



Shaw healthcare (Group) Limited

Annual Report & Financial Statements

For the year ended **31 March 2020**

Registered number: 05391089



Shaw healthcare (Group) Limited

Annual Report & Financial Statements



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Officers and professional advisers

Directors

A Thomas, BA, FCA, Dr Economics (Hon) (Non Executive Chairman)
P J Nixey, MA (Oxon) (Chief Executive)
S D Hughes (resigned 9 May 2019)
R S Brown, BSc, ACMA, ATII
M J Smith (appointed 1 May 2019)
H M Black (Non Executive)
S J MacSorley (Non Executive) (appointed 1 April 2019)
E S Greenhalgh (Non Executive) (resigned 14 April 2020)
A J T Pilgrim (Non Executive)

Registered office

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

Principal bankers

Allied Irish Bank
19 Whiteladies Road
Clifton
Bristol
BS8 1PB

Solicitors

Blake Morgan LLP
One Central Square
Cardiff
CF10 1FS

Auditor

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

Actuary

Quantum Actuarial LLP
Cypress House
Pascal Close
Cardiff
CF3 0LW

Year at a glance



Turnover
£112.3 million
£99.6 million



Contracted income
£1.1 billion
£1.1 billion



Beds under management
2,549
2,098



Net debt
£32.9 million
£30.1 million



EBITDA
£6.7 million
£11.5 million



Net debt = 4.9
EBITDA = 2.6
multiple

Numbers in **red** represent 2020 figures

Numbers if **purple** represent 2019 figures

Strategic report

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

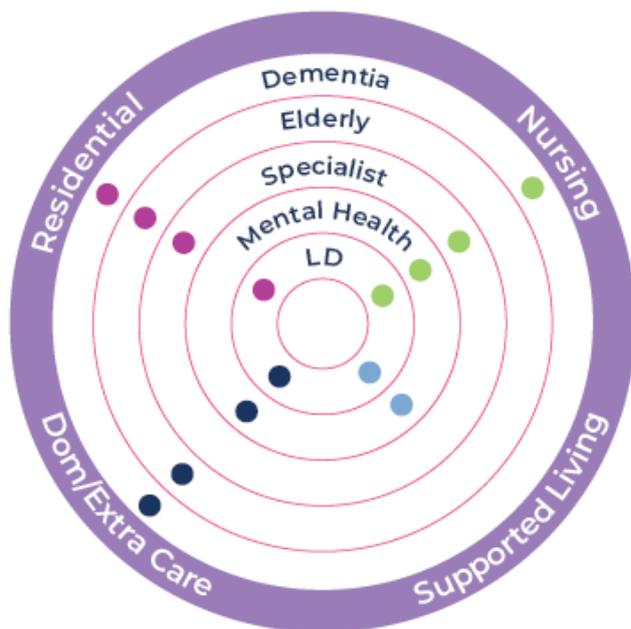
Business Model

Our purpose

To provide the quality of care that we would want for our loved ones, placing our service users at the centre of all we do.

What we do

What we do is driven by our purpose and informed by our core values. The principal activity of the company and the group is that of the provision of care services to individuals with a variety of needs.



LD - Learning Disabilities.

Dom - Domiciliary

A summary of our care services by region is displayed on pages 10 and 11.

Values

‘Wellness : Happiness : Kindness’



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

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

Strategic report (continued)

What makes us unique

Our specialist knowledge in care enables us to provide bespoke care packages based on the requirements of an individual. We can also provide a design, build and operate services for local authorities with care requirements including facilities management which promotes the dignity and flexibility in accommodating service user needs.

As an employee owned business employing close to 3,500 full and part time staff we aim to create long term value to our shareholders, many of whom are employees, whilst at the same time delivering high quality care to our service users.

Driven by the ethos to deliver “the quality of care we would want for our loved ones” and brand values of Wellness, Happiness and Kindness, we operate from 77 registrations including 51 care homes across England, Wales and Scotland delivering care to over 2,500 individuals. We enjoy strong relationships with Local Authorities and the NHS, from which we derive over half of our income through long-term contracts.

Key resources we rely on

We want to deliver excellent outcomes for all our stakeholders but to achieve that aim we rely on a number of resources which are key to our business model:

- People - Highly engaged employees to ensure a consistent and high quality of care
- Finance - Support from lenders to provide the capital needed to invest in care facilities
- Goods and Services - Reliable supply of goods and services to enable efficient operations
- Communities and Infrastructure - Local communities to embrace our services and make them feel part of the community

Strategic report (continued)

Review of the Business

Operational developments

Care provision for the elderly is approaching crisis point in the United Kingdom due to funding pressures and the rapid growth in demand caused by an ageing population and rising life expectancy. The population of over 85-year-olds has increased by almost a third over the last decade to over 1.5 million people, and is expected to double within the next 20 years further increasing the demand for dementia-related and other specialist care.

We undertook a restructure of the business during the period with a view to driving efficiencies in our operations and protecting us in what is a challenging market place. This resulted in some significant overhead reduction across head office functions and a move towards automation and more streamlined human resources processes. The changes include the services being responsible for key areas of delivery going forward such as new employee induction and mandatory training. The restructure also looked at the equity structure of the business and it was decided, having consulted with a number of stakeholder groups to form an employee ownership trust (EOT). The EOT has a trust board comprising of 5 trustees, 2 of whom are employee representatives which will hopefully ensure a clearer link and more transparency between the employees and the company/group going forward.

A new contract was signed with Poole Borough Council to open a flagship 80 bed dementia care home, funded and built by the Council and we also took over the running of 359 beds within 12 care homes across Powys on behalf of Powys County Council. During the period we also signed a lease with Liverpool City Council to operate two 60 bed dementia and special care homes in the City.

We continue to invest in our employees and a full review of pay and benefits was undertaken in order to reduce staff turnover and employee benefits were revamped with a focus on transparency and fairness. Sponsorship for employees to achieve QCF and NVQ qualifications has continued and our Learning and Development department continues to be accredited by national awarding bodies: City and Guilds, Pearson Edexcel and the Institute of Leadership and Management.

Strategic report (continued)

Care services and employees by region



Midlands & North West

	 Homes	 Beds	 Employees	 Day Care	 Supported Living	 Domiciliary Care	 Residential Housing
2019	26	926	1,260	657	1	86	86
2020	25	938	1,247	165	7	86	86

Wales & South West

	 Homes	 Beds	 Employees	 Day Care	 Supported Living	 Domiciliary Care	 Residential Housing
2019	8	219	340	50	43	-	295
2020	20	578	770	50	43	-	295

	 Employees
Head office	
2019	160
2020	141

Within the above numbers are three homes, 91 beds and 129 employees which are legally owned/employed by The Shaw Foundation Limited (2019: six homes, 163 beds and 249 employees). These homes are classed as deferred assets in the balance sheet, representing assets and contracts which were acquired from The Shaw Foundation Limited on 1 October 2006 but which did not transfer to the company on that date. The assets and contracts are expected to transfer in the future when specific conditions have been met. As the assets are transferred the employees will also transfer. Further information is included in note 11 to the financial statements. The above figures represent total employees at 31 March including both full-time and part-time employees.

Scotland

	 Homes	 Beds	 Employees	 Day Care	 Supported Living	 Domiciliary Care	 Residential Housing
2019	1	21	106	-	9	80	-
2020	1	21	72	-	9	-	-

London & South East

	 Homes	 Beds	 Employees	 Day Care	 Supported Living	 Domiciliary Care	 Residential Housing
2019	16	932	1,017	400	-	70	35
2020	16	932	1,046	400	-	68	35

South

	 Homes	 Beds	 Employees	 Day Care	 Supported Living	 Domiciliary Care	 Residential Housing
2019	-	-	80	-	-	200	-
2020	1	80	148	-	-	200	-

Total

	 Homes	 Beds	 Employees	 Day Care	 Supported Living	 Domiciliary Care ¹	 Residential Housing ²
2019	51	2,098	2,963	1,107	53	436	416
2020	63	2,549	3,424	615	59	354	416

¹ 1 unit = 10 care hours (per week)

² Within Residential Housing are 294 (2019:294) houses that are not used to deliver care services.

Strategic report (continued)

Key performance indicators

Financial	2020	2019	Change
EBITDA ¹	£6.7m	£11.5m	(£4.8m)
Profit before tax	£0.4m	£4.4m	(£4.0m)
Net debt	(£32.9m)	(£30.1m)	(£2.8m)
Free cash ²	£7.0m	£12.4m	(£5.4m)
Operational			
Services 'good' or above with regulator ³	86%	80%	6%
Services with registered manager ⁴	87%	83%	4%
Services with over 90% QoL score ⁶	22%	52%	(30%)

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.

There has been an increase in the percentage of services at 'good' or above with the regulator. Operational management continue to implement additional quality controls in order to address the increased scope of the inspections being undertaken by the regulators and during the period we re-calibrated our internal scoring measures accordingly. Our 'good' or above percentage in England stood at 79% compared with a national average of 80%.⁵ We have three services with individual CQC outstanding ratings and one service, The Hawthorns with an overall rating of Outstanding.

Financial performance

The financial performance of the group in 2020 was disappointing. Despite increased turnover during the year generated from new contracts, profit before tax reduced significantly to £0.4m (2019: £4.4m). The group's EBITDA reduced to £6.7m (2019: £11.5m), largely as a result of quality issues experienced at three care homes in our West Sussex region. The three homes attained Inadequate CQC ratings which resulted in admission embargoes and payment deductions for the period until the ratings were improved to Requires Improvement. Start-up losses were incurred on one of the group's new contracts. More generally, the group experienced further cost pressure from increased staff agency expenditure to cover shortages in care staff in a number of geographic areas of operations. Normalised profit which excludes exceptional items has been presented on the next page. Net debt increased to £32.9m after netting off deferred finance costs (2019: £30.1m), as the group's cash position was impacted by disappointing financial results. This represents 4.9 times EBITDA (2019: 2.6 times EBITDA).

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

² Free cash comprises non-ring-fenced cash.

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

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

⁵ Statistic from 'The state of health care and adult social care in England 2018/19' published by CQC in October 2019.

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

Strategic report (continued)

Financial performance (continued)

	2020 £ million	2019 £ million
Reported profit before tax	0.4	4.4
Movement on interest rate swaps	0.0	(0.5)
Revaluation of investment property	(2.3)	-
Restructuring costs	1.2	-
Normalised (loss)/profit before tax	(0.7)	3.9

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

	At 31 March 2020 £ million	At 31 March 2019 £ million
Total value	1,063	1,063

Future developments and events after the balance sheet date

Controlling labour costs (by improving employee retention and by reducing staff agency usage) and increasing market bed occupancy continue to be the group's immediate priorities. The latest increase in the National Living Wage to £8.72 per hour in April 2020 will result in a significant increase in company staff costs which we anticipate will be difficult to fully recover from our customers. In an attempt to mitigate the impact of this on the group's financial performance we continue to seek cost efficiencies in the business in addition to exploring ways of increasing the group's revenue where possible through low capital intensive investments.

On 11 May 2020, the group restructured its ordinary shareholder structure with the formation of an Employee Ownership Trust (EOT) with the vision of making the business truly 'employee owned'. The EOT now owns 51.0% of the ordinary share capital of Shaw healthcare (Group) Limited and the directors believe this provides an excellent platform to preserve the Group's independent status and also ensure that the business is run for the long-term benefit of its' employees. It also reinforces the operational restructure carried out during the year which sought to provide the services with more autonomy to control various aspects of their business operations.

The COVID-19 pandemic impacted the group significantly in April and May 2020 and we unfortunately lost 159 residents to this terrible disease. From a financial perspective we downgraded our budgeted profit after performing detailed modelling on various scenarios looking at the impact of COVID on key revenue streams and cost drivers. We also have been working hard with our contract partners to both ensure that we were accessing COVID support provided by central government but also to ensure our supply chain remained robust through the lockdown period.

In April 2020, both the convertible and non convertible preference shares totalling £9.2 million were converted into non convertible loan notes with a fixed coupon rate of 7.5%. On 14 September 2020 these were refinanced using £1.2 million of free cash reserves and an £8.0 million loan from the Shaw Foundation at a blended coupon rate of 6.1%.

Trading in the current year is higher than the equivalent period in the prior year. The quality issues experienced in 2019/20 have been addressed and the new business is starting to reach its steady state trading performance. The benefits of the restructure are being seen in the financial performance and contract variations have enabled us to recover additional costs from our partners in key areas. Despite some uncertainty around the overall impact of the COVID-19 pandemic on the financials as a whole, the group anticipates the full year 2020/21 normalised profit to be above that achieved in 2019/20.

Strategic report (continued)

Sustainability

Code of Conduct

We are dedicated to doing business in an ethical and transparent manner. The group's code of conduct and Anti-bribery and Corruption policy is based on this simple, fundamental value. All employees are expected to make decisions in line with our values and behaviours as set out in these policies. There is a whistleblowing hotline available to all members of staff and reports are investigated on a timely basis by members of the Executive team who report back to group board.

Modern slavery

We understand our role in trying to eradicate slavery or forced labour of any kind and our policy is published on our website. We are committed to only working with suppliers who can ensure that slavery do not take place in any of our supply chains.

Climate control

We are committed to tackling climate change and reducing our carbon footprint is a key priority for us. Further information on our energy usage and greenhouse gas emissions can be found in the directors report.

Health and safety governance

Our health and safety executive meet on a monthly basis and provide leadership, coordination and support for the delivery of the group's SHE objectives. Its tasks are to drive continuous SHE improvement across the group through setting and assessing rigorous standards set by our regulators as well as industry best practice expectations are met.

Information technology

Robust, secure and efficient Information Technology systems are vital to effective operations. We have a transformation programme focusing on mitigating operational and security risks whilst delivering cost effective services across the group.

Section 172 Statement

In accordance with the Companies Act 2006 for the year ended 31 March 2020, the directors provide the following statement describing how they have had regard to the matters set out in section 172 (1) of the Act, when performing their duty to promote the success of the company under section 172. Further details on key actions in this regard can also be found on pages 7, 8 and 13 of the Strategic report and page 20 of the directors report.

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies Miscellaneous Reporting Regulations 2018), the following section also provides details on how the directors have engaged with, and had regard to, the interest of our key stakeholders.

Stakeholder engagement

Effective engagement of stakeholder groups supports the principles of Section 172 of the Companies Act. Our success depends on forging and developing positive relationships with the stakeholders that have an interest in our business and may be impacted by the decisions we take. These stakeholders are at the heart of our strategic objectives and vision. The group identifies its key stakeholders through its strategic planning process and we engage with these stakeholders in a variety of ways, the feedback from whom informs the Board's deliberations. The needs of different stakeholders are always considered as well as the consequences of any decision in the long-term and the importance of our reputation for high standards of business conduct. It may not always be possible to provide a positive outcome for all stakeholders and the Board frequently has to make difficult decisions based on competing priorities. However, comprehensive engagement enables informed decision making taking into account the consequences for different stakeholders.

Strategic report (continued)

Stakeholder engagement (continued)



How we engage?					
Regular feedback sought through surveys, forums and meetings					
Face to face meetings and Exec visits with senior management					
Annual report and general meeting					
Suggestion scheme and regular CEO comms					
Open days and membership of bodies					
What do they care most about?					
Knowing their voice is heard					
Collaborative relationships ensuring everyone is treated fairly					
Creating and sustaining employment and being safe and ethical					
Financial discipline and clear strategy					
High level of personal care and excellent quality					
How do we respond?					
WHK magazine and intranet/internet					
Face to face meetings					
Transparency and equal opportunities					
Constructive use of AGM as forum to hear views and answer Qs					
Annual staff award ceremony and profit share scheme					

Strategic report (continued)

Stakeholder engagement (continued)

To enable and ensure stakeholder considerations are at the heart of all corporate decision making, a wide range of papers relating to different stakeholder groups are presented and discussed regularly by the Board. We engage in many different ways and the table above outlines our key stakeholder groups, how we are interacting with them and how they inform strategic decision making. It also provides examples of key strategic decisions made during the year and the Board engagement involved. You can read more about our strategic framework, purpose and vision on pages 3 and 4 of the strategic report.

Key Board decisions

In the current period, two key decisions were made which involved significant stakeholder engagement:

- The formation of an Employee Ownership Trust (EOT)
- The deferral of a final dividend payment for the year

In both cases, significant engagement with our stakeholders was carried out. The formation of an EOT was something most stakeholders supported - together with other restructuring changes that were being made it enabled the group to be truly 'employee owned' and protect this legacy for the future. It allows employees to have a greater say in the strategic direction of the company by having 2 employee representatives on the EOT trust board which oversees and engages with the group board on future strategic direction. The empowerment of employees was something that other stakeholder groups such as customers and supplier supported and the protection of the company's long terms values was well received by funders, regulators and communities alike. The long term benefits were collectively agreed as being a tighter more focused employee group all incentivised and working towards the same goal of creating value for all stakeholder groups.

The deferral of a final dividend was a decision that the board thought appropriate given the operational challenges that we faced during the period. In addition, with the uncertainty in managing the challenges associated with the COVID-19 pandemic which struck ahead of the financial year end and is continuing today it was decided that the money was better utilised through reinvestment in the business in the short term. This decision was supported by the group's principal bankers and the board's primary intention was to ensure that there was no risk that the business overstretched itself in a time of uncertainty. For the minority of shareholders who may be disappointed by this decision, the board are hopeful that this was a short term exceptional measure and that dividend payments will resume in 2021.

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties set out below are those which we believe to have the greatest potential to impact the group’s solvency and liquidity and achievement of strategic objectives.

Risk and Change from 2019	Potential impact	Key controls and mitigating factors
<p>Legislative changes impacting cost base</p> 	<p>The group is exposed to the risk of costs increasing in excess of inflation as a result of legislative changes introduced by the Government. This has included further increases to the National Living Wage which impacts our salary cost base by over £2m per annum but also continuing uncertainty over the impact of Brexit on our international supply of food, medical consumables and pharmaceuticals which could give rise to significant operational difficulties if either availability or prices increased substantially.</p>	<p>The directors attempt to mitigate the impact of these changes as far as possible by increasing revenue and operational efficiency. Strong relationships with key suppliers ensure continuity of supply contingencies are in place focused on sourcing more goods from the UK market where possible.</p> <p>The directors remain concerned as to how cost increases will be funded in the longer term as local authority and NHS fee uplifts are not tracking inflation.</p>
<p>Staffing and retention</p> 	<p>Staff shortages are a significant risk within the industry as a whole. Agency workers are required to fill the employment voids which increases our operating cost base. We also rely on significant numbers of skilled labour from overseas countries, particularly from fellow EU countries. Post-Brexit there are questions as to whether this will continue to be possible and if so whether the additional administration and cost of sourcing EU staff will make it uneconomic in practice.</p>	<p>The risk is mitigated as far as possible by paying market rates of pay and extensive training and development. The economic implications resulting from the impact of Brexit are largely beyond the control of the company but in terms of staff recruitment, programmes in non-EU states are underway in an attempt to maintain a source of overseas skilled labour.</p>
<p>Regulatory and contractual breaches</p> 	<p>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.</p>	<p>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. Contractual financial penalties in the form of revenue reductions totalled £0.8m in the period.</p>

Strategic report (continued)

Global pandemic



The COVID-19 pandemic impacted revenue recovery as death and an unwillingness to place loved ones into the sector reduced our occupancy. Medical consumable supply issues resulted in significant price rises for goods and staff and agency costs also increased.

Detailed contingency plans were developed in mid March to ensure consistency of supply and at fixed prices. Partnerships with local authorities have assisted to fund revenue loss and staff cost increases.

Poor occupancy



Over 40% of our income derives from the sale of bed places on the open market with the associated risk that sales of empty bed places fall below expectation, causing a drop in revenue and resultant pressure on cash flow. COVID-19 has further increased the risk of empty market beds with relatives understandably being reluctant to place loved ones into care homes whilst the pandemic continues without a vaccination in circulation.

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 has instigated robust infection control procedures to mitigate the risk of widespread COVID-19 infection as far as possible.

Political landscape



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, below inflationary increases were offered by many of our contract partners.

The risk is mitigated where possible by obtaining additional fees from our contract partners. The directors also look for commercial opportunities for diversification to lessen the impact of this risk on the business as a whole. Other financial risks are described in the Directors' report.

Revenue Recovery



The increasing frailty of elderly people referred in to the group's homes under its existing local authority and NHS contracts presents a significant risk of costs outgrowing revenues. As elderly people in our care homes become more frail, best practice obliges the group to provide more hours of care. However, the local authorities and NHS trusts which have contracted with the group to provide these elderly person care services are reluctant to pay more than the standard price agreed for the contract when the price was first determined by a competitive bid.

This risk is mitigated as far as possible through regular assessments of our residents' care needs, initiatives to continuously improve quality and efficiency of care delivery, and the development of strong relationships with our contract partners.

Approval

This report was approved by the Board of Directors on 24 September 2020 and signed on its behalf by:

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 2020. The following information has been disclosed in the Strategic report on page 7-18:

- Future developments and events after the balance sheet date
- Principal risks and uncertainties
- S172 statement and engagement with stakeholders

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 and also where mandated in loan agreements, this risk is managed through the use of interest rate swaps to fix rates 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.

Defined benefit schemes

As described in note 25, the group participated in five defined benefit schemes during the year which had a net pension liability of £1,467,000 at 31 March 2020 (2019: £1,853,000). 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 per ordinary share for the year (2019: 0.25p). No interim dividend has been recommended or paid (2019: £nil).

Directors

The directors who served during the year and subsequently are as shown on page 1.

Directors' report (continued)

Employee policy and engagement

The average number of employees in the group during the period is disclosed in note 6. Group companies operate within a framework of HR policies, practices and regulations appropriate to the care sector. Policies and procedures for recruitment, training and career development promote equality regardless of gender, age, sexual orientation, race or religion. We strive to build an inclusive culture and meaningful dialogue with our employees is actively encouraged.

Information on matters of concern to them as employees are provided regularly through our monthly WHK magazine, intranet notifications and weekly briefings in addition to more formal written communication from the board. Feedback is sought by means of annual 'your view' surveys together with regular service level pulse type questionnaires. Together with an employee suggestion scheme and a whistleblowing mailbox all feedback is taken seriously and shapes the strategy and policies at a board level.

Further information on employee engagement together with wider stakeholder engagement and how we respond to their needs can be found in the Section 172 statement within the strategic report.

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.

Energy and carbon reporting

We have reported on all sources of GHG emissions and energy usage as required under The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended.

GHG emissions and energy usage

GHG emissions and energy usage data for period 1 April 2019 to 31 March 2020		
	2020	2019
Emissions from combustion of gas (Scope 1 - tonnes of CO ₂ e)	5,405.12	N/A
Emissions from combustion of fuel for transport purposes (Scope 1 - tonnes of CO ₂ e)	416.99	N/A
Emissions from combustion of fuel for other purposes (Scope 1 - tonnes of CO ₂ e)	580.61	N/A
Emissions from electricity purchased for own use, including for the purposes of transport (Scope 2 - tonnes of CO ₂ e)	2,261.79	N/A
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3 - tonnes of CO ₂ e)	-	N/A
Total gross CO ₂ e based on above	8,664.51	N/A
Energy consumption used to calculate emissions - kwh	42,255,619	N/A
Chosen intensity measurement - tonnes of CO ₂ e per £m of revenue	77.14	N/A

We are committed to taking action to tackle climate change. We completed the UK government required Energy Saving Obligations Scheme audits and identified potential energy costs savings. Emission reduction projects including lighting upgrades, more efficient equipment and behavioural change campaigns are all underway.

Directors' report (continued)

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.

The recent COVID-19 pandemic has been considered as part of the assessment including amending the 2020/21 forecast as described in the strategic report to consider reasonable financial downside scenarios together with limited cost upsides. The scenarios considered revenue decreases both from our market beds but also our property rental portfolio including debtor recoverability issues. Cost increases linked to staffing (sickness, cohorting and increased demand on third party agency staff), PPE and price increases for high demand products such as medical consumables were also included. Cost upsides were restricted to reduced property spend due to planned maintenance programmes needing to be delayed.

To date, we have not observed any material adverse impact on our financial performance due to COVID-19 and are not expecting this to change over the forecast period under review. The resilience of the business is underpinned by a large proportion of contracted revenue and strong relationships with local authorities who have assisted with the additional cost burden of COVID-19 linked to PPE, sickness and agency staff.

A description of the non COVID-19 key judgements supporting the adoption of the going concern basis can be found in note 1 to the financial statements.

Auditor

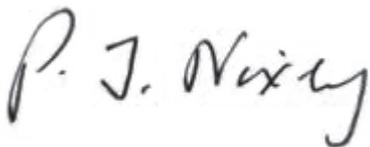
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company and the group'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 and the group's auditor is aware of that information.

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

Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of directors on 24 September 2020 and signed on its behalf by:



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 and group will continue in business.

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

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

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

Opinion

We have audited the financial statements of Shaw healthcare (Group) Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2020, which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and the parent company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and the parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group or a parent company associated with these particular events.

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

Emphasis of matter - property valuation

We draw attention to the impairment of tangible fixed assets note and the fair value of investment properties note within Note 2 to the financial statements, which describes the basis for valuing the investment property portfolio with a carrying value of £19,400,000 and certain tangible fixed assets with a carrying value of £3,489,000. The directors appointed separate independent experts to determine the fair value of:

- the investment property portfolio; and
- certain tangible fixed assets, as part of their impairment reviews

Both of the independent experts' valuations included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the directors' valuations of the investment property portfolio and certain tangible fixed assets than would normally be the case. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the group and parent company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group and the parent company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns;

or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Rhian Owen BSc FCA

Senior statutory auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Cardiff

24 September 2020

Consolidated profit and loss account

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	3	112,320	99,636
Operating costs		(95,735)	(78,578)
Exceptional operating costs	5	(380)	-
Gross profit		16,205	21,058
Administrative expenses		(12,961)	(12,476)
Exceptional administrative expenses	5	(834)	-
Operating profit		2,410	8,582
Gain arising on revaluation of investment property	12	2,251	-
Finance costs (net)	4	(4,255)	(4,172)
Profit before taxation	5	406	4,410
Tax on profit	8	(1,198)	(1,381)
(Loss)/Profit for the financial year		(792)	3,029

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

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
(Loss)/Profit for the financial year		(792)	3,029
Remeasurement of net defined benefit liability	25	595	188
Tax relating to components of other comprehensive income		(76)	(31)
Other comprehensive income		519	157
Total comprehensive income		(273)	3,186

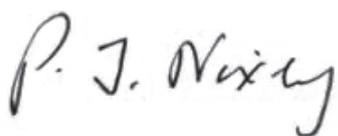
Consolidated balance sheet

At 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Intangible assets - goodwill	10	953	1,089
Deferred assets	11	565	737
Tangible assets	12	80,298	77,781
		81,816	79,607
Current assets			
Debtors			
- due within one year	14	5,470	4,020
- due after one year	14	279	315
Cash at bank and in hand		32,912	39,695
		38,661	44,030
Creditors: amounts falling due within one year	15	(17,617)	(15,971)
Net current assets		21,044	28,059
Total assets less current liabilities		102,860	107,666
Creditors: amounts falling due after more than one year	16	(72,541)	(77,827)
Provisions for liabilities	19	(6,998)	(6,087)
Net assets		23,321	23,752
Capital and reserves			
Called-up share capital	22	50	50
Other reserve	22	849	796
Equity reserve	22	502	502
Profit and loss account	22	21,920	22,404
Shareholders' funds		23,321	23,752

The financial statements of Shaw healthcare (Group) Limited, registered number 05391089, were approved by the Board of directors and authorised for issue on 24 September 2020.

They were signed on its behalf by:



P J Nixey

Chief Executive



R S Brown

Chief Financial Officer

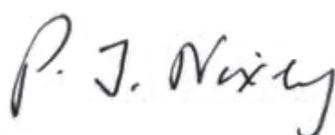
Company balance sheet

At 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Deferred assets	11	565	737
Tangible assets	12	23,743	19,349
Investments	13	5,313	4,963
		29,621	25,049
Current assets			
Debtors			
- due within one year	14	5,392	4,447
- due after one year	14	10,943	10,676
Cash at bank and in hand		4,057	7,047
		20,392	22,170
Creditors: amounts falling due within one year	15	(5,318)	(3,826)
Net current assets		15,074	18,344
Total assets less current liabilities		44,695	43,393
Creditors: amounts falling due after more than one year	16	(13,125)	(13,623)
Provisions for liabilities	19	(3,404)	(2,464)
Net assets		28,166	27,306
Capital and reserves			
Called-up share capital	22	50	50
Other reserves	22	436	436
Equity reserve	22	502	502
Profit and loss account	22	27,178	26,318
Shareholders' funds		28,166	27,306

The profit for the financial year dealt with in the financial statements of the parent company was £1,013,000 (2019: £635,000). The profit for the year included an exceptional provision against debtors of £82,000 (2019: £1,174,000), and other exceptional costs of £1,214,000 (2019: £nil) as detailed in note 5. As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

The financial statements of Shaw healthcare (Group) Limited, registered number 05391089, were approved by the Board of directors and authorised for issue on 24 September 2020. They were signed on its behalf by:



P J Nixey

Chief Executive



R S Brown

Chief Financial Officer

Consolidated statement of changes in equity

At 31 March 2020

	Called-up share capital £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2018	50	743	502	19,411	20,706
Profit for the financial year	-	-	-	3,029	3,029
Remeasurement of net defined benefit liability	-	-	-	188	188
Tax relating to items of other comprehensive income	-	-	-	(31)	(31)
Total comprehensive income	-	-	-	3,186	3,186
Transfer between reserves		53	-	(53)	-
Dividends paid on equity shares	-	-	-	(170)	(170)
Credit to equity for equity-settled share-based payment	-	-	-	30	30
At 31 March 2019	50	796	502	22,404	23,752
Loss for the financial year	-	-	-	(792)	(792)
Remeasurement of net defined benefit liability	-	-	-	595	595
Tax relating to items of other comprehensive income	-	-	-	(76)	(76)
Total comprehensive income	-	-	-	(273)	(273)
Transfer between reserves	-	53	-	(53)	-
Dividends paid on equity shares	-	-	-	(171)	(171)
Credit to equity for equity-settled share-based payment	-	-	-	13	13
At 31 March 2020	50	849	502	21,920	23,321

Company statement of changes in equity

At 31 March 2020

	Called-up share capital £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2018	50	436	502	25,820	26,808
Profit for the financial year	-	-	-	635	635
Re-measurement of net defined benefit liability	-	-	-	3	3
Tax relating to items of other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	638	638
Transfer between reserves	-	-	-	-	-
Dividends paid on equity shares	-	-	-	(170)	(170)
Credit to equity for equity-settled share-based payment	-	-	-	30	30
At 31 March 2019	50	436	502	26,318	27,306
Profit for the financial year	-	-	-	1,013	1,013
Remeasurement of net defined benefit liability	-	-	-	6	6
Tax relating to items of other comprehensive income	-	-	-	(1)	(1)
Total comprehensive income	-	-	-	1,018	1,018
Transfer between reserves	-	-	-	-	-
Dividends paid on equity shares	-	-	-	(171)	(171)
Credit to equity for equity-settled share-based payment	-	-	-	13	13
At 31 March 2020	50	436	502	27,178	28,166

Consolidated cash flow statement

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Net cash flows from operating activities	23	4,868	9,251
Cash flows from investing activities			
Purchase of tangible fixed assets		(3,388)	(844)
Sale of tangible fixed assets		222	-
Interest received		108	78
Net cash flows from investing activities		(3,058)	(766)
Cash flows from financing activities			
Repayments of borrowings		(4,324)	(8,469)
Interest paid		(4,269)	(4,250)
Net cash flows from financing activities		(8,593)	(12,719)
Net decrease in cash and cash equivalents		(6,783)	(4,234)
Reconciliation to cash at bank and in hand:			
Opening balance		39,695	43,929
Net decrease in the year		(6,783)	(4,234)
Closing balance		32,912	39,695

Notes to the financial statements

For the year ended 31 March 2020

1. Accounting policies

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

a. General information and basis of accounting

Shaw healthcare (Group) Limited is a private company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in Wales. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the strategic report on pages 7 to 18.

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

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

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

For the year ended 31 March 2020, Shaw healthcare (Brentry) Limited, company house number 06898750, was entitled to exemption from audit under S479A of the Companies Act 2006 relating to subsidiary companies.

b. Basis of consolidation

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

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

c. Going concern

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

Over 50% of the group's operating income derives from long-term contracts with local authorities and NHS trusts, and is therefore secure. Most of the remainder derives from the sale of bed places on the open market, with the associated risk that sales of empty bed places fall below expectation, causing a drop in revenue and resultant pressure on cash flow. The directors have mitigated this risk by developing a sales and marketing strategy across the group and ensuring that adequate management time and resources are devoted to its implementation.

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

c. Going concern (continued)

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

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

The care facility operated by Shaw (Pembroke) Specialist Services Limited has remained closed during the year ended 31 March 2020 and the care facility operated by Surehaven (Pembroke) Limited reported operating losses for the year due to the facility not achieving the level of occupancy that was expected. This resulted in potential breaches of the combined banking covenants, incorporating the results of Shaw (Pembroke) Specialist Services Limited, when tested on a quarterly basis. The company's bankers have issued covenant deferral letters in respect of their covenant tests and the directors consider it likely that further covenant deferral letters will be issued by the bank in the future. Whilst these circumstances create uncertainties over the availability of finance, the company can rely on short-term support from the group to meet operating cash flow requirements, and written letters of support for the period 12 months after the date of signing the audit report, to this effect, have been received from subsidiaries of Shaw healthcare (Group) Limited. The group's formal commitment is to guarantee loan interest but not capital repayments.

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

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

At 31 March 2020 the group held £7,000,000 of cash outside ring-fenced companies, and in total held £32,912,000 of cash (2019: £12,406,000 and £39,695,000 respectively). The strong cash position has been achieved as a result of continued tight control of working capital which gives the group the flexibility to address its business risks, reduce its indebtedness and invest in suitable new opportunities.

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.

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.

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

e. *Deferred assets*

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

f. *Tangible fixed assets*

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

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

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

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

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

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

g. *Financial instruments*

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

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

(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.

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

g. Financial instruments (continued)

(i) Financial assets and liabilities

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

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

g. Financial instruments (continued)

(ii) Investments

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

(iii) Equity instruments

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

(iv) Convertible financial instruments

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

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

(v) Derivative financial instruments

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

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

(vi) Fair value measurement

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

h. Impairment of assets

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

Non-financial assets

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

h. Impairment of assets (continued)

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

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

Financial assets

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

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

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

i. Taxation

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

i. Taxation (continued)

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

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

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

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

j. Turnover

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

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

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

k. Employee benefits

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

l. Foreign currency

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

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

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

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

m. Leases

The group as lessee

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

The group as lessor

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

n. Borrowing costs

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

o. Share-based payment

Company share option plan

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. Accounting policies (continued)

p. Provisions

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

q. Development contracts and stocks

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

Defined benefit pension scheme

The group contributes to a number of defined benefit pension schemes. The accounting cost of these benefits and the present value of the pension liabilities involve judgements about uncertain events including such factors as the life expectancy of the members, the salary progression of current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. Estimates are used for all of these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and judgement regarding future expectations and external actuarial specialists are also used to assist in this exercise. The value of the net pension liability as at the balance sheet date was £1,467,000 (2019: £1,853,000).

Impairment of tangible assets

Tangible fixed assets are reviewed for impairment at each balance sheet date if impairment indicators have been identified. When a review for impairment is conducted, the recoverable amount of the asset is compared to the carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Value in use calculations are prepared based on management's assumptions and estimates for future revenue, operating cost inflation and discount rates. The value-in-use calculations require judgement in relation to these uncertain items. 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.

Notes to the financial statements (continued)

For the year ended 31 March 2020

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of tangible fixed assets (continued)

Independent experts are appointed to determine the fair value of assets. The directors appointed Christie & Co as an independent expert to independently value tangible fixed assets for the impairment reviews. As a result of the Covid-19 pandemic's impact on global financial markets, and the unprecedented set of circumstances, the independent expert's valuation included a 'material valuation uncertainty' in accordance with RICS guidance and as per VPS 3 and VPGA 10 of the RICS Red Book Global. The directors have considered the material valuation uncertainty included in the independent expert's report, and while less certainty and a higher degree of caution needs to be attached to the valuation, the valuation can still be relied upon. The directors therefore consider the valuation included in the independent expert's report to be an accurate reflection of the tangible fixed asset fair values.

Fair value of Investment Properties

The directors appointed Bruton Knowles LLP as an independent expert to independently value our Investment Property portfolio of £19,400,000 as at year-end.

As a result of the Covid-19 pandemic's impact on global financial markets, and the unprecedented set of circumstances, the independent expert's valuation included a 'material valuation uncertainty' in accordance with RICS guidance and as per VPS 3 and VPGA 10 of the RICS Red Book Global. The directors have considered the material valuation uncertainty included in the independent expert's report, and while less certainty and a higher degree of caution needs to be attached to the valuation, the valuation can still be relied upon. The directors therefore consider the valuation included in the independent expert's report to be an accurate reflection of the investment property fair value.

Notes to the financial statements (continued)

For the year ended 31 March 2020

3. Turnover and revenue

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

Turnover	2020 £'000	2019 £'000
Care home residential fees	100,063	85,986
Domiciliary care fees	3,384	3,265
Housing and management services fees	5,075	5,831
Service contract income	2,648	2,604
Other income	1,092	1,884
Property sales	58	66
	112,320	99,636

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

Turnover	2020 £'000	2019 £'000
United Kingdom	112,291	99,458
China	29	178
	112,320	99,636

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

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

Turnover	2020 £'000	2019 £'000
Turnover	112,320	99,636
Investment income	99	78
	112,419	99,714

Notes to the financial statements (continued)

For the year ended 31 March 2020

4. Finance costs (net)

	2020 £'000	2019 £'000
Interest payable and similar charges	4,355	4,250
Less: Investment income (see note 20)	(99)	(78)
Other finance costs	(1)	-
	4,255	4,172

	2020 £'000	2019 £'000
Investment income		
Other interest receivable and similar income	99	78

	2020 £'000	2019 £'000
Interest payable and similar charges		
Bank loans and overdrafts (see note 20)	3,676	4,023
Preference share dividends	705	698
Movement on interest rate swaps	(26)	(471)
	4,355	4,250

	2020 £'000	2019 £'000
Other finance costs (income)		
Net interest on defined benefit liability (see note 25)	(1)	-

Notes to the financial statements (continued)

For the year ended 31 March 2020

5. Profit before taxation	2020 £'000	2019 £'000
Profit before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets (note 12)	2,946	2,755
Amortisation of goodwill (note 10)	136	136
Impairment of trade debtors	69	50
Operating lease rentals	1,608	1,222
Loss on disposal of fixed assets	126	20
Exceptional costs:		
- costs associated with termination of Redhill lease	407	-
- costs associated with closure of Beech Close	21	-
- costs associated with staff reorganisation	654	-
- costs associated with the Employee Ownership Trust	132	-

Depreciation of tangible fixed assets is included in administrative expenses.

Amortisation of intangible fixed assets is included in administrative expenses.

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

	2020 £'000	2019 £'000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	20	17
Fees payable to the company's auditor and its associates for other services to the group		
The audit of the company's subsidiaries	62	61
Total audit fees	82	78
Audit related assurance services	1	-
Total audit and assurance fees	83	78
Fees payable to the company's auditor and its associates in respect of accounts production	13	13

No services were provided pursuant to contingent fee arrangements.

Notes to the financial statements (continued)

For the year ended 31 March 2020

6. Staff numbers and costs

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

	Group		Company	
	2020 Number	2019 Number	2020 Number	2019 Number
Provision of care and related services	3,365	2,946	1,336	710
Administration	244	271	187	190
	3,609	3,217	1,523	900

Their aggregate remuneration comprised:

	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Wages and salaries	63,516	51,187	28,345	18,073
Social security costs	4,470	3,600	2,157	1,491
Other pension costs	1,392	956	605	321
Share based payment (note 9)	13	30	13	30
	69,391	55,773	31,120	19,915

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

7. Directors' remuneration and transactions

	2020 £'000	2019 £'000
Directors' remuneration		
Emoluments	857	741
Sums paid to third parties in respect of director services	18	18
Contributions to money purchase pension schemes	31	40
Compensation for loss of office	172	-
	1,078	799

	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	3	2
Exercised options over shares in the company	-	-
Had awards receivable in the form of shares under a long-term incentive scheme	-	-

	2020 £'000	2019 £'000
Remuneration of the highest paid director:		
Emoluments	271	251
Company contributions to money purchase schemes	-	-

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

8. Tax on profit

The tax charge comprises:

	2020 £'000	2019 £'000
Current tax on profit		
UK corporation tax	42	1,237
Adjustments in respect of prior years	(9)	(1)
Total current tax	33	1,236
Deferred tax		
Origination and reversal of timing differences	1,140	145
Adjustments relating to prior years	25	-
Total deferred tax	1,165	145
Total tax on profit	1,198	1,381

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

	2020 £'000	2019 £'000
Group profit before tax	406	4,410
Tax on group profit at 19% (2019: 19%)	77	838
Effects of:		
- Expenses not deductible for tax purposes	624	223
- Ineligible depreciation	-	333
- Effect of changes in tax rate	498	4
- Non-taxable income	(3)	(3)
- Adjustments to tax charge in respect of previous years	16	(1)
- Deferred tax not provided	3	-
- Other timing differences	(17)	(13)
Group total tax charge for year	1,198	1,381

Taxable losses of £1,481,000 (2019: £1,484,000) have been carried forward to set off against future profits.

The standard rate of tax applied to profit is 19% (2019: 19%).

A deferred tax asset of £165,000 (2019: £163,000) has not been recognised in respect of tax losses carried forward and short-term timing differences. This asset has not been recognised as there is insufficient evidence that the asset can be utilised in the foreseeable future.

Notes to the financial statements (continued)

For the year ended 31 March 2020

9. Share-based payments

Equity-settled share option schemes

The company recognised share-based payments/charges in the year amounting to £13,000 (2019: £30,000) in respect of its equity-settled company share option plan.

Equity-settled company share option plan

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

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

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

	2020		2019	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	7,425,000	0.064	9,575,000	0.059
Granted during the period	-	-	-	-
Forfeited during the period	(2,500,000)	0.085	(1,150,000)	0.074
Exercised during the period	(1,200,000)	0.004	(1,000,000)	0.004
Expired during the period	(500,000)	0.004	-	-
Outstanding at the end of the period	3,225,000	0.08	7,425,000	0.064
Exercisable at the end of the period	3,225,000	0.08	7,425,000	0.048

In the year no share options were granted (2019: 0).

Notes to the financial statements (continued)

For the year ended 31 March 2020

10. Intangible fixed assets - goodwill

Group	£'000
Cost	
At 1 April 2019 and 31 March 2020	3,534
Amortisation	
At 1 April 2019	2,445
Charge for the year	136
At 31 March 2020	2,581
Net book value	
At 31 March 2020	953
At 31 March 2019	1,089

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

11. Deferred assets

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

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

Deferred assets amounting to £565,000 (2019: £737,000) are included under fixed assets.

Notes to the financial statements (continued)

For the year ended 31 March 2020

12. Tangible fixed assets

Group	Investment properties £'000	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Capitalised development costs £'000	Furniture and equipment £'000	Total £'000
Cost or valuation						
At 1 April 2019	17,199	60,281	28,874	823	7,512	114,689
Additions	-	2,115	-	-	1,273	3,388
Revaluations	2,251	-	-	-	-	2,251
Disposals	-	(309)	-	-	(303)	(612)
Transfer	(50)	50	-	-	-	-
At 31 March 2020	19,400	62,137	28,874	823	8,482	119,716
Depreciation						
At 1 April 2019	-	18,478	12,080	317	6,033	36,908
Charge for the year	-	921	1,356	32	637	2,946
Disposals	-	(192)	-	-	(244)	(436)
At 31 March 2020	-	19,207	13,436	349	6,426	39,418
Net book value						
At 31 March 2020	19,400	42,930	15,438	474	2,056	80,298
At 31 March 2019	17,199	41,803	16,794	506	1,479	77,781

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £8,929,000 (2019: £8,946,000). Capitalised finance costs written off in the profit and loss account during the year amounted to £248,000 (2019: £248,000). Such costs are included within land and buildings.

Freehold land and buildings include £8,263,000 (2019: £6,748,694) of land which is not depreciated.

Investment properties

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

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

At the balance sheet date, if the investment properties had not been revalued they would have been included at a net book value of £1,004,000 (2019: £1,062,000)

Notes to the financial statements (continued)

For the year ended 31 March 2020

12. Tangible fixed assets (continued)

Company	Investment properties £'000	Freehold land and buildings £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation				
At 1 April 2019	17,199	1,711	2,275	21,185
Additions	-	1,997	822	2,819
Revaluations	2,251	-	-	2,251
Disposals	-	(191)	(160)	(351)
Transfer	(50)	50	-	-
At 31 March 2020	19,400	3,567	2,937	25,904
Depreciation				
At 1 April 2019	-	444	1,392	1,836
Charge for the year	-	94	481	575
Disposals	-	(146)	(104)	(250)
At 31 March 2020	-	392	1,769	2,161
Net book value				
At 31 March 2020	19,400	3,175	1,168	23,743
At 31 March 2019	17,199	1,267	883	19,349

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £484,000 (2019: £406,000). Capitalised finance costs of £25,000 were expensed to the profit and loss account during the year (2019: £20,000).

Freehold land and buildings include £1,922,000 (2019: £362,000) of land which is not depreciated.

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

13. Fixed asset investments

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2019	5,814
Additions	478
Disposals	-
At 31 March 2020	6,292
Provision for impairment	
At 1 April 2019	851
Charge for the year	128
Disposals	-
At 31 March 2020	979
Net book value	
At 31 March 2020	5,313
At 31 March 2019	4,963

Notes to the financial statements (continued)

For the year ended 31 March 2020

13. Fixed asset investments (continued)

Group investments

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

13. Fixed asset investments (continued)

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

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

All subsidiary undertakings have been included in the consolidation and share the same registered address as the parent company which is as noted on page 5.

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

14. Debtors

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Amounts falling due within one year:				
Trade debtors	3,610	2,182	1,074	550
Amounts owed by group undertakings	-	-	3,712	2,888
Amounts owed by related parties	104	387	42	349
Other taxation and social security	-	-	53	20
Other debtors	360	253	87	54
Prepayments and accrued income	1,129	1,198	424	586
Tax recoverable	267	-	-	-
	5,470	4,020	5,392	4,447
Amounts falling due after more than one year:				
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Deferred tax	279	315	-	-
Amounts owed by group undertakings	-	-	10,943	10,676
	279	315	10,943	10,676

Trade debtors are stated net of provisions totalling £232,000 (2019: £167,000).

Amounts owed to the parent company by group undertakings comprise 10 (2019: 10) loans repayable in instalments over periods from 4 to 20 years, and 8 (2019: 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 2% to 15%. Loans receivable constitute financing transactions and are measured at the present value of the future cash flows, discounted at a market rate of interest.

Amounts owed by group undertakings are stated net of provisions totalling £10,763,000 (2019: £10,681,000).

Notes to the financial statements (continued)

For the year ended 31 March 2020

15. Creditors - amounts falling due within one year

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank loans and overdrafts (see note 17)	4,086	3,991	511	480
Other loans (see note 17)	158	143	11	10
Trade creditors	2,166	2,454	881	674
Amounts owed to related parties	1	-	-	-
Amounts owed to group undertakings	-	-	21	7
Corporation tax	-	738	-	273
Other taxation and social security	1,931	1,840	525	367
Other creditors	3,263	792	1,120	74
Accruals and deferred income	6,012	6,013	2,249	1,941
	17,617	15,971	5,318	3,826

16. Creditors - amounts falling due after more than one year

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank loans (note 17)	50,410	54,523	3,478	4,019
Other loans (note 17)	2,457	2,615	310	320
Other creditors	314	1,371	-	-
Accruals and deferred income	2,851	2,913	-	-
Debt component of preference shares	8,675	8,545	8,675	8,545
Derivative financial instruments (see note 21)	7,834	7,860	662	739
	72,541	77,827	13,125	13,623

Notes to the financial statements (continued)

For the year ended 31 March 2020

17. Borrowings

Borrowings are repayable as follows:

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank loans				
Between one and two years	4,196	4,087	546	511
Between two and five years	13,405	13,042	1,857	1,744
After five years	32,809	37,394	1,075	1,764
On demand or within one year	4,086	3,991	511	480
	54,496	58,514	3,989	4,499

A total of 10 (2019: 10) bank loans are secured over 25 (2019: 25) separate properties in addition to the group's remaining portfolio of residential houses in South Wales and its associated bank account. The loans are repayable in instalments over periods from one to 21 years. Interest charged during the year ranged from 2.54% to 6.72%. The loans are due to be repaid between 2020 and 2036.

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Other loans				
Between one and two years	172	158	10	11
Between two and five years	623	570	40	38
After five years	1,662	1,887	260	271
On demand or within one year	158	143	11	10
	2,615	2,758	321	330

A total of 4 (2019: 4) other loans are secured over 4 (2019: 4) separate properties and are repayable in instalments over periods from one to 18 years. Interest charged during the year ranged from 2.75% to 8.7%. The loans are due to be repaid between 2020 and 2038.

Notes to the financial statements (continued)

For the year ended 31 March 2020

17. Borrowings (continued)

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Preference shares				
After five years	8,675	8,545	8,675	8,545

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

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

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Total borrowings				
Due after more than one year	61,542	65,683	12,463	12,884
On demand or within one year	4,244	4,134	522	490
	65,786	69,817	12,985	13,374

The bank loans are stated net of deferred finance costs of £1,561,000 (2019: £1,686,000). These costs will be allocated to the profit and loss account over the term of the loan. Deferred finance costs written off during the year amounted to £125,000 (2019: £190,000).

Notes to the financial statements (continued)

For the year ended 31 March 2020

18. Convertible preference shares

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

	2020 £'000	2019 £'000
Liability brought forward	3,884	3,796
Interest charged	305	298
Interest paid	(210)	(210)
Liability component at 31 March	3,979	3,884

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

19. Provisions for liabilities

	Deferred taxation £'000	Dilapidation provision £'000	Pension deficit (note 25) £'000	Total £'000
Group				
At 1 April 2019	4,032	202	1,853	6,087
Charged to profit and loss account	1,202	95	209	1,506
Credited to other comprehensive income	-	-	(595)	(595)
At 31 March 2020	5,234	297	1,467	6,998

	Deferred taxation £'000	Dilapidation provision £'000	Other £'000	Total £'000
Company				
At 1 April 2019	2,262	202	-	2,464
Charged to profit and loss account	845	95	-	940
At 31 March 2020	3,107	297	-	3,404

Notes to the financial statements (continued)

For the year ended 31 March 2020

19. Provisions for liabilities (continued)

Deferred tax

Deferred tax is provided as follows:

	2020 £'000	2019 £'000
Group		
Accelerated capital allowances	3,757	2,945
Potential gain on property revaluation	3,152	2,429
Tax losses available	(116)	(90)
Other timing differences	(1,559)	(1,567)
Provision for deferred tax	5,234	3,717
<i>Analysis of net deferred tax position</i>		
Deferred tax asset relating to defined benefit pension (see note 14)	(279)	(315)
Deferred tax liability	5,234	4,032
	4,955	3,717
Company		
Depreciation in excess of capital allowances	102	(23)
Potential gain on property revaluation	3,152	2,429
Other timing differences	(147)	(144)
Provision for deferred tax	3,107	2,262

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

Dilapidation provision

The dilapidation provision relates to three leasehold properties. Under the terms of the leases, repair work will have to be undertaken, in addition to that charged to the profit and loss account, in order to maintain the properties to the required standard, as requested by the lessor. The provision is expected to unwind over the next 3-10 years.

Defined benefit scheme liability

The provision for the defined benefit scheme liability is discussed in greater detail in note 25. The provision is expected to unwind over the next 3-10 years.

Notes to the financial statements (continued)

For the year ended 31 March 2020

20. Financial instruments

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

	2020 £'000	2019 £'000
Financial assets		
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 14)	4,074	2,510
Financial liabilities		
Measured at amortised cost		
- Loans payable (see note 16 ,17)	57,111	61,272
- Preference shares (see note 16 ,17)	8,675	8,545
Measured at fair value through profit and loss		
- Derivative financial instruments (see note 21)	7,834	7,860
- Convertible preference shares (see note 18)	3,979	3,884
Measured at undiscounted amount payable		
- Trade and other creditors (see note 15, 16)	5,744	4,617
	83,343	86,178

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

	2020 £'000	2019 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost (see note 4)	(99)	(78)
Total interest expense for financial liabilities at amortised cost (see note 4)	4,381	4,721
Movement on interest rate swaps (see note 4)	(26)	(471)

Notes to the financial statements (continued)

For the year ended 31 March 2020

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	
2020 £'000	2019 £'000	2020 £'000	2019 £'000
30,930	33,670	(7,834)	(7,860)

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

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

Interest rates are fixed at rates ranging from 4.58% to 6.72% (excluding margin). The agreements expire between 30 June 2022 and 31 March 2035. The fair value of the agreement held by the parent company at 31 March 2020 was a liability of £662,000 (2019: £739,000).

Notes to the financial statements (continued)

For the year ended 31 March 2020

22. Called-up share capital and reserves

	2020 £'000	2019 £'000
Allotted, called-up and fully-paid		
100 million ordinary shares of £0.0005 each	50	50
5 million 8% A preference shares of £0.01 each	-	-
4.2 million 5% B preference shares of £0.0014 each	-	-

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

The convertible and non-convertible preference shares are presented as a liability with an equity component classified as an equity reserve (see note 18) and accordingly are excluded from called-up share capital in the balance sheet.

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2020

23. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2020 £'000	2019 £'000
Operating profit	2,410	8,582
Adjustment for:		
Depreciation and amortisation	3,082	2,891
Loss on disposal of fixed assets	126	-
Share-based payment expense	13	30
UK corporation tax paid	(1,038)	(1,705)
Operating cash flow before movement in working capital	4,593	9,798
(Increase)/decrease in debtors	(1,183)	713
Increase/(decrease) in creditors	1,154	(1,384)
Increase in provisions	95	124
Adjustment for pension funding	209	-
Cash generated by operations	4,868	9,251

Restrictions on cash and cash equivalents

Cash at bank and in hand as at 31 March 2020 includes £24,892,000 (2019: £27,289,000) held in ring-fenced companies.

Analysis of changes in net debt:

	At 1 April 2019 £'000	Cash flows £'000	At 31 March 2020 £'000
Cash at bank and in hand	39,695	(6,783)	32,912
Debt due within one year	(4,134)	(110)	(4,244)
Debt due after more than one year	(65,683)	4,141	(61,542)
	(30,122)	(2,752)	(32,874)

Notes to the financial statements (continued)

For the year ended 31 March 2020

24. Financial commitments

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

	2020		2019	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Group				
- within one year	414	355	784	341
- between one and five years	3,352	556	2,100	509
- after five years	3,208	-	1,380	-
	6,974	911	4,264	850
Company				
- within one year	414	120	784	81
- between one and five years	3,352	246	2,100	190
- after five years	3,208	-	1,380	-
	6,974	366	4,264	271

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 which was effective until 30 September 2019 was exercised in the period and the property is now recorded as a tangible fixed asset.

Notes to the financial statements (continued)

For the year ended 31 March 2020

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 £1,094,000 (2019: £600,000). The group also participates in the Kent County Council Pension Fund and the Powys County Council Pension Fund. The former is treated as a defined contribution scheme on the grounds of materiality and received contributions of £2,000 in both periods. The latter is treated as a defined contribution scheme on the grounds of the risk sharing agreement resulting in the risks and rewards of participation being akin to that of a defined contribution scheme. It received contributions of £102,000 (2019: £nil) in the period.

Defined benefit schemes

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

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

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2016. An approximate roll-forward of the liabilities of the schemes as at 31 March 2020 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.

An actuarial valuation of scheme assets and the present value of the defined benefit obligation for the year ended 31 March 2019 was ongoing at 31 March 2020 and therefore has not been reflected in the results below.

Defined benefit schemes

	Valuation at	
	2020	2019
Key assumptions used:		
Discount rate	2.3%	2.4%
Future pension increases	1.9%	2.4%
Inflation - CPI	1.9%	2.4%
Future salary increases	2.1%	2.6%

Notes to the financial statements (continued)

For the year ended 31 March 2020

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	
	2020 years	2019 years
Retiring today:		
Males	22.1	22.9
Females	24.2	24.9
Retiring in 20 years:		
Males	23.2	25.1
Females	25.9	27.3

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

	2020 £'000	2019 £'000
Current service cost	(448)	(468)
Employer contributions	289	316
Net interest income	1	-
Administration costs incurred during the period	(1)	(1)
Past service cost	(50)	-
	(209)	(153)

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

	2020 £'000	2019 £'000
Actuarial (loss)/gain on assets	(2,400)	1,440
Actuarial gain/(loss) on liabilities	4,346	(1,232)
Pension assets not recognised in respect of schemes in surplus	(1,351)	(20)
	595	188

Notes to the financial statements (continued)

For the year ended 31 March 2020

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:

	2020 £'000	2019 £'000
Present value of defined benefit obligations	(33,488)	(37,485)
Fair value of scheme assets	35,354	37,614
Pension assets not recognised in respect of schemes in surplus	(3,333)	(1,982)
Net liability recognised in the balance sheet	(1,467)	(1,853)

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

	2020 £'000	2019 £'000
At 1 April	37,485	35,776
Service cost	448	468
Interest cost	893	924
Actuarial gains and losses	(4,346)	1,232
Contributions from scheme participants	60	67
Benefits paid	(1,102)	(982)
Past service cost	50	-
At 31 March	33,488	37,485

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

	2020 £'000	2019 £'000
At 1 April	37,614	35,850
Interest income	894	924
Actuarial gains and losses	(2,400)	1,440
Contributions from the employer	60	316
Contributions from scheme participants	289	67
Non-investment expenses	(1)	(1)
Benefits paid	(1,102)	(982)
At 31 March	35,354	37,614

Notes to the financial statements (continued)

For the year ended 31 March 2020

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:

	2020 %	2019 %
Equity instruments	56	62
Bonds	28	24
Property	9	8
Cash	4	3
Other	3	3

The estimated amount of employer contributions expected to be paid to the scheme during the year ending 31 March 2021 is £246,000.

Company

Defined benefit scheme

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

The most recent actuarial valuation of scheme assets and the present value of the defined benefit obligation were carried out at 31 March 2016. An approximate roll-forward of the liabilities of the scheme as at 31 March 2020 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.

An actuarial valuation of scheme assets and the present value of the defined benefit obligation for the year ended 31 March 2019 was ongoing at 31 March 2020 and therefore has not been reflected in the results below.

	Valuation at	
	2020	2019
Key assumptions used:		
Discount rate	2.3%	2.4%
Future pension increases	1.9%	2.4%
Inflation - CPI	1.9%	2.4%
Future salary increases	2.1%	2.6%

Notes to the financial statements (continued)

For the year ended 31 March 2020

25. Employee benefits (continued)

Mortality assumptions

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

	Valuation at	
	2020 years	2019 years
Retiring today:		
Males	22.2	22.1
Females	24.2	24.2
Retiring in 20 years:		
Males	23.5	23.5
Females	25.7	25.7

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

	2020 £'000	2019 £'000
Current service cost	(62)	(59)
Employer contributions	46	45
Net interest cost	11	11
	(5)	(3)

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

	2020 £'000	2019 £'000
Actuarial (loss)/gain on plan assets	(129)	45
Actuarial gain/(loss) on defined benefit obligation	74	(42)
Total (loss)/gain pre-adjustment	(55)	3
Adjustment in respect of pension asset not recognised	61	-
Total gain	6	3

Notes to the financial statements (continued)

For the year ended 31 March 2020

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:

	2020 £'000	2019 £'000
Present value of defined benefit obligations	(990)	(984)
Fair value of plan assets	1,349	1,403
Pension assets not recognised in respect of schemes in surplus	(359)	(419)
Net liability recognised in the balance sheet	-	-

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

	2020 £'000	2019 £'000
At 1 April	984	863
Interest cost	24	24
Current service cost	62	59
Member contributions	8	7
Actuarial (gain)/loss	(74)	42
Benefits paid	(14)	(11)
At 31 March	990	984

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

	2020 £'000	2019 £'000
At 1 April	1,403	1,282
Interest income	35	35
Actuarial (loss)/gain	(129)	45
Member contributions	8	7
Employer contributions	46	45
Benefits paid	(14)	(11)
At 31 March	1,349	1,403

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

	2020 %	2019 %
Equity instruments	46	74
Bonds	54	26

The estimated amount of employer contributions expected to be paid to the scheme during the year ending 31 March 2021 is £46,000.

Notes to the financial statements (continued)

For the year ended 31 March 2020

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 £1,083,000 (2019: £1,586,000) and costs including interest of £1,459,000 (2019: £349,000) 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 £777 (2019: £213) are disclosed under amounts owed to related parties in note 15 to the financial statements. Amounts owed from The Shaw Foundation Limited of £103,717 (2019: £73,083) are disclosed under amounts from related parties in note 14 to the financial statements. In addition as noted in note 24 to the financial statements, amounts owed by The Shaw Foundation Limited relating to a deposit paid linked to an option to purchase a leasehold property total £Nil (2019: £312,000). The option which was effective until 30 September 2019 was exercised in the period and the property is now recorded as a tangible asset. Details relating to deferred assets with The Shaw Foundation Limited are included in note 11.

The group also made capital loan repayments during the year of £125,000 (2019: £4,917,000) in respect of loans owed to The Shaw Foundation Limited, which included early settlement in full of amounts owed by Shaw healthcare (Northamptonshire) Limited and Shaw healthcare (De Montfort) Limited to The Shaw Foundation Limited in the prior year. No additional loans were granted by The Shaw Foundation Limited during the period (2019: £nil). Loans owed by the group to The Shaw Foundation of £1,798,000 (2019: £1,923,000) are included within other loans in note 17 to the financial statements.

My Care My Home Limited is a company related by way of a common director. The group recognised income of £Nil (2019: £20,116) in respect of transactions with the company. The group had trade debtors owed by My Care My Home Limited of £Nil (2019: £1,512). The group had gross loan amounts owed by My Care My Home Limited of £153,000 (2019: £153,000), an amount of £153,000 (2019: £153,000) has been provided against this amount due. Amounts due from My Care My Home Limited at the year-end are disclosed in note 14 to the financial statements.

27. Controlling party

At the balance sheet date there was no ultimate controlling party as no corporate body or individual had more than a 30% holding in the share capital of the company.

28. Events after the balance sheet date

On 11 May 2020, the group restructured its ordinary shareholder structure with the formation of an Employee Ownership Trust (EOT) with the vision of making the business truly 'employee owned'. The EOT now owns 51.0% of the ordinary share capital of Shaw healthcare (Group) Limited and the directors believe this provides an excellent platform to preserve the Group's independent status and also ensure that the business is run for the long-term benefit of its' employees. It also reinforces the operational restructure carried out during the year which sought to provide the services with more autonomy to control various aspects of their business operations.

In April 2020, both the convertible and non convertible preference shares totalling £9.2 million were converted into non convertible loan notes with a fixed coupon rate of 7.5%. On 14 September 2020 these were refinanced using £1.2 million of free cash reserves and an £8.0 million loan from the Shaw Foundation at a blended coupon rate of 6.1%.

