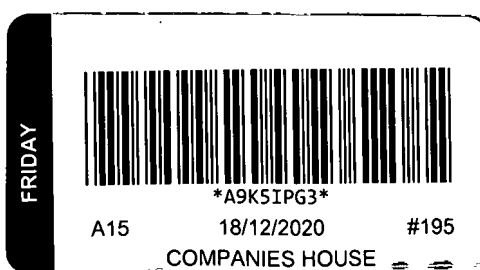


Registration number: 02792285

# Barchester Healthcare Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2019



# **Barchester Healthcare Limited**

## **Contents**

Company Information	1
Chairman's Statement	2 to 4
Strategic Report	5 to 7
Directors' Report	8 to 11
Statement of Directors' Responsibilities	12
Independent Auditor's Report	13 to 15
Consolidated Profit and Loss Account	16
Consolidated Statement of Comprehensive Income	17
Consolidated Balance Sheet	18
Balance Sheet	19
Consolidated Statement of Changes in Equity	20
Statement of Changes in Equity	21
Consolidated Statement of Cash Flows	22
Notes to the Financial Statements	23 to 43

# **Barchester Healthcare Limited**

## **Company Information**

<b>Chairman</b>	John Coleman
<b>Directors</b>	John Coleman John Bateson Anthony Bourne Keith Browne Pete Calveley Mark Hazlewood John Hegarty Michael O'Reilly
<b>Company Secretary</b>	Michael O'Reilly
<b>Registered office</b>	3rd Floor, The Aspect Finsbury Square London EC2A 1AS
<b>Auditor</b>	KPMG LLP Chartered Accountants Salt Quay House 6 North East Quay Plymouth PL4 0HP

# **Barchester Healthcare Limited**

## **Chairman's Statement**

### **Introduction**

Since our formation in 1992, we have grown by focussing on what really matters to our residents and families - high quality care in a safe, secure and homely environment. Our ambition is to be the number one provider of consistent, high quality, market leading services for those we care for.

### **Performance**

Turnover grew during 2019, increasing by 5.9% to £657.6 million in the year, underpinned by higher fee rates and improved occupancy year on year.

For the year to 31 December 2019, EBITDAR was £195.9 million, an increase of £10.8 million (5.8%) on the prior year despite an increased cost base.

### **Dividend**

The Board of Barchester Healthcare Limited ("Barchester" or "the Company") agreed to the payment of an interim dividend during the year of £9.1 million (2018: £Nil). This was satisfied by the transfer of debtor balances and was required as part of a wider accounting exercise to tidy up historic intercompany balances. As part of the same exercise, a capital contribution of £10.3 million was received from Barchester Holdco (Jersey) Limited, the Company's immediate parent.

The Board have not recommended the payment of a final dividend (2018: £Nil), as surplus cash is being invested in the maintenance and enhancement of the property portfolio to help maintain the competitive position of the business.

### **Board**

Details of the current Directors are set out on pages 8 to 9.

### **Corporate governance**

Barchester is a privately owned company but aspires to adopt high standards of corporate governance. Accordingly, and where appropriate, our systems and processes are developing to reflect the UK Corporate Governance Code.

The Board met seven times during the year. It considers clinical governance, safety, strategy and policy, approval of business plans, significant capital expenditure and other matters of strategic significance.

The Board also has Quality & Clinical Governance, Remuneration and Investment Committees, which comply with best practice corporate governance principles. The Committees' Terms of Reference are available from the Company Secretary and our Company intranet.

### **Quality and Clinical Governance Committee**

The Committee met seven times during 2019. It is responsible for: reviewing existing practice and setting standards of quality, safety and care across the Company; assessing responses to raised care standards and reducing variation across the Company; drawing on relevant data, for example, serious untoward incidents, safeguarding whistle blowing and accidents and regularly reviewing how the Company responds to these in order to raise awareness and improve practices and reduce adverse outcomes. The Committee is also responsible for supervising a dashboard of vital signs and outcome measures of quality and care and overseeing, reviewing and analysing data produced by management. The Committee reports and takes recommendations to the Board. Details of its membership are on page 10.

### **Remuneration Committee**

The Remuneration Committee held five meetings during the year. No Director attends any meeting relating to his or her own remuneration. It holds responsibility for approving the remuneration and other benefits for the Executive Directors and other senior executives of the Company. Details of its membership are on page 10.

## **Barchester Healthcare Limited**

### **Chairman's Statement (continued)**

#### **Investment Committee**

The Investment Committee held ten meetings during 2019. The Committee was established in order to: approve the identified additional capital expenditure amount and to approve any projects in excess of £100,000; to approve any new builds projected in accordance with the new build development process; and to make investment decisions, under delegated authority, granted to the Committee by the Board. The Committee makes and reports recommendations to the Board. The quality of our environment is a very important ingredient in the overall standard of care offered at Barchester and we aim to have the best quality homes in the sector. Details of the Committee's membership are on page 10.

#### **Going concern**

After reviewing the Group's forecasts and projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

The COVID-19 pandemic has had an impact on the cash position of the Group mainly through a drop in revenue as sadly occupancy fell sharply in April due to an increase in the number of deaths, and new admissions were also reduced. Additional infection control costs have been incurred such as wearing sessional masks and additional cleaning in communal areas. In addition, labour costs increased because:

- Shielded individuals were furloughed and the company topped up their wages to supplement the Government's 80% scheme to 100%.
- Regulations on self-isolation for staff with symptoms caused a large increase in sick pay, and sickness pay rates were also augmented by the company to help employees financially.

These pressures on cash were mitigated by a series of actions to optimise the hours worked (in light of the reduced occupancy), a reduction in the use of agency and a reduction in capital expenditure on the homes. The reduction in agency staff and the reduced capital expenditure were primarily infection control measures, but both had an impact on preserving cash resources.

At all times during the crisis the business has remained cash generative and has paid all suppliers, interest payments, taxes and any rent due to landlords on time.

At the date of these accounts, the business has almost eradicated the virus from its facilities and occupancy is growing, with death rates returning to normal levels and the number of new admissions increasing.

The business is very prepared for a 'second spike' of the virus and therefore any further impact is expected to be much less severe than was seen earlier in the year. Measures which are now in place include: regular and frequent testing of staff and residents; testing of all new admissions; improved guidance on the use of PPE; and strict protocols for home visiting.

The Board have reviewed updated forecasts for the remainder of 2020 and the year ending 31 December 2021 which take into account the impact of COVID-19 to date and revised expectations in relation to occupancy, labour hours and infection control costs for the remainder of the forecast period. These forecasts demonstrate that the Group will continue to have sufficient available cash resources for the forecast period, including when plausible downside sensitivity analysis is taken into account. In addition to the forecast cash resources available, the Group also has access to a £20m banking facility which is not expected to be drawn down during the period to 31 December 2021 under either the base case or sensitised forecasts, and has a number of options available to management, such as a reduction in discretionary capital expenditure, should they be needed.

For this reason, the Group has continued to adopt the going concern basis in preparing its consolidated financial statements.

## **Barchester Healthcare Limited**

### **Chairman's Statement (continued)**

#### **Outlook**

The Group continued to trade strongly during the year ended 31 December 2019 and this is expected to continue over the coming 12 months from the date of signing these accounts. Unfortunately, the global coronavirus pandemic had a dramatic effect during 2020, and occupancy was reduced both due to a higher than normal death rate in spring and reduced admissions. The Group has performed well despite these adverse head winds due to a strong balance sheet with good cash reserves. In addition, good operational control and delaying capital investment projects has further preserved cash. None of these interventions have compromised the quality of care to our residents and patients.

.....  
John Coleman  
Chairman  
15 September 2020

## Barchester Healthcare Limited

### Strategic Report for the Year Ended 31 December 2019

The Directors present their strategic report for the year ended 31 December 2019.

#### Principal activity

The principal activity of the Company is that of an investment holding company. The core principal activity of the Company's subsidiary undertakings is the operation of care homes with related care services. Barchester is a company domiciled in England and Wales.

The Group's primary activity is the provision of residential nursing care for the elderly. It also provides nursing care services to individuals with specialist higher acuity care needs. Specialist care services include elderly mentally infirm and young physically disabled.

Barchester commands a leading position in the UK long term care sector and is in the UK's top four largest providers. As at December 2019, Barchester provided in excess of 12,000 registered beds, spread across its portfolio of approximately 200 registered services (including nursing homes and domiciliary care) and 6 independent hospitals with a national footprint across Great Britain and Jersey, the largest proportion located within London and the South East.

The Group's strategy is one of continued growth through new builds, the extension of existing facilities and, where appropriate, through the acquisition of nursing homes of a suitable quality. The Group is focussed on increasing its share of the private pay market.

#### Fair review of the business

Total revenue increased by £36.4 million (5.9%) to £657.6 million in the year (2018: £621.3 million). This improvement was driven primarily by higher fee rates but also through an increase in occupancy.

Operating profit from continuing operations increased by £5.9 million to £41 million (2018: £35.1 million). The movement in operating profit from continuing operations year on year can be explained as follows:

- a £10.8m increase in EBITDAR from continuing operations (which is explained further below);
- a £3.3m increase in the depreciation charge;
- a £3.3m increase in the rent charge;
- a £5m decrease in the share-based payment expense; and
- £3.3m increase in debit balances written off.

EBITDAR from continuing operations has increased to £195.9m (2018: £185.1m). This has primarily been driven by caring for more residents and fee rate inflation, offset by an increase in the cost of labour hours and overheads. The EBITDAR margin remained constant at 29.8%.

The net debt position of the Group at the year end comprised the following elements:

	2019 £m	2018 £m
Cash	60	28
Bank loans and overdrafts	-	-
<b>Net debt (excluding finance leases)</b>	60	28
Obligations under finance leases	(192)	(169)
<b>Net debt (including finance leases)</b>	<u>(132)</u>	<u>(141)</u>

Obligations under finance leases have increased in the year due to the opening of three new homes. This has been offset by an increase in the cash held at the year end, resulting in an overall decrease in net debt.

## **Barchester Healthcare Limited**

### **Strategic Report for the Year Ended 31 December 2019 (continued)**

Net assets at the year end increased to £147.9 million (2018: £134.4 million). The reconciliation of the movement is shown in the consolidated statement of changes in equity on page 19.

#### **Principal risks and uncertainties & key performance indicators**

The Board analyses key risks to the business and monitor exposure to these risks through a series of Key Performance Indicators (KPIs). These KPIs are reviewed to ensure that the Group is achieving its principal objectives of providing the highest quality of care for residents and patients, at the same time ensuring that the infrastructure is as fully and efficiently utilised as possible to provide appropriate returns to shareholders.

#### *Clinical quality risk*

We are committed to the need to provide a consistent level of care. We have invested in a number of key areas to monitor care provision, including a specialist dementia team, clinical development nurses and a more rigorous programme of quality inspections. The business operates sophisticated levels of performance monitoring with regular reporting to senior management and the Board of any potential issues. In addition, a comprehensive programme of service audits is undertaken across all homes with reports and resulting action plans being the subject of comprehensive review. Perhaps most importantly, the Board encourages a culture of reporting any minor concerns from staff, residents and relatives, all of which are appropriately investigated. There is increased awareness of regulatory changes at Board level and regular briefing updates are being used to ensure appropriate knowledge transfer to staff throughout the business.

KPIs used:

- regulatory compliance (both internal and external);
- various indicators of clinical well-being; and
- number of hours for staffing (employed and agency).

#### *Health & Safety*

We understand the need to provide a safe environment for our staff, residents, their guests or anyone else on our premises. Everyone in our business has accountability for health and safety, and they are given the necessary tools (including training, safety equipment and resources) to operate safely. Compliance is organised and monitored through a dedicated health and safety team across the business.

KPIs used:

- notifiable accident frequency; and
- accident statistics.

#### *Public spending policy*

Continued pressure is being exerted to reduce Government and Local Authority spending, which is manifesting itself increasingly in the reduction of fees being paid for the care of funded residents. As a response to the unwillingness to pay the fees required, our business continues to focus more on the provision of space to the privately funded individuals.

KPIs used:

- average fee rates; and
- occupancy rates and mix.



## **Barchester Healthcare Limited**

### **Strategic Report for the Year Ended 31 December 2019 (continued)**

#### Employment of staff

Our business thrives on the skills and expertise of the staff we employ. The shortage of appropriate labour is a potential risk to the business, this is particularly acutely felt with the national shortage of qualified nursing staff. In order to mitigate this risk, the business has a proactive Human Resources and Recruitment team.

Continuity of service and care provided to residents is vitally important to the business. In order to ensure high quality care is provided it is necessary for the business to employ well trained staff and to encourage strong staff retention. To ensure staff have appropriate skills, the business provides on-going statutory and mandatory training to all resident facing staff. Development opportunities are identified and promoted throughout the business to continue to develop staff and encourage staff retention.

In addition, the business has procedures in place to ensure continued compliance with UKBA regulations.

KPIs used:

- staff turnover;
- staff training statistics; and
- number of hours for staffing (employed and agency).

#### Cost base inflation

The principal costs for the successful operation of the business include staff costs, energy and food. All of these areas are subject to on-going cost pressures in advance of inflation. In order to mitigate these areas, we have a well organised procurement process to source energy and food at the best possible rates. We have a well organised operational structure to ensure that labour is employed as effectively as possible.

KPIs used:

- EBITDA and EBITDAR per bed; and
- profit margins.

#### Occupancy

An inability to maintain and grow occupancy levels of both private and local authority funded residents is a potential risk to the business. In order to mitigate this risk, we have a proactive Sales and Marketing team who work alongside the operational team to monitor and review occupancy levels.

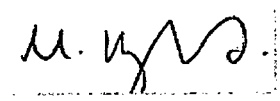
KPIs used:

- occupancy rates and mix; and
- enquiry conversion rates.

#### **Future prospects**

The Group continued to trade strongly during the year ended 31 December 2019 and this is expected to continue over the coming 12 months from the date of signing these accounts. Unfortunately, the global coronavirus pandemic had a dramatic effect during 2020, and occupancy was reduced both due to a higher than normal death rate in spring and reduced admissions. The Group has performed well despite these adverse head winds due to a strong balance sheet with good cash reserves. In addition good operational control and delaying capital investment projects has further preserved cash. None of these interventions have compromised the quality of care to our residents and patients.

Approved by the Board on 15 September 2020 and signed on its behalf by:



Mark Hazlewood  
Director

## **Barchester Healthcare Limited**

### **Directors' Report for the Year Ended 31 December 2019**

The Directors present their report and the financial statements for the year ended 31 December 2019.

#### **Directors of the Group**

The Directors who held office during the year were as follows:

John Coleman - Chairman

John Bateson

Anthony Bourne

Keith Browne

Pete Calveley

Mark Hazlewood

John Hegarty

Michael O'Reilly - Company secretary and director

#### **Non-Executive Chairman**

**John Coleman** joined the Board on 1 March 2015 as Chairman of Barchester Healthcare Limited and of Grove Limited (Jersey), its ultimate parent. John has 17 years of experience acting as a Non-Executive Director on the Boards of various companies in different sectors, including builders merchants, travel/leisure and retail, including the value fashion retail segment. As well as acting as a Non-Executive Director, John worked as CEO of House of Fraser between 1996 and 2006 and as CEO of Texas Homecare at Ladbroke's between 1993 and 1995. Before that he was Managing Director of Dorothy Perkins from 1991 to 1993, Managing Director of Top Man and Top Shop from 1990 to 1991 and Managing Director of Top Shop from 1986 to 1990, all at the Burton Group. John is a qualified accountant and received a BAcc, in Accountancy and Economics from the University of Glasgow in 1974.

#### **Executive Directors**

**Dr Pete Calveley** was appointed to the Board of Barchester Healthcare Limited on 1 June 2014, as Chief Executive Officer. He was formerly CEO of Four Seasons Health Care and has had a distinguished career in the NHS. Pete is a member of the Department of Health Forward Thinking Group which informs policy decisions. He has been central to building awareness of the capability of independent operators to provide services that complement the NHS and in making the case for a joined up approach to health and social care funding. Pete's strategy saw Four Seasons Health Care take a lead in development of higher dependency care, including an award winning dementia care programme that is studied internationally. He led the restructuring of the company's complex debt - which he inherited - whilst transforming quality of care to among the best in class; improving occupancy against the sector trend and growing capacity by 40%.

**Dr Mark Hazlewood** is Chief Financial Officer and was appointed to the Board on 1 April 2014. Mark has a Bachelor of Science degree from Aston University and a PhD from the Immunology Department at Birmingham Medical School. Having qualified with Coopers & Lybrand as a Chartered Accountant in 1996, Mark joined South Staffordshire Group Plc in 1997. Initially starting as a project accountant, he progressed through a number of roles to become Director of Finance in 2000. Mark was Commercial Finance Director for Homeserve Emergency Services, from 2002, where he led a number of acquisitions, conducting commercial negotiations and post-acquisition integration. He was also heavily involved in process and system developments to drive improved operational efficiency and integration. Prior to joining the Company, Mark was Group Finance Director for May Gurney Plc, where he was also a member of the Board.

## **Barchester Healthcare Limited**

### **Directors' Report for the Year Ended 31 December 2019 (continued)**

**Dr Michael O'Reilly** was appointed to the Board of Barchester Healthcare Limited on 3 April 2017. Michael commenced his career as an engineer, with the leading international consultancy firm Arup, and later as an academic, teaching at the Universities of Nottingham and Sheffield and was from 1996 - 2000 Professor and Head of Civil Engineering at Kingston University. From 2000 he practised construction, commercial and regulatory law as a barrister, appearing in a significant number of reported cases. He is now a solicitor. In February 2011 he was appointed by Four Seasons Health Care as Senior Legal Counsel and also took on the role of Risk Management Director. He joined Barchester in April 2017 as General Counsel and Director of Quality, Risk and Compliance. He is also Company Secretary and acts as the responsible individual for healthcare regulation.

#### **Non-Executive Directors**

**John Bateson** joined Barchester Healthcare Limited in October 2006. John is a graduate of Trinity College Dublin and, having qualified with KPMG, is a fellow of the Institute of Chartered Accountants in Ireland. He is also a member of the Chartered Institute for Securities & Investment. In 1995 John joined International Investment and Underwriting ("IIU"), Dermot Desmond's private equity investment company. As a senior investment executive since its inception, and now Managing Director, John has been intimately involved in the creation of the current portfolio of investments and has been responsible for the identification, assessment, negotiation and structuring of prospective investments and subsequent to an investment being made, the monitoring and reporting of its performance. He has also led the negotiations for many successful exits. Prior to joining IIU, John spent six years with the corporate finance arm of NCB Group.

**Anthony Bourne** was appointed as a Non Executive Director to the Board in May 2012. Tony is currently a Non Executive Director at various companies including Spire Healthcare, the leading UK listed private hospital and healthcare provider (Chair of the Remuneration Committee), Totally plc, which is a leading AIM-quoted provider of out-of-hospital care and Chelsea and Westminster Health Charity (Chair), one of the largest NHS charities. For nearly nine years up to late 2013, he was Chief Executive of the British Medical Association. Prior to joining the BMA as Chief Executive, Tony was in investment banking for over 25 years, most recently as a partner at Hawkpoint. Previously, he was at BNP Paribas where he was Global Head of the Equities Division, a member of the Managing Board of the Group and a member of its four-person worldwide Corporate Finance Committee. Prior to that he was at Merrill Lynch both in London and New York. Tony has also held Non-Executive Director positions with various organisations including Bioquell Plc, Southern Housing Group and Scope.

**Keith Browne** was appointed to the Board as a Non-Executive Director on 28 January 2014. He holds a Bachelor of Commerce Degree from University College Dublin, from which he graduated in 1990. He became a member of the Institute of Chartered Accountants in 1994 and gained an MBA from University College Dublin in 1996. After joining KPMG Corporate Finance in 1996, Keith became a partner in KPMG in 2001 and Head of Corporate Finance in 2009. He then retired to operate as an Independent Consultant in 2011.

**Professor John Edward Hegarty, MD FRCPI FRCP** joined the Board on 20 September 2011. He is a Consultant Physician/Hepatologist at St.Vincent's University Hospital, & Newman Professor of Clinical Research at University College Dublin, Medical Director at the National Liver Transplant Unit at St.Vincent's University Hospital, Medical Director of the Hepatitis C Unit at St.Vincent's University Hospital and Co Director Liver Research Group University College Dublin/Trinity College Dublin. His Post Graduate Training was at Hammersmith Hospital, St Bartholomew's Hospital and King's College Hospital London. Professor Hegarty is the author of one hundred and fifty peer reviewed scientific papers.

## **Barchester Healthcare Limited**

### **Directors' Report for the Year Ended 31 December 2019 (continued)**

#### **Board committees**

##### ***1. Quality & Clinical Governance Committee***

- Anthony Bourne (Chairman)
- John Coleman
- John Hegarty
- Michael O'Reilly
- Pete Calveley

##### ***2. Investment Committee***

- Keith Browne (Chairman)
- John Bateson
- Anthony Bourne
- Mark Hazlewood
- John Coleman

##### ***3. Remuneration Committee***

- John Bateson (Chairman)
- Keith Browne

##### ***4. Nominations Committee***

- John Coleman (Chairman)
- John Bateson
- Anthony Bourne
- Keith Browne
- John Hegarty

#### **Independent Non-Executive Directors**

- Anthony Bourne

#### **Proposed dividend**

A dividend of £9.1m was paid in the year (2018: £Nil). This was satisfied by the transfer of debtor balances and was required as part of a wider accounting exercise to tidy up historic intercompany balances. At the same time, a capital contribution of £10.3 million was received from Barchester Holdco (Jersey) Limited, the Company's immediate parent.

#### **Financial instruments**

The Group only uses basic financial instruments.

#### **Political donations**

The Group made no political donations during the year.

## **Barchester Healthcare Limited**

### **Directors' Report for the Year Ended 31 December 2019 (continued)**

#### **Going concern**

The Directors have reasonable expectation that the Group and Company have adequate resources to continue in operation for the foreseeable future. The Directors therefore believe that it is appropriate to prepare the financial statements on a going concern basis. Further details are in note 2 to the financial statements.

#### **Employment of disabled persons**

It is Group policy to give fair consideration to the employment needs of disabled people and to comply with current legislation with regard to their employment. Wherever practicable, the Group continues to employ and promote the careers of existing employees who become disabled and to consider disabled persons for employment, subsequent training, career development and promotion on the basis of their aptitudes and abilities.

#### **Employee involvement**

The Directors recognise the importance of human resources. Practices to provide good communications and relations with employees include providing them with information on matters of concern to them as employees. Employees or their representatives are consulted on a regular basis so that their views can be taken into account in making decisions which are likely to affect their interests.

#### **Whistle blowing policy**

The employees of the Company are encouraged to express concerns or complaints, if they believe that someone may be at risk of harm, an offence has been committed, a person has failed with legal obligations, a miscarriage of justice has occurred or an individual's health and safety has been endangered. Protection is provided for those that 'blow the whistle'. The whistle blowing policy of the Company can be found on the intranet of the Company and employees have access to a free phone independent counselling and advice line.

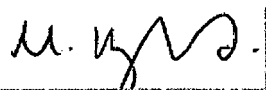
#### **Directors' insurance**

As at the date of this report, indemnities are in force, under which the Company has agreed to indemnify the Directors and certain senior managers, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

#### **Disclosure of information to the auditor**

Each Director has taken steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 15 September 2020 and signed on its behalf by:



.....  
Mark Hazlewood  
Director

## **Barchester Healthcare Limited**

### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and the 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 Group and Parent Company and of the profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## **Barchester Healthcare Limited**

### **Independent Auditor's Report to the Members of Barchester Healthcare Limited**

#### **Opinion**

We have audited the financial statements of Barchester Healthcare Limited (the 'Company') for the year ended 31 December 2019 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows, and Notes to the Financial Statements, including the accounting policies in note 2.

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 December 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. 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 or the Company will continue in operation.

#### **Strategic report and Directors' report**

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

## **Barchester Healthcare Limited**

### **Independent Auditor's Report to the Members of Barchester Healthcare Limited (continued)**

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the Group and 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 they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 fuller description of our responsibilities is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).



## **Barchester Healthcare Limited**

### **Independent Auditor's Report to the Members of Barchester Healthcare Limited (continued)**

#### **The purpose of our audit work and to whom we owe our responsibilities**

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.

Ian Brokenshire

**Ian Brokenshire (Senior Statutory Auditor)**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Salt Quay House  
6 North East Quay  
Plymouth  
PL4 0HP

Date: 21 September 2020

## Barchester Healthcare Limited

### Consolidated Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Turnover	3	657,619	621,268
Cost of sales		<u>(567,391)</u>	<u>(538,020)</u>
Gross profit		90,228	83,248
Administrative expenses		<u>(49,184)</u>	<u>(48,116)</u>
Operating profit	4	<u>41,044</u>	<u>35,132</u>
Other interest receivable and similar income		-	56
Interest payable and similar charges	5	<u>(19,259)</u>	<u>(17,839)</u>
		<u>(19,259)</u>	<u>(17,783)</u>
Profit before tax		21,785	17,349
Taxation	9	<u>(6,004)</u>	<u>(7,040)</u>
Profit for the financial year		<u>15,781</u>	<u>10,309</u>
<b>Profit attributable to:</b>			
Owners of the Company		<u>15,781</u>	<u>10,309</u>

The above results were derived from continuing operations.

The Group has no recognised gains or losses for the year other than the results above.

## **Barchester Healthcare Limited**

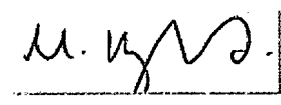
### **Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019**

	<b>2019</b> <b>£ 000</b>	<b>2018</b> <b>£ 000</b>
Profit for the year	<u>15,781</u>	<u>10,309</u>
Total comprehensive income for the year	<u><u>15,781</u></u>	<u><u>10,309</u></u>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<u><u>15,781</u></u>	<u><u>10,309</u></u>

**Barchester Healthcare Limited**  
**(Registration number: 02792285)**  
**Consolidated Balance Sheet as at 31 December 2019**

	Note	2019 £ 000	2018 £ 000
<b>Fixed assets</b>			
Intangible assets	10	29,316	35,477
Tangible assets	11	<u>284,415</u>	<u>258,220</u>
		<u>313,731</u>	<u>293,697</u>
<b>Current assets</b>			
Stocks	13	5,117	4,808
Debtors	14	94,045	89,827
Cash at bank and in hand		<u>59,899</u>	<u>27,858</u>
		159,061	122,493
<b>Creditors: Amounts falling due within one year</b>	15	<u>(133,635)</u>	<u>(111,106)</u>
<b>Net current assets</b>		<u>25,426</u>	<u>11,387</u>
<b>Total assets less current liabilities</b>		339,157	305,084
<b>Creditors: Amounts falling due after more than one year</b>	15	(189,665)	(168,395)
<b>Provisions for liabilities</b>	16	<u>(1,555)</u>	<u>(2,247)</u>
<b>Net assets</b>		<u>147,937</u>	<u>134,442</u>
<b>Capital and reserves</b>			
Share capital	18	12,913	12,913
Share premium reserve		6,643	6,643
Capital redemption reserve		186	186
Profit and loss account		<u>128,195</u>	<u>114,700</u>
<b>Equity attributable to owners of the Company</b>		<u>147,937</u>	<u>134,442</u>
<b>Total equity</b>		<u>147,937</u>	<u>134,442</u>

Approved and authorised by the Board on 15 September 2020 and signed on its behalf by:



Mark Hazlewood  
Director

**Barchester Healthcare Limited**  
**(Registration number: 02792285)**  
**Balance Sheet as at 31 December 2019**

	Note	2019 £ 000	2018 £ 000
<b>Fixed assets</b>			
Investments	12	18,841	8,556
<b>Current assets</b>			
Debtors	14	130,708	140,142
Cash at bank and in hand		10,784	10,784
		141,492	150,926
<b>Creditors: Amounts falling due within one year</b>	15	(127,500)	(126,199)
<b>Net current assets</b>		13,992	24,727
<b>Net assets</b>		32,833	33,283
<b>Capital and reserves</b>			
Share capital	18	12,913	12,913
Share premium reserve		6,643	6,643
Capital redemption reserve		186	186
Profit and loss account		13,091	13,541
<b>Total equity</b>		32,833	33,283

Approved and authorised by the Board on 15 September 2020 and signed on its behalf by:



Mark Hazlewood  
Director

**Barchester Healthcare Limited**

**Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019**

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2019	12,913	6,643	186	114,700	134,442
Profit for the year	-	-	-	15,781	15,781
Total comprehensive income	-	-	-	15,781	15,781
Capital contribution	-	-	-	10,285	10,285
Dividends	-	-	-	(9,141)	(9,141)
Share based payment transactions	-	-	-	(3,430)	(3,430)
At 31 December 2019	12,913	6,643	186	128,195	147,937

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2018	12,913	6,643	186	102,760	122,502
Profit for the year	-	-	-	10,309	10,309
Total comprehensive income	-	-	-	10,309	10,309
Share based payment transactions	-	-	-	1,631	1,631
At 31 December 2018	12,913	6,643	186	114,700	134,442

The notes on pages 23 to 43 form an integral part of these financial statements.  
Page 20

**Barchester Healthcare Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2019**

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2019	12,913	6,643	186	13,541	33,283
Loss for the year	-	-	-	(1,594)	(1,594)
Total comprehensive income	-	-	-	(1,594)	(1,594)
Capital contribution	-	-	-	10,285	10,285
Dividends	-	-	-	(9,141)	(9,141)
At 31 December 2019	12,913	6,643	186	13,091	32,833

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2018	12,913	6,643	186	5,873	25,615
Profit for the year	-	-	-	7,668	7,668
Total comprehensive income	-	-	-	7,668	7,668
At 31 December 2018	12,913	6,643	186	13,541	33,283

The notes on pages 23 to 43 form an integral part of these financial statements.-  
Page 21

## Barchester Healthcare Limited

### Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
<b>Cash flows from operating activities</b>			
Profit for the year		15,781	10,309
Adjustments to cash flows from non-cash items			
Depreciation, amortisation and impairments	4	37,672	34,352
Loss on disposal of tangible assets		132	581
Finance income		-	(56)
Finance costs	5	19,259	17,839
Share based payment transactions		(3,430)	1,631
Income tax expense	9	6,004	7,040
		<u>75,418</u>	<u>71,696</u>
Working capital adjustments:			
Increase in stocks	13	(309)	(1,321)
(Increase)/decrease in debtors	14	(4,218)	2,757
Increase/(decrease) in creditors	15	20,772	(7,922)
Decrease in provisions	16	-	(335)
		<u>91,663</u>	<u>64,875</u>
Cash generated from operations		91,663	64,875
Income taxes paid		<u>(5,879)</u>	<u>(5,925)</u>
Net cash flow from operating activities		<u>85,784</u>	<u>58,950</u>
<b>Cash flows from investing activities</b>			
Interest received		-	56
Acquisitions of tangible assets		(34,218)	(32,508)
Proceeds from sale of tangible assets		-	560
		<u>(34,218)</u>	<u>(31,892)</u>
Net cash flows from investing activities		<u>(34,218)</u>	<u>(31,892)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(813)	(823)
Capital contribution		10,285	-
Payments to finance lease creditors		(19,856)	(17,639)
Dividends paid		<u>(9,141)</u>	<u>-</u>
Net cash flows from financing activities		<u>(19,525)</u>	<u>(18,462)</u>
Net increase in cash and cash equivalents		32,041	8,596
Cash and cash equivalents at 1 January		<u>27,858</u>	<u>19,262</u>
Cash and cash equivalents at 31 December		<u><u>59,899</u></u>	<u><u>27,858</u></u>

The notes on pages 23 to 43 form an integral part of these financial statements.



## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019**

#### **1 General information**

The Company is incorporated in England and Wales.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Statement of compliance**

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The functional and presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £'000.

##### **Basis of preparation**

These financial statements have been prepared using the historical cost convention except that, as disclosed in the accounting policies, certain items are shown at fair value.

The Parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time; and
- No separate parent company Cash Flow Statement with related notes is included.

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2019.

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the Company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

##### **Summary of disclosure exemption**

As the Company is a wholly owned subsidiary of Grove Limited, by virtue of FRS 102 Section 33.1A the Company has not disclosed transactions with wholly owned entities which form part of the Group.

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Going concern**

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors of Grove Limited (the Company's ultimate parent undertaking) have prepared cash flow forecasts for Grove Limited and its subsidiaries (the Grove Group) for a period of 15 months from the date of approval of these financial statements. These forecasts indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Grove Group, including its subsidiaries, will have sufficient funds to meet liabilities as they fall due for that period.

A base case forecast has been prepared which takes into account the impact of COVID-19 to date and includes updated assumptions and expectations in relation to occupancy of the Grove Group's care homes that are owned, leased and operated. Occupancy levels within homes are the primary driver for the Grove Group's income generation. The base case forecasts a steady but prudent on-going rise in occupancy based on historic and current post-Covid data and appropriate assumptions for future fee increases. The base case is predicated on homes being in a significantly more prepared state for any second spikes.

A separate forecast reflecting a severe but plausible downside scenario has been prepared. This scenario assumes no increases in occupancy over the forecast period to December 2021 and also more prudent assumptions on any future fee increases. Both forecasts demonstrate that the Grove Group will continue to have sufficient available cash resources for the forecast period up to the year ending 31 December 2021. In addition to the forecast cash resources available, the Grove Group also has access to a £20m banking facility which is not expected to be drawn down during the period to 31 December 2021 under either the base case or severe but plausible downside scenario. There are also a number of further mitigating options available to management, such as a reduction in discretionary capital expenditure, should they be needed.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

##### **Key sources of estimation uncertainty**

The Group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

The Group makes an estimate of the recoverable value of amounts owed by debtors. When assessing impairment of debtors, management considers factors including the ageing profile of debtors and historical experience.

##### **Revenue recognition**

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Group's activities. Turnover is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group's activities.

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the Group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

##### **Tangible assets**

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

##### **Depreciation**

Depreciation is charged so as to write off the historical cost, valuation or acquired fair value of assets less their estimated residual value, other than land and properties under construction, over their estimated useful lives, as follows:

<b>Asset class</b>	<b>Depreciation method and rate</b>
Freehold land and buildings	Straight line over 50 years
Long leasehold land and buildings	Straight line over the lease term
Plant and equipment	Straight line over 4 - 10 years

##### **Goodwill**

Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

##### **Intangible assets**

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

##### **Amortisation**

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Goodwill	Straight line over 20 years

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Investments**

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

##### **Trade debtors**

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

##### **Stocks**

Close care units are classified as assets held for resale and are stated at the lower of cost and net realisable value. Costs are expenditure incurred in acquiring the close care units and bringing them to their existing condition. Net realisable value is the estimated selling price less the estimated costs of completion and selling expenses.

##### **Trade creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Borrowings**

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Profit and Loss Account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **2 Accounting policies (continued)**

##### **Provisions**

Provisions are recognised when the Group has an obligation at the reporting date 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.

##### **Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the Profit and Loss Account and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **Dividends**

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Share based payments

The Group operates an equity-settled share based compensation plan. The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments granted at the date at which they are granted and is recognised as an expense over the vesting period. The estimated fair value of the equity instruments granted is calculated using an appropriate pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The Group also operates a cash-settled share based compensation plan. The cost of cash-settled transactions is measured at fair value using an appropriate pricing model. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the period.

#### 3 Revenue

The Group's turnover arises from its principal activities, being the provision of nursing & care homes and close care units in order to offer residential and nursing care services. The Directors consider therefore, that turnover arises solely from the rendering of services in this area. Turnover is generated in the UK and Jersey, which the Directors have considered to be one geographic segment for reporting purposes due to their economic similarities.

#### 4 Operating profit

Arrived at after charging

	2019 £ 000	2018 £ 000
Depreciation and impairment expense	31,511	28,190
Amortisation expense	6,161	6,162
Operating lease expense	119,724	116,409
Loss/(gain) on disposal of tangible fixed assets	<u>132</u>	<u>581</u>

#### 5 Interest payable and similar expenses

	2019 £ 000	2018 £ 000
Interest on bank overdrafts and borrowings	127	229
Interest on obligations under finance leases and hire purchase contracts	18,809	17,460
Other finance costs	<u>323</u>	<u>150</u>
	<u>19,259</u>	<u>17,839</u>

#### 6 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 6 Staff costs (continued)

	2019 £ 000	2018 £ 000
Wages and salaries	314,569	294,626
Social security costs	23,893	22,382
Pension costs, defined contribution scheme	6,686	4,530
Share-based payment expenses	(3,430)	1,631
	<u>341,718</u>	<u>323,169</u>

The average number of persons employed by the Group (including Directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Directors	8	9
Administration and support	796	743
Care	15,009	15,002
	<u>15,813</u>	<u>15,754</u>

#### 7 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Remuneration	3,385	1,980
Contributions paid to money purchase schemes	33	61
	<u>3,418</u>	<u>2,041</u>

In respect of the highest paid Director:

	2019 £ 000	2018 £ 000
Remuneration	<u>2,019</u>	<u>915</u>

#### 8 Auditor's remuneration

	2019 £ 000	2018 £ 000
Audit of these financial statements	10	10
Audit of the financial statements of subsidiaries pursuant to legislation	140	136
	<u>150</u>	<u>146</u>

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the Grove Limited consolidated financial statements.



# Barchester Healthcare Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 9 Taxation

Tax charged in the profit and loss account

	2019 £ 000	2018 £ 000
<b>Current taxation</b>		
UK corporation tax	6,717	6,042
UK corporation tax adjustment to prior periods	(21)	(1,008)
	<u>6,696</u>	<u>5,034</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	(773)	(706)
Arising from changes in tax rates and laws	81	40
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	2,672
Total deferred taxation	<u>(692)</u>	<u>2,006</u>
Tax expense in the profit and loss account	<u>6,004</u>	<u>7,040</u>

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 9 Taxation (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled as follows:

	2019 £ 000	2018 £ 000
Profit before tax	21,785	17,349
Corporation tax at standard rate	4,139	3,296
Effect of revenues exempt from taxation	(612)	(2,438)
Effect of expense not deductible in determining taxable profit	1,653	3,769
UK deferred tax expense relating to changes in tax rates or laws	81	40
Deferred tax not recognised on corporate interest restriction	333	406
Deferred tax expense from unrecognised temporary difference from a prior period	-	2,672
Decrease in UK and foreign current tax from adjustment for prior periods	(21)	(1,008)
Tax decrease arising from group relief	(234)	(335)
Tax increase from transfer pricing adjustments	665	638
Total tax charge	6,004	7,040

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. Deferred tax balances have been calculated at a rate of 17% as this is the rate at which the majority of the timing differences are expected to reverse.

# Barchester Healthcare Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 9 Taxation (continued)

#### Deferred tax

#### Group

#### Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000
<b>2019</b>		
Difference between accumulated depreciation and amortisation and capital allowances	-	1,646
Other timing differences	91	-
	<u>91</u>	<u>1,646</u>
<b>2018</b>	Asset £ 000	Liability £ 000
Difference between accumulated depreciation and amortisation and capital allowances	-	2,356
Other timing differences	109	-
	<u>109</u>	<u>2,356</u>

### 10 Goodwill

#### Group

	Total £ 000
<b>Cost or valuation</b>	
At 1 January 2019	124,154
Reclassification	(921)
At 31 December 2019	<u>123,233</u>
<b>Amortisation</b>	
At 1 January 2019	88,677
Amortisation charge	6,161
Reclassification	(921)
At 31 December 2019	<u>93,917</u>
<b>Carrying amount</b>	
At 31 December 2019	<u>29,316</u>
At 31 December 2018	<u>35,477</u>

The amortisation charge is included within administrative expenses.

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 11 Tangible assets

##### Group

	Land and buildings £ 000	Plant and equipment £ 000	Assets under construction £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2019	210,537	190,110	2,612	403,259
Additions	22,920	18,879	16,325	58,124
Disposals	(18)	(14,102)	-	(14,120)
Transfers	-	14,672	(14,672)	-
At 31 December 2019	<u>233,439</u>	<u>209,559</u>	<u>4,265</u>	<u>447,263</u>
<b>Depreciation</b>				
At 1 January 2019	40,544	104,495	-	145,039
Charge for the year	6,881	24,630	-	31,511
Eliminated on disposal	35	(13,737)	-	(13,702)
At 31 December 2019	<u>47,460</u>	<u>115,388</u>	<u>-</u>	<u>162,848</u>
<b>Carrying amount</b>				
At 31 December 2019	<u>185,979</u>	<u>94,171</u>	<u>4,265</u>	<u>284,415</u>
At 31 December 2018	<u>169,993</u>	<u>85,615</u>	<u>2,612</u>	<u>258,220</u>

Included within the net book value of land and buildings above is £Nil (2018 - £Nil) in respect of freehold land and buildings, £185,979,000 (2018 - £169,993,000) in respect of long leasehold land and buildings and £Nil (2018 - £Nil) in respect of short leasehold land and buildings.

#### Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2019 £ 000	2018 £ 000
Land and buildings	159,856	142,694
Plant and equipment	4,792	4,108
	<u>164,648</u>	<u>146,802</u>

#### Capitalised borrowing costs

Within the cost of plant and equipment are capitalised borrowing costs of £2,499,000 (2018 - £2,499,000).

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 12 Investments

##### Company

<b>Subsidiaries</b>	<b>£ 000</b>
<b>Cost or valuation</b>	
At 1 January 2019	8,556
Additions	10,285
At 31 December 2019	<u>18,841</u>
<b>Carrying amount</b>	
At 31 December 2019	<u>18,841</u>
At 31 December 2018	<u>8,556</u>

#### Details of undertakings

Details of the investments in which the Company holds any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2019	2018
Subsidiary undertakings				
Barchester Healthcare Homes Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Stamford Bridge) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Chacombe) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Chorleywood) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Edgbaston) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Southgate) Limited	England and Wales	Ordinary	100%	100%
Lakeside Residential Home Limited	Jersey	Ordinary	100%	100%
Lakeside Residential Home (2002) Limited	Jersey	Ordinary	100%	100%

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **12 Investments (continued)**

Mermaid Tavern (2002) Limited	Jersey	Ordinary	100%	100%
Westminster Health Care New Limited	England and Wales	Ordinary	100%	100%
Barchester Nominee (No.1) Limited	England and Wales	Ordinary	100%	100%

Subsidiaries disclosed above but with no principal activity description below were dormant in the current and preceding year.

The principal activity of Barchester Healthcare Homes Limited is the management of nursing and care homes.

The principal activity of Lakeside Residential Home (2002) Limited is the management of a care home.

The principal activity of Barchester Assisted Living Properties (Stamford Bridge) Limited, Barchester Assisted Living Properties (Chacombe) Limited, Barchester Assisted Living Properties Limited, Barchester Assisted Living Properties (Chorleywood) Limited, Barchester Assisted Living Properties (Edgbaston) Limited and Barchester Assisted Living Properties (Southgate) Limited is the sale of sheltered housing to the frail and elderly on long leases.

The principal activity of Mermaid Tavern (2002) Limited was the management of a public house until its closure during 2017.

The principal activity of Lakeside Residential Home Limited is that of an intermediate holding company.

The registered office address of those companies registered in England and Wales is 3rd Floor, The Aspect, 12 Finsbury Square, London, EC2A 1AS.

The registered office address of those companies registered in Jersey is 13 Castle Street, St Helier, Jersey, JE1 1ES.

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 13 Stocks

##### Group

	2019 £ 000	2018 £ 000
Consumables	690	793
Assets held for resale	<u>4,427</u>	<u>4,015</u>
	<u>5,117</u>	<u>4,808</u>

Assets held for resale consist of assisted living units which have been developed by the Group and are held pending resale under long-term lease arrangements. Assets held for resale are stated net of provisions of £193,000 (2018: £43,000).

#### 14 Debtors

	<b>Group</b>		<b>Company</b>	
	2019 £ 000	2018 £ 000	2019 £ 000	2018 £ 000
Trade debtors	30,640	32,348	-	-
Amounts owed by related parties	32,175	26,565	130,504	139,896
Other debtors	2,303	2,920	204	246
Prepayments	<u>28,927</u>	<u>27,994</u>	<u>-</u>	<u>-</u>
	<u>94,045</u>	<u>89,827</u>	<u>130,708</u>	<u>140,142</u>

Amounts due from related parties stated above are legally due on demand and are thus recoverable within one year. It is not expected that a demand for these amounts will be made within the next year.

# Barchester Healthcare Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 15 Creditors

	Group		Company	
	2019	2018	2019	2018
	£ 000	£ 000	£ 000	£ 000
<b>Due within one year</b>				
Loans and borrowings	1,962	1,022	-	-
Trade creditors	11,190	11,362	-	-
Amounts due to related parties	35,319	30,811	121,426	120,947
Social security and other taxes	8,146	7,782	-	-
Outstanding defined contribution pension costs	1,567	983	-	-
Other payables	24,182	11,043	-	-
Accrued expenses and deferred income	48,848	46,499	-	-
Corporation tax liability	2,421	1,604	6,074	5,252
	<u>133,635</u>	<u>111,106</u>	<u>127,500</u>	<u>126,199</u>
<b>Due after one year</b>				
Loans and borrowings	<u>189,665</u>	<u>168,395</u>	<u>-</u>	<u>-</u>

Amounts due to related parties are legally due on demand and are thus due within one year, although it is not expected that a demand for these amounts will be made within the next year.

### 16 Deferred tax and other provisions

Group	Deferred tax	Total
	£ 000	£ 000
At 1 January 2019	2,247	2,247
Decrease in existing provisions	<u>(692)</u>	<u>(692)</u>
At 31 December 2019	<u>1,555</u>	<u>1,555</u>



## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 17 Pension and other schemes

##### Defined contribution pension scheme

Certain Group companies operate defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund. The pension charge for the year represents contributions payable by the Group to the scheme and amounted to £6,686,000 (2018 - £4,530,000).

Contributions totalling £1,567,000 (2018 - £983,000) were payable to the scheme at the end of the year and are included in creditors.

#### 18 Share capital

##### Allotted, called up and fully paid shares

	2019		2018	
	No.	£ 000	No.	£ 000
Ordinary shares of £0.25 each	<u>51,650,824</u>	<u>12,913</u>	<u>51,650,824</u>	<u>12,913</u>

#### 19 Loans and borrowings

	Group	
	2019	2018
	£ 000	£ 000
<b>Current loans and borrowings</b>		
Finance lease liabilities	<u>1,962</u>	<u>1,022</u>

	Group	
	2019	2018
	£ 000	£ 000
<b>Non-current loans and borrowings</b>		
Finance lease liabilities	<u>189,665</u>	<u>168,395</u>

#### Group

Included in the loans and borrowings are the following amounts due after more than five years:

	2019	2018
	£ 000	£ 000
After more than five years by instalments	<u>183,921</u>	<u>164,800</u>
	<u>183,921</u>	<u>164,800</u>

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 19 Loans and borrowings (continued)

##### Borrowings due after five years

The above represents the aggregate finance lease liability outstanding in five years in respect of the 25 (2018: 22) homes leased on finance leases to the Group.

#### 20 Obligations under leases and hire purchase contracts

##### Group

##### Finance leases

The total of future minimum lease payments is as follows:

	2019 £ 000	2018 £ 000
Not later than one year	21,384	18,261
Later than one year and not later than five years	83,564	73,061
Later than five years	512,374	479,952
	<u>617,322</u>	<u>571,274</u>

##### Operating leases

The total of future minimum lease payments is as follows:

	2019 £ 000	2018 £ 000
Not later than one year	123,492	119,676
Later than one year and not later than five years	491,525	476,644
Later than five years	1,506,694	1,577,684
	<u>2,121,711</u>	<u>2,174,004</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £119,724,000 (2018 - £116,409,000).

#### 21 Share-based payments

##### Share options - scheme details and movements

The Group operates a programme that allows certain employees to acquire shares of Grove Limited, the Company's ultimate parent. The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares.

## Barchester Healthcare Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 21 Share-based payments (continued)

Grant date / nature of scheme	Number of instruments	Number of instruments outstanding at the year end	Vesting conditions	Contractual life of options
Consultants Share Option grant to key management on 1 May 2005	120,000	-	Vested	13.5 years
Share Options grant to key management on 22 April 2014	176,500	-	Vested	4.5 years
Share Options grant to key management on 16 December 2014	50,000	-	Vested	4 years

The movements in the number of share options during the year were as follows:

	2019 Number	2018 Number
Outstanding, start of period	127,500	162,500
Exercised during the period	(124,500)	-
Expired during the period	(3,000)	(35,000)
Outstanding, end of period	<u>-</u>	<u>127,500</u>

The movements in the weighted average exercise price of share options during the year were as follows:

	2019 £	2018 £
Outstanding, start of period	5.19	5.06
Exercised during the period	4.60	-
Expired during the period	7.00	4.60
Outstanding, end of period	<u>-</u>	<u>5.19</u>

#### Management Incentive Plan - scheme details

Directors and certain employees have been given the option to subscribe for two new classes of redeemable ordinary shares, "the B shares" and "the C shares". The value attributable to these shares at any time is equal to the ordinary share price less the initial share price, multiplied by the Growth Percentage. The Growth Percentage is a figure between 0% and 100% which is based on the achievement of certain performance conditions.

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **21 Share-based payments (continued)**

##### **Effect of share-based payments on profit or loss and financial position**

The total expense recognised in profit or loss for the year was £(3,430,000) (2018 - £1,631,000).

The total carrying amount of the liabilities arising from share-based payments at the end of the year was £Nil (2018 - £Nil).

#### **22 Commitments**

##### **Group**

The Group has committed to repurchase some assisted living units. The Directors do not envisage any impairment of the recoverable value of the underlying properties and are consequently of the opinion that no loss should be recognised by the Group in relation to these commitments.

The total of these commitments not provided in the financial statements was £1,373,000 (2018 - £2,572,000).

#### **23 Contingent liabilities**

##### **Group**

The Company received notice from the Competition and Markets Authority (CMA) on 9 May 2019, indicating that they intend to commence consultation with the business under Part 8 of the Enterprise Act 2002. The consultation relates to the past conduct in charging an upfront one off fee and the charging of fees following the death of a resident. Proceedings were served on 24 March 2020 but are currently stayed due to the ongoing coronavirus pandemic. In the event that the CMA is successful the financial impact would be in the range of £nil to £15million. The Directors, having taken advice from specialist Leading Counsel, believe that the Company is in a strong position to refute the case from the CMA and accordingly no provision has been made in the statutory accounts.

## **Barchester Healthcare Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

#### **24 Related party transactions**

##### **Group**

##### **Summary of transactions with other related parties**

During the year, the Group made a charitable donation of £150,000 (2018: £150,000) to the independent Barchester Healthcare Foundation, of which Pete Calveley is the Chairman.

The Group leased properties on operating leases from Limecay Limited which is owned by common controlling shareholders of Grove Limited. Rent payable to Limecay Limited in the year was £105,490,000 (2018: £102,226,000). As at the year end, the prepayment recognised in respect of rent payments by the Group to this related party was £24,465,000 (2018: £23,665,000).

The Group leased properties on finance leases from GCH (One) Limited which is owned by common controlling shareholders of Grove Limited. Lease payments made to GCH (One) Limited during the year were £1,636,000 (2018: £459,000). The finance lease liability payable to GCH (One) Limited at the year end amounted to £20,483,000 (2018: £6,470,000).

The Group leased a property on a finance lease from GCH (Two) Limited which is owned by common controlling shareholders of Grove Limited. Lease payments made to GCH (Two) Limited during the year were £430,000 (2018: £Nil). The finance lease liability payable to GCH (Two) Limited at the year end amounted to £7,546,000 (2018: £Nil).

#### **25 Parent and ultimate parent undertaking**

The Company's immediate parent is Barchester Holdco (Jersey) Limited, incorporated in Jersey.

The ultimate parent and controlling party is Grove Limited, incorporated in Jersey. The most senior parent entity producing publicly available financial statements is Grove Limited. Its financial statements are available upon request from [www.jerseyfsc.org](http://www.jerseyfsc.org).