Shaw healthcare (Group) Limited

Annual Report and Financial Statements

Year Ended 31 March 2011

Shaw healthcare
Your care is our business

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Front cover image: George McAleer (Service User) and Natasha Mazviwanza (Team Leader) from Sandalwood Court
Back cover image: Karen Lanchester (Team Leader) with Irene Livingston (Patient) from Barton Cottage Hospital

Officers and professional advisers

DIRECTORS
P J Nixey, MA (Oxon)
A Thomas, BA, FCA
K S Martin, BSc, MSc
A C Savery, AIQS
R S Brown, BSc, ACMA, ATII
F A Cloud, MA (Oxon), CFA
J H Pain (appointed 27 January 2011)
S D Hughes (appointed 27 January 2011)
C Jones (appointed 27 January 2011)

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
Eversheds Solicitors
1 Callaghan Square
Cardiff
CF10 5BT

Morgan Cole Solicitors
Bradley Court
Park Place
Cardiff
CF10 3DP

AUDITOR
Deloitte LLP
Cardiff

Directors' report

The directors present their annual report on the affairs of the company, together with the audited financial statements, for the year ended 31 March 2011.

Mill River Lodge, West Sussex

PRINCIPAL ACTIVITIES

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

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the company and 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 full description of the judgements supporting the adoption of the going concern basis can be found in note 1 to the financial statements.

RESULTS AND DIVIDENDS

The consolidated profit and loss account for the year is set out on page 17. The profit for the year before taxation was £3,278,000 (2010 – £667,000). The directors do not recommend the payment of a dividend for the year (2010 – £nil).

DIRECTORS

The current directors of the company, who served throughout the financial year unless stated otherwise, are as shown on page 3. Dr B Connell resigned as a director on 20 October 2010.

REVIEW OF ACTIVITIES DURING THE YEAR

Financial performance

The company increased its operating profit before exceptional items by 47% in the year to £8,437,000 (2010 – £5,739,000) mainly due to improvements in the financial performance of its care services, both in West Sussex following the successful implementation of increased numbers of nursing beds, and also at Wraxall in North Somerset which, although still loss-making, achieved better occupancy levels than in 2010. In addition the group has maintained a tight control of its operating costs by instigating a pay freeze for a second consecutive year, reviewing and retendering a number of supplier contracts and reducing its general overhead costs. The group continues to focus on the sale of market beds and achieved a significant improvement in overall occupancy of market beds in its mature services (those that have been operational for more than 12 months): occupancy levels increased to 88%

Mrs Marie Wedge (Resident) and Cali Cooper (Support Worker) from Sandalwood Court

by March 2011 compared to 83% in March 2010, which resulted in an increase in monthly market bed income to £2,005,000 by March 2011 (£1,549,000 in March 2010).

The group has made further progress in the year on one of its major corporate objectives, to reduce its overall level of indebtedness, with net debt falling by £5,459,000 to £71,304,000 at 31 March 2011. In addition, the group's net assets have increased by £3,674,000 to £4,226,000 at 31 March 2011, reflecting the improved profitability of the group during the year and actuarial gains on its defined benefit schemes. Further information on the group's defined benefit schemes can be found in note 30 to the financial statements.

Quality performance

We consider that the quality of care in all our services is as important as their financial viability; any service which is not financially viable will not survive for long, while any service which does not provide a good quality of care does not deserve to survive and in an increasingly competitive market will not do so. We do not depend on the external regulator to advise us of the quality of our own care services; rather we place reliance upon an internal quality audit process which, under the leadership of the director of care, includes a sophisticated system to monitor and report to the board and management the numerous and diverse components of quality at any site.

The development of this quality of care and dissemination of comparative information among the peer group of managers, together with the sharing of good practice and clinical concerns in the regular home and branch manager peer group meetings are all proving effective ways of continuously raising the expectation and measured standard of quality of care at all sites. However, it is also necessary to develop further the training of all staff and particularly of team leaders and home managers as described below. While high quality care depends primarily upon the motivation, training and competence of staff, there is one area in which technological advances can greatly help improve quality. Many studies have shown that frequent errors are made in the administration of drugs, whether in NHS hospitals, by pharmacists or in care homes. Shaw has contracted with a specialist company experienced in the management and monitoring of drug administration in care homes to become the preferred supplier of drugs for our residents.

The service involves the use of a handheld computer which will be implemented across our care facilities during 2012 after completion of a pilot trial. This is expected to improve efficiency, virtually eliminate drug administration errors, and free up team leader time to focus on staff direction and leadership.

Recruiting, training, motivating and retaining staff

Shaw is committed to move its entire staff training strategy from a system of qualifications provided by external colleges to one provided entirely by its own trainers and assessors: to turn itself into a "learning academy". This far-reaching change runs with the new tide both of the change in qualifications and of regulation.

In 2011 the National Vocational Qualification (NVQ) system, the main qualification framework for people working in social care, was replaced by a new set of national training standards, the Qualification Credit Framework (QCF). The new QCF system places more emphasis on observed competence on the job in the workplace than the previous NVQ system. This is consistent with the change in regulatory emphasis: the question regulators ask is no longer "does the staff member have the qualification for the job?" but rather "what evidence do you have that this member of your staff knows how to do this element of their job?".

Shaw is registered by City and Guilds (one of the national accrediting bodies which administer the new system) as an accredited learning centre. This empowers Shaw to deliver and award the new QCF courses, including certificates and diplomas (the replacement for the old NVQ level 3 and level 5 qualifications), in the same way as any other accredited college or university. Shaw is thus well placed to provide highly relevant and practical qualifications to its staff. There are considerable cost savings in this but the greater benefits will be in better control, consistency and quality.

A key part of Shaw becoming a learning academy is the development of a comprehensive IT system, which will not only provide information on the skills attained and yet to be attained of any individual student or group of students, but will also provide every student with online access to all their course work and work projects. At the same time, integrated e-learning modules are being developed in-house which will complement and support the QCF courses being delivered by the in-house trainers and assessors.

It is our belief that proving our commitment to the professional development and competence of our workforce in this way will not only result in a better trained workforce with reduced staff turnover, but will greatly improve the motivation and commitment of staff who will see tangible evidence of their employer's concern for their own personal development.

Changing service models

Recent changes in the NHS in England and Wales have impacted the way it commissions the more expensive mental health and learning disability services in favour of a new type of care service that is both less institutional for the recipient and cheaper for the commissioner. Commissioners who had previously only been prepared to place patients in high-fee, low-secure hospital beds or small specialist care homes now believe that many of these patients would be better cared for in independent houses on their own or in small house groups of three of four with only domiciliary care staff to meet their care needs. This change in commissioning practice has enabled commissioners to significantly reduce their expenditure for this specialist client group while at the same challenging providers to restructure their services very rapidly.

While Shaw has been at the forefront of developing new models of mental health service in Wales it also owned a secure hospital at Pembroke Dock in West Wales. After discussions with commissioning authorities, Shaw decided to restructure this service from a 16-bed hospital into a 24-bed nursing care home, a decision that required changes to the building along with a change in regulator from Healthcare Inspectorate Wales to Commission for Social Care in Wales. The change in regulation was slow and costly but has left Shaw with a restructured service for which there is a sustainable local demand. The poor financial performance to date of the services in Pembroke Dock has meant that we have needed to obtain deferral letters in respect of the first two covenant tests set by the affected subsidiary companies' bankers. This is described fully in note 1 to the financial statements.

The change in the commissioning of mental health services has also created many opportunities for developing domiciliary care and accommodation-based services to which Shaw responded by setting up five new services providing places for 48 service users during the previous financial year.

Changing Shaw's senior management structure

The recent changes in mental health commissioning practices described above are well aligned with Shaw's vision of a more community-based and less institutional care service for these client groups – a vision warmly welcomed by commissioners and one which has presented the company with the opportunity to review its operational management structure in order to ensure that it better serves the requirements of our existing and potential customers and service users.

The new management structure, which came into effect in January 2011, introduced three new executive board positions: a director of operations with responsibility for all types of care service; a commercial director with responsibility for the development of new business, sales and marketing; and a director of care with responsibility for clinical governance, staff training and development. The simplicity and clear accountability of the new structure are welcomed by stakeholders and better enable the company to achieve its objectives and respond to changes in the care industry.

Prospects for 2011/12

The company expects to achieve further improvements in its financial performance during 2011/12 by continuing to increase occupancy levels and staff retention, thereby further reducing its agency costs. Shaw built the core of its business on secure long-term contracts with local authorities and the NHS. These contracts required considerable borrowing to fund the redevelopments that were a key element of the services that the public sector was purchasing from Shaw. Such contracts are no longer available and neither is the finance which they required.

Linda Henson and Ron Hopla (Services Users) at Ty Bryngoleu

However, that need not restrict Shaw's growth and development; indeed the pendulum of public contracting is swinging away from purchasing care home-based services to purchasing more care provided in people's own homes or, in the case of specialist mental health and learning disability services, in domestic dwellings which the service user rents themselves with housing benefit help.

In the autumn of 2011 Shaw will launch My Care My Home, a care advice, care management and property letting and management service aimed at individuals who fund their own care rather than being funded by the council or NHS. The service is being launched in conjunction with Shaw's local authority major contract partners; they recognise that it supplies a much-needed advice service to all people who find themselves in need of care but are not able to access public sector funding.

Industry pressures

The financial pressures from local authorities which were referred to in last year's report have increased in line with the global financial predicament. Several local authorities that pay for service users' care and accommodation costs have challenged contractual increases in their annual payment intended to match increases in costs (which include minimum wage and national insurance increases and other inflationary pressures). Indeed, a number of local authorities have requested reductions in care fees which in some cases we have been able to achieve by making agreed changes to the service provision. However, overall pressure on margins continues, and this is confirmed in a recent Laing and Buisson industry report which cites care operators being faced with a 2.5% reduction in care fees in real terms.

Business risks

1. The increasing dependency of residents

The increasing frailty of the older people referred to the company's homes under its existing local authority and NHS contracts presents a significant risk of costs outgrowing revenues. As elderly people in its care homes become more frail, best practice obliges the company to provide more hours of care in the homes. However, the local authorities and NHS trusts who have contracted with the company 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.

Amy McAuley (Kitchen Assistant) from Sandalwood Court

Pam Cawthorne (Longlands Hairdresser) with Hilma Waring (Resident)

2. The risk that bed places for sale on the open market are not filled

Approximately 58% of the company's income derives from long-term contracts with local authorities and the NHS, and is therefore secure. Most of the remainder derives from the sale of bed places on the open market, with the associated risk that sale 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.

3. The risk of poor performance leading to regulatory and contractual penalties

If the company 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 the payment mechanism. If substantial and serious, the company's reputation is damaged and this can impair growth of the business.

Any significant quality failing can also lead to a freeze in referrals into existing homes and a delay in the registration of new homes due to be commissioned. Delay in commissioning a new home adds to the cost of the development.

The company has clinical governance and training departments which exist to raise the quality of care services and thus enhance its reputation and ability to sell services, while protecting against the risks resulting from poor quality care.

4. Risks relating to the current economic climate

The current economic environment and the pressure on public sector bodies to cut costs have an impact on the company's ability to achieve annual inflationary increases in non-contracted residential and nursing fees. In fact, in many cases it has been difficult to maintain the same fee levels given the numerous requests from public sector bodies to reduce those fees. Financial risks are described in note 1a to the financial statements on page 25.

5. Regulatory and market risk

From time to time the care industry regulators (CQC, CSSIW and Healthcare Inspectorate Wales) change the regulations under which registered care operators can provide services. Altered regulations, which may be introduced within less than twelve months of initial notification of intent to change, can affect the profitability and even the commercial viability of specific care services.

Approximately 70% 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 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 "brokerage funding" is now well established in the learning disabilities sector but not yet strongly established with care services for elderly people or mental health services. 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. It does, however, also create the opportunity for well-regarded services to win a greater share of their local market.

The company 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.

Mike Hall (Support Worker) and Andrew Watson (Service User) from Ty Bryngoleu

Care and housing services provided

	2011			2010		
	Shaw group	Deferred assets (ii)	Total	Shaw group	Deferred assets (ii)	Total
Registered care home beds	1,881	283	2,164	1,956	283	2,239
Day care places	1,469	-	1,469	1,469	-	1,469
Domiciliary care service units (i)	669	-	669	417	-	417
Residential houses/flats	372	56	428	412	56	468
Supported living service beds	48	-	48	48	-	48

(i) 1 unit – 10 care hours per week

(ii) Deferred assets represent care homes acquired by the company from Shaw healthcare (Homes) Limited on 1 October 2006. These assets and contracts did not transfer to the company on that date, but are expected to do so in the future subject to specific conditions being met.

Registered care homes analysed by region

	2011				2010			
	Shaw group		Deferred assets		Shaw group		Deferred assets	
	Number of homes	Number of beds	Number of homes	Number of beds	Number of homes	Number of beds	Number of homes	Number of beds
South East	15	881	3	57	17	972	3	57
Wales & South West	11	226	3	72	11	228	3	72
Midlands	22	757	5	154	22	739	5	154
Scotland	1	17	-	-	1	17	-	-
	49	1,881	11	283	51	1,956	11	283

Geographical analysis of staff numbers

Key
Care: Staff employed in the provision of care services
RO: Staff employed at regional offices
HO: Staff employed at head office in Cardiff

Staff employed by Shaw healthcare (Group) Limited and its subsidiary undertakings:

	2011				2010			
Region	Care	RO	HO	Total	Care	RO	HO	Total
South East	1,301	13	-	1,314	1,186	8	-	1,194
Wales & South West	670	9	-	679	582	9	-	591
Midlands	1,354	19	-	1,373	1,287	18	-	1,305
Scotland	49	2	-	51	-	2	-	2
Head Office								
Management of homes	-	-	101	101	-	-	95	95
Development of homes	-	-	21	21	-	-	20	20
	3,374	43	122	3,539	3,055	37	115	3,207

Staff employed by Shaw healthcare (Homes) Limited:

	2011				2010			
Region	Care	RO	HO	Total	Care	RO	HO	Total
South East	118	-	-	118	124	-	-	124
Wales & South West	148	-	-	148	139	-	-	139
Midlands	295	-	-	295	281	-	-	281
	561	-	-	561	544	-	-	544

Staff currently employed by Shaw healthcare (Homes) Limited in respect of deferred assets (all staff are employed within care homes) are shown above, as these staff will become employees of Shaw healthcare (Group) Limited as the sites at which they work are transferred to Shaw healthcare (Group) Limited (as described in note 11).

The above figures represent total staff employed as at 31 March including both full-time and part-time employees.

Aggregate value of contracted income

The group has various long-term contracts for the provision of residential care services. The total value of this contracted income, up to the contract expiry date is:

	2011 £ million	2010 £ million
Total Value	1,265	1,330

TAXATION STATUS

The company is a close company under the provisions of the Taxes Act 1988.

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.

AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved:

- So far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware.
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Deloitte LLP have indicated their willingness to continue in office as the company's auditor. A resolution is in place to dispense with the requirement to hold Annual General Meetings.

Approved by the Board of Directors and signed on behalf of the Board

A Thomas Chairman
29 September 2011

Ashfield House,
Northants

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). 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 group and the company 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, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of Shaw healthcare (Group) Limited for the year ended 31 March 2011 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 33. 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).

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. 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 the parent company's affairs as at 31 March 2011 and of the group's profit for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.
- The parent company financial statements are not in agreement with the accounting records and returns.
- Certain disclosures of directors' remuneration specified by law are not made.
- We have not received all the information and explanations we require for our audit.

John Antoniazzi (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom
30 September 2011

Consolidated profit and loss account

Year ended 31 March 2011

	Note	2011			2010		
		Before exceptional items £'000	Exceptional items (note 3) £'000	Total £'000	Before exceptional items £'000	Exceptional items (note 3) £'000	Total £'000
TURNOVER	2	80,924	-	80,924	75,197	-	75,197
Operating Costs		(63,406)	(159)	(63,565)	(60,361)	(584)	(60,945)
GROSS PROFIT		17,518	(159)	17,359	14,836	(584)	14,252
Administrative expenses		(9,081)	(991)	(10,072)	(9,097)	-	(9,097)
OPERATING PROFIT	5	8,437	(1,150)	7,287	5,739	(584)	5,155
Profit on sale of tangible fixed assets	3			2,254			2,024
Interest receivable and similar income	4			235			68
Interest payable and similar charges	4			(6,498)			(6,580)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				3,278			667
Tax on profit on ordinary activities	7			(1,134)			(290)
PROFIT FOR THE FINANCIAL YEAR	23			2,144			377

All amounts derive from continuing operations.

Consolidated statement of total recognised gains and losses

Year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Profit for the financial year		2,144	377
Actuarial gain/(loss) relating to the pension scheme	30	2,106	(1,759)
UK deferred tax attributable to actuarial gain/(loss)	30	(590)	493
Total recognised gains/(losses) relating to the year		3,660	(889)

Margaret Irwin (Care Support Worker, Longlands) and Peter Ward (Resident, Primrose Place)

Consolidated and company balance sheets

As at 31 March 2011

	Note	2011 Group £'000	2011 Company £'000	2010 Group £'000	2010 Company £'000
FIXED ASSETS					
Intangible assets – goodwill	10	2,623	-	2,787	-
Intangible assets – negative goodwill	10	-	(100)	-	(147)
Deferred assets	11	1,008	1,008	1,008	1,008
Tangible assets	12	83,764	2,317	86,294	2,590
Investments	13	-	4,098	-	4,098
		87,395	7,323	90,089	7,549
DEBTORS: amounts falling due after more than one year	15	274	13,600	280	12,662
CURRENT ASSETS					
Stocks	14	455	-	1,063	-
Debtors: amounts falling due within one year	15	4,098	1,960	4,799	2,724
Short-term investments	16	1,267	1,267	1,256	1,256
Cash at bank and in hand		19,434	2,215	18,063	2,788
		25,254	5,442	25,181	6,768
CREDITORS: amounts falling due within one year	17	(11,376)	(2,650)	(13,331)	(3,505)
NET CURRENT ASSETS		13,878	2,792	11,850	3,263
TOTAL ASSETS LESS CURRENT LIABILITIES		101,547	23,715	102,219	23,474
CREDITORS: amounts falling due after more than one year	18	(94,341)	(10,856)	(97,394)	(13,666)
PROVISIONS FOR LIABILITIES	20	(2,713)	(100)	(2,434)	(66)
PENSION LIABILITY	30	(267)	-	(1,839)	-
NET ASSETS		4,226	12,759	552	9,742
CAPITAL AND RESERVES					
Share capital	21	50	50	50	50
Other reserves	22	267	309	152	259
Profit and loss account	23	3,909	12,400	350	9,433
SHAREHOLDERS' FUNDS	24	4,226	12,759	552	9,742

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 2011. Signed on behalf of the Board of Directors:

A Thomas Chairman

R S Brown Group Finance Director

Consolidated cash flow statement

Year ended 31 March 2011

	Note	2011 £'000	2010 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	11,598	11,886
Returns on investments and servicing of finance	26	(7,026)	(6,854)
Taxation	26	(409)	-
Capital expenditure	26	1,418	(1,795)
CASH INFLOW BEFORE FINANCING		5,581	3,237
Financing	26	(4,199)	(2,455)
INCREASE IN CASH IN THE YEAR	27	1,382	782

Hilda Goode (Service User), Day Centre, Longlands

Notes to the financial statements

Year ended 31 March 2011

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the current and the prior financial year, are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

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 review of activities in the Directors' Report. In addition, note 1a to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Approximately 58% 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 metrics and by entering into fixed price agreements where possible and appropriate.

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

Surehaven Pembroke Limited and Shaw Pembroke (Specialist Services) Limited reported operating losses for the year due to the facilities not achieving the level of occupancy that was expected. Covenant deferral letters have been received from the bank in respect of the tests that were scheduled for 31 March 2011 and 30 June 2011, as the directors were of the opinion that the covenant tests would have been failed at these dates. The directors are in the process of changing the business model of both facilities and have agreed with the bank that covenants will be reset once these changes have been implemented. Until then the directors anticipate that further deferral letters will be received in respect of future tests. Whilst these circumstances create material uncertainties over the availability of finance in two subsidiary companies, the affected companies can rely on short-term support from the group to meet operating cash flow requirements, although the group's formal commitment is to only guarantee loan interest and not capital repayments.

Surehaven Glasgow Limited, a subsidiary company whose business is to operate a low-secure hospital in Glasgow, reported operating losses for the year due to the facility not achieving the level of occupancy that was expected. Current forecasts indicate that this will lead to a breach of the company's banking covenants when they are first tested on 30 September 2011. The directors have requested a covenant deferral from the company's bankers and are in discussions regarding alternative covenant requirements. Whilst these circumstances create material uncertainties over the availability of finance in Surehaven Glasgow Limited, the company can rely on short-term support from the group to meet operating cash flow requirements. The group's formal commitment is to guarantee capital repayments of up to £2,800,000 and loan interest payments.

1. ACCOUNTING POLICIES (continued)

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 Barton 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 2011 the group held £5,163,000 of cash and £1,267,000 of fixed term deposits outside ring-fenced companies. In total the group held £19,434,000 of cash and £1,267,000 of fixed term deposits. The strong cash position has been achieved as a result of continued tight control of working capital and the ongoing strategy to dispose of non-core assets 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.

Basis of consolidation

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

Taxation

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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Deferred assets

Deferred assets represent net assets acquired by the company from Shaw healthcare (Homes) Limited on 1 October 2006. These assets and contracts did not transfer to the company on that date, but are expected to do so in the future subject to specific conditions being met. An agreement exists between the company and Shaw healthcare (Homes) Limited whereby the company enjoys the benefits and bears the burdens of these deferred assets until the date of transfer.

1. ACCOUNTING POLICIES (continued)

Liability for maintenance costs

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

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of tangible fixed assets other than freehold land, less any estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold land – Nil
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 – Annuity basis 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.

No depreciation is charged on assets in the course of construction. Assets are transferred from this category into the appropriate asset class on completion of the construction stage.

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Pension costs

For defined benefit schemes the amounts charged to operating profit/(loss) are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Interest costs, net of the expected return on assets, are included within finance charges in the profit and loss account. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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 method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the 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.

Leases

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, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Derivative financial instruments

Interest rate swaps are disclosed at the balance sheet date at the fair value of the swap as valued by the loan finance provider.

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate of the carrying amount.

Finance 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.

1. ACCOUNTING POLICIES (continued)

Revenue recognition

The company recognises revenue as care is provided for non-contracted market beds and as it is made available for contracted block beds.

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 2.

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.

Other reserves

Amounts are transferred from the profit and loss reserve to other reserves 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.

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.

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 is management's best estimate taking 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 May 2011.

Share-based payment – 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.

1a. FINANCIAL RISK MANAGEMENT

Quality risk

Most of the group's income derives from long-term contracts with local authorities and NHS trusts, with the balance deriving from the sale of care home places, extra-care flats and services on the open market. Any shortcoming in the quality of care services places this income at risk: either because contracted income reduces if key performance indicator targets are not met or because a home with a failing reputation is unlikely to attract new business.

The main threat to quality is not being able to recruit and retain staff of a sufficient calibre. This risk is managed by intensive training of all staff at every level.

Credit risk

The credit risk on liquid funds and derivative financial instruments is reduced because the group uses a number of banks with high credit-ratings assigned by international credit-rating agencies.

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.

Some of the 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.

Price risk

As a significant proportion of the group's income derives from long-term contracts with public sector organisations, most of its income will not be subject to fluctuations in market price.

Annual indexation increases are applied as per the terms of the contract. This also guarantees a certain percentage of the group's income regardless of actual occupancy levels. However, the proportion of the group's income that does not derive from long-term contracts is subject to economic and political factors such as the current pressure on public sector bodies to cut costs. This has an impact on the company's ability to achieve annual inflationary increases.

Income derived from the sale of extra-care flats is subject to fluctuations in the property market. However, the proportion of the group's income derived from these properties, and therefore the associated financial risk, is small.

Income derived from the selling of care home places and services on the open market will generally be at rates in excess of those contracted with public sector organisations.

Volume risk

Where care home places on the external market are vacant the group bears the related fixed costs, resulting in an adverse financial impact if sales of beds fall below expectations.
The group has put in place a management structure which mitigates this risk by ensuring that sufficient commercial emphasis is placed on the selling of care home places on the external market.
In respect of sales of extra-care flats, the group bears the risk that completed flats are not sold in anticipated volumes. This risk is mitigated as much as is possible with marketing strategies and advance planning.

Interest rate risk

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.

Defined benefit pension schemes

As described in note 30, the group participates in six defined benefit pension schemes which have a pension liability of £267,000 at 31 March 2011 (2010 – £1,839,000). 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.

2. TURNOVER

The turnover shown in the profit and loss account arises wholly in the United Kingdom and represents amounts earned during the year, exclusive of Value Added Tax and voids.

	2011 £'000	2010 £'000
Care home residential fees	67,849	60,729
Domiciliary care fees	3,804	2,764
Housing and management services fees	2,900	2,972
Service contract income	2,076	2,675
Other income	3,624	3,970
Property sales	671	1,393
Grants received	-	694
	80,924	75,197

3. EXCEPTIONAL ITEMS

Exceptional items reported within operating profit

	2011 £'000	2010 £'000
Reported within operating costs		
Restructuring costs (i)	93	118
Adjustment to net realisable value of stocks of extra-care flats (ii)	66	220
Development costs (iii)	-	246
	159	584
Reported within administrative expenses		
Impairment of tangible fixed assets (iv)	991	-
	1,150	584

(i) Payments totalling £58,000 were made during the year for restructuring costs relating to the closure of three care homes. In addition, the company continued its review of fixed costs during the year which resulted in a number of redundancies with an associated cost of £35,000.

(ii) A charge of £66,000 was recognised during the year in respect of a reduction in the net realisable value of stocks of extra-care flats. The revised net realisable value is based on updated projections of future sales proceeds in light of current market conditions.

(iii) Costs were incurred during the prior year, in partnership with third parties, relating to development projects which were subsequently aborted.

(iv) An impairment charge of £991,000 was recognised during the year (2010 – £nil) in respect of one of the freehold facilities at Pembroke Dock. This business has reported an operating loss for the year due to the facility not achieving the level of occupancy that was expected. The impairment charge recognised takes into account external valuations performed in 2010 and 2011.

Exceptional items reported after operating profit

The profit on sale of tangible fixed assets of £2,254,000 (2010 – £2,024,000) relates to the disposal of a number of properties as part of the group's ongoing strategy to dispose of non-core assets. The profit arose on the sale of 44 properties originally acquired from the National Coal Board.

3. EXCEPTIONAL ITEMS (continued)

The effects of the exceptional items reported after operating profit on the amounts charged to the profit and loss account for taxation were:

	2011 £'000	2010 £'000
Profit on sale of tangible fixed assets	621	385

4. FINANCE CHARGES

	2011 £'000	2010 £'000
Interest receivable and similar income		
Investment income	68	68
Net finance charges relating to defined benefit pension scheme	167	-
	235	68
Interest payable and similar charges		
On bank loans, overdraft and other loans	(6,498)	(6,510)
Net finance charges relating to defined benefit pension scheme	-	(70)
	(6,498)	(6,580)

5. OPERATING PROFIT

Operating profit is stated after charging:

	2011 £'000	2010 £'000
Depreciation of tangible fixed assets – owned assets	2,375	2,146
Amortisation of goodwill	164	164
Operating leases – other	326	296
Operating leases – plant and machinery	822	670
Auditor's remuneration – audit fees		
Group	32	33
Company	47	47
	79	80
Auditor's remuneration – other services	5	5
	84	85

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2011 £'000	2010 £'000
Wages and salaries	45,119	42,961
Social security costs	3,325	3,186
Other pension costs	852	852
Share-based payments (note 9)	14	48
	49,310	47,047

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

The average number of persons employed by the group (including part-time employees) was:

	2011 No.	2010 No.
Administration	338	329
Nursing and other care staff	3,033	2,900
	3,371	3,229

	2011 £'000	2010 £'000
Directors' remuneration		
Emoluments	663	923
Compensation for loss of office	73	86
Company contributions to money purchase and personal pension schemes	55	65
	791	1,074

	2011 £'000	2010 £'000
Remuneration of the highest paid director		
Emoluments	193	195
Company contributions to money purchase and personal pension scheme	20	20
	213	215

	No.	No.
Number of directors who		
Are members of a money purchase pension scheme	2	1
Are members of a personal and stakeholder pension scheme	3	4

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2011 £'000	2010 £'000
Current taxation		
United Kingdom corporation tax:		
Current tax on income for the year at 28% (2010 – 28%)	846	-
Deferred tax		
Origination and reversal of timing differences	276	323
Adjustments relating to prior years	12	(33)
Total deferred tax	288	290
	1,134	290

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	3,278	667
Tax on profit on ordinary activities before tax at 28% (2010 – 28%)	918	187
Factors affecting the current tax charge for the year		
Capital allowances in excess of depreciation	(68)	(194)
Difference between accounting profit and chargeable gain on asset disposal	(10)	-
Expenses not allowed for tax purposes	87	145
Utilisation of losses brought forward	(199)	(22)
Pre-trading expenditure deductible	(118)	(162)
Impairment of fixed assets	296	-
Adjustments in respect of prior years	(24)	-
Current year tax losses carried forward	-	386
Chargeable gain on asset disposal rolled over	-	(189)
Other timing differences	(36)	(151)
Current tax charge for the year	846	-

Taxable losses of £8,596,000 (2010 – £9,423,000) have been carried forward to set off against future profits.

A deferred tax asset of £157,000 (2010 – £388,000) 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.

The forthcoming changes in the corporation tax rate from 28% to 24% in future years are not expected to materially affect the future tax charge.

8. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt with in the financial statements of the parent company was £3,019,000 (2010 – £2,279,000). As permitted by s408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

9. SHARE-BASED PAYMENTS

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 £0.004, which is the estimated fair value of the company's shares on the date of the grant.

The total number of options granted was 16,960,000. The options vest in four annual tranches beginning on 1 March 2009 and on the anniversary of this date thereafter, ending on 1 March 2012. 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.

9. SHARE-BASED PAYMENTS (continued)

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

	2011		2010	
	Number of share options	Weighted average exercise price £'000	Number of share options	Weighted average exercise price £'000
Outstanding at 1 April	16,460,000	0.004	-	-
Granted during the year	-	-	16,960,000	0.004
Forfeited during the year	(1,500,000)	0.004	(450,000)	0.004
Expired during the year	(1,610,000)	0.004	(50,000)	0.004
Outstanding at 31 March	13,350,000	0.004	16,460,000	0.004
Exercisable at 31 March	-	-	100,000	0.004

The share options granted during the prior year were valued at £0.004. This was done using the Black-Scholes model with the following assumptions:

	2011	2010
Share value	£0.004	£0.004
Option exercise price	£0.004	£0.004
Expected volatility	1,000%	1,000%
Expected life	10 years	10 years
Expected dividend	£nil	£nil
Risk-free interest rate	3.35%	3.35%

Expected volatility was 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 is management's best estimate taking into consideration expected future performance and behavioural considerations.

Based on the above valuation, the company recognised total expenses of £14,000 related to equity-settled share-based payments in 2011 (2010 – £48,000).

The company granted a further 11,000,000 options in May 2011, the cost of which will be charged to the profit and loss account for the year ending 31 March 2012.

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. No shares were issued during the year ended 31 March 2011. 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.

10. INTANGIBLE FIXED ASSETS – GOODWILL

	Group			Company		
	Positive goodwill £'000	Negative goodwill £'000	Total £'000	Positive goodwill £'000	Negative goodwill £'000	Total £'000
Cost						
At 1 April 2010 and 31 March 2011	3,534	-	3,534	-	(316)	(316)
Amortisation						
At 1 April 2010	(747)		(747)	-	169	169
Charge for the year	(164)	-	(164)	-	47	47
At 31 March 2011	(911)	-	(911)	-	216	216
Net book value						
At 31 March 2011	2,623	-	2,623	-	(100)	(100)
At 31 March 2010	2,787	-	2,787	-	(147)	(147)

11. DEFERRED ASSETS

On 1 October 2006 Shaw healthcare (Group) Limited completed the acquisition of virtually the entire business of Shaw healthcare (Homes) Limited, which included both 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 staff 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 this date but are expected to do so in the future 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 Shaw healthcare (Homes) Limited whereby the company enjoys the benefits and bears the burdens of these deferred assets until the date of transfer. Deferred assets amounting to £1,008,000 (2010 – £1,008,000) are included under fixed assets.

12. TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Assets in the course of construction £'000	Capitalised development costs £'000	Furniture and equipment £'000	Total £'000
Cost						
At 1 April 2010	55,742	28,376	4,058	823	4,978	93,977
Additions in the year	292	-	431	-	375	1,098
Assets brought into use	4,489	-	(4,489)	-	-	-
Disposals	(286)	(15)	-	-	(1)	(302)
At 31 March 2011	60,237	28,361	-	823	5,352	94,773
Depreciation						
At 1 April 2010	2,600	2,637	-	30	2,416	7,683
Charge for the year	527	1,157	-	31	660	2,375
Disposals	(40)	-	-	-	-	(40)
Impairment loss (note 3)	991	-	-	-	-	991
At 31 March 2011	4,078	3,794	-	61	3,076	11,009
Net book value						
At 31 March 2011	56,159	24,567	-	762	2,276	83,764
At 31 March 2010	53,142	25,739	4,058	793	2,562	86,294

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £6,529,000 (2010 – £6,456,000). Capitalised finance costs written off in the profit and loss account during the year amounted to £224,000 (2010 – £210,000).

An impairment charge of £991,000 was recognised during the year (2010 – £nil) in respect of one of the freehold facilities at Pembroke Dock. This business has reported an operating loss for the year due to the facility not achieving the level of occupancy that was expected. The impairment charge recognised takes into account external valuations performed in 2010 and 2011.

12. TANGIBLE FIXED ASSETS (continued)

Company	Freehold land and buildings £'000	Furniture and equipment £'000	Total £'000
Cost			
At 1 April 2010	2,720	554	3,274
Additions in the year	-	150	150
Disposals	(286)	-	(286)
At 31 March 2011	2,434	704	3,138
Depreciation			
At 1 April 2010	321	363	684
Charge for the year	86	91	177
Disposals	(40)	-	(40)
At 31 March 2011	367	454	821
Net book value			
At 31 March 2011	2,067	250	2,317
At 31 March 2010	2,399	191	2,590

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £157,000 (2010 – £157,000). Capitalised finance costs of £8,000 were written off in the profit and loss account during the year (2010 – £8,000).

13. FIXED ASSET INVESTMENTS

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2010 and 31 March 2011	4,217
Provision for impairment	
At 1 April 2010 and 31 March 2011	119
Net book value	
At 31 March 2011 and 31 March 2010	4,098

13. FIXED ASSET INVESTMENTS (continued)

Principal group investments

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

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Shaw healthcare Limited	England and Wales	Provision of care services to other Shaw companies and external clients	£1 ordinary shares	100
Shaw healthcare (FM Services) Limited	England and Wales	Provision of facilities management services to other Shaw companies and external clients	£1 ordinary shares	100
Shaw healthcare (Specialist Services) Limited	England and Wales	Development and operation of care homes for people with very challenging care needs	£1 ordinary shares	100
Shaw healthcare (Herefordshire) Limited	England and Wales	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

13. FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
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
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 sixteen West Sussex County Council (WSCC) care homes and building twelve 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

13. FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
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 domiciliary care and supported living services under contract to local authorities	£1 ordinary shares	100
My Care My Home Limited	England and Wales	Provision of care and 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.

14. STOCKS

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Work in progress	7	-	6	-
Extra-care flats held for resale	448	-	1,057	-
	455	-	1,063	-

15. DEBTORS

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year				
Trade debtors	2,679	339	3,123	179
Amounts owed by group undertakings	-	1,208	-	1,707
Other debtors and prepayments	1,419	413	1,676	838
	4,098	1,960	4,799	2,724
Amounts falling due after more than one year				
Prepaid consideration	274	-	280	-
Amounts owed by group undertakings	-	13,600	-	12,662
	274	13,600	280	12,662

16. SHORT-TERM INVESTMENTS

Short-term investments of £1,267,000 (2010 – £1,256,000) represent monies placed on a two-month fixed term deposit with Allied Irish Bank.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	2,303	287	2,348	663
Other loans	68	-	538	-
Trade creditors	1,546	253	1,654	307
Amounts owed to group undertakings	-	619	-	1,223
Taxation and social security	2,065	569	1,652	170
Other creditors	598	132	814	121
Accruals and deferred income	4,796	790	6,325	1,021
	11,376	2,650	13,331	3,505

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	79,049	7,098	82,719	9,908
Other loans	10,585	3,758	10,477	3,758
Other creditors	4,707	-	4,198	-
	94,341	10,856	97,394	13,666

19. BORROWINGS

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	81,352	7,385	85,067	10,571
Other loans	10,653	3,758	11,015	3,758
	92,005	11,143	96,082	14,329
Due within one year	2,371	287	2,886	663
Due after more than one year	89,634	10,856	93,196	13,666
	92,005	11,143	96,082	14,329
a) Bank loans				
In less than one year	2,303	287	2,348	663
Between one and two years	2,357	306	2,746	714
Between two and five years	7,623	1,047	8,612	2,489
Over five years	69,069	5,745	71,361	6,705
	81,352	7,385	85,067	10,571

19. BORROWINGS (continued)

A total of 13 bank loans is secured over 27 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 25 years. Interest charged during the year ranged from 2.54% to 6.28%. The loans are due to be repaid between 2012 and 2036.

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
b) Other loans				
In less than one year	68	-	538	-
Between one and two years	828	752	821	
Between two and five years	2,771	2,255	2,593	3,007
Over five years	6,986	751	7,063	751
	10,653	3,758	11,015	3,758

A total of five other loans is secured over 13 separate properties and repayable in instalments over periods from five to 27 years. Interest charged during the year ranged from 2.75% to 15%. The loans are due to be repaid between 2016 and 2038.

20. PROVISIONS FOR LIABILITIES

	Group			Company		
	Included in provisions £'000	Included in pension liability (note 30) £'000	Total £'000	Included in provisions £'000	Included in pension liability (note 30) £'000	Total £'000
Deferred taxation						
At 1 April 2010	2,325	(715)	1,610	(43)	-	(43)
Charged to the profit and loss account	267	21	288	22	6	28
Charged/(credited) to the statement of total recognised gains and losses	-	590	590	-	(6)	(6)
At 31 March 2011	2,592	(104)	2,488	(21)	-	(21)
Dilapidation provision						
At 1 April 2010	109	-	109	109	-	109
Charged to the profit and loss account	12		12	12	-	12
At 31 March 2011	121	-	121	121	-	121
Total provisions for liabilities	2,713	(104)	2,609	100	-	100

20. PROVISIONS FOR LIABILITIES (continued)

Deferred taxation

The amounts of deferred taxation provided/(recognised) at 26% in the financial statements are as follows:

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Capital allowances in excess of depreciation	4,803	-	4,767	-
Depreciation in excess of capital allowances	(63)	(18)	-	(23)
Other timing differences	(412)	(3)	(1,155)	(20)
Tax losses carried forward	(1,736)	-	(2,002)	-
	2,592	(21)	1,610	(43)

Dilapidation provision

The dilapidation provision relates to Worcester Intermediate Care Unit, 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.

21. SHARE CAPITAL

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Authorised				
100 million ordinary shares of £0.0005 each	50	50	50	50
Allotted, called up and fully paid				
100 million ordinary shares of £0.0005 each	50	50	50	50

22. OTHER RESERVES

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	152	259	98	214
Transferred from profit and loss account	115	50	54	45
At 31 March	267	309	152	259

23. PROFIT AND LOSS ACCOUNT

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	350	9,433	1,245	7,177
Profit for the financial year	2,144	3,019	377	2,279
Credit to equity for equity-settled share-based payments	14	14	48	48
Actuarial gains/(losses) net of deferred tax	1,516	(16)	(1,266)	(26)
Transferred to other reserves	(115)	(50)	(54)	(45)
At 31 March	3,909	12,400	350	9,433

24. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	552	9,742	1,393	7,441
Profit for the financial year	2,144	3,019	377	2,279
Credit to equity for equity-settled share-based payments	14	14	48	48
Actuarial gains/(losses) net of deferred tax	1,516	(16)	(1,266)	(26)
At 31 March	4,226	12,759	552	9,742

25. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2011 £'000	2010 £'000
Operating profit	7,287	5,155
Depreciation	2,375	2,146
Impairment loss	991	-
Amortisation of goodwill	164	164
Decrease in stocks	608	2,122
Decrease in debtors	707	201
(Decrease)/increase in creditors	(650)	2,051
Increase/(decrease) in provisions	12	(10)
Surplus of pension charge over contributions paid	90	9
Share-based payments	14	48
Net cash inflow from operating activities	11,598	11,886

26. ANALYSIS OF CASH FLOWS

	2011 £'000	2010 £'000
Returns on investments and servicing of finance		
Interest received	68	68
Interest paid	(7,094)	(6,922)
	(7,026)	(6,854)
Taxation		
UK corporation tax paid	(409)	-
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,098)	(4,261)
Receipts from sale of tangible fixed assets	2,516	2,466
	1,418	(1,795)
Financing		
Loans received in the year	1,557	4,503
Loans repaid in the year	(5,756)	(6,958)
	(4,199)	(2,455)

Margaret Hill and Brian Tittley, (Residents), Barton Mews

27. ANALYSIS AND RECONCILIATION OF NET DEBT

	At 1 April 2010 £'000	Cash flows £'000	At 31 March 2011 £'000
Cash at bank and in hand	18,063	1,371	19,434
Short-term investments	1,256	11	1,267
	19,319	1,382	20,701
Debt due within one year	(2,348)	45	(2,303)
Debt due after more than one year	(82,719)	3,670	(79,049)
Other loans	(11,015)	362	(10,653)
Net debt	(76,763)	5,459	(71,304)

	2011 £'000	2010 £'000
Increase in cash in the year	1,382	782
Decrease in bank loans	3,715	4,236
Decrease/(increase) in other loans	362	(1,556)
Decrease in net debt	5,459	3,462
Net debt at 1 April	(76,763)	(80,225)
Net debt at 31 March	(71,304)	(76,763)

28. FINANCIAL COMMITMENTS

Operating leases

At 31 March, the group and company had annual commitments under non-cancellable operating leases as follows:

Leases which expire	2011 £'000	2010 £'000
Buildings		
Within one year	265	250
Within two to five years	117	98
	382	348
Other		
Within one year	99	152
Within two to five years	529	514
	628	666

28. FINANCIAL COMMITMENTS (continued)

Purchase of Homefield House

On 27 March 2007 the company entered into an agreement with Shaw healthcare (Homes) Limited which conferred on the company the option to purchase Homefield House, a registered care home owned and operated by Shaw healthcare (Homes) Limited. 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 2012.

Under the same agreement, if the above option expires without being exercised then Shaw healthcare (Homes) Limited 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, Shaw healthcare (Homes) Limited will repay this amount to the company.

29. INTEREST RATE SWAP AGREEMENTS

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Interest paid	2,273	330	2,148	344

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;
- Shaw Pembroke (Specialist Services) Limited;
- Surehaven (Pembroke) Limited; and
- Surehaven Glasgow Limited.

Interest rates are fixed at rates ranging from 4.58% to 6.72% (ex cluding margin). The agreements expire between 30 September 2014 and 31 March 2035. The aggregate of the fair values of the agreements at 31 March 2011 was a liability of £5,878,000 (2010 – £6,162,000). The fair value of the agreement held by the parent company at 31 March 2011 was a liability of £796,000 (2010 – £848,000).

Burleys Wood,
West Sussex

30. DEFINED BENEFIT SCHEMES

The group participates in the following defined benefit pension schemes:

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

An approximate roll forward of the liabilities of the schemes as at 31 March 2011 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.

	2011	2010
Principal actuarial assumptions at the balance sheet date		
Discount rate	5.50%	5.75%
Price inflation	2.90%	3.40%
Rate of increase in salaries	3.10%	3.25%
Rate of increase for pensions in payment – current pensioners	2.90%	3.25%
Rate of increase for pensions in payment – current active and deferred members	2.90%	3.50%

The inflation assumption this year will be in line with the Consumer Prices Index (CPI) rather that the Retail Prices Index (RPI) as in previous years. This is as a result of the Emergency Budget announcement in June 2010.

	2011	2010
Post retirement mortality (life expectancy)		
Current pensioners age 65 – males	22.7	21.6
Current pensioners age 65 – females	25.6	24.8
Future pensioners age 65 (currently age 45) – males	25.0	23.2
Future pensioners age 65 (currently age 45) – females	28.0	26.4
Expected return on assets		
Equities	7.5%	7.5%
Bonds	5.5%	5.5%
Other bonds	5.5%	5.5%
Property	5.5%	5.5%
Cash	1.0%	1.0%
Other	4.0%	4.0%

	£'000	£'000
Amounts recognised in the balance sheet		
Fair value of scheme assets	22,606	21,049
Present value of scheme liabilities	(20,912)	(23,346)
Surplus/(deficit) in schemes	1,694	(2,297)
Pension assets not recognised in respect of schemes in surplus	(2,065)	(257)
Gross liability recognised	(371)	(2,554)
Related deferred tax asset	104	715
Net pension liability recognised	(267)	(1,839)

30. DEFINED BENEFIT SCHEMES (continued)

	2011 £'000	2010 £'000
Amounts recognised in the profit and loss account		
Current service cost	(697)	(717)
Past service cost	-	(3)
Pension cost recognised within operating costs	(697)	(720)
Interest cost	(1,281)	(1,062)
Expected return on scheme assets	1,448	992
Pension credit/(charge) recognised within interest receivable/(payable)	167	(70)
Total pension cost recognised	(530)	(790)
Actual return on assets over the period		
Actual return	(1,480)	(5,994)
Analysis of amount recognised in the statement of total recognised gains and losses		
Asset gain	33	5,001
Liability gain/(loss)	3,881	(6,690)
Pension assets not recognised in respect of schemes in surplus	(1,808)	(70)
	2,106	(1,759)
Deferred tax (liability)/asset	(590)	493
Actuarial gain/(loss) recognised	1,516	(1,266)
Changes in the fair value of scheme assets		
At 1 April	21,049	14,839
Expected return on scheme assets	1,448	992
Actuarial gain	33	5,001
Member contributions	208	241
Employer contributions	607	711
Benefits paid	(739)	(735)
At 31 March	22,606	21,049
Changes in the present value of scheme liabilities		
At 1 April	23,346	15,368
Interest cost	1,281	1,062
Current service cost	697	717
Member contributions	208	241
Actuarial (gain)/loss	(3,881)	6,690
Benefits paid	(739)	(735)
Past service cost	-	3
At 31 March	20,912	23,346

30. DEFINED BENEFIT SCHEMES (continued)

	2011	2010
Major categories of assets as a percentage of total assets		
Equities	78%	79%
Bonds	14%	14%
Property	5%	4%
Cash	2%	2%
Other	1%	1%
	100%	100%

Pension information for the parent company is not disclosed separately because the Shaw healthcare (Group) Pension Fund is a multi-employer scheme and therefore the assets and liabilities of the fund cannot be accurately allocated to the employees of Shaw healthcare (Group) Limited.

The estimated amount of employer contributions expected to be paid to the schemes during 2011/2012 is £760,000.

Defined contribution pension scheme

The group operates a defined contribution pension scheme for which the pension cost charge for the year amounted to £125,865 (2010 – £129,831). 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 £2,050 (2010 – £2,050).

31. RELATED PARTY TRANSACTIONS

During the year the group purchased consultancy services in the ordinary course of business from Hees International Capital Limited, a company controlled by K S Martin, a non-executive director of the group. The amount charged to the profit and loss account during the year in respect of these services was £60,000 (2010 – £86,000).

The company has taken advantage of the exemption in FRS8 not to disclose transactions between companies 100% controlled within the Shaw healthcare (Group) Limited group.

32. 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.

33. SUBSEQUENT EVENTS

Camden Homes for Older People project

On 28 June 2011 the project agreement between the parent company and the London Borough of Camden (LBC) in respect of the Camden Homes for Older People project was signed. Under this agreement, the parent company will build two 60-bed care homes and 35 extra-care flats, and provide residential, nursing and domiciliary care services in these facilities over a thirty year period. A payment was received from LBC on 17 August 2011 in reimbursement of development costs incurred before and after being awarded preferred bidder status on the project. Development costs incurred before being awarded preferred bidder status were charged to the profit and loss account in the prior year, and cash received in reimbursement of these costs will be credited to the profit and loss account for the year ending 31 March 2012. Costs incurred after being awarded preferred bidder status are included in debtors falling due within one year.

Company share option plan

The company granted 11,000,000 share options on 6 May 2011, the cost of which will be charged to the profit and loss account for the year ending 31 March 2012.

Redwood Care Centre

On 2 August 2011 the company took over the management of Redwood Care Centre, a 50-bed care home in Guildford, from Care UK Limited.