care services under a 30-year contract with WSCC	£1 ordinary shares	100
Shaw healthcare (Wraxall) 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	£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 Support Services Limited	England and Wales	Provision of supported living services under contract to local authorities	£1 ordinary shares	100
My Care My Home Limited	England and Wales	Provision of care advice and other care-related services	£1 ordinary shares	100
Surehaven (Leicester) 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.

The parent company also has an investment in Shaw healthcare Management Consulting (Shanghai) Co. Limited, a Wholly Foreign-Owned Enterprise, incorporated in China in July 2015 to allow the company to provide management, care advisory and training services to the care industry in China.

Notes to the financial statements

For the year ended 31 March 2016

15. Debtors

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Amounts falling due within one year:				
Trade debtors	1,980	2,071	263	201
Amounts owed by group undertakings	-	-	1,971	1,672
Amounts owed by related parties	337	312	312	312
Other taxation and social security	-	-	-	289
Other debtors	412	835	37	457
Prepayments and accrued income	844	835	384	284
	3,573	4,053	2,967	3,215
Amounts falling due after more than one year:				
	£'000	£'000	£'000	£'000
Prepaid consideration	246	252	-	-
Deferred tax	401	547	-	-
Amounts owed by group undertakings	-	-	8,729	14,166
	647	799	8,729	14,166

Amounts owed to the parent company by group undertakings comprise 10 (2015: 9) loans repayable in instalments over periods from 6 to 22 years, and 7 (2015: 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 £6,576,000 (2015: £Nil).

Notes to the financial statements

For the year ended 31 March 2016

16. Creditors – amounts falling due within one year

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Bank loans and overdrafts (see note 18)	3,114	3,137	396	372
Other loans (see note 18)	162	889	8	752
Trade creditors	1,538	3,118	565	1,538
Amounts owed to related parties	-	4	30	4
Amounts owed to group undertakings	-	-	26	-
Corporation tax	467	338	-	-
Other taxation and social security	1,742	1,529	308	288
Other creditors	1,144	985	110	39
Accruals and deferred income	5,417	5,647	764	1,253
	13,584	15,647	2,207	4,246

17. Creditors – amounts falling due after more than one year

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Bank loans (see note 18)	65,688	68,568	5,342	5,745
Other loans (see note 18)	8,440	7,495	1,851	751
Other creditors	2,213	2,301	-	-
Accruals and deferred income	3,101	3,163	1	2
Derivative financial instruments (see note 21)	11,188	11,463	1,303	1,378
	90,630	92,990	8,497	7,876

Notes to the financial statements

For the year ended 31 March 2016

18. Borrowings

Borrowings are repayable as follows:

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Bank loans				
Between one and two years	3,448	3,123	423	396
Between two and five years	11,847	12,104	1,442	1,353
After five years	50,393	53,341	3,477	3,996
On demand or within one year	3,114	3,137	396	372
	68,802	71,705	5,738	6,117

A total of 10 (2015: 10) bank loans are secured over 25 (2015: 25) separate properties, the group's remaining portfolio of residential houses in South Wales and its property sale proceeds 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 6.28%. The loans are due to be repaid between 2016 and 2036.

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Other loans				
Between one and two years	932	906	760	751
Between two and five years	1,437	583	781	-
After five years	6,071	6,006	310	-
On demand or within one year	162	889	8	752
	8,602	8,384	1,859	1,503

A total of 5 (2015: 6) other loans are secured over 13 (2015: 14) separate properties and are repayable in instalments over periods from one to 24 years. Interest charged during the year ranged from 2.75% to 15%. The loans are due to be repaid between 2016 and 2038.

Notes to the financial statements

For the year ended 31 March 2016

18. Borrowings (continued)

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Total borrowings				
Between one and two years	4,380	4,029	1,183	1,147
Between two and five years	13,284	12,687	2,223	1,353
After five years	56,464	59,347	3,787	3,996
On demand or within one year	3,276	4,026	404	1,124
	77,404	80,089	7,597	7,620

The bank loans are stated net of deferred finance costs of £820,211 (2015: £882,889). 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 £62,678 (2015 - £62,678).

19. Provisions for liabilities

	Deferred taxation £'000	Dilapidation provision £'000	Pension deficit (note 25) £'000	Total £'000
Group				
At 1 April 2015	3,622	113	2,735	6,470
Charged to profit and loss account	(18)	-	174	156
Charged to other comprehensive income	-	-	(681)	(681)
At 31 March 2016	3,604	113	2,228	5,945

Notes to the financial statements

For the year ended 31 March 2016

19. Provisions for liabilities (continued)

	Deferred taxation £'000	Dilapidation provision £'000	Other £'000	Total £'000
Company				
At 1 April 2015	2,365	113	-	2,478
Charged to profit and loss account	(158)	-	-	(158)
At 31 March 2016	2,207	113	-	2,320

Deferred tax

Deferred tax is provided as follows:

	2016 £'000	2015 £'000
Group		
Accelerated capital allowances	3,612	4,022
Potential gain on property revaluation	2,487	2,699
Tax losses available	(222)	(393)
Other timing differences	(2,273)	(2,707)
Provision for deferred tax	3,604	3,621
Company		
Depreciation in excess of capital allowances	(48)	(58)
Potential gain on property revaluation	2,487	2,699
Other timing differences	(232)	(276)
Provision for deferred tax	2,207	2,365

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.

Dilapidation provision

The dilapidation provision relates to Red Hill Care Centre, a leasehold property. Under the terms of the lease, repair work will have to be undertaken, in addition to that charged to the profit and loss account, in order to maintain the property to the required standard, as requested by the lessor.

Defined benefit scheme liability

The provision for the defined benefit scheme liability is discussed in greater detail in note 25.

Notes to the financial statements

For the year ended 31 March 2016

20. Financial instruments

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

	2016 £'000	2015 £'000
Financial assets		
Measured at undiscounted amount receivable - Trade and other debtors (see note 15)	2,392	2,906
Financial liabilities		
Measured at amortised cost - Loans payable (see note 16 ,17)	77,404	80,089
Measured at undiscounted amount payable - Trade and other creditors (see note 16, 17)	4,895	6,404
	82,299	86,493

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

	2016 £'000	2015 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost (see note 4)	132	93
Total interest expense for financial liabilities at amortised cost (see note 4)	5,130	5,635
Impairment losses		
On financial assets measured at amortised cost (see note 13)	1,514	173

Notes to the financial statements

For the year ended 31 March 2016

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
	41,348	43,254	(11,188)	(11,463)

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 (Wraxall) 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 2016 was a liability of £1,303,000 (2015: £1,378,000).

Notes to the financial statements

For the year ended 31 March 2016

22. Called-up share capital and reserves

	2016 £'000	2015 £'000
Allotted, called-up and fully-paid		
100 million ordinary shares of £0.0005 each	50	50

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

Options have been granted under the equity-settled share schemes to subscribe for ordinary shares of the company as described in note 10.

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 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.

23. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2016 £'000	2015 £'000
Operating profit	6,399	7,573
Adjustment for:		
Impairment loss on property, plant and equipment	1,514	173
Depreciation and amortisation	2,480	2,558
Profit on disposal of fixed assets	(69)	-
Share-based payment expense	48	58
UK corporation tax paid	(420)	(540)
Operating cash flow before movement in working capital	9,952	9,822
Decrease in debtors	485	467
(Decrease)/increase in creditors	(1,589)	2,077
Adjustment for pension funding	95	31
Cash generated by operations	8,943	12,397

Notes to the financial statements

For the year ended 31 March 2016

23. Cash flow statement (continued)

Restrictions on cash and cash equivalents

Cash at bank and in hand as at 31 March 2016 includes £25,142,000 (2015: £24,445,000) held in ring-fenced companies.

Analysis of changes in net debt:

	At 1 April 2015 £'000	Cash flows £'000	At 31 March 2016 £'000
Cash at bank and in hand	30,545	997	31,542
Debt due within one year	(4,026)	750	(3,276)
Debt due after more than one year	(76,063)	1,935	(74,128)
	(49,544)	3,682	(45,862)

Notes to the financial statements

For the year ended 31 March 2016

24. Financial commitments

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

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Group				
- within one year	720	711	731	718
- between one and five years	3,455	947	3,561	1,021
- after five years	1,798	-	2,413	-
	5,973	1,658	6,705	1,739
Company				
- within one year	709	409	709	455
- between one and five years	3,449	387	3,543	579
- after five years	1,798	-	2,413	-
	5,956	796	6,665	1,034

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 2017.

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

For the year ended 31 March 2016

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 £327,000 (2015: £239,000). 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 (2015: £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.

An approximate roll-forward of the liabilities of the schemes as at 31 March 2016 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	
	2016	2015
Key assumptions used:		
Discount rate	3.5%	3.2%
Future pension increases	2.2%	2.2%
Inflation - CPI	2.2%	2.2%
Future salary increases	2.4%	2.4%

Notes to the financial statements
For the year ended 31 March 2016

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	
	2016 years	2015 years
Retiring today:		
Males	23.5	23.4
Females	25.4	25.3
Retiring in 20 years:		
Males	25.7	25.6
Females	27.9	27.8

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

	2016 £'000	2015 £'000
Current service cost	(608)	(539)
Employer contributions	513	520
Net interest cost	(79)	(73)
Plan introductions, changes, curtailments and settlements	-	(13)
	(174)	(105)

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

	2016 £'000	2015 £'000
Actuarial (loss)/gain on assets	(787)	2,560
Actuarial gain/(loss) on liabilities	2,072	(3,373)
Pension assets not recognised in respect of schemes in surplus	(604)	70
	681	(743)

Notes to the financial statements

For the year ended 31 March 2016

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:

	2016 £'000	2015 £'000
Present value of defined benefit obligations	(32,332)	(33,494)
Fair value of scheme assets	30,973	31,024
Pension assets not recognised in respect of schemes in surplus	(869)	(265)
Net liability recognised in the balance sheet	(2,228)	(2,735)

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

	2016 £'000	2015 £'000
At 1 April	33,494	28,989
Service cost	608	539
Interest cost	1,067	1,270
Actuarial gains and losses	(2,072)	3,373
Contributions from scheme participants	105	123
Effects of any curtailments or settlements	-	13
Benefits paid	(870)	(813)
At 31 March	32,332	33,494

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

	2016 £'000	2015 £'000
At 1 April	31,024	27,437
Interest income	988	1,197
Actuarial gains and losses	(787)	2,560
Contributions from the employer	513	520
Contributions from scheme participants	105	123
Benefits paid	(870)	(813)
At 31 March	30,973	31,024

Notes to the financial statements

For the year ended 31 March 2016

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:

	2016 %	2015 %
Equity instruments	72	76
Bonds	16	16
Property	8	5
Cash	2	3
Other	2	-

The estimated amount of employer contributions expected to be paid to the scheme during the year ending 31 March 2017 is £419,000.

Group

Defined contribution schemes

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

An approximate roll-forward of the liabilities of the schemes as at 31 March 2016 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	
	2016	2015
Key assumptions used:		
Discount rate	3.5%	3.2%
Future pension increases	3.2%	3.2%
Inflation - CPI	2.2%	2.2%
Future salary increases	2.4%	2.4%
Expected return on assets	3.5%	3.5%

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	
	2016 years	2015 years
Retiring today:		
Males	22.4	22.5
Females	24.7	24.8
Retiring in 20 years:		
Males	23.8	23.9
Females	26.2	26.3

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

	2016 £'000	2015 £'000
Current service cost	56	45
Employer contributions	(46)	(47)
Net interest cost	(8)	(11)
	2	(13)

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

	2016 £'000	2015 £'000
Actuarial (loss)/gain on plan assets	(46)	64
Actuarial gain/(loss) on defined benefit obligation	56	(65)
Total gain/(loss) pre-adjustment	10	(1)
Adjustment in respect of pension asset not recognised	(8)	(12)
Total gain/(loss)	2	(13)

Notes to the financial statements

For the year ended 31 March 2016

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:

	2016 £'000	2015 £'000
Present value of defined benefit obligations	(653)	(622)
Fair value of plan assets	926	887
Pension assets not recognised in respect of schemes in surplus	(273)	(265)
Net liability recognised in the balance sheet	-	-

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

	2016 £'000	2015 £'000
At 1 April	622	482
Interest income	22	22
Current service cost	56	45
Member contributions	10	10
Actuarial (gain)/loss	(56)	65
Benefits paid	(1)	(2)
At 31 March	653	622

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

	2016 £'000	2015 £'000
At 1 April	887	735
Interest income	30	33
Actuarial gain/(loss)	(46)	64
Member contributions	10	10
Employer contributions	46	47
Benefits paid	(1)	(2)
At 31 March	926	887

Notes to the financial statements

For the year ended 31 March 2016

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:

	2016 %	2015 %
Equity instruments	73	72
Bonds	27	28

The estimated amount of employer contributions expected to be paid to the scheme during the year ending 31 March 2017 is £46,000.

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 £1,213,000 (2015: £1,260,000) and costs of £797,000 (2015: £907,000) 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 £nil (2015: £4,000) are disclosed under amounts owed to related parties in note 16 to the financial statements.

The group also made loan repayments during the year of £126,000 (2015: £859,000) in respect of loans owed to The Shaw Foundation Limited. An additional loan of £358,000 was granted by The Shaw Foundation to Shaw healthcare (Group) Limited during the period in order to finance the purchase of The Willows, a property which is being operated by Shaw healthcare (Group) Limited as a supported living care service (2015: £685,000 granted to Shaw healthcare (FM Services to finance the purchase of the Laurels property). Loans owed by the group to The Shaw Foundation of £8,440,000 (2015: £7,495,000) are included within other loans in note 17 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.

28. Explanation of transition to FRS 102

This is the first year that the company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014.

As a consequence of adopting FRS 102, certain accounting policies have changed; namely the recognition of the fair value of derivative financial instruments on the balance sheet and the restatement of certain inter-company loans recognised at amortised cost using a market rate of interest.

Notes to the financial statements

For the year ended 31 March 2016

28. Explanation of transition to FRS 102 (continued)

Reconciliation of equity

Note		Group		Company	
		At 1 April 2014 £'000	At 31 March 2015 £'000	At 1 April 2014 £'000	At 31 March 2015 £'000
	Equity reported under previous UK GAAP	5,813	6,429	15,702	16,663
	Adjustments to equity on transition to FRS 102				
	1. Recognition of interest rate swap	(8,301)	(8,301)	(1,097)	(1,097)
	2. Restatement of inter-company loans	-	-	219	-
	3. Recognition of interest rate swap	-	(3,162)	-	(280)
	4. Restatement of inter-company loans	-	-	-	218
	5. Investment property recognition	14,548	14,606	14,548	14,606
	6. Deferred tax	(1,064)	(407)	(2,485)	(2,425)
		5,183	2,736	11,185	11,022
	Equity reported under FRS 102	10,996	9,165	26,887	27,685

Notes to the reconciliation of equity

1 & 3 These adjustments represent the fair value of the interest rate swap initially being recognised as a liability on the balance sheet together with the movement in fair value for the period ended 31 March 2015.

2 & 4 Certain inter-company loans which were not repayable on demand required their interest rates to be amended to represent a market rate of interest for reporting purposes. These are the adjustments required to reflect the change together with the adjustment to interest payable for the period ended 31 March 2015. Note that these changes are financial reporting only, actual interest payments being made have not changed.

5 The group has made an amendment to its policy regarding the valuation of and accounting for a number of properties previously categorised within Land and Buildings and which generate rental income. The directors consider that it is more appropriate to treat them as investment properties and consequently to value them at fair value.

6 Deferred tax impact of the above adjustments at 20% tax rate.

Notes to the financial statements

For the year ended 31 March 2016

28. Explanation of transition to FRS 102 (continued)

Reconciliation of profit or loss for 2015

Note	Group £'000	Company £'000
Profit for the financial year under previous UK GAAP	1,613	928
1. Interest rate swap movement	(3,162)	(281)
2. Interest charge adjustment on inter-company loan	-	2
3. Net interest cost adjustment	(550)	(20)
4. Tax impact on pension adjustment	110	4
5. Reverse depreciation on investment properties	58	58
6. Deferred tax	655	60
	(2,889)	(177)
(Loss)/profit for the financial year under FRS 102	(1,276)	751

3 & 4 The adjustment represents the change in accounting for interest on scheme assets and liabilities. There is no overall impact on equity as the opposite side of the adjustment is to the statement of other comprehensive income/statement of changes in equity.

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

T: 029 2036 4411

E: info@shaw.co.uk

Company Registration Number: 5391089