



**CareTech**  
Holdings PLC

Annual Report and  
Accounts 2020

Extraordinary days  
**every day**

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## 2020 Financial and Operational Highlights

### Revenue

# £430.0m

Increased by 8.9% (2019: £395.0m)

### Underlying EBITDA<sup>(i)</sup>

# £84.1m

Increased by 14.4% (2019: £73.5m)  
Post IFRS 16: £90.9m

### Underlying profit before tax<sup>(ii)</sup>

# £60.5m

Increased by 20.6% (2019: £50.2m)  
Post IFRS 16: £59.7m

### Underlying basic earnings per share<sup>(iii)</sup>

# 43.02p

Increased by 14.4% (2019: 37.6p)  
Post IFRS 16: 42.26p

### Operating profit

# £51.8m

Increased by 31.1% (2019: £39.5m)  
Post IFRS 16: £53.4m

### Diluted earnings per share

# 22.76p

Increased by 24.3% (2019: 18.31p)  
Post IFRS 16: 22.03p

### Net cash inflows from operating activities<sup>(iv)</sup>

# £87.4m

(2019: £66.3m)  
Post IFRS 16: £94.2m

### Property portfolio valuation<sup>(v)</sup>

# £774m

With net debt<sup>(iii)</sup> of £268.9m

### Final dividend per share

# 8.75p

Increased by 10.1% (2019: 7.95p)

## Operational Highlights

### Quality

CQC – Group

# 91%

(2019: 95%)

Ofsted – Group

# 82%

(2019: 82%)

### Capacity

# 4,984 places

Adults Services

# 1,997

places  
(2019: 1,968 places)

Children's Services

# 1,959

places  
(2019: 1,933 places)

Fostering

# 1,028

places  
(2019: 1,178 places)

### Employee retention

# 75%

(2019: 74%)

### Cambian on track

Continued to see margin enhancement, improved quality ratings, increased staff retention leading to increased occupancy levels. Synergies delivered of over £5m.

### Acquisition of Smartbox

Assistive technology is the means to unlocking the digital world to millions of disabled people and those with complex needs without speech.

### Investment in AS Group

The Group completed its first investment outside the UK in the MENA region.

\* Results in this section are presented for the year ended 30 September 2020 on a non-statutory illustrative basis excluding the impact of IFRS 16 'Leases' to enable comparison with 2019 performance.

- (i) EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items (see note 6).
- (ii) Underlying profit before tax and underlying basic earnings per share are stated before non-underlying items.
- (iii) Net debt comprises cash and cash equivalents net of all loans and borrowings (see note 26).
- (iv) September 2018 market value of CareTech property portfolio of £424m and Cambian £350m.
- (v) Cash flow from operations before non-underlying items and tax (and excluding capex) (see page 90).

## Who we are

Our Adults Services support people with learning disabilities, individuals who have or are recovering from mental illness, people with autistic spectrum disorder, individuals who have one or more physical impairments and provide care and rehabilitation for adults with acquired brain injury ("ABI"). We deliver services in residential, day care and a wide choice of creative supported living settings.

Our Children's Services – nationally recognised for their expertise – cover assessment, residential care, education and fostering options. We specialise in supporting children and young people with very complex needs including those with challenging behaviours, sexually offending behaviours, or who have emotional and behavioural disorders. We carefully and professionally support any child irrespective of their need for being in social care and comprehensive high quality services include the UK's largest portfolio of specialist schools and colleges.

CareTech has pioneered outcomes and progression along the Care Pathway including transition services for young people leaving care and for adults who are making the move into their own home after a lifetime in residential or institutional settings.

We are accelerating digital adoption within the Group and blending care and technology in new meaningful ways so even service users with the most complex of needs can participate and flourish in society.

Our large and diverse frontline workforce includes qualified and skilled care workers, foster carers, teachers and managers, and clinical therapeutic teams, who are assisted by highly professional back office and support staff – collectively the CareTech family. Their care, commitment and dedication is critical to the success of CareTech in delivering extraordinary days every day for our service users.



One of CareTech's highly qualified Specialist Services teams, the Oakleaf Group.

## Sites across the UK

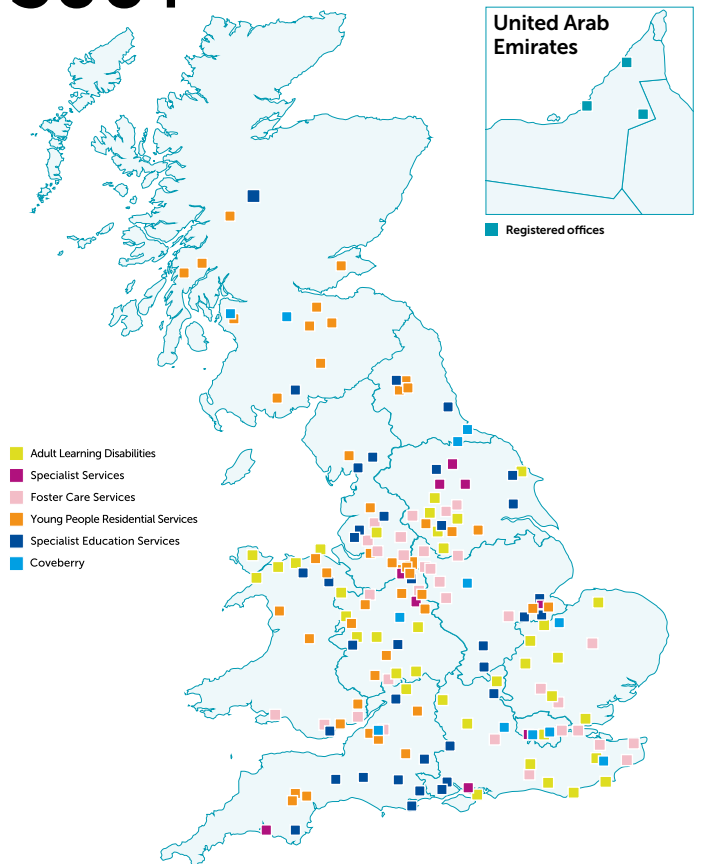
# 550+

## People

# 10,500+

## Local authorities across England, Scotland and Wales

# 300+



Group CEO Haroon Sheikh and his brother, Group Executive Chairman Farouq Sheikh, with their children Hamza and Aleena Sheikh to celebrate the launch of the CareTech 25th Anniversary book. The book charts the development of the company since its inception in 1993, and speaks to all of the key employees who have contributed to its success throughout the years.

# Purpose is at the heart of everything we do

We enable children, young people and adults with complex needs to gain independence. With our person-centred support each individual progresses to live, work, learn and engage within their communities. They are encouraged to achieve the best possible outcomes throughout their daily life. We deliver on this purpose by providing Extraordinary Days Every Day to individuals in our care.

## A powerful shared purpose

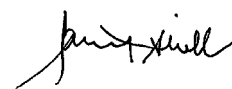
CareTech set out 26 years ago with a vision to provide loving homes and high quality care for people needing specialist support. From these foundations we have a clear purpose today which unites every one of our services. We share commitment to our purpose, and the belief that children, young people and adults with complex needs and disabilities should have the opportunity to live their best life: to live, learn, work and engage in their communities.

This desire to create better lives for people with complex needs has powered a successful business model and amazing outcomes for those for whom we care. Our family-oriented approach offers the support needed for people to make their own life choices and to enjoy their own personal version of independence, giving them a place to call home and people to call family, as well as meeting their practical, physical and psychological needs.

This focus on purpose remains at the heart of the Group's success and is a powerful motivator for every one of us, every day. The inspirational progress that we see in adults, children and young people in our care is a constant reminder of what we can achieve together as a family.

The recent additions of Purple and Smartbox to the Group give us the opportunity to increase significantly the reach of our purpose as we focus on breaking down barriers and enabling independence for people with disabilities.

As the global pandemic has clearly demonstrated, humanity is reliant on the responsibility and co-operation of global citizens and business. We believe the role of business is clear and it's increasingly apparent that a robust and bold approach to sustainability and responsible business will protect the future of the Group, in addition to the future of all the people we serve. In 2021 we will develop a strategy to enable us to act on this belief, reducing our environmental impact, increasing visibility of our positive social impact and enabling us to report our ESG performance for a brighter future for all the CareTech family.



**Haroon Sheikh**  
Group Chief Executive Officer



CareTech has expanded our services into the Middle East and North Africa (MENA) to assist families who are navigating the complex needs of their children.



CareTech service users enjoy a variety of activities and are encouraged to pursue their interests, from art to music and gardening.

A photograph of two young boys in a forest, surrounded by fallen autumn leaves. They are working together to build a wooden structure made of logs and planks. One boy is on the left, leaning on the structure, and the other is on the right, pushing against it. A large, stylized yellow and green ribbon graphic curves across the top of the image. The text 'We enable children and young people to live their best lives' is overlaid in white on the lower half of the image.

We enable  
**children and  
young people**  
to live their best lives

Two boys from Spark of Genius residential care in Scotland enjoy an outdoors building activity in local woods.

We offer a range of services that provide both residential and non-residential care services to children and young people with varying degrees of care needs.

We are proud of our reputation of being able to take on the most challenging and complex cases.

## Residential Care

Our specialist residential homes cater for a range of vulnerable children who have or are:

- Complex social, emotional and mental health needs.
- Specialist mental health needs.
- Suffered from sexual exploitation.
- Experienced complex trauma.
- Learning difficulties and disabilities.
- Deaf or significantly hearing impaired.

We are committed to:

- **Enhancing children's life chances** by protecting them from abuse and neglect.
- **Providing children with a secure base,** safety and stability to enable their progression back to a family environment.
- **Providing clinical and therapeutic intervention** to enable children to process trauma and equip them to lead successful lives.

### Children's Services care capacity

# 1,959

## Foster Care

Many foster children lack the positive family experience that most children have, but all it takes is one foster parent to make that difference.

Our aim is to ensure the children and young people we care for have safe, stable and happy family-based experiences in order that they can go on to lead fulfilling lives as adults. Every child in our care is unique and all have widely different needs. We offer training and support to help our foster parents work out the best kind of parenting for their foster child.

### Fostering capacity

# 1,028

## Educational Services

Our core objective is to guarantee every child and young person in our care achieves the very best they can to maximise their rich potential in life, learning and work.

We provide support to young people with:

- Autistic spectrum disorders.
- Asperger syndrome.
- Moderate or severe learning difficulties and disabilities.
- Complex trauma.
- Social, emotional, mental health needs (SEMH).

Our dedicated multi-disciplinary, specialist clinical and therapeutic teams ensure our children and young people receive the highest levels of care, support and education required to make positive progress.

The Group's education services are subject to rigorous operational statutory regulation with compliance measured and audited by Ofsted (England), Care Quality Commission (England), Care Inspectorate (Wales) and Education Scotland.

### Specialist schools for children aged 7 to 25

# 47

### Children

# 1,000+

## //

For perhaps the first time in his life, Alex had structure, boundaries and safety.

## //

## Alex, 9

### Adverse childhood experience, Post-traumatic stress disorder

### Alex beats the national average in maths despite his traumatic childhood experiences of domestic abuse and neglect, and rejection from schools.

Alex arrived in our complex trauma service when he was nine years old. Both of his parents had been drug users. During his early childhood he had experienced abuse, acute neglect and had been part of a domestically abusive family environment. When admitted to the service, he had an incredibly high ACE (Adverse Childhood Experience) score. His experiences were exhibited in his behaviours that had resulted in him experiencing six foster family breakdowns before he came in to our care.

When admitted to the service, Alex was highly aggressive and had minimal self-care. He showed symptoms of PTSD and had experienced numerous school changes and was under-performing academically.

We provided Alex with a safe, nurturing environment. The team looking after him worked in a child-centred approach and parented him in a way he had not previously experienced. For perhaps the first time, he had structure, boundaries and safety. Following initial assessments to inform a therapeutic framework and a clinical care plan, Alex received psychotherapy and drama therapy from our clinical team. This intervention enabled him to process his trauma, build resilience and coping mechanisms.

Alex attended a mainstream school, increased his attendance levels and, from a low starting point, progressed to achieve his targets in English and Science and exceeded the national average attainment in Maths. He has now transitioned to a foster family and is thriving.

We enable  
**adults**  
to gain independence

A gentleman at a CareTech Specialist Service creates a poppy mural for Remembrance Sunday as part of his rehabilitation.



## Specialist Brain Injury Services

Our Oakleaf services provide specialist rehabilitation for adults with a range of physical, psychological, emotional, cognitive, behavioural and communicative support needs resulting from an acquired brain injury.

### Specialist rehabilitation centres

# 10

## Specialist Mental Health Services

We offer a range of specialist mental health rehabilitation services for men and women spanning across supported living, residential care homes, care homes with nursing and hospitals.

### Specialist mental health services

# 6

## Residential Services — care homes and assisted living

We support highly vulnerable adults whose learning disability (autism or mental health) leads to challenging and complex behaviours, to live safe, happy lives within their communities. Working in partnership with health and social care professionals within the NHS and local authorities, we enable people to fulfil their goals and aspirations. We do this in two ways: fully residential care homes and supported living.

Each person is supported to access community-based services and to develop the skills and confidence to participate in local activities, whether that is participating in sports, carrying out voluntary work or in some cases paid employment. Many of our individual services are active participants in charitable activities within their community, championed by passionate and dedicated employees who live locally.

We believe that everyone should have the opportunity to choose how they live within their local community.

## Day Care Services

Our day services support people with learning disabilities and autism to access community-based activities and training. This enables them to develop vocational skills such as arts and crafts, cooking, carpentry, drama and design and technology.

“ Peter walked out of Oakleaf Rehabilitation Centre for the final time without the use of any walking aids.

”

## Peter

### Acquired brain injury

### Peter relearns how to walk, giving him the freedom to live independently.

Following a catastrophic road traffic accident, Peter suffered profound physical, cognitive and behavioural difficulties. He was unable to walk, and was reluctant to engage in therapy.

Over two years a multi-disciplinary team provided physical therapy, occupational therapy, and psychological therapy and supported regular visits home to enable a gradual re-introduction to his home life. Peter started to walk with a frame and progressed to using crutches and then walking sticks, and learned to cook and to increasingly look after himself.

After two years Peter was able to transfer to a community setting close to his family, where he could be more independent. Most importantly, Peter walked out of Oakleaf for the final time without the use of any walking aids!

**Purpose in Action:  
Person-centred  
approach**

**Dan, 56**

**With a focus on personal goals,  
Dan achieved his dream of  
greater independence.**

“

Our approach involved giving Dan choice, observing him and never giving up.

”

“What does Dan aspire to in his life? What can we provide to support him to meet his goals?”

Dan now goes out into the community every week, he goes shopping, and to the pub; he is quite partial to a carvery with a pint! This is due to the approach we took and the support we provide.

Our attitude has been one of never giving up, adapt and overcome; it doesn't always go smoothly but he absolutely lives his best life.”

**Michelle Woodcock**  
Manager of Supported Living Services

We take a person-centred  
approach to deliver

**better**



# outcomes

Our primary goal is to ensure our services are not simply places to live but safe, encouraging and fulfilling homes and families for the people in our care.

A place that values them as an individual and cares about their life. It's this environment that empowers them to live their best life.

Every individual has their own complex story and needs highly skilled interventions. We always start with their personal story and build a programme of care that will support their combination of needs. We have built a uniquely diverse and skilled team who are experienced and qualified to support the complex life challenges of our service users and who, together with the individual, deliver amazing outcomes.

This enables us to deliver our purpose to help people to live their best life, with as much independence as possible.

It's our unique combination of high standard, highly skilled specialist support and a caring family environment that empowers them to make their own life choices.

The breadth of our services also enables us to offer a long-term pathway for service users who need it; from specialist education right through to supported living once they are able to make independent life choices. It's this pathway approach and consistency of experience for our service users that helps us to deliver such impactful outcomes.

We are innovating the pathway approach with our expansion into tech solutions such as Smartbox.

Support Worker Anne Treeby sings a Bob Marley song with music fan Royston, at his Central Region service.

## Purpose in Action: Quality, support, education and care

### Our seven care quality work streams

- 1 Child, young person and adult-centred outcomes.
- 2 Improving quality standards, policies and procedures.
- 3 Recruitment, retention and development of skilled professionals.
- 4 Quality monitoring and assurance.
- 5 Embedding a culture of continuous improvement.
- 6 Management Information Systems (MIS) enabling data-informed practice and decision making.
- 7 Strong and robust site to Board governance.

### Angus, 8

#### Angus's transformation from fearful and agitated to eager and calm.

Angus is a complex eight year-old boy with a diagnosis of autism and a severe learning disability.

He has developed from a frightened and agitated little boy with limited life skills and minimal exposure to meaningful experiences, to a calm, tentative yet bubbly little boy with mountains of character. On our last visit we were greeted by a fully dressed Angus, wearing his brand new coat and trainers, reins on and raring to go – pulling staff by the hand towards the door.

Small steps and changes lead to staggering progress and the possibilities for Angus are now endless.



Cambian students hone their cooking skills in the home economics kitchen.

# Cook!

Strategic Report

Governance

Financial Statements

We remain committed to becoming the highest quality provider of care, education and therapeutic support across the UK. For us, quality is defined by the level of service we deliver and the outcomes we achieve for children, young people and adults.

We continue to resource our own highly experienced internal quality and compliance teams who undertake a programme of regular inspection and assessment and give constructive feedback backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers, ensuring best practice and procedures are maintained.

Our independent Care Quality and Governance Committee provides rigorous oversight of our regulatory and safeguarding performance and has been strengthened by the appointment of Professor Moira Livingston as Chair.

We are continuing to evaluate ways in which we can improve our standards of care and are investing significantly in the training and induction of staff.

[Read more in our Care Quality and Governance Committee report page 66.](#)

CQC-registered services

**162**

CQC-registered services rated Good or Outstanding

**91%**

Ofsted-registered services

**233**

Ofsted-registered services rated Good or Outstanding

**82%**

We provide  
**high quality**  
support, education and care

# We empower our people



## Our culture and values

Our people are our bedrock. They are our CareTech family. This belief is the foundation of our culture, which strengthens us as "a family" and in turn, drives the great quality of care that we deliver for those who need our services.

Our core values were developed by our people and sit at the heart of our expectations of how things are done in the Group.

- Friendly
- Positive
- Innovative
- Team working
- Person-centred

## Looking after our people

Our purpose is to empower and enable our service users to live their best life, and we extend the same commitment to our people. We support them to develop and grow as professionals and believe that as our people increase their capabilities and commitment, so our high quality care ethos is enhanced enabling us to achieve better outcomes.

We are proud of our heritage of diversity and have a workforce reflective of the communities we serve and that is central to our success. We are committed to developing a working environment and culture that promote fairness and inclusivity, allowing people to be "who they truly are".

We believe in career development and creating learning opportunities and have developed an enviable reputation as a leading provider and organiser of modern apprenticeships across the UK. We provide our learning services to our staff, to individuals we care and support, and other organisations seeking to develop their teams.

[Read more on page 45.](#)

Employees/people

**10,000+**

Apprenticeships

**1,200**

E-learning courses

**105,000**



### Karen Eastwood

Registered Manager at Oakleaf brain injury rehabilitation centre in Northamptonshire.

“ CareTech has given me the opportunity to progress as a manager and shown they have faith in me to be a registered manager here at Cotswolds as it's quite a large unit, with a lot of responsibility. I have unbelievable support from my line managers, Kathy Swannell and Helen Stokes, who have helped me progress professionally to what I've become today.

“ Karen is fully qualified to administer immunisations and has completed a number of courses such as wound training, PIP training and tracheostomy while with the Company, all of which have added to her clinical repertoire. She hopes to implement the gold standard framework for End of Life care in the coming year.

Care Worker Sarah Tempo enjoys a cup of tea with resident Timmy.

Purple Tuesday

Improving the  
customer experience  
for disabled people

"We are your customers"

We think  
differently





Innovation is one of our core values and we are continually looking at ways to grow and find better solutions.

The recent additions of Purple and Smartbox to the Group will enable us to do more to push the social care agenda forward and to be at the forefront of the assistive technology market, which will in turn extend our Care Pathway and leading to better outcomes for our service users.

We have also started our geographical expansion through an investment in the AS Group, the largest provider of outpatient mental health services in the United Arab Emirates. AS Group comprises two well-established brands, Maudsley Health and the American Center for Psychiatry and Neurology. Through our expertise, we believe we can play a key part supporting the AS Group to develop its services into specialist social care and special education needs services in the UAE.



**Purple Tuesday 2020**  
CEO Mike Adams and his team celebrate in front of the Piccadilly Lights, a photo display of CareTech service users supporting Purple's #ThumbsUp campaign.



## Purple

### Supporting innovation for people with disabilities

Purple is a thought leader at the forefront of changing the disability conversation, for disabled people, businesses, communities and Government. The aim is to move the conversation from one anchored in welfare, charity and vulnerability to one of value, contribution and opportunity.

Purple supports over 4,500 disabled people to live independently in the community using a local authority direct payment (or personal health budget from clinical commissioning groups). This enables them to manage their own care and employ carers of their choice. We also support people into employment with a range of training programmes to build confidence and skills.

"Our Purple Partnership package helped us understand where we most need to challenge ourselves to do more on disability inclusion, as a service provider and an employer too. A diverse mix of people brings diversity of thought and makes us a stronger and more sustainable business; one that truly reflects the society we serve. We're confident that with the ongoing support provided in our Purple Partnership, we can make the changes needed to deliver a truly inclusive experience for our customers, employees and communities."

**Barry Hoffman**  
Group Director at Landsec  
[Read more on page 46.](#)

People with disabilities supported to manage their care

**4,500**

Potential UK consumers are disabled

**1 in 5**

Organisations activated to improve the disabled customer experience

**3,500+**



## Smartbox

### Supporting innovation for people without speech

Smartbox is one of the leading companies in its field, driven by a passion to deliver innovative products and high levels of customer service that will help disabled people to express their needs, gain independence and live their best life.

In the last year Smartbox has helped more than 10,885 disabled people to communicate using technology. Our products give a voice and independence to people with complex needs who don't have speech, through a combination of specialist hardware and software.

This partnership opens up unprecedented opportunities to blend care and technology. This will benefit the service users supported by the Group alongside disabled people more generally and enable the Group to offer innovative solutions to public sector commissioners. Smartbox becoming part of the Group will accelerate the development of next generation technology-enabled service models for the specialist social care sector.

"We were always thinking what does Tom think, what does Tom want and the fact that we now have this tool that is allowing him to speak... it's made an incredible difference. He has a voice now."

**Elsa**  
Mother to Tom, aged 8  
[Read more on page 46.](#)

People with disabilities using Smartbox assistive technology in 2020

**10,885**

Countries

**100**

Languages

**30**

A man with short brown hair, wearing a red zip-up hoodie, is looking upwards and to the left. He is holding a green bird feeder with a clear plastic body filled with birdseed. The feeder is hanging from a tree branch. The background is a dense green hedge. The text 'We are a responsible business' is overlaid on the image in white, with 'responsible' and 'business' in a larger font size. There are blue diagonal lines at the bottom left of the image.

We are a  
**responsible**  
**business**

We are a purpose-led organisation driven by the conviction that brighter futures are achievable for everyone. It's a belief that we see lived on a daily basis as our service users and teams together achieve extraordinary things. "Doing the right thing" is in our DNA and part of "business as usual" for the Group. We know that this positive intent is central to our business success.

This year we have taken important steps towards formalising our culture of "doing the right thing", building the foundations for a meaningful strategy and framework that will enable us to set material targets and KPIs to better quantify, monitor and report our social impact. In 2021 we will set out a clear roadmap to reduce our environmental footprint and implement governance that will enable ESG reporting. This approach will allow us to align with and report against the UN's Sustainable Development Goals. This has become increasingly relevant as we expand our services into international markets.

Our strategy will build on the two core pillars of People and Planet.

We are committed to a future for the Group that ensures our business growth promotes a brighter future for our people and communities, and protects the planet's resources for the long term as well as building better lives for our service users every day.

## People

We are a people business, in the business of making lives better. This commitment extends beyond our service users to the people we employ, the people we do business with and the people who live in our local communities. As a responsible business we know that our success rests on the actions of many people and wider society and so we are committed to ensuring our impact is positive for all.

### For our Service Users

Fulfilling our corporate purpose results in better lives for many, and it's our goal to create positive outcomes for as many people as we are able.

Our focus in 2021 is to more fully track and record our outcomes.

### For our People

Our brilliant teams are the beating heart of the Group. We work hard to enable them to deliver the highest quality care and are committed to investing in their development.

Our focus in 2021 is to build the UK's best social care team, reflecting the diverse nature of our service users and communities, and supporting all our people to reach their professional goals.

### For our Communities

Thriving local communities are a vital success factor for the Group. The independent CareTech Charitable Foundation plays an important role in supporting local communities and our services all support local economies. It also supports and champions the social care sector, care workers and those living in care.

Our focus in 2021 will be to build on our commitment to thriving local communities.

## Planet

As the challenges faced by our planet become ever more acute, it's clear that all of our futures will be dramatically impacted by issues from global warming to resource scarcity and health threats. As a responsible business we recognise our role as members of the global community to understand and take action to mitigate our impact. To ensure that we are doing our part to protect the brighter futures we believe in. We know that healthy people and communities are dependent on a healthy planet and the global pandemic of this year has brought that sharply into focus.

Our environmental impact programme will focus on five key areas:

- Zero Waste to Landfill.
- Carbon Neutrality.
- Sustainable Travel and Transport.
- Responsibly-sourced Materials and Products.
- Sustainable and Healthy Foods.

[Read more on page 47.](#)

## The CareTech Charitable Foundation

The CareTech Foundation, established in 2017, is the first corporate foundation in the UK social care sector, demonstrating the Company's commitment to wider society and to its staff and its desire to play a strong leadership role within the social care sector. The Company donates 2% of its pre-tax profit to the Foundation and recently settled one million shares in the Company with the Foundation to enable its long-term financial sustainability.

The Foundation's mission is to support and champion the social care sector, care workers and those living in care.

- The Foundation's Partnership Grants support charities at delivering long-term positive change on the key priorities of: physical and learning disabilities and mental health; skills development for the care sector; and supporting communities.
- Members of CareTech staff are able to nominate good causes in their communities to be considered for a CareTech Foundation Community Grant.
- The Foundation provides match-funding to CareTech plc staff's individual fundraising efforts for charitable causes.
- The Foundation added the Hardship Fund to its offerings in late 2018, enabling it to support staff and their families facing significant financial hardship.

The Company provides additional in-kind support to the Foundation, such as the recent visit to Pakistan by our Specialist Services team to advise on British Asian Trust's mental health programme.

[Read more on page 48.](#)

Beneficiaries supported through the CareTech Foundation's Partnership grants

# 275,000

CareTech Foundation Community grants awarded, totalling £39,175

# 33

CareTech Foundation Staff Hardship grants awarded, totalling £97,759

# 134

Dayle inspects the bird feeder in the garden of his care home. Residents have many opportunities to enjoy nature and participate in the preservation and care of their surrounding environment.

## Group Executive Chairman's Statement



In these uncertain times, CareTech continues to be guided by its purpose and has demonstrated the resilience of its business model.

**Farouq Sheikh OBE**

Group Executive Chairman



# CareTech has demonstrated the significant resilience of its business model

Looking back over the last 26 years, CareTech has grown from a single small care home into one of the largest and most respected care providers in the UK operating more than 550 services.

## Purpose

Our purpose throughout has been to enable individuals with complex needs to experience the same opportunities to live, learn, work and engage in their communities that we take for granted. This enduring focus on specialist social care services has meant CareTech today supports more than 4,500 service users and employs over 10,500 staff.

I am honoured to have been awarded an OBE (Officer of the Most Excellent Order of the British Empire) as part of Her Majesty the Queen's 2020 birthday honours list. With deep appreciation I accepted this recognition on behalf of the CareTech family for whom providing "extraordinary days every day" is our guiding mission. I am incredibly proud of the positive impact that CareTech makes with individuals in our care and the communities we serve.

## Strong performance during a pandemic

It is my pleasure to present our results for the period ending 30 September 2020. In these unprecedented times, CareTech has demonstrated the significant resilience of its business model and all sites have remained open throughout the COVID-19 pandemic.

Although the pandemic has not been without its challenges; through the incredible dedication of our staff, we continue to deliver the highest quality of care and our services remain fully operational. Less than 3% of our service users fall into the formal NHS high-risk categories for COVID-19 such as those with underlying health conditions.

For CareTech's Adults CQC registered services, quality ratings were 91% Good or Outstanding, which compares favourably to the national average of 85%. Ofsted ratings remained at 82% Good or Outstanding across the Group. Both CQC and Ofsted have suspended routine inspections and are therefore not currently publishing ratings; however we have strengthened the management of quality and care governance functions to provide additional internal assurance.

To support staff through these unprecedented times, a CareTech COVID-19 Fund was launched in April 2020 that allocated up to £1m of the Group's cash to support staff facing adversity. Alongside this, a discretionary one-off payment was made during August 2020 as recognition to frontline staff for their efforts.

We have maintained our high levels of staff retention with the annualised retention rate at 75%. We remain committed to our people with a number of priorities this year focused on delivering staff development.

I am extremely proud and truly inspired by the collective dedication and professionalism of the CareTech family in supporting our service users during these uncertain times, and convey my heartfelt appreciation to our Board, executive and management teams, and all our staff.

## Financial results and position

CareTech has had an excellent year and I am pleased to report:

- Strong performance for the year ended 30 September 2020 with results ahead of market expectations.
- Revenue increase of 8.9% to £430.0m.
- Underlying EBITDA<sup>(i)</sup> (pre IFRS 16) increase of 14.4% to £84.1m (post IFRS 16: £90.9m).
- Underlying EPS<sup>(ii)</sup> (pre IFRS 16) increase of 14.4% to 43.0p (post IFRS 16: 42.26p).
- Statutory EPS increase of 24% to 22.88p.
- Strong operating cash conversion, accelerated reduction in net debt to £268.9m.
- Cambian performing in line/slightly ahead of targets set out at the time of acquisition.
- Continuation of organic growth initiatives.
- Increased final dividend of 8.75p declared and dividend policy reaffirmed.

Results in this section are presented for the year ended 30 September 2020 on a non-statutory illustrative basis excluding the impact of IFRS 16 'Leases' to enable a comparison with 2019 performance.

The Group's trading performance in the year was slightly ahead of market expectations. Trading was particularly strong in the latter part of the year with revenue increasing to £430.0m, an 8.9% increase.

	2020 (pre IFRS 16)	2019 (as reported pre IFRS 16)	% change	2020 IFRS 16 change	2020 (as reported, post IFRS 16)
Revenue	£430.0m	£395.0m	+9%	–	£430.0m
Underlying EBITDA <sup>(i)</sup>	£84.1m	£73.5m	+14%	£6.8m	£90.9m
Underlying profit before tax <sup>(ii)</sup>	£60.5m	£50.2m	+20%	(0.8)m	£59.7m
Underlying basic earnings per share	43.0p	37.6p	+14%	(0.76)p	42.3p
Statutory profit before tax	£38.6m	£24.3m	+59%	(0.7)m	£37.8m
Statutory earnings per share	23.6p	18.4p	+28%	(0.76)p	22.9p
Cash flow from operating activities <sup>(iii)</sup>	£87.4m	£66.3m	+31.8%	£6.8m	£94.1m
Final dividend per share	8.75p	7.95p	+10.1%	–	8.75p

(i) EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items.

(ii) Underlying profit before tax and underlying basic earnings per share are stated before non-underlying items.

(iii) Cash flow from operating activities before non-underlying items (see note 6).

# Group Executive Chairman's Statement

## continued

Group EBITDA was £84.1m (2019: £73.5m) which represents growth of 14.4% when compared with the same period last year. The EBITDA margin was 19.6% (2019: 18.6%) reflecting the improvements to the Cambian business, delivery of synergies and organic growth.

Underlying profit before tax increased by 20.6% to £60.5m (2019: £50.2m) and underlying basic earnings per share was 43.0p (2019: 37.6p).

Cash performance has exceeded market expectations. The Group continues to have a strong financial position with net debt at 30 September 2020 being £268.9m compared with £291.1m at 30 September 2019, giving net debt/EBITDA of 3.1x. Operating cash conversion was strong and partially offset by the cash consideration paid for the UAE acquisition, development opportunities and integration costs associated with the Cambian acquisition. The Board continues to believe that the Group will achieve its target of reducing net debt/EBITDA to below 3.0x.

### Dividend

We continue to maintain a progressive dividend policy. Given the consistent earnings growth, the Board has proposed a final dividend of 8.75p (2019: 7.95p) per share bringing the total dividend for the year to 12.75p (2019: 11.7p) per share. This represents a full year increase of 9% year on year. The final dividend will be paid, subject to shareholder approval, on 5 May 2021, with an ex-dividend date of 4 March 2021 and an associated record date of 5 March 2021.

### Moving forward with our strategy

We continue to make excellent progress in advancing our strategic goals:

#### Consolidating our market-leading position in the United Kingdom

Following a period of accelerated growth, particularly through the Cambian acquisition, this year we have been able to consolidate our market position in Children's Services. Post-merger integration has progressed to plan including delivering on identified synergies; implementation of an integrated management structure for Cambian and CareTech Children's Services; and roll-out of shared quality, compliance and governance arrangements.

Leveraging on this market status, which includes 46 specialist schools and colleges, our education teams are collaborating with the leading academic institutes to co-create and implement research-led best practice in specialist education that can benefit Group services and the wider sector.

Continued favourable demographics, underpinned by growth in outsourcing to the private sector, enable CareTech to remain a force for good in delivering innovative service models to commissioners and improved outcomes for our service users.

As we move into 2020/21 and beyond we are well positioned to pursue a strong and active pipeline of organic service developments and bolt-on acquisitions in both Adults Services and across Children's Services.

#### Taking our expertise to the Gulf markets

CareTech has been actively involved in the UK export drive to identify new markets.

Following extensive market engagement in the Gulf, it is evident there is a significant need for CareTech's specialist expertise. Responding to this, CareTech completed its first investment in the UAE in February 2020, through the acquisition of a 52% interest in AS Investment Holdings Ltd and AS1 Investment Holdings Ltd (the "AS Group").

The AS Group holds a majority equity interest in the American Center for Psychiatry and Neurology and Macani Medical Center, both well regarded mental health providers. The AS Group's strategy is to develop a holistic Care Pathway of specialist services in the UAE, building on the solid foundations of its existing services and brands.

With an experienced management team already in place, our plans are to support the AS Group in growing services, and for this first regional investment by CareTech to act as a gateway to further investments in the Gulf.

Like our UK services, the AS Group has demonstrated resilience in the face of the pandemic with full year results expected in line with the agreed business plan.

#### Accelerating digital adoption and extending CareTech's technology offer

COVID-19 has shone a bright light on the increasing reliance on technology in every aspect of our lives, with people experiencing complex needs disproportionately disadvantaged and isolated. CareTech recognises assistive technology is the means to unlocking the digital world to millions of disabled people and therefore we have prioritised the acceleration of technology adoption by our services and the digital extension of our Care Pathway.

In this context, we announced in October 2020 the acquisition of a majority holding in Smartbox Assistive Technology Limited and associated subsidiaries, and Sensory Software International Ltd (collectively "Smartbox").

Smartbox is a market-leading creator of software, hardware and content for individuals for whom speech difficulties is a challenge. Smartbox provides communication aids, environmental control devices, computer control technology and interactive learning and is market leader in the UK. Amongst the four leading global companies in the augmentative and assistive technology ("AAC") market it has a presence in the US and supplies its solutions into more than 30 countries.

Smartbox generated revenue in excess of £10 million in 2019 and has a track record of profitability. It is expected that the acquisition will be earnings enhancing for CareTech in the first financial year of consolidation.

The Smartbox investment represents an important milestone on CareTech's digital buy, build and partner strategy, which will see further opportunities announced that are under active consideration.

### Strengthened Board

Christopher Dickinson (FCA) joined our Board as Group Chief Financial Officer on 13 January 2020. Chris spent the past year as Cambian's Chief Financial Officer and prior to joining CareTech was a Managing Director at Jefferies where he acted for CareTech on its acquisition of Cambian. Chris brings a wealth of highly relevant experience and his appointment reinforces our commitment to build a strong Group Executive Team.

We plan to appoint an additional independent Non-Executive Director during 2021, to further strengthen our Board.

### Social responsibility

The CareTech Foundation, established in 2017, is an independent grant-making corporate foundation registered with the Charity Commission and a first in the UK social care sector, demonstrating the Group's commitment to social purpose in wider society.

Highlights during the year include:

- Increasing impact delivered through the Foundation's partnership grants, with some 105,000 beneficiaries supported directly and indirectly up to the end of December 2019 as set out in the Foundation's published Impact Report (<https://www.caretechfoundation.org.uk/impact-report-2018-2019/>). The Group continues to provide additional in-kind support, such as the recent visit to Pakistan by our Specialist Services team to advise on British Asian Trust's mental health programme.
- Its headline support, alongside the Group, to the Care Sector Ball 2019 that raised £200,000 for the Care Workers Charity and Alzheimer's Society.
- Following last year's grant of £250,000, work continues on the Birkbeck, University of London, ToddlerLab which will enable the advanced scientific study of brain development for children from 18 months to three or four years in an environment simulating familiar surroundings for toddlers. In the social care sector we see the real challenges that come along with developmental conditions like autism and ADHD. Increasing our understanding of how children's brains develop could make a huge difference to how we help children flourish. Research that allows us to spot signs earlier and improve the effectiveness of interventions could be a real game changer in boosting children's futures.
- Growth in the range of community grants provided to local causes, including: provision of state of the art equipment for a school for those with autism in London, support of the Inclusive Sports Festival in Birmingham; and, a series of five grants nominated by staff at CareTech's Greenfields School for charitable projects in their local community.
- A significant increase in the support provided through the Foundation's Staff Hardship Fund and its match-funding scheme to support staff members' charitable fundraising.

To provide further support the CareTech Foundation, the Group donated one million CareTech shares to the Foundation in June 2020. This donation will provide the Foundation with additional income and demonstrates CareTech's commitment to society, to our staff, and our desire to play a strong leadership role within the social care sector.

In parallel, over the past 12 months, Purple Zest Ltd, a 100% owned subsidiary of CareTech has pioneered in changing the disability conversation; supporting businesses across all sectors and of all sizes, to accelerate their disability inclusion activities.

Purple Tuesday, CareTech's flagship national brand to support organisations to improve the disabled customer experience, has engaged more than 3,500 organisations in making over 5,000 practical pledges to transform their customer service, thereby changing the consumer landscape.

### Outlook and prospects

CareTech enters the new financial year in a robust position and remains highly focused in providing extraordinary days every day for our service users.

I am proud of our record of accomplishment and the culture we have embedded within CareTech. We listen to our service users, their families and to our staff, and work closely with local authorities, independent inspectors and our regulators to improve and shape best practice.

CareTech will continue to consolidate its position in the UK and develop overseas markets in the Gulf. We plan to leverage technology to enhance and extend our Care Pathway and become a digital leader in the specialist social care sector just as we are in providing care services.

Looking ahead, I have no doubt we will see a continuation of growth and care excellence, which will help continue our target of double-digit growth in underlying EPS and maintain our progressive dividend policy.

On behalf of the Board, I would like to thank our many stakeholders and the CareTech family, including colleagues joining us from the AS Group and Smartbox, for their dedication and commitment to the Group and for going the extra mile. Finally, I would also like to thank our shareholders for your continued support.



**Farouq Sheikh OBE**  
Group Executive Chairman  
10 December 2020

**Group Chief Executive Officer's Statement  
and Performance Review**





“CareTech continues, resolutely, to deliver on our purpose to create opportunity and transform outcomes for service users in our care, and deliver value to commissioners.

**Haroon Sheikh**  
Group Chief Executive Officer

”

2020 has been an extraordinary year. Faced with a global pandemic, CareTech continues, resolutely, to deliver on our purpose to create opportunity and transform outcomes for service users in our care and deliver value to commissioners.

#### An extraordinary year

Our Care Pathway, which extend from Foster Care to Children's and Adults Services, addresses the needs of individuals with complex needs. We provide services in a range of community-based settings that include schools and colleges; day care, residential and step-down supported housing; and specialist placements. Our offer now includes assistive technology to enable individuals without voice to communicate, considerably extending our digital reach to people with complex needs in our home markets and around the world.

#### Our commitment to high quality care

Fundamental to everything we do is an unwavering commitment to provide high quality care. Delivering this has required good governance, an open and transparent culture, dedicated focus to continuous improvement, and robust processes and systems. We have enhanced the terms of reference for our Care Quality and Governance Committee to include the growing clinical governance agenda across the Group. Alongside this we have strengthened the leadership and management of our quality, safeguarding and care governance functions as we continue to work closely with our regulators.

This investment in governance, good practice and management capacity has enabled us to mount a robust and effective response to the ongoing pandemic. The Group's priority throughout COVID-19 has been the health, safety and wellbeing of our service users and colleagues. We have taken immediate and decisive steps to develop a well-managed response to business continuity and a COVID-19 taskforce led by the Executive Team has co-ordinated our decisions and actions. This has been informed by a dynamic risk assessment tool implemented to provide real time monitoring and support across all of our services.

We have given particular focus to how services are managing with key aspects of care quality – for example, availability of Personal Protective Equipment (“PPE”) and other important infection control measures. I am pleased to report arrangements have also been in place to provide staff cover between services and, overall, a reduction in agency workers.

Our services benefit from strict precautions including enhanced levels of cleaning, additional hygiene facilities and social distancing, and our internal compliance team has maintained a programme of visits, reviews and support to frontline services.

Above all and despite these challenging times, we remain committed to the engagement of our staff and service users, and ensuring services continue to provide extraordinary days every day for those in our care.

# Unwavering commitment to provide high quality care

# Group Chief Executive Officer's Statement and Performance Review

continued

## Our commitment to our people

The Group recognises that finding and hiring the right people, based on our corporate values, is central to our ability to continue achieving our purpose. I congratulate our recruitment and learning services teams who through hard work and determination have recruited staff and on-boarded them exceptionally well this year in unusually challenging circumstances.

CareTech is immensely proud of its longstanding diversity heritage. We are committed to developing a working environment and culture that promotes fairness and inclusivity. In October 2020, we initiated a Diversity & Inclusion Programme to shape our strategy and embed this into working practices and culture.

We remain committed to a culture of "open dialogue" and our most recent Staff Survey received over 3,000 responses demonstrating positive engagement. Our focus for the coming year is to roll out Group-wide plans to improve staff experience and act upon the feedback we received.

## Our commitment to innovation

Technology plays an incredibly important role in how we operate as a Group supporting our services and staff with solutions and enabling great quality care for our service users. The pandemic has accentuated the need for innovative and scalable technology, and I am delighted our highly talented technology teams have risen to this challenge procuring best in class solutions and developed in-house applications, one example being the dynamic risk assessment tool, referenced earlier.

During the year, we upgraded the income processing systems, integrated CareTech and Cambian human resources and payroll applications to a consolidated platform, rolled out sophisticated estates management functionality, and business intelligence and analytics capability.

We will continue to invest in technology to create an integrated compliance and quality line of sight platform to provide a real time view of key metrics. In Children's Services development of an enhanced assessment and referrals system is underway and work has started on designing the Group's new corporate website, which will incorporate our growing presence in the UK and international markets.

Our investment in Smartbox will introduce augmentative and assistive technology to our education and care services and work is underway to identify early adopter sites for piloting.

## Our commitment to sustainability

We are a business driven by the conviction that brighter futures are achievable for everyone.

As the challenges faced by our planet become ever more acute it's clear that issues from global warming to resource scarcity and health threats will dramatically affect all of our futures. As a sector leader, CareTech recognises the role we can play as members of the global community towards a brighter future for everyone. We know that healthy people and communities are dependent on a healthy planet, and the present global pandemic has brought that sharply into focus.

We take a holistic approach to sustainability, encompassing social and environmental impact. This year we have taken important steps towards building a meaningful strategy that will set out a clear roadmap to reduce our environmental footprint and implement Environmental, Social and Governance ("ESG") reporting. This approach will enable us to align with and report against the UN's Sustainable Development Goals, most notably Goal 3 (Good Health and Wellbeing), Goal 4 (Quality Education) and Goal 10 (Reduced Inequalities).

Our commitment to supporting our local communities is delivered by the CareTech Foundation which provides grants to local charities and to the care sector more generally. Caretech donated 2% of its pre-tax profit to the Foundation alongside the recently donated one million shares to the Foundation.

## Business performance

I am pleased to provide a review of each of CareTech's operating divisions as set out below. A new accounting standard, IFRS 16 'Leases', was adopted with effect from 1 October 2019. To enable a comparison with the 2019 performance, results in this section include presentation for the year ended 30 September on a non-statutory illustrative basis.



## Adults Services

Year to 30 September

### Revenue

**£136.2m**

(2019: £123.6m)

### Pre IFRS 16 EBITDA before unallocated costs

**£33.6m**

(2019: £32.7m)

### Post IFRS 16 EBITDA before unallocated costs

**£35.7m**

(2019: £32.7m)

### Capacity

**1,997**

(2019: 1,968)

Adults Services provide a flexible, person-centred approach with support offered on an individual planned basis both within a registered residential setting and in step-down supported housing. Demand remains high across the spectrum for the support of people with learning disabilities and CareTech recognises the increasing complexity of need for referrals to specialist services within the division.

For many people with the most complex intellectual or physical challenges, residential care will continue to be the preferred option although the services will change in their approach as we move towards a more enabling, modern type of service. An alternative to residential care is the opportunity for people to live in a home of their own, sometimes shared with others. CareTech is a leader in the provision of supported living and offers packages of individualised self-directed support to people in their own homes.

CareTech's Specialist Services team works in partnership with the NHS and Social Service departments to ensure a successful transition out of acute care and the prison service, delivering pathways to an ordinary life. We also have an outstanding track record for diverting people away from acute care and supporting them in their own homes. CareTech's highly effective care teams are developing new ways to offer community support solutions and we believe that this will be an important growth platform in years to come. Specialist Services provision continues to dominate the health and social care agenda. Good Specialist Services are a significant contributor to a healthy community and national economy, while mental ill health is devastating to individuals and their families. Most commissioners are driven by a wish to reduce patient time in acute care and rely on creative outsourcing to dramatically cut the cost of specialist services care in hospital and within the criminal justice system.

The market for high acuity care and support for people with learning disabilities is estimated to be £5.8bn and growing year on year due to demographic changes and individuals living longer. Demand for lower acuity support has been impacted by cuts in local authority expenditure, but this is not an area of activity in which CareTech operates. Conversely, funding for those with the highest level of need has maintained, and increased in some local authorities.

Due to COVID-19, the Care Quality Commission ("CQC") suspended routine inspections in March 2020 and has only just commenced inspections focused on higher risk services. Across Adults Services, CQC ratings are 91% Good or Outstanding, which compares favourably to the national average of 85%.

Revenues from Adults Services were £136.2m (2019: £123.6m) and EBITDA was £33.6m (2019: £32.7m). Revenues and EBITDA increased by 10.2% and 2.6% respectively. EBITDA margins adjusted to 24.7% reflecting the change in mix to the business as the number of supported living beds grew, and opening of two new residential sites in Specialist Services.

Placements increased by 29 to 1,997. 60 beds were introduced to the portfolio including 41 beds in two new residential sites in Specialist Services. A net 15 supported living contracts ended and 16 beds were withdrawn.

“  
The Group has continued to build on our values driven, and quality focused, approach to transforming outcomes for service users in our care, and delivering value to commissioners.  
”



## Children's Services

Year to 30 September

Revenue

**£252.9m**

(2019: £230.6m)

Pre IFRS 16 EBITDA before unallocated costs

**£65.9m**

(2019: £55.6m)

Post IFRS 16 EBITDA before unallocated costs

**£69.6m**

(2019: £55.6m)

Capacity

**1,959**

(2019: 1,933)

For a relatively small number of children, residential care offers a safe and helpful solution for their care needs and CareTech has developed an extensive range of highly technical care and education environments where those children will thrive. Our residential provision offers high staff ratios and highly skilled carers, capable of ensuring both safety and progression. These are high cost services where we aim for an intensive period of care and a strict timetable that delivers results at a fair price to commissioners. As far as practicable we aim to help these children through our therapeutic care approach to move into a more normalised family style environment as soon as it is practicable to do so. These services are highly integrated operations with dedicated staff ratios and may also include on-site or dedicated educational facilities.

As with CQC, the Office for Standards in Education, Children's Services and Skills ("Ofsted") suspended routine inspections in March 2020, and resumed inspections focused on higher risk services in September 2020. Ofsted ratings across the Group are 82% Good and Outstanding. Due to COVID-19 and Ofsted not currently publishing ratings, we do not expect the Group's ratings to change in the short term.

Revenues and EBITDA before unallocated costs for Children's Services were £252.9m and £65.9m, an increase of 9.7% and 18.4% respectively. Cambian has continued to see EBITDA margin enhancement through improved quality ratings and increased staff retention, and this leading to increased occupancy levels.

Capacity increased by 26 beds with 27 development projects brought into service, 22 capacity increases, eight beds withdrawn and 15 reconfigurations. The pipeline of organic investments in our Children's Services residential portfolio continues to be strong.



## Foster Care

Year to 30 September

Revenue

**£40.9m**

(2019: £40.8m)

Pre IFRS 16 EBITDA before unallocated costs

**£8.0m**

(2019: £7.5m)

Post IFRS 16 EBITDA before unallocated costs

**£8.6m**

(2019: £7.5m)

Capacity

**1,028**

(2019: 1,178)

Foster care is undoubtedly the best care solution for most “looked after” children. Most children thrive in foster care where they are supported within an ordinary family home and with trained foster carers. CareTech provides for both mainstream and specialist foster care through local agencies across the UK. We offer a highly respected service for physically and intellectually disabled children as well as support for children with sensory impairments. We provide foster care family assessments and ongoing support to children who remain with their birth families and in their family home.

Revenue and EBITDA for Foster Care were £40.9m and £8.0m respectively. Capacity has decreased by 150 places, as available capacity has not always been fully utilised due to a number of solo placements, COVID-19 restrictions, foster parent leavers and in some cases young persons remaining in placement post-independence.

Looking forward, we are training our foster carers with the skills required to manage placements that are more complex and have linked Fostering Care Services with our Children’s Services residential team to provide an effective Care Pathway.

### International

CareTech has actively targeted the Gulf markets through inbound and outbound trade visits as this region increasingly looks towards international best practice to support local transformation of specialist social care services to meet population needs and in line with the UN’s 2030 Agenda for Sustainable Development.

In February 2020, CareTech completed an investment into the AS Group, the largest provider of outpatient mental health services in the UAE. AS Group comprises two well-established brands, Maudsley Health and the American Center for Psychiatry and Neurology (“ACPN”).

Maudsley Health is a partnership between the Macani Medical Center and South London and Maudsley NHS Foundation Trust (“SLaM”), the oldest psychiatric institution in the world. The partnership operates an outpatient facility in Abu Dhabi and in 2018 won the tender for an exclusive management agreement to provide clinical support to the Al-Amal Psychiatric Hospital in Dubai, a 276-bed state of the art Government owned facility exclusively dedicated to mental health.

ACPN has operated since 2008 providing psychiatry, psychology, occupational therapy, rehabilitation and related services. Services are state funded by Thiqa/Daman insurance and the brand’s major customer group is UAE nationals.

Maudsley Health and ACPN have strong relationships with commissioners across the UAE and engage with them to develop care pathway opportunities. Through this investment in the AS Group, CareTech will support the acquired services to grow their Care Pathway into specialist social care, education and training via organic service developments and bolt-on acquisitions.

Despite the challenges of COVID-19, the AS Group is on track to deliver its first year business plan under CareTech ownership, demonstrating the underlying resilience of the business. We are confident that a strengthened Care Pathway will significantly improve the availability of high quality services to an underserved social care market in the UAE, and act as a gateway to the wider Gulf region where we are experiencing growing interest in CareTech’s expertise.

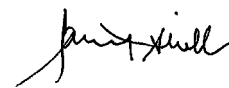
To support the regional growth opportunity we have established our corporate Managing Office for the Middle East North Africa in the Dubai International Financial Centre, UAE, and appointed an experienced management team to expand the Group’s presence in the Gulf markets.

### Summary and outlook

The pandemic has tested the resilience of UK PLC and businesses across the globe. I am pleased to report that our strategy in the markets we serve has proven to be robust and highly resilient even during these uncertain times. More importantly, I am delighted that CareTech in this 26th year of existence has demonstrated that commitment to purpose remains as strong today as it was when we opened our first small care home. Turning to the future, I remain confident about CareTech’s outlook and prospects, to reach more people with complex needs at home and overseas, through a blend of high quality services and our digitally extended Care Pathway.

It is my pleasure to lead the Group, a business that has consistently made a real difference to so many lives. In these uncertain times we continue to celebrate the tremendous achievements of our service users across the country, holding an Arts and Crafts celebration, Easter Spirit event and a “Blooming Marvellous” Gardening competition through the year.

I conclude by expressing my sincere thanks to our Board, our executive and management teams and colleagues throughout the Group for their hard work, commitment and dedication. In particular I would like to reach out to our staff to convey my heartfelt appreciation, and thank them, for the manner in which they continue to resolutely provide outstanding care to our service users, and supported each other, during this year of the pandemic.



**Haroon Sheikh**  
Group Chief Executive Officer  
10 December 2020

# Our market is driven by five big trends



Jackie and Margaret have fun playing an afternoon game of Connect 4 at their Central region home.

# 1. Increasing demand for specialist adults and children's care



## Adults Services

Younger Adults in residential care settings

**63,000**

Younger Adults in non-residential care settings

**297,000**

UK population have specific mental disorders

**13%**

\* Data from LaingBuisson Adult Specialist Care 4th edition 2020 report.

The Adults Services care market in which the Group operates in the UK is worth an estimated £12.5bn per annum and estimated to be growing by more than 2-3% per annum.

The principal drivers of demand for adult specialist care in the UK are:

- Improved life expectancy and ageing of learning disabled population.
- Increasing survival of children and young people with complex needs into adulthood.
- Inability of parents to provide informal care.
- Increased medical interventions around birth, increasing the number and proportion of service users with lifelong severe learning and/or physical disabilities.
- Moving up the acuity spectrum increases fees but also creates areas of expertise that others find difficult to match.

There is commissioner preference for supported living over residential care as this is a lower cost to local authorities because the housing element is paid through from housing benefit allowance.



## Children's Services

Children in UK looked after outside foster care

**10,080**

Children in independent sector special schools and colleges

**21,817**

Placed in foster care in England

**54,870**

\*\* Data from LaingBuisson Children's Services Market Report 5th edition 2020 report.

In 2020, the total market for specialist Children's Services was worth approximately £5.9bn. The market is growing for the following reasons:

- Long-term population growth and higher prevalence of special educational needs and "high needs" over time.
- High priority for the Government is adequate provision of mental health services and support for vulnerable children and young people.
- Earlier diagnosis of complex needs.

## 2. Funding for healthcare

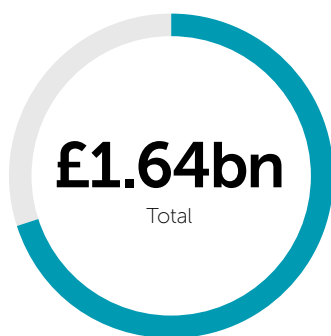


### Market statistics

Market for residential learning disabilities and supported living worth an annual

**£5.8bn**

Residential children's market across UK worth



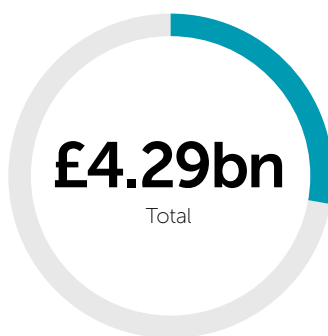
■ Independent sector **£1.15bn**  
■ Public sector **£492m**

Market growth rate  
**6.9%**

Adults specialist care market

**£12.5bn**

Education and training in special schools and colleges



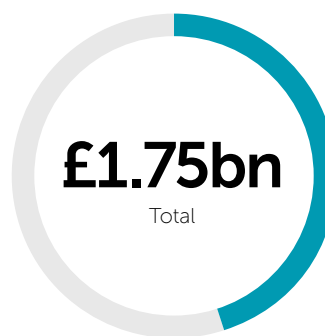
■ Independent sector **£1.2bn**  
■ Public sector **£3.09bn**

Market growth rate  
**6.3%**

Market growth rate

**1.2–2.6% p.a.**

Foster care market across England worth



■ Independent sector **£790m**  
■ Public sector **£956m**

Market growth rate  
**3.7%**

\* Data from LaingBuisson Adult Specialist Care 4th edition 2020 report.

\*\* Data from LaingBuisson Children's Services Market Report 5th edition 2020 report.

The UK has an established system of public and private providers of health and social care. Although the available resources to purchase social care remain largely static there is a known increase in demand across the whole spectrum, presenting purchasing bodies with a conundrum and focusing money on the areas of highest need such as complex children, very disabled or complex people with learning difficulties and hospital discharge schemes.

The principal driver for commissioners in local authorities and the NHS is value. This is interpreted by them as the optimum balance between quality and price, but has an underpinning criterion determined by "outcomes".



### 3. Fragmented market of care providers



**10 largest Adults Service providers have only 13.5% market share**

**Top 4 independent Children's Services providers have 23% of residential market share**

\* Data from LaingBuisson Adult Specialist Care 4th edition 2020 report.  
\*\* Data from LaingBuisson Children's Services Market Report 5th edition 2020 report.

Most providers of social care have fewer than three services and this huge, fragmented range of providers represents the vast majority of the market. However, the market has been steadily consolidating and a very small number of large "corporate" providers have emerged, with CareTech being one of the bigger players within the non-elderly care sector.

The Adults specialist care market is the most fragmented with the top four largest providers having 7.5% market share and the ten largest players only 13.5% market share.

### 4. Stringent regulation over quality of care



The markets that CareTech serves are regulated by CQC and Ofsted in England, and equivalent regulatory bodies in Scotland and Wales. These bodies control and administer the registration, inspection and complaints procedures set out under applicable laws and regulations. In order to open a service, it needs to be registered with the applicable regulator, and must pass regular inspections to ensure it meets the minimum standards and requirements prescribed under laws and regulation. Commissioners placing adults or children into services expect high quality provision.

A high level of regulation is required to assure the quality and safety of services.



## 5. Access to skilled care workers



Mickey Wiltshire, a resident in Central region, has a playful moment with his support worker Italia.

### Industry average retention rate less than 70%

The social care sector has high levels of turnover and vacancies. Following the introduction of the national living wage on 1 April 2016, care workers' pay has increased but staff turnover remains high given tough working conditions. Care workers in the sector find working in the sector fulfilling but there is a perception of low pay and lack of training or promotional prospects.

#### What this means for CareTech

The market segments served by CareTech is growing for both adults and children who present with high severity needs, challenging behaviours and who have complex care requirements. Hence, budget cuts have a very limited impact on the Group. One of our differentiating factors is the concept of the Care Pathway to reflect our optimism that users of our services can make progress with their lives. Our commitment to maximise independence is great for our service users, rewarding for our staff and strongly supported by those who commission and support our services. Our "outcome" focused approach for our service users has a wider impact on society including more individuals back into work, fewer individuals returning to care facilities, a reduction of adult prison population having been in care and children leaving care achieving educational attainment levels.

CareTech is well positioned in the market. We are aligned to local authorities' purchasing principals and we work closely with commissioners to ensure that we stay in tune with their approach to market management. We work closely with our regulators and commissioners across England, Scotland and Wales.

CareTech is a very well-known care Group in public ownership and offers high quality services with a strong ethical and values-based approach. We have upper quartile ratings for both CQC and Ofsted and have ambitions to improve these. Our quality assurance is embedded within the Group's operational management structure – from the Home Manager, Regional Manager and Operations Director, through to the Chief Operational Officer and the Board. The Group uses Acoura and NYAS as independent suppliers, to audit and report monthly Health and Safety matters as well as all RIDDORS (Reporting of Injuries, Diseases and Dangerous Occurrences).

We continue to strive to be the employer of choice within the sector. We promote our values and culture by helping our employees and supporting them with regular supervision, training and career development programmes. To embed our culture across the Group we reward our people throughout the year culminating in the Sixth Care Awards ceremony. These initiatives promote staff continuity and lead to improved standards of care quality.

# We have defined three pillars to execute our strategic objective

Within the UK, CareTech's strategic goal is to be a leading national integrated provider of specialist social care services for children and adults, delivering high quality and care excellence. We aim to distinguish ourselves from other providers by offering a bespoke range of options, which meet the needs of commissioners and offer service users a Care Pathway of opportunities. The Group's focus is the provision of high acuity specialist social care through our three outcome-based division – Adults Services, Children's Services and Foster Care.

We have defined three pillars to executing our strategy.



## 1. Build the industry's best leadership and workforce

### Objective

We employ over 10,500 qualified and skilled frontline staff including care workers, teachers and managers. They are supported by a professional team of clinical and therapeutic staff, back office and support services. The care, commitment and professionalism of our staff is critical to the success of our Group and the care we provide.

CareTech places emphasis on the provision of attractive working conditions and staff training. Part of our recruitment process is focused on matching the needs of the Group's service users to the skills values and behaviour of our staff, which necessitates a person-centred approach to recruitment and on-boarding. We offer a range of learning and development to ensure that staff have the necessary knowledge, competencies and attitudes for the services we provide.

### Progress this year

- Conducted annual Group staff survey which showed that we scored a positive engagement score in all "five engagement drivers". Staff strongly supported the notion that CareTech was a good place to work and most importantly stated that they were provided with the right training in a timely fashion in order for them to continue to deliver great quality care for the people that we support.
- Endorsed a partnering initiative, with organisations such as the Ernst & Young Foundation, to bring young people into our sector.
- Endorsed a programme to move from aspiring behaviours to lived behaviours leading to organisational behaviour statements. This will also power our resourcing agenda to be underpinned with a strong values ethos.

### Priorities for 2020/21

- Fully roll out the Applause Programme launched in October 2020 to recognise and reward our staff for living our values.
- Develop our Equality, Diversity & Inclusion ("ED&I") programme to shape our diversity and inclusion strategy and embed this into working practices and culture.
- Conduct an internal audit of good ED&I practice to establish baseline and roadmap.
- Work with senior leaders to provide training, development, workshops and coaching to help increase their understanding of the importance of ED&I and organisational relevance.
- Run focus groups to establish the reality of working for the Group, from a minority perspective (Gender, Disability, Ethnicity and LGBT).
- Focus on leadership coaching and building for the future – introduction of executive management development.

### KPIs

- Staff retention rate.



Jon Davis leads a training session for support workers and managers on "Inclusion and Diversity" at CareTech Head Office in Potters Bar, Hertfordshire.



## 2. Have the highest quality ratings

### Objective

The drivers for social care are to deliver high quality care, with reliable outcomes at a fair price. We believe that the market has recognised that CareTech offers the best possible balance between quality and value and understands the need for progressive thinking and innovation to deliver ongoing results.

Our Group brands are strong and our extensive commissioning relationships across the UK robust. This is reinforced by our presence at major industry events where we have been reliable sponsors and commentators. The most effective way that we sustain our reputation is by delivering what we promise for the people we support and by treating our staff well.

Quality is not simply compliance with the requirements of regulation. Our approach is to embed quality throughout the Group's operations and employ well-qualified and skilled professionals who operate within our quality framework. Our quality framework and processes include, but are not limited to:

- Recruitment and retention of appropriate staff alongside appropriate training and induction.
- Regular reporting from home managers through to locality managers, operational directors and divisional senior management as well as the Group's head of quality.
- "Line of sight" monitoring which looks for key performance indicators, which support high quality services. Each service is rated internally with early warning signs identified and progress monitored by senior management to drive continuous improvement.
- An experienced internal quality and compliance team who operate across all divisions, reporting to senior management. The team undertakes a programme of regular inspection and assessment of facilities and services against internal quality assurance frameworks, and additionally carries out thematic reviews.
- A Care Quality and Governance Committee chaired by Professor Moira Livingston, Non-Executive Director. The Committee has oversight of all issues and reports relating to the well-being of service users; commissions enquiries into matters of concern; and strives to ensure that CareTech operates to the highest level of professional care standards.
- Careful analysis of regulatory inspection reports from external regulators.
- Board oversight through monthly reporting of key performance indicators and compliance data.



Pottersbury Lodge students pose proudly with their certificates on GCSE Results Day 2020.

### Progress this year

- Conducted a survey of our children and young people to assess their views on how well supported they felt during COVID-19.
- Operated a pandemic response taskforce to manage the effective handling of COVID-19 across the whole business.
- Expanded the STEP therapeutic framework into parts of our Children's Services, enabling us to better needs of services users at each stage of their journey.
- Designed and implemented a new and robust policy review process for all operational policies across the Group.
- Designed competency matrices for care staff.
- Reviewed our safeguarding practice against NSPCC safeguarding standards.
- Established a Heads of Care Forum, a Heads of Education Forum and Safeguarding Boards.

### Priorities for 2020/21

- Expand the roll-out of our outcome-framework, and select appropriate frameworks for Adults Services.
- The STEP framework will be rolled out to our specialist mental health services.
- We will investigate effective methods to update staff on changes in policy and test their understanding.
- Implement a new dynamic risk assessment "line of sight" system to monitor performance.
- Establish our Responsible Individual Forum, our Outstanding Practitioner Forum and implement an expanded safeguarding governance framework.
- Establish our Friends and Families Forums to enable their collective voice to inform policy and practice.

### KPIs

- CQC "Good/Outstanding" rating.
- Ofsted "Good/Outstanding" rating.



### 3. Achieve high occupancy through matching

#### Objective

Our strategy is to offer a strong national presence with local brands and regional service delivery points. This supports development of local relationships while offering the comfort and security of a well-resourced Group.

Our services are in demand and occupancy has remained high despite unrecognised fears of local authority austerity impacting referrals. The nature of referrals in recent years has been towards the more complex end of the spectrum.

New residents arrive in a CareTech care home following a referral from a local authority or clinical commissioning group ("CCG") care manager. Once a referral has been received, a resident assessment is typically followed by an assessment including a detailed matching of the proposed resident with a known or anticipated vacancy. The selection of new residents is undertaken with care and sensitivity to ensure the ongoing success of the service. This sometimes means that a home can have a short-term vacancy. Local authorities or CCGs are more likely to place a resident in a home that seeks to match each resident's need with those of the people already living there. This practice is commercially advantageous, maintains the success of an existing home, and helps to ensure continuing high referral levels.

#### Progress this year

- CareTech's services are present on a multitude of purchasing frameworks across England, Scotland and Wales. These procurement tools allow providers to bid for lots aligned to their provision type.
- An integrated referral process across the Group.
- Business development teams meeting regularly to have "strategic" discussions regarding the requirements of commissioners and this feedback allows the planning of future services.

#### Priorities for 2020/21

- Maintaining regular engagement and communication with commissioners. To continue articulating our services offering to best position our provision for the appropriate service users.

#### KPIs

- Mature and blended occupancy rate.



KPIs help us to measure the Group's performance against our strategy and objectives

## Financial

### Revenue

**£430.0m**

(2019: £395.0m)

#### How this is calculated

Revenue measures how we have filled our capacity, the fees we have charged, together with the impact of acquisitions.

#### Performance this year

Revenue has improved to £430.0m – 8.9% year on year. This reflects the increase in organic growth achieved by the core business in part reduced by the reconfiguration of some properties, the improved Cambian performance, fee increases and the acquisition in the UAE in February 2020.

### Underlying EBITDA (pre IFRS 16)

**£84.1m**

(2019: £73.5m)

### Underlying EBITDA

**£90.9m**

#### How this is calculated

EBITDA is operating profit stated before Interest, Tax, Depreciation, Amortisation, share-based payments charge and non-underlying items that are described in note 6 to the Financial Statements.

#### Performance this year

The EBITDA has improved by £10.6m, 14.4% year on year. This reflects the EBITDA contribution from the improved margins in Cambian, organic growth achieved by the core business, which has been in part reduced by the reconfiguration work on some properties.

### Underlying profit after tax and non-controlling interest (pre IFRS 16)

**£47.2m**

(2019: £40.2m)

### Underlying profit after tax and non-controlling interest

**£46.4m**

#### How this is calculated

Underlying profit after tax and non-controlling interest is the Group's profit after provision for taxation excluding non-underlying items such as amortisation of intangible assets after tax, which are fully described in note 6 to the Financial Statements.

#### Performance this year

The profit after tax is 17% more than 2019 representing an improved return to shareholders reflecting the turnaround in Cambian, integration synergies and organic growth achieved by the core business.

### Underlying basic EPS (pre IFRS 16)

**43.02p**

(2019: 37.6p)

### Underlying basic EPS

**42.26p**

#### How this is calculated

Underlying basic earnings per share is the profit after tax divided by the weighted number of ordinary shares, which are fully described in notes 11 and 12 to the Financial Statements.

#### Performance this year

The underlying basic earnings per share has increased by 14% in the year.

**Operating cash conversion****103.9%**

(2019: 90.2%)

**How this is calculated**

Cash flow from operations before non-underlying items and tax (and excluding capex) divided by EBITDA.

**Performance this year**

Operating cash conversion was strong at 104% EBITDA to cash conversion.

**Net debt****£268.9m**

(2019: £291.1m)

**How this is calculated**

Net debt comprises cash and cash equivalents net of bank loans and borrowings and HP leases previously accounted for under IAS 17 excluding Project Teak sale and leaseback. Net debt remains unchanged following the adoption of IFRS 16.

**Performance this year**

The Group continues to have a strong financial position with net debt at 30 September being £268.9m compared with £291.0m at 30 September 2019. Operating cash conversion was strong which was partially offset by the cash consideration paid for the UAE acquisition, development opportunities and integration costs associated with the Cambian acquisition.

**Operational****Capacity****Adults Services****1,997****places**

(2019: 1,968 places)

**Children's Services****1,959****places**

(2019: 1,933 places)

**Fostering****1,028****places**

(2019: 1,178 places)

**How this is calculated**

The Group's capacity is the total number of places that the Group is able to offer at that date. It is a total including residential care beds, independent supported living accommodation, community support service users and children that foster carers can currently look after.

**Performance this year**

Adults Services increased 29 places to 1,997 due to 41 beds in two new residential sites in Specialist Services, a net four new supported living contracts offset by 16 beds withdrawn. Children's Services increased to 1,959 mainly due to 27 development projects, 22 capacity increases, eight beds withdrawn and 15 reconfigurations. Fostering decreased to 1,028 due to blocked beds as a result of COVID-19 and some foster parent leavers.

**Mature Estate Occupancy****83%****How this is calculated**

The Mature Estate Occupancy is the total number of Adult and Children service users placed in services that were open throughout the year.

**Performance this year**

The mature estate occupancy has remained broadly unchanged. The occupancy of the Cambian business is affected by the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new education term commencing in October.

**Blended occupancy****80%****How this is calculated**

Blended occupancy is the total number of Adults and Children's service users actually placed as a percentage of the Group's total capacity and so reflects facilities undergoing development and reconfiguration.

**Performance this year**

The ratio has broadly remain unchanged and is also impacted by the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new education term commencing in October.

**Quality****Regulatory rating (%) – facilities rated "Good" or "Outstanding"****CQC – Adult****91%**

(2019: 95%)

**Ofsted****82%**

(2019: 82%)

**How this is calculated**

The markets that CareTech operates in are regulated by Ofsted and the CQC and their equivalents in Scotland and Wales. Each facility is inspected and given a score, with a range of outcomes from "Outstanding", "Good", "Requires Improvement" to "Inadequate" (or equivalent).

**Performance this year**

Whilst both CQC and Ofsted regulatory ratings are above the industry average, due to COVID-19, both CQC and Ofsted suspended all routine inspections from March 2020.

**Employee retention****Annualised retention rate****75%**

(2019: 74%)

**How this is calculated**

The number of employees working for the year to 30 September 2020 as a percentage of the number of employees at 1 October 2019.

**Performance this year**

Maintaining high levels of staff retention underpins our high service quality ratings. The Group's retention rate of 75% compares favourably to the industry average of 70%.

### What we do

We are driven by our purpose to enable young people and adults with high acuity needs to live, learn, work and engage in their communities, and achieve the best possible outcomes through their life experiences. We deliver this by providing Extraordinary Days Every Day to individuals in our care.

#### **We create homes and families and empower our service users to live independent lives**

Our Adults Services support people with learning disabilities, individuals who have or are recovering from mental illness, people with autistic spectrum disorder, individuals who have one or more physical impairments, and provide care and rehabilitation for adults with acquired brain injury ("ABI"). We deliver services in residential, day care and a wide choice of creative supported living settings.

Our Children's Services – nationally recognised for their expertise – cover assessment, residential care, education and fostering options. We specialise in supporting children and young people with very complex needs including those with challenging behaviours, sexually offending behaviours, or who have emotional and behavioural disorders. We carefully and professionally support any child irrespective of their need for being in social care and our comprehensive high quality services include the UK's largest portfolio of specialist schools and colleges.

CareTech has pioneered outcomes and progression along the Care Pathway including transition services for young people leaving care and for adults who are making the move into their own home after a lifetime in residential or institutional settings.

We are accelerating digital adoption within the Group and blending care and technology in new meaningful ways so even service users with the most complex of needs can participate and flourish in society.

 [Read more about our service offerings on page 5.](#)



Children from Spark of Genius residential care in Scotland learn and play on the beach.



Residents from Ivy House created this replica of their home for the CareTech Arts and Crafts Competition 2020. The incredibly personal 3D piece was a Regional Winner for the Central region.



## How we make money



Lorraine poses proudly in front of the rainbow 'Window of Hope' she created with her fellow residents at their Supported Living service during the Covid-19 pandemic.

**In the UK, local authorities, clinical commissioning groups and health boards commission Group services. Funding is received in four main ways:**

### Framework agreements

Framework agreements are typically awarded to providers on a non-exclusive basis pursuant to a public tender. These agreements outline various service and reporting obligations as well as pricing terms. Framework agreements can be set up for any period of time, although a typical framework agreement is at least two years in length. The actual care package to be provided for an individual in a provider's care and the pricing for such services is agreed on a case-by-case basis at the time an assessment of their individual needs is made.

### Spot contracts

Most admissions and referrals remain based on "spot" contracts, which are individual placement agreements. Spot contracts generally have a four week notice period to terminate the contract and typically do not have a minimum term. Spot contracts provide greater operational flexibility and are appropriate for bespoke care packages to meet the high severity support needs of the individuals in a provider's care. Fees are typically negotiated on a case-by-case basis.

### Block contracts

A limited amount of specialist care funding is provided through block contracts. Such block contracts are negotiated for a specific volume of service, pre-booked over a fixed period of time, usually for a specified price.

### Private pay/insurance

Private pay services make up a very small part of our revenue as the UK publicly funded bodies will typically provide funding.

In the UAE, insurance plays a larger role in funding of services.

## How we do it



Cambian students complete an inflatable assault course on the lake.

### We listen to our stakeholders

We seek to engage in constructive dialogue with stakeholders to gather a holistic understanding of their key expectations and concerns. Our key stakeholders include shareholders, service users and families, regulators, suppliers, customers and the communities in which we operate.

**Some examples of how CareTech purposefully engages with key stakeholder groups are set out on page 41.**

### We look after our people

We remain committed to ensuring employees share in the success of the Group and fully appreciate that CareTech's performance is affected by the relationship we have with them. We promote our values and culture by helping our employees and supporting them with regular supervision, training and clear career development programmes.

**Read more about our people on page 45.**

### We have a person-centred approach to our innovative Care Pathways

Care and support is characterised by optimism and a genuine belief in the abilities of our service users. Everyone we support has an opportunity to make progress in their lives and our professional teams work hard to help individuals in our services make progress. Many years ago we began to describe our services as a Care Pathway, making clear our intention to break away from the old belief that care is for life. We have delivered on this commitment and everyone we support, from young children to profoundly disabled adults, shares our approach to maximise their independence. This is great for service users, rewarding for our staff and strongly supported by those who commission and support our services.

**Read more about our person-centred approach on page 45.**

## How we do it

### We live our culture of respect, quality and care

Our aim is to provide a safe working environment for service users, staff and visitors. Our vision is to be the highest quality provider across the breadth of our services.

Our upper quartile quality and compliance performance is against a backdrop of continued raising of quality standards in the sector reflected in an increasingly stringent regulatory environment. We continue to resource our own highly experienced internal quality and compliance teams who undertake a programme of regular inspections and assessment and give constructive feedback backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers ensuring best practice.

Our independent Care Quality and Governance Committee provides rigorous oversight of our regulatory and safeguarding performance and has been strengthened by the appointment of Professor Moira Livingston as Chair.

We are continuing to evaluate ways in which we can improve our standards of care and are investing significantly in the training and induction of staff.

[Read more about the work of our Care Quality and Governance Committee on page 66.](#)

### We think differently

COVID-19 has revealed the step change in digital technology adoption that is required by social care. Assistive technology is the means to unlocking the digital world to millions of disabled people – from accessing information and having a voice to buying products and services.

Purple is at the forefront of changing the disability conversation for disabled people, businesses, communities and government. The aim is to move the conversation

from one anchored in welfare, charity and vulnerability to one of value, contribution and opportunity.

[Read more about Purple on page 15.](#)

[Read more about Smartbox on page 15.](#)

### We believe in doing business responsibly

Doing business the right way is of fundamental importance to us. A successful business needs to operate in healthy, thriving communities and needs to be seen as a good neighbour to those communities.

We have direct involvement in a variety of community-based programmes, further improving our service reputation and helping to foster a strengthened relationship with local authorities.

In addition to supporting our communities, we recognise our responsibility to the wider global community and are taking action to minimise our impact on the environment. This includes carbon reduction, waste reduction and careful use of resources.

Being a socially responsible organisation with a focus on developing our ethical standards aligned with our commercial objectives remains a core aim. Considering non-financial values such as reputation, employee commitment, environmental footprint and service user fulfilment and independence helps us develop longer-term opportunities.

Behaving responsibly and maximising the benefits of a strong relationship with our stakeholders is an integral part of a continuing process of building long-term value.

[Read more about our approach to responsible business on page 16.](#)

[Read more about the CareTech Foundation on page 17.](#)



CareTech service users show their support for the Purple Tuesday 2020 #ThumbsUp campaign, which champions an improved experience for disabled consumers.



Nkeesha tries out her new Smartbox grid device. She was the first person to receive one as part of the **100 Voices** project; Smartbox will provide this assistive technology to 100 adults and children in CareTech care homes and specialist schools to promote improved communication for the individuals we support.

## We create value for our stakeholders



### Our Service Users

We provide a Care Pathway to meet the needs of our service users and our professional care and education teams strive to make each day an extraordinary day. We look after close to 5,000 service users across the Group.



### Our People

Our employees are the bedrock of the organisation. We have more than 10,000 employees and have delivered 105,000 e-learning course, over 25,000 face to face interventions, and 3,000 virtual classroom sessions. We have supported 1,200 learners on apprenticeships programmes across the Group.



### Our Commissioners

The demonstration of value for the services that CareTech provides is objective; this is done individually through service user reviews and collectively at a service level review. The sharing of regulatory reports and those conducted by independent visitors allows the quality assurance of our provision to be shared. We have relationships with more than 300 local authorities and care commissioning groups.



### Our Communities

Over 3,500 organisations participated this year in Purple Tuesday making over 5,000 commitments to make changes in practice from more accessible websites, improved signage, formalised quiet hours for people with learning disabilities, to frontline staff learning hello, goodbye and other phrases in British Sign Language. With media opportunities giving 17.4 million people across Britain access to the initiative and top trending on Twitter worldwide, Purple Tuesday has become the go to brand for the disabled customer experience.

The CareTech Foundation is the first corporate foundation in the UK social care sector, demonstrating the Group's commitment to wider society and to our staff and the desire to play a strong leadership role within the social care sector. The Foundation's mission is to support and champion the social care sector, care workers and those living in care.



### Our Investors

Since IPO, Revenues, EBITDA and EPS have grown by a CAGR of 21%, 27%, and 17% respectively. CareTech's market capitalisation has gone from £60m at IPO through to over £500m. CareTech has a progressive dividend policy and paid out 11.7p for 2020.

### Our approach to shareholder engagement

**The Board appreciates that effective communication with the Group's shareholders and the investment community as a whole is a key objective. The views of both institutional and private shareholders are important, and these can be varied and wide-ranging, as is their interest in the Group's strategy, reputation and performance.**

The Group Executive Chairman has overall responsibility for ensuring this communication is effectively conveyed and for making the Board fully aware of key shareholders' views, comments and opinions. Contact with investors throughout the year is a priority and the Board strives to look after their interests. General presentations to major shareholders following the publication of the Group's annual and interim results are conducted by the Group Executive Chairman and the Group Chief Financial Officer as are regular meetings through the year with fund managers and investment analysts.

Robust year-on-year dividend growth is an objective and all shareholders are encouraged to attend CareTech's Annual General Meeting, which all Board members attend, as this provides an opportunity to address questions to the Directors.

The Group's annual and interim reports are available to all shareholders and all results, Group announcements and related investor information can be accessed via the corporate website, [www.caretech-uk.com](http://www.caretech-uk.com). The website is under constant review in an effort to maximise the effectiveness of information made available to shareholders.

The Board embraces open dialogue with shareholders and works with its stockbrokers Numis and Panmure Gordon to ensure that an appropriate level of communication is facilitated through a series of investor relations activities. The Directors believe that shareholders' views are important as part of their decision-making process.

#### How we engaged during the year

- Group Executive Chairman and Group Chief Financial Officer reported back to the Board after the investor roadshows.
- Regular, detailed feedback provided to the Board by our stockbrokers, financial public relations and investor relations advisers to inform the Board about investor views.
- Regular meetings between the Group Executive Chairman, Group Chief Financial Officer and Group Chief Operating Officer with institutional investors, sales teams and industry/sector analysts.
- Released regular updates on the operational and financial performance of the Group incorporating occupancy levels, quality ratings, revenue, profitability by division, net debt and appropriate commentary on key business trends.
- The Group Executive Chairman engaged with larger institutional shareholders to discuss matters including the Board, strategy, remuneration and corporate governance.
- All communication from individual shareholders reviewed by management and provided with a response.
- Ensured that all shareholders have equal access to information by making documents presented at investor meetings available on the Group's corporate website: [www.caretech-uk.com](http://www.caretech-uk.com).

Our priorities in 2021 include maintaining regular communication with our funders (both equity and debt).

### Our approach to engaging with commissioners

**Local authorities and health commissioners across England, Scotland and Wales are one of CareTech's most important stakeholders.**

The service users in our care will typically be referred by a local authority social worker and access to our services are purchased through the authority's respective commissioning teams. The cost of placements are not always all social care funded and health commissioners support the payment of any "health" component to the care package. The effective engagement and communication with these stakeholders is a priority for the Group.

All staff at CareTech interface in some way either directly or indirectly with local authorities and other commissioners. The Group's business development teams have overall responsibility to ensure that engagement and communication is effective and together with operational colleagues ensure that the Board is fully aware of commissioning trends. Contact with local authorities is at least daily across the Group. This ranges from the daily partnership working with social work teams to ensure that the needs of service users are being met, to formal service users and business reviews. These reviews will involve our frontline staff, senior operational colleagues and Directors depending on the meetings' requirements.

The demonstration of value for the services that the Group provides is objective, and this is demonstrated individually through service user reviews and collectively at a service level review. The sharing of regulatory reports and those conducted by independent visitors allow the quality assurance of our provision to be shared.

The Group's corporate website details the specifics of our offer and the website is under constant review in an effort to maximise the effectiveness of information made available to local authorities and other commissioners.

#### How we engaged during the year

- CareTech's services presented on a multitude of purchasing frameworks across England, Scotland and Wales. These procurement tools allow providers to bid for lots aligned to their provision type. Where successful, this provided a purchasing mechanism to allow the Group to access referrals of services users whose needs could be met by our services.
- The referral and placement of service users took place daily across the Group. This process involved many people from commissioners and Group staff, with a single focus on meeting the needs of the service user.
- Operational colleagues had regular contact with commissioners regarding each service user. Alongside this, formal reviews to understand service user progress and determining any changes to an individual's care plan.
- Senior operational staff alongside the business development teams supported "whole" Authority Business Reviews that allow detailed discussion on performance to take place.
- Business development teams had "strategic" discussions regarding the sufficiency requirements of commissioners and this feedback allowed the planning of future services.

Our priorities in 2021 include maintaining regular engagement and communication with our commissioners to continue to articulate our service offerings such that we best position our provision as a provider of choice.

## We have brilliant service users

### We believe the success of those entrusted in our care is our most important corporate responsibility.

We have continued to strive for long-lasting improvements in our services in a way that is consistent with the interests and concerns of our stakeholder community. As always, the driving force underpinning the Group's operations is the delivery of the highest quality of care to our service users.

Service users are the reason for our existence and meeting their needs remains our key objective.

As the Group grows, we strive to maintain a culture that never forgets the important relationship we have with our service users. We seek to nurture these relationships and see them as partnerships of mutual interest and respect, with our person-centred approach ensuring service user interests are safeguarded and vulnerabilities minimised.

The further expansion of our Care Pathway seeks to provide our service users with "whole of life" of solutions to their needs, maximising independence where possible by encouraging education, promoting choice, being proactive with family members, providing training for employment where feasible and nurturing personal ambition where helpful. In the year we have celebrated the achievements of our service users across the country, including holding an art competition and a "Blooming Marvellous" gardening competition.

We are determined to preserve the dignity of those we care for and fully support Government initiatives to this end. We see making each day as fulfilled as possible for our service users and a vital ingredient to their, and our, success.

From the first time we meet each service user we start to gain an understanding of not only their needs, which are often complex and challenging, but most importantly to understand their future aspirations so that a plan to support them in our care is individual and as best informed as possible. Where present, parents (carers/guardians) and the service user's social worker, play a key role in supporting the development of their care plan.



Dickie enjoys Easter in the garden at his South region service.



Resident Sarah Stacey paints Union Jack flags to decorate her South region service for the 75th Anniversary of VE Day.

A service user's care plan is dynamic, informed and updated by "their voice" together with the professionals supporting them in their placement, alongside their social worker (and other external professionals) as well as advocacy services and independent reviewing professionals who visit service users regularly. This multi-disciplinary approach ensures that the care plan is as rich and well informed as possible. Where communication is a challenge for a service user, the use of appropriate communication techniques is important, from computer assistive devices, such as those provided by our Smartbox GRID technology, to British Sign Language and Makaton to ensure their voice is heard.

When a service user joins one of our services, it is explained to them how their voice can be heard, and what to do if they think that this is not happening. They are reminded of this on an ongoing basis.

Day-to-day key workers will support their service users aligned to an agreed support plan. Each service user's progress against this plan is formally reviewed with clear progress targets being set by the multi-disciplinary team supporting the service user.

We utilise surveys, in the form of simple questionnaires, to ensure that our provision is meeting the needs of our service users. As part of regulatory inspection, inspectors will meet and discuss the care that service users are receiving and include this as part of the inspection feedback.

Our relationship with parents (carers/guardians) is important as they will often have championed the placement choice for the service user. We support visiting and contact with parents appropriately and as agreed as part of any care plan.

Our priorities in 2021 include continuing to ensure that we work towards the aspiration of each service user by making every day an extraordinary day and celebrating their successes.

## Our approach to engaging with our regulators

**CareTech operates in a highly regulated environment. The Group invests heavily in its internal compliance capacity and has established open, transparent, and positive relations with care, health and education regulators in the national and international environments within which we operate.**

CareTech sits within the CQC "Market Oversight" group and complies fully with the financial, business and care regulatory requirements that market oversight brings.

Regulatory requirements differ across both the sectors that we operate in, but also in the devolved administrations of Scotland and Wales. The Group's internal compliance team supports the business to understand and interpret the external regulatory landscape and ensure continued compliance with all regulatory requirements. The ratings across the Group continue to compare well with other providers.

This year has seen the need to engage with regulators in a very different way. COVID-19 has impacted on the regulatory programmes of all of the national regulatory bodies. The second part of the Group's operating year saw the suspension of the vast majority of site inspections and of the awarding of ratings. The Group engaged with the amended regulatory programmes and introduced enhanced risk assessment processes and reporting for all services to provide additional compliance assurance to regulators.

Alongside engagement with regulators, the Group further enhanced strategies and policies for effective data protection information governance, and in meeting health and safety requirements.

### How we engaged during the year

- National Relationship meetings with Ofsted and CQC.
- Ongoing dialogue with relationship managers through COVID-19.
- Introductory meetings for newly appointed CareTech senior managers with key Ofsted personnel.
- Regular dialogue at regional and local level on services quality and compliance.
- Participation in consultations and learning events with all regulatory bodies.
- Worked with Care Inspectorate Wales ("CIW") to re-register the fostering services – bringing all of the Group services registered with CIW under the Regulation & Inspection of Social Care (Wales) Act.

Our priorities in 2021 include continuing to have regular relationship meeting with our Regulators at national and regional level and participate in consultations with all regulatory bodies.

## Our approach to supplier engagement

**The Board is mindful of the importance of ensuring that the Group is able to source a broad range of high quality products from a base of well-respected suppliers and of being a trusted partner for our suppliers.**

### How we engaged during the year

- Supplier relationships are primarily managed by our property and procurement team.
- Payment practices are monitored on a monthly basis.
- The Board reviewed and approved the Company's Modern Slavery Act Statement.
- Suppliers must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety and prohibit modern slavery.

Our priorities in 2021 include continuing to actively manage supplier relationships as well as ensuring they uphold recognised standards in which they operate.



Judges Sarah Longley-Cook, Cambian Interim Clinical Director, and Val Cooper, Group Recruitment Manager, admire the Regional Winner of the South category for the Arts and Crafts Competition 2020. The piece is a CareTech hot air balloon created by Rebecca, a resident with profound learning difficulties which features company CEO Haroon Sheikh and Chairman Farouq Sheikh.



Blooming Marvellous certificates and prize money cheques ready to be sent out to the three winners of our annual gardening competition; Gayton Road, May Morning and Somerset School.

## How we look after our brilliant people



Supported Living staff teams received well deserved thank you gifts from their locality managers as recognition for their tireless hard work during the ongoing COVID 19 pandemic.

**Our staff are the foundation to everything we do, and known as the CareTech family. The Group works hard to promote a culture guided by our purpose, and this is a key driver in how we recruit staff, provide development, and ensure inclusiveness in our practices.**

### Talent acquisition

Finding and hiring the right people is central to our ability to achieving our purpose. With this in mind, we continue to embed “values-based recruitment” (“VBR”) in hiring practices. We train all our hiring managers to use our VBR toolkit as the main driver in the recruitment cycle to deliver a candidate-centric approach to the acquisition of great talent from within and outside of the care sector. Our aim is not to merely fill open roles, rather it is to find and select the right people to be part of something special.

### How we engaged during the year

- We continued to work tirelessly and innovatively to find new talent to select and on-board.
- We were pleased to partner with People First to share our Group employment opportunities, in order to support with the redeployment of displaced employees from various sectors resulting from the pandemic.

Our priorities in 2021 include rolling out a programme of work to partner with charitable and other organisations to bring young people into our sector and further deployment of technology solutions to assist with recruitment.

We are continuing to build a fruitful and evolving partnership with The Prince’s Trust, which allows us to give potential employees a taster of the rewarding work and career opportunities the Group can offer.

### “Our values”

Friendly, Positive, Innovative, Team Working and Person Centred are our values. We are immensely proud of these values and work hard every day to ensure that everyone at CareTech lives and aspires to these values.

As part of our ongoing commitment to embed our values into the DNA of our business, the Board has endorsed a programme that will cement



Staff members at the annual CareTech Care Awards 2019 receive their accolades from the Senior Executive team, onstage at the Hilton Hotel, Park Lane.

our work in this area across the Group. We will be working to the “aspired and lived” experience model, measuring our high aspirations with our lived culture and values. We will seek to map awareness and our current experience and then target our activity towards our expectations for the future. The focus will be to create a behavioural framework for each one of our values. This will define the way in which “we do things around here”. These will become known as our “non-negotiables”. They will run through the heart of our systems, processes, communications and day-to-day dealings with each other, underpinning our commitment to be a values led business.

### How we engaged during the year

- Launched the Applause Programme, which is central to being a mechanism to recognise and reward our staff for living the values.

### Equality, diversity and inclusion

CareTech is immensely proud of our rich heritage of having a diverse workforce. We are committed to developing a working environment and culture that promotes fairness and inclusivity. We know that this allows people to be “who they truly are” and not what others want them to be. Strongly aligned to our value of “Person Centred”, this approach continues to be a vital thread and we are committed to its ongoing development and recognition as a valuable contribution to the success of the Group and to service user outcomes.

### How we engaged during the year

- Initiated an ED&I strategy that is shaping our priorities.

### Our priorities in 2021 are to:

- Develop our Equality, Diversity and Inclusion (“ED&I”) programme to shape our diversity and inclusion strategy and embed this into working practices and culture.
- Conduct an internal audit of good ED&I practice to establish baseline and roadmap.
- Work with senior leaders to provide training, development, workshops and coaching to help increase their understanding of the importance of ED&I and organisational relevance.
- Run focus groups to establish the reality of working for the Group, from a minority perspective (Gender, Disability, Ethnicity and LGBT).

## Our work through Purple

**Purple is our Group disability brand and at the forefront of changing the disability conversation by changing it from one anchored in welfare, charity and vulnerability to one of value, contribution and opportunity.**

There are over 14 million disabled people in the UK with a wide range of impairments including physical, sensory, mental and learning conditions. Over 80% of disabled people have hidden disabilities with mental health conditions rising rapidly. Disabled people comprise 22% of the UK population.

Purple provide a range of services and products and supports 4,500 disabled people to live independently in the community with a Local Authority direct payment (or personal health budget from clinical commissioning groups). This enables disabled people to employ their own carers, use a care agency solution or increasingly a blend of both. Our services include assistance with recruitment and payments of carers to overseeing tax returns and pension contributions. Over £70m of disabled peoples' funds flow through our dedicated Purple accounts every year. Purple also support disabled people into employment with a range of training programmes to build confidence, skills and which also develop the capacity of employers.

Purple's work with employers has recently been recognised by a shortlisted nomination in the prestigious Lloyds Bank National Business Awards in the category of social impact. We provide audit, training and consultancy services to organisations of all sizes and across all sectors. Increasingly, our delivery has been online and we have been able to model best practice in terms of being accessible. Through the pandemic our support to organisations around mental health has been acknowledged.

Purple has been nationally acclaimed for its flagship initiative, Purple Tuesday, which is focused on improving the customer experience for disabled people. Over 3,500 organisations participated this year making over 5,000 commitments to make changes in practice from more accessible websites, improved signage, formalised quiet hours for people with learning disabilities to frontline staff learning hello, goodbye and other phrases in British Sign Language. With media opportunities giving 17.4 million people across Britain access to the initiative and top trending on Twitter worldwide, Purple Tuesday has become the go-to brand for the disabled customer experience.

Mike Adams, Purple's CEO and an Executive Director at CareTech, has recently been listed in the Shaw Trust Powerlist as one of the top 100 disabled influencers in the UK.

Purple has a unique position in the marketplace in that it provides support and services to both disabled people and businesses with lived experience of disability at its heart.

Over the next 12 months we will expand our range of products to further accelerate the changing, and much needed, disability conversation.

## Accelerating digital adoption and extending CareTech's technology offer

**COVID-19 has shone a bright light on the increasing reliance on technology in every aspect of our lives. We are accelerating adoption of technology with the Group and making solutions more widely available through our extended digital Care Pathway.**

**"I can't be Jamie without Grid"**

### New communication aid introduces second screen and antimicrobial technology

Smartbox, our user-centred technology business launched in 2020 one of the most powerful communication aids available in the market, Grid Pad 15. It provides integrated support for all alternative access from switches to eye gaze and pointing devices and comes complete with environmental control, all day battery life, second screen communication technology and is the first device of its kind to be made using an anti-microbial material, which inhibits the growth of bacteria and spread of viruses.

This combination of features has arrived at a moment when it is more important than ever to ensure people can communicate clearly while remaining safe.

Jamie Preece, who is a service user representative at Barnsley Hospital NHS Foundation Trust and uses a Grid Pad 15 to augment his communication, says "the second screen is fab, it means people don't try to lean over my shoulder to read my screen so it's also good for social distancing!"

Jamie began using assistive technology to support communication in his twenties and now presents at national conferences and mentors people as they begin using assistive technology. "Grid and Grid Pad have changed every aspect of my life. I can't be Jamie without Grid."

### Implementation of assistive technology in special education needs school leads to student independence

Lisa Rees-Renshaw is an Assistive Technology Advisory Teacher at Ysgol Y Deri Special School in Penarth and has received the Outstanding Use of Technology Award at The National Teaching Awards. Lisa and the team at Ysgol Y Deri have truly led the way in adopting assistive technology to help their pupils achieve independent participation.

Assistive technology specialists from our Smartbox business have had the privilege of working with Ysgol Y Deri since it opened over five years ago, supporting Lisa as she has implemented Grid 3 software for communication, play, education and environmental control. "This has had a significant impact on our pupils' everyday activities; they now have a voice, which we all hear and understand, and this has given them control over what happens to them, being able to make choices and participate fully in activities, both in school and at home."

Smartbox's Grid software is amongst the leading global alternative and augmentative communication ("AAC") solutions and includes advanced features such as interactive learning and early symbol communication resources through to sophisticated text communication and computer control. This unique platform design means all pupils can use the same programme and it adapts to changing needs and abilities. Lisa explains, "school staff are now starting to increase their use of Grid 3 for written tasks using the online Grids for language, maths and topic activities and we are in a phase of teaching staff how to edit these Grids to meet their own pupils' needs for their lessons. By editing grids, it is quicker for staff who are already pushed for time. Grid 3 is a great teaching and learning tool."



## Carbon Emissions

CareTech recognises that our operations have an environmental impact and we are committed to monitoring and reducing our emissions year-on-year. We are also aware of our reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. As such, this year we have upgraded our energy and carbon reporting to meet these new requirements and increase the transparency with which we communicate about our environmental impact to our stakeholders.

### 2019/20 performance

This year we have calculated our environmental impact across scope 1, 2 and 3 (selected categories) emissions sources for our UK only operation. Our emissions on a location basis (using the UK grid emissions intensity) are 11,829 tCO<sub>2</sub>e, which is an average impact of 1.6 tCO<sub>2</sub>e per employee. We have calculated emission intensity metrics on an employee basis, which we will monitor to track performance in our subsequent environmental disclosures.

The market-based emissions, 9,307 tCO<sub>2</sub>e, incorporate the renewable energy purchasing that we have carried out over the October 2019 to September 2020 period. When compared with location-based emissions this is a difference of 2,522 tCO<sub>2</sub>e.

### Energy and carbon action

In the period covered by the report the Group has undertaken the following emissions and energy reduction initiatives:

- As the boilers in our services come to the end of their lifespan, we replace them with newer, more efficient condensing boilers.
- Boilers have clocks and thermostats fitted in our larger services.
- Newly installed or upgraded radiators are fitted with a thermostatic valve.
- We upgrade to LED lightings when refurbishing services and when fittings comes to the end of their lives.
- We have domestic kitchens in all of our services and choose AA-rated energy efficient ovens, fridges, freezers when replacing or upgrading.
- We optimise energy efficiency in our buildings by ensuring all roofs are insulated, windows are double or secondary glazed and thermostatic mixing valves control hot water.

### 2019/20 results

The methodology used to calculate the Green House Gas ("GHG") emissions is in accordance with the requirements of the following standards:

- World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version).
- Defra's Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting requirements (March 2019).
- UK office emissions have been calculated using the DEFRA 2020 issue of the conversion factor repository.

Following an operational control approach to defining our organisational boundary, our calculated GHG emissions from business activities fall within the reporting period of October 2019 to September 2020.

### Emissions and energy usage

	Emissions source	Emissions tCO <sub>2</sub> e <sup>(i)</sup>
Scope 1	Natural gas <sup>(ii)</sup>	3,179
	Company and leased cars	3,914
	Other fuels	1,195
<b>Total Scope 1</b>		<b>8,288</b>
Scope 2	Purchased electricity <sup>(iii)</sup>	3,108
<b>Total Scope 2</b>		<b>3,108</b>
Scope 3	Electricity transmission and distribution	267
	Employee cars <sup>(iv)</sup>	166
<b>Total Scope 3</b>		<b>433</b>
<b>Total (Market-based)</b>		<b>9,307</b>
<b>Total (Location-based)</b>		<b>11,829</b>
<b>Total energy usage (kWh)<sup>(v)</sup></b>		<b>53,011,194</b>
Carbon intensity	tCO <sub>2</sub> e per FTE per employee	1.6

Table 1 – Energy and carbon disclosures for reporting year.

- Emissions are reported for the UK estate only as global reporting remains voluntary under the current requirements of the SECR regulation for organisations that are not listed on the main market of the London Stock Exchange, but are considered "large".
- A benchmark figure, based upon an average of usage at similar sites, was used to estimate missing natural gas consumption at certain sites.
- A benchmark figure, based upon an average of usage at similar sites, was used to estimate missing electricity consumption at certain sites.
- A benchmark figure was used to calculate all of employee cars' consumption.
- Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only (as required by the SECR regulation).



## The CareTech Foundation

Established 2017, the CareTech Foundation (the "Foundation") is an independent grant-making corporate foundation registered with the Charity Commission. Funded mainly and founded by the Group, the Foundation has an independent Board of Trustees responsible for delivering its Charitable Objects. In the year to September 2020 the Group made charitable donations through the Foundation of £0.7m (2019: £0.7m).

The Foundation is the first corporate foundation in the UK social care sector, demonstrating the Group's commitment to wider society and to its staff and its desire to play a strong leadership role within the social care sector. The Foundation's mission is to support and champion the social care sector, care workers and those living in care. In particular, the Foundation's support is targeted on the following three impact areas:

- Physical and learning disabilities and mental health. Supporting disabled people and those with long-term health difficulties, including those with mental health conditions and complex physical and learning disabilities.
- Skills development for the care sector, especially for those from deprived and disadvantaged backgrounds to equip them for careers in the care sector.
- Supporting communities, including the family and friends of Group employees facing significant financial hardship or for issues affecting local communities.

The Foundation published its first Impact Report based on its new Theory of Change in April 2020 (see <https://www.caretechfoundation.org.uk/impact-report-2018-2019/>).

The Foundation delivers its key objectives through the following key approaches:



It supports a small number of significant partnerships with credible and high quality charities and social enterprises consistent with its three key objectives. To be considered for the Foundation's support, any partnership must:

- Involve medium- to long-term investments in innovative and high-impact programmes that will deliver one or more of the Foundation's objectives.
- Demonstrate and be contingent upon any investment by the Foundation leveraging additional investment.
- Enable the Foundation to provide wider in-kind support through the expertise of the Group's staff, supply chain and wider network.

A key vehicle by which the Foundation is able to add value to its financial commitment to its partnerships is the in-kind support provided by Group staff who are invited to volunteer to support projects supported by the Foundation, bringing their expertise and understanding to bear for the benefit of the project and the delivery partner(s) involved. The Foundation helps to broker such volunteering opportunities as well as recording the extent and value of this support.

Through the Foundation's existing portfolio of partnerships, it has (directly and indirectly) supported over 275,000 beneficiaries since the programmes' inception. Over the last year, the Foundation has added the Birmingham Disability Resource Centre as a partner – Positive Pathways. Positive Pathways aims to help any person with disabilities or person with a long-term condition who is looking to enter or return to employment, training or volunteering.



The Foundation delivers a small grants programme to support the communities, families and friends of Group staff facing significant financial hardship or for issues affecting local communities. These grants are open to staff members of the Group to support the positive contributions they make to their communities and through volunteering.

Demand for the Foundation's Community Grants increased steadily again this year. During 2019/20 the Foundation has supported 33 grants to a value of £39,175.

The Foundation provides match-funding to CareTech's staff individual fundraising efforts for charitable causes in line with the Foundation's Charitable Objects.

During 2019/20, the Foundation supported 28 Match Fund grants to a total of £7,395.

The Foundation added its new Hardship Fund to its product offerings in late 2018, enabling it to support staff facing financial hardship. Since their introduction, demand for these grants has increased steadily and the Group agreed a doubling of their contribution in 2019/20 to £50,000. Demand was significantly stimulated because of COVID-19 and the trustees agreed to divert additional funds to this grant stream, taking the total available to £100,000. This year, the Foundation has supported 134 grant applications to a total amount of £97,759, processing over 200 applications.

## COVID-19 response

The Foundation recognised quickly that responding to the challenges of COVID-19 had to be a top priority. It was particularly aware of the huge strains that the crisis was likely to have on those individuals and communities it seeks to serve. Recognising the significant economic impacts of the public health crisis, trustees took an early decision to increase the funding available through the Foundation's Staff Hardship Fund, more than doubling the funds originally budgeted for this grant stream. A particularly important element of the Foundation's approach was proactively reaching out to new national and community projects established in response to COVID-19. As a result of using the Foundation's increasingly-strong networks across the social care sector and beyond, trustees were able to support a series of important new initiatives, including:

- National Care Force, to provide an online tool that matches volunteers with social care providers.
- Connect the Love, to support people who are isolated in care homes, hospitals and vulnerable situations by providing devices to keep them digitally connected to friends, families and loved ones.
- Kit4Carers, to ensure that carers in the UK and overseas have access to essential PPE to protect them and those for whom they care from COVID-19.
- Potters Bar Radio station, to help combat isolation and offer a source of comfort and hope to the many people locally who were finding the experience of the lockdown lonely and difficult.

Alongside a wide range of partners across the social care sector, the Foundation played a key role in calls for greater recognition of the UK's two million frontline care workers and the part they play in tackling coronavirus. The #SparkleForSocialCare social media campaign was launched to build awareness of the incredible efforts of care workers during this time of crisis. The campaign seeks to bring to life the amazing work of care workers up and down the country in coping with some of the most vulnerable members of our community.



Elizabeth Cowley was awarded a grant to support Sparkle, the official charity of the Serennu Children's Centre in Newport, and Nevill Hall Children's Centre in Abergavenny. The community grant would enable the centre to fully train four volunteers to support young people in their activities as well as go towards funding the after school clubs activities.



The CareTech Foundation awarded a community grant of £2,500 to Dudley Town FC in support of the Sparkle for Social Care campaign. The partnership saw Dudley Town FC launch their first team football kit for the 2020/21 season which also marked the club's support for frontline social care workers. All profits from these limited-edition polo shirts will go to The Care Workers Charity.

### Championing the Social Care sector

The Foundation plays a key role in calls for greater recognition of the UK's two million frontline care workers. Over the last year, the Foundation has particularly focused attention on the part care workers play in tackling coronavirus. The #SparkleForSocialCare social media campaign was launched to build awareness of the incredible efforts of care workers during this time of crisis. The campaign seeks to bring to life the amazing work of the 1.6 million care workers up and down the country in coping with some of the most vulnerable members of our community.

### Supporting our staff and their families in difficult times...

The Foundation added the Hardship Fund to its offerings in late 2018, enabling it to support staff and their families facing significant financial hardship. The Company agreed a doubling of its contribution in 2019/20 to £50,000. Demand was significantly stimulated because of the COVID-19 pandemic and trustees agreed to divert additional funds to this grant stream, taking the total available to £100,000. **This year, the Foundation has supported 134 grant applications to a total amount of £97,759, receiving over 200 applications.**

- An employee suddenly lost their husband and the main breadwinner last year, which left this employee and their young child in financial hardship. The Foundation was able to support the applicant with a donation to go towards the cost of running their home as they tried to come to terms with their tragic loss.
- An applicant was taking unpaid leave to care for their terminally ill mother. This unpaid leave was causing severe financial difficulties for the staff member who was a single parent to three children. The Foundation awarded a grant to cover rent and some household bills.

# Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

## Throughout this Annual Report, we provide examples of how we:

- take into account the likely consequences of long-term decisions;
- taken into account the interests of the Company's employees;
- foster relationships with our suppliers, customers and others;
- have a positive impact of the Company's operations on the community and environment;
- attribute importance to behaving as a responsible business; and
- act fairly between members of the Company.

The Board of Directors of CareTech Holdings PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 30 September 2020.

Reporting requirement	Explanation	For more information
<b>The likely consequences of any decision in the long term</b>	All decisions are made with long-term consequences in mind and aligned to our core purpose.  We maintain a conservative funding structure and a progressive dividend policy.	Our business model page 38. Case study on SmartBox page 15.
<b>The interests of employees</b>	Our annual employment survey was completed with positive feedback.	Our brilliant people page 45.
<b>The need to foster business relationships with suppliers, commissioners and others</b>	The Board has identified the Group's key stakeholders to be shareholders, employees, commissioners, suppliers, regulators, lenders and communities. Regular communication takes place to listen and encourage participation from all our stakeholders.	Our commissioners page 42. Our service users page 43.
<b>The impact of operations on the community and the environment</b>	Donation of £702,000 to the CareTech Foundation to support the wider social care sector.	Our approach to responsible business page 16. CareTech Foundation page 17.
<b>The desirability of maintaining a reputation for high standards of business conduct</b>	We remain committed to becoming the highest quality provider of care, education and therapeutic support across the Group.  We believe good governance is the way to run a business and have clear divisions of responsibilities and roles.	Our approach to responsible business page 16.
<b>The need to act fairly between members of the Group</b>	The Board embraces open dialogue with shareholders and works with its brokers to ensure than an appropriate level of communication is facilitated.	Our approach to shareholder engagement page 42.

Social care is a long-term contract with the public sector and is inherently free of risk so long as quality is maintained, outcomes are achieved and the price is right. However social care does carry risks that will always be at the forefront of our minds. The most obvious risk is that a tragedy will occur and that the Group will be held to blame. We take the risk very seriously. Our principal risk management strategy is to ensure that our staff are recruited well, are trained and supervised properly and are subject to rigorous quality oversight. In addition we know from experience that processes and documentation must be very carefully observed and constantly reviewed to ensure that it protects service users and provides the Group with a defensible position in the case of tragedy.

These matters, along with general safeguarding are subject to intense scrutiny by our in-house compliance and quality teams and Board level oversight.

### Managing and mitigating risk

Social care is not a high risk business proposition but there are several unique factors that could cause difficulties. These centre on the way in which care and support are provided and the reliability of those frontline staff who provide it. CareTech approaches these issues with considerable care and diligence, building in quality and training wherever it is required but also through its established scrutiny protocols and firm leadership. We care a great deal about what we do and have established a reputation for careful management of all those processes that could expose us to risk.

We have thoroughly reviewed our operations. The Group predominantly trades in the UK and only during the year acquired a business in the UAE. We have limited foreign exchange exposure due to supplies being sourced locally. We have limited exposure to nursing staff and the EU labour market. Our primary recruitment is focused on the UK labour market for support staff and the recruitment of new staff is a factor that we are managing, and we continue to monitor closely.

### Emerging risks

The Board have considered long-term trends in the social care sector that could present both a risk and an opportunity for CareTech. Any new emerging risks identified by the Executive Committee are considered in more detail and reported to the Board. During the financial year, the outbreak of COVID-19 in the UK presented a new risk to the Group which is outlined below. In 2020/21, the Executive Committee will create a register of potential emerging risks that it will monitor on a periodic basis for implications on the Group's strategy.

The Directors believe this process achieves a robust assessment of principal and emerging risks.

### Our risks

All providers of health and social care are conscious of the need for management vigilance and the requirement to have a thorough commitment to delivering care that is safe and of a high quality. CareTech's approach to quality and safe service delivery is characterised by a mixture of a dedicated compliance team carrying out regular audits of inspection and a commitment to building quality into everything we do.

The market for the provision of social care services continues to be dynamic, presenting both risks and opportunities. The overall number of people needing support will increase, and a smaller proportion of them will be placed into residential services. Those who do need a residential care solution will have more complex needs and are likely to require a wider range of services, including clinical and therapeutic support. Our operational management teams are already focusing on the delivery of high quality care. As we move forward, this will become increasingly specialised with the benefit of professional qualified care co-ordinators who will prepare and direct personalised care plans within the services.

Most service users will be supported in their own homes through domiciliary care or in more formal supported living arrangements. This is a major growth area for care providers and CareTech already has a solid reputation for its high quality and flexible solutions. We are building this to a higher level and refining our organisational structure to build more rapidly on our successes to date.

## Principal Risks

### Service offer and user needs

We have to develop and staff a service offering which matches the needs of the service users and can be communicated to commissioners. This is carefully recorded locally at every service in order to reduce the risk of service users moving to other service providers.

### Quality and safety

A health and safety breach would impact reputation, brand and compromise the safety of those in our care. This could impact on the demand for our business as well as incur costs to rectify. We have to provide and deliver safe care of a high quality and the Group utilises Acoura, an independent supplier, to audit and report monthly on Health and Safety matters as well as all RIDDORS (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) so that all incidents are recorded and acted upon.

### Service value

The service offer has to be provided to meet the needs of the commissioners at a fair price and this is coming under increased scrutiny as commissioners regularly review value for money. The Group communicates and engages frequently and proactively with our commissioners at a local level and strategically at regional and national levels.

### Reputation

The Group has to have a reputation for delivering services that offer good value and take account of all risks. We maintain a Risk Register, which includes all key risks, including reputational risk, and how these are mitigated through quality of service and good communication with service users and local authorities. The Risk Register is reviewed monthly.

### Growth funding

So that the Group can keep growing adequately, funding has to be anticipated and put in place. The Group ensures that all of its facilities are monitored and reviewed regularly, in particular our budget setting and forecasting processes.

### Manage debt

The level of debt obtained to fund operations and ensure that growth can occur has to be carefully managed. Different forms of leasing and debt are reviewed quarterly when all of the covenants are also reviewed.

### COVID-19

COVID-19 was identified as an emerging risk for the business in March 2020 with potential to affect our strategy through impact on our services users, staff, commissioners, suppliers as well as the financial performance of our business through delays to development projects, impact on cash flows and disruption to normal practices.

A COVID-19 taskforce, comprising both divisional leadership and members of the Group Executive Team, was set up at the outset of the pandemic outbreak. Through the use of a dynamic risk assessment tool we have been able to provide real time monitoring and support across all our services as well as ensuring that we have a business continuity plan at each site. This covers arrangements to provide staff cover between services, utilising extra staff as necessary and overall reducing agency workers.

We followed the latest Government guidelines and have strict precautions in place at our sites including enhanced levels of cleaning, additional hygiene facilities and social distancing. Additional precautions and safety checks are in place with oversight provided remotely where possible and appropriate.

### Brexit

The United Kingdom left the European Union on 31 January 2020 on the terms of the Withdrawal Agreement, which introduced a transition period until 31 December 2020.

The UK is seeking to negotiate and agree a long-term trade deal with the EU, by the end of this transition period. The Government has said this period will not be extended. It is possible that the UK-EU will not have agreed a UK-EU trade deal by 31 December 2020, or a UK-EU trade deal will be agreed but the terms of the deal are such that it will cause disruption to our business post 31 December 2020.

We have fewer than 5% of our employees who are EU citizens; however, from 1 January 2021 there may be a reduction in the numbers of candidates that are able to work in the UK. We will continue to recruit the highest calibre of candidates in line with our recruitment processes.

As during the previous financial year, the Board considered the impact of Brexit on the business and again concluded, on the basis that the Group is substantially a UK-based operation with no reliance on exports and limited reliance on imports, that Brexit did not, in itself, constitute a significant risk to the business.

By order of the Board



**Farouq Sheikh**  
Group Executive Chairman  
10 December 2020



The Group has delivered a strong set of results for the financial year ended 30 September 2020.

**Christopher Dickinson**  
Group Chief Financial Officer



## Highlights

- Revenue: £430.0m (increase of 8.9%)
- Underlying pre IFRS 16 EBITDA increase of 14.4% to £84.1m (post IFRS 16: £90.9m)
- Statutory profit before tax: £37.8m (increase of 55.3%)
- Underlying pre IFRS 16 EPS: 43.0p (increase of 14.4%) and statutory EPS: 23.64p (increase of 28.6%)
- Accelerated reduction in net debt to £268.9m
- Strong operating cash conversion of 103.9%
- Net assets: £364.0m

## Results

The Group has delivered a strong set of results for the financial year ended 30 September 2020.

Unless otherwise stated, results in this section are presented for the year ended 30 September 2020 on a non-statutory illustrative basis excluding the impact of IFRS 16 'Leases' to enable a comparison with 2019 performance. Included in the Group consolidation results and reported in Adults Services and Children's Services operating segments for the year ended 30 September 2020 are the AS Group's Revenue and EBITDA and other income statement items together with the cash flows following completion on 4 February 2020.

The Group reports certain non-IFRS performance measures, known as Alternative Performance Measures (APMs). The Directors believe that APMs provide useful supplemental information for the readers of the Annual Report and, when read in conjunction with the IFRS financial information, assist in providing a balanced view of the Group's financial performance and financial position.

In assessing its performance, the Group has adopted a number of APMs because statutory measures can have limitations as analytical tools and are necessary to readers of the accounts when understanding our performance relative to other companies in our sector and in the wider economy.

Our APMs referred to in this report and in the financial statements as a whole include, EBITDA, non-underlying items, underlying earnings and non-financial measures such as capacity, occupancy and regulator quality ratings. You can read more about APMs on page 130.

## Capacity and occupancy

Adults Services increased 29 places to 1,997 (2019: 1,968) due to 41 beds in two new residential sites in Specialist Services, a net four new supported living contracts offset by 16 beds withdrawn. Children's Services increased to 1,959 mainly due to 27 development projects, 22 capacity increases, eight beds withdrawn and 15 reconfigurations. Fostering decreased to 1,028 due to blocked beds as a result of COVID-19 and some foster parent leavers.

As at the balance sheet date, the Group capacity decreased to 4,984 (2019: 5,079) due to a decline in capacity within Foster Care.

At 30 September 2020, occupancy levels in the mature estate was 83% (2019: 85%) reflecting the timing of the start of the educational year due to a number of the Group's non-residential schools operating on a 38-week basis with the new education term commencing in October. Blended occupancy was 80% (2019: 80%).



## Condensed Income Statement

	2020 £m	2019 £m	% change	2020 IFRS Change £m	2020 (as reported, post IFRS 16) £m
<b>Revenue</b>	<b>430.0</b>	395.0	8.9%	–	430.0
Gross profit	<b>147.9</b>	133.0	11.3%	–	147.9
Administrative expenses excluding depreciation and share-based payments charge	<b>(63.8)</b>	(59.4)	7.4%	(6.8)	(57.0)
<b>EBITDA</b>	<b>84.1</b>	73.5	14.4%	6.8	90.9
EBITDA margin	<b>19.6%</b>	18.6%			21.1%
Depreciation	<b>(11.8)</b>	(10.6)	11.1%	(5.2)	(17.0)
Share-based payments charge	<b>(0.3)</b>	(0.1)	450.0%	–	(0.3)
<b>Underlying operating profit</b>	<b>72.0</b>	62.9	14.5%	1.6	73.6
Non-underlying items	<b>(20.2)</b>	(23.4)	(13.5)%	–	(20.2)
Net financial expenses	<b>(13.1)</b>	(15.1)	(13.3)%	(2.4)	(15.5)
<b>Profit before tax</b>	<b>38.6</b>	24.3	58.7%	(0.8)	37.8
Taxation	<b>(10.7)</b>	(4.2)	155.6%	–	(10.7)
<b>Profit for the year</b>	<b>27.9</b>	20.1	61.7%	(0.8)	27.1
Non-controlling interest	<b>(1.9)</b>	(0.4)		–	(1.9)
<b>Profit for the year attributable to owners of the parent</b>	<b>26.0</b>	19.7	55.4%	(0.8)	25.1
Weighted average number of diluted shares (millions)	<b>109.8</b>	107.6			109.8
Underlying basic earnings per share	<b>43.02p</b>	37.6p	14.4%	(0.76)	42.26p
Statutory basic earnings per share	<b>23.64p</b>	18.4p	28.5%	(0.76)	22.88p
Full year dividend per share	<b>12.75p</b>	11.7p	9.0%	–	12.75p

## Revenue and EBITDA

	2020 Revenue £m	2020 EBITDA £m	2019 Revenue £m	2019 EBITDA £m
Adults Services	<b>136.2</b>	<b>33.6</b>	123.6	32.7
Children's Services	<b>252.9</b>	<b>65.9</b>	230.6	55.7
Foster Care	<b>40.9</b>	<b>8.0</b>	40.8	7.5
<b>Total</b>	<b>430.0</b>	<b>107.5</b>	395.0	95.9

Group underlying revenue increased by 8.9% to £430.0m (2019: £395.0m).

## Group Financial Review

### continued

The Adults Services segment continues to experience high levels of occupancy at 92% across the mature estate. When this is blended with the facilities that are being reconfigured and so are under development, the blended occupancy level at 30 September 2020 was 86%.

We have seen an increase in capacity in Adults Services, largely due to two new residential Specialist Services sites opening during the year increasing capacity by 41 places. Revenues increased by 10.2% reflecting a continuation of high acuity user demand for both residential services and supported living and the inclusion of the AS Group. EBITDA margin decreased to 24.7% reflecting business mix, larger Specialist Sites opening and inclusion of the Group's UAE operations.

Despite the impact of COVID-19, local authorities have continued with fee increases to cover the additional costs resulting from increases in frontline staff pay as a consequence of the National Minimum and Living Wage increase from 1 April 2020.

Children's Services increased by 9.6% to £252.9m, reflecting the improved performance at Cambian and the inclusion of the AS Group. Cambian has now been integrated and we have achieved the medium-term target of 16%. EBITDA margins for Children's Services increased from 24.1% to 26.1%.

Group EBITDA margin has increased to 19.6% (2019: 18.6%). Synergies from the Cambian acquisition of over £5m were delivered in the financial year with actions already taken to deliver £6m run-rate synergies from the next financial year onwards.

### Operating profit and profit before tax

The Group presents Operating Profit and Profit Before Tax as both underlying and statutory results. Underlying operating profit increased by 14.5% to £72.0m is EBITDA after depreciation and share-based payments charge.

The depreciation charge is £11.8m (2019: £10.6m) reflecting the investment in land and buildings, motor vehicles and fixtures, fittings and equipment and the share-based payments charge of £330k (2019: £60k) reflecting the issuance of shares in November 2019.

Statutory operating profit of £53.4m (2019: £39.5m) is underlying operating profit less amortisation of £10.2m (2019: £10.2m), acquisition costs of £0.5 (2019: £10.3m), reflecting the costs incurred in acquiring the AS Group in February 2020, donations to the CareTech Foundation of £702k, other non-underlying costs of £3.7m largely associated with the integration of Cambian and share-based payments charge of £4.1m in relation to the 1 million shares donated to the CareTech Foundation.

Adult social care providers have had funding available via local authorities to help support the provision of additional resources and associated costs necessary to halt transmission of COVID-19. Funding of £2.6m has been extremely helpful in allowing the Group to take key steps to improve prevention and infection control in our services, and to support staff financially to self-isolate where this has been necessary. Additional costs of £3.4m have been incurred due to COVID-19 with a net cost to the Group of £0.8m.

Underlying financial expenses decreased to £11.5m (2019: £12.7m) reflecting the accelerated deleveraging and reduction in banking covenants. Non-underlying financial expenses of £1.6m (2019: £2.4m) were incurred relating to the non-cash movement in derivative financial instruments.

Underlying Profit Before Tax improved to £60.5m (2019: £50.2m) and statutory Profit Before Tax increased to £37.8m (2019: £24.3m).

### Taxation

The effective underlying tax rate was 18.7% (2019: 18.7%) and reflects management's expectations of future capital investment through organic developments and reconfigurations relative to available capital allowances and the impact of the reduction in the main rate of corporation tax in the year.

### Earnings per share

The weighted average number of shares in issue rose to 109.8m mainly due to the 1m shares issued to the CareTech Foundation and 0.4m consideration shares for investment in the AS Group.

Underlying basic earnings per share (pre IFRS 16) increased by 14.4% to 43.0p from 37.6p in 2019.

Statutory earnings per share increased by 24.4% to 22.88p (2019: 18.38p).

### Dividends

Our policy has been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will rise broadly in line with the increase in underlying earnings per share and increase to 8.75p per share (2019: 7.95p), bringing the total dividend for the year to 12.75p (2019: 11.7p), a growth of 8%. Dividend cover for 2020, based upon diluted earnings per share before non-underlying items, is 3.3 times (2019: 3.18 times).

### Cash flow and net debt

The cash flow statement and movement in net debt for the year is summarised below:

	2020 £m	2019 £m
EBITDA	90.9	73.5
Decrease/(increase) in working capital	3.3	(7.2)
Cash inflows from operating activities before non-underlying items	94.2	66.3
Leases (IFRS 16)	(6.7)	-
Tax paid	(3.9)	(5.9)
Interest paid	(10.7)	(10.9)
Dividends paid	(13.0)	(10.8)
Capital expenditure	(26.8)	(31.5)
Proceeds from disposal of fixed assets	1.5	31.8
Payments for business combinations	(2.0)	(160.3)
Non-underlying cash flows	(5.9)	(20.4)
Deferred consideration paid	(0.7)	-
Shareholder loan	(1.8)	-
New HP arrangements	(2.0)	(2.4)
Movement in net debt	22.2	(144.1)
Opening net debt	(291.1)	(147.0)
Closing net debt*	268.9	291.1

\* Net debt consists of cash and cash equivalents, bank loans, shareholder loan and lease and hire purchase contracts.

The Group continues to have a strong financial position with net debt at 30 September 2020 being £268.9m compared with £291.1m at 30 September 2019. Operating cash conversion was strong which was partially offset by the cash consideration paid for the UAE acquisition (AS Group), development opportunities, integration costs associated with the Cambian acquisition and additional expenditure associated with COVID-19.

Cash inflows from operating activities were offset by a net COVID-19 related costs of £0.8m, payment to the CareTech Foundation of £0.7m, integration costs and restructuring costs of £3.9m and acquisition of the AS Group for £3.2m (net of cash acquired and including acquisition costs).

Capital expenditure was £26.8m which includes software development of £2.8m.

Dividend payments of £13.0m (2019: £10.8m) and corporation tax payments of £3.9m (2019: £5.9m) were paid during the year.

## Bank facilities

CareTech's three key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 4.5), interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4x) and LTV (ratio of property value to net debt to be no more than 62.5%). As at 30 September 2020, we were operating comfortably within these ratios at 3.1x, 7.8x and 42% respectively. The Board believes the Group will achieve its target of reducing net debt/EBITDA to below 3.0x for the year ended 30 September 2021.

## New accounting standards

### IFRS 16

A new accounting standard, IFRS 16 'Leases', was adopted with effect from 1 October 2019. The standard requires leases which were previously treated as operating leases to be recognised as a lease liability with the associated asset capitalised and treated as a right-of-use asset.

The Group elected to adopt the standard using the modified retrospective approach, which means that comparative results for the year ended 2019 are not restated. On 1 October 2019, £76.2m of leases were recognised as liabilities on adoption of the standard and £71.7m capitalised as right-of-use assets.

The financial impacts of IFRS 16 for the year ended 30 September 2020 are set out in the table below.

	2020 (pre IFRS 16) £m	Impact of IFRS 16 £m	IFRS 16 (post IFRS 16) £m
Underlying operating profit	72.0	1.6	73.6
Net underlying finance costs	(11.5)	(2.4)	(13.9)
<b>Underlying profit before tax</b>	<b>60.5</b>	<b>(0.8)</b>	<b>59.7</b>
Right-of-use assets	18.7	69.1	87.8
Other assets	877.1	-	877.1
Lease liabilities	(19.3)	(69.4)	(88.7)
Other liabilities	(511.5)	(0.5)	(512.0)
<b>Net assets</b>	<b>365.0</b>	<b>(0.8)</b>	<b>364.2</b>

The changes in accounting resulting from the implementation of IFRS 16 will not affect the way liquidity is assessed against the Group's banking covenants, which will continue to be assessed as though the accounting rules had not changed. As such, headline financial leverage will continue to be measured on a consistent (i.e. "frozen GAAP") basis in 2020 and the Group continues to target a headline financial leverage, excluding the increase in leverage associated with the implementation of IFRS 16, of below 3.0x.



**Christopher Dickinson**  
Group Chief Financial Officer  
10 December 2020

## Longer-term Viability Statement

In accordance with the 2018 UK Corporate Governance Code, the Directors assessed the viability of the Group and have used a period of three years for their assessment. A three-year period is considered the appropriate timeframe to assess the Group's prospects as it is consistent with strategic planning for the Group, management incentive schemes and medium-term financing considerations. The Board believes the Group has strong long-term prospects, being well-positioned to address the need for social care providers in the UK and emphasis the Group takes with respect to forging long-term relationship with local authorities and providing high quality care.

The assessment conducted considered the Group's revenue, EBITDA, operating profit, cash flows, risks management controls and loan covenants over the three-year period. The longer-term prospects of the Group are driven by its strategy and business model, as outlined on pages 33 to 41. These metrics were subject to downside stress testing over the assessment period, taking account of the Group's current position, the Group's experience of managing adverse conditions in the past and the impact of a number of severe yet plausible scenarios based on the principal risks set out in the Strategic Report. The downside scenarios include, but are not limited to, a reduction in revenue, site closures, a cyber-attack and additional costs associated with COVID-19. This is done to identify risks to liquidity and covenant compliance.

This review included the following key assumptions:

- No change in capital structure given the Group entered into new banking facilities in August 2018 to mature in 2022 and 2023.
- The Government will not change its existing policy towards utilising private provision of social care services to supplement the local authorities offering (which we consider to be low likelihood).
- No significant changes or implications as a result of Brexit (which we consider to be low potential impact on the Group).

In respect of COVID-19, a number of mitigating business operational actions have been taken and we believe the demand for high quality social care will remain strong.

Based on this consideration of principal risks and the forecasting exercise completed, the Board has a reasonable expectation that the Group will be able to withstand the impact of the specific scenarios considered over the three-year period assessed.



**Farouq Sheikh**  
Group Executive Chairman

## Introduction

This is our Corporate Governance Report, which sets out how the Board and its Committees operate and how we are committed to maintaining the highest level of corporate governance. The Board firmly believes that an effective corporate governance framework is essential to underpin the success of the business, supporting management while ensuring an appropriate level of challenge and exercising proper oversight while facilitating decision making.

The Board is focused on taking steps to enhance standards of governance and disclosure towards the levels required for Premium Listed companies, should the Board ultimately decide to take that step. Last year we welcomed the changes to corporate governance in the new UK Corporate Governance Code.

The Board remains committed to achieving the highest standards of integrity, ethics, professionalism and business practice throughout Group operations. Therefore, the Group has aligned its governance with best practice and is adopting the provisions of the UK Corporate Governance Code 2018 on a comply or explain basis. The Code and associated guidance is available on the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk). We have noted the Code provisions below where the Group does not comply with the Corporate Governance Code in full.

## 1. Principles A-E: Board Leadership and Company Purpose

The Board has delivered sustainable and reliable growth since its admission to trading on AIM. CareTech has aimed to be a defensible stock even in difficult times and has adopted a progressive dividend policy. The Group has also had direct involvement in a variety of community-based programmes further improving our corporate and services reputation and helping to foster strengthened relationships with commissioners.

CareTech's key strategic priorities include a continual focus on improving the quality and scope of our Care Pathway, increasing market share and growing shareholder value. The Board recognises that key to achieving its strategy is the attraction and retention of talented and committed staff at every level of the Group and the Board has put in place policies and procedures to achieve this. The Board ensures that the Group is appropriately funded to deliver its strategy. The Board appreciates that effective communication and engagement with the Group's shareholders and the investment community as a whole is a key objective. The views of both institutional and private shareholders are important. The Group Executive Chairman has overall responsibility for ensuring this communication is effectively conveyed, and for making the Board fully aware of key shareholders' views, comments and opinions. Contact with investors throughout the year is a priority and the Board strives to look after their interests. General presentations to major shareholders following the publication of the Group's annual and interim results are conducted by the Group Executive Chairman and the Group Chief Financial Officer, as are regular meetings through the year with fund managers and investment analysts.

Effective communication with employees and commissioners is also

vital to achievement of the Group's strategy. The Group has a number of initiatives and policies to engage its employees through training and development, supervision, recognition of achievement through staff awards, staff engagement surveys and development of a communication plan. The Board believe that its workforce policies, including its in-house training and HR systems, support the Group's focus on the provision of quality services and allow for sustainable growth. The Board believe the effectiveness of its staff engagement procedures is reflected in its staff turnover levels, which are below the industry average and in the Group's quality ratings, which are above the industry average. The Board also believe the Group's business development and marketing function has established strong relationships with commissioners and actively strives to maintain these relationships. Being a socially responsible organisation with a focus on ethical standards aligned with commercial objectives remains a core aim. The Board believes that behaving responsibly and maximising the benefits of a strong relationship with its stakeholders is an integral part of a continuing process of building long-term value.

The Group's framework of controls includes identification and management of any conflicts of interests. The Board follows specific procedures to identify potential conflicts of interest, including those in relation to significant shareholders. Firstly, only independent Directors (i.e. those that have no interest in the matter under consideration) are able to take relevant decisions. Secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Group's success. In addition, Directors can impose limits or conditions when giving authorisation if they think this is appropriate. It remains the Board's intention to report annually on the Company's procedures for ensuring that the Board's power of authorisation in respect to conflicts is operated effectively and that procedures have been followed.

## Board and Committee meetings

The Board meets in formal session regularly, usually once each month, and Directors are supplied with financial and operational information in good time for scrutiny in advance of these meetings. The Board holds other board meetings specifically for significant transactions involving raising money or spending money like a significant acquisition.

The Directors attended the following meetings in the year to 30 September 2020:

	Board (11 meetings)	Audit Committee (3 meetings)	Remuneration Committee (5 meetings)	Care Quality and Governance Committee (3 meetings)
Farouq Sheikh	11	–	–	–
Haroon Sheikh	11	–	–	–
Christopher Dickinson	10	3	4*	–
Karl Monaghan	11	3	4	3
Mike Adams	11	–	–	–
Jamie Cumming	11	3	5	3
Gareth Dufton	3	2	1*	–
Professor Moira Livingston	10	3	5	3

\* by invitation.

At every board meeting the Board covers an AIM continuing obligations questionnaire and declaration of connected party transactions. This sets the tone for corporate behaviour and helps makes governance meaningful and focused on improving the business and protecting shareholder value.

## Governance structure

### The Board

The Board focuses primarily upon strategic and policy issues and is responsible for:

- Leadership of the Group.
- Implementing and monitoring effective controls to assess and manage risk.
- Supporting the Group Executive Team to formulate and execute the Group's strategy.
- Monitoring the performance of the Group.
- Setting the Group's values and standards.

The Board delegates certain matters to its four principal committees:



## Board of Directors



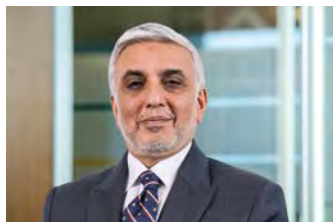
**Farouq Sheikh OBE**  
Group Executive Chairman  
Aged 62

Farouq has been a key architect in CareTech's growth, having co-founded the Group and has been involved in the vision and strategy from the outset in 1993. With a background in law and a good understanding of finance and commerce, Farouq has been instrumental in securing debt and equity funding for the Group as well as leading the management team in winning a number of long-term contracts from local authorities and health commissioners.

Farouq is a leading business entrepreneur, philanthropist and investor and has initiated and overseen the successful equity investments and the subsequent exits for 3i Group PLC (in 1996 and 2002) and Barclays Private Equity (in 2002 and 2005). His intimate knowledge of the social care sector and his commercial and negotiating expertise have guided the Group's growth.

Farouq was honoured with an OBE in 2020 for his services to social care, and has been presented with a number of Entrepreneur of the Year awards by prestigious organisations including LaingBuisson, Coutts Bank and Ernst & Young. He also presents widely at healthcare conferences, raising awareness of the specialist social care sector.

As Patron and Enterprise Fellow of the Prince's Trust and a member of the Mosaic National Advisory Board, Farouq supports young people by passing on his experience to inspire the next generation of entrepreneurs. He is a Founder Trustee of the CareTech Charitable Foundation formed in 2017.



**Haroon Sheikh BSc**  
Group Chief Executive Officer  
Aged 64

Haroon is amongst the most experienced CEOs in the health and social care sector and one of the UK's leading entrepreneurs and philanthropists. Along with his brother Farouq, he co-founded CareTech. As Group CEO he actively leads the day-to-day running of the Group and its international expansion, and has been instrumental in assembling a highly talented leadership team to support the continued growth of the business. Haroon brings commercial acumen, related industry experience and property knowledge. He has a deep commitment and passion for delivering high quality care and support to people with complex needs.

Haroon is Patron and Enterprise Fellow of the Prince's Trust and is member of the UK Advisory Council of the British Asian Trust under the patronage of HRH The Prince of Wales. He is also a member of the Court of the University of Hertfordshire.

In 2008, Haroon and Farouq were winners of the highly valued Coutts Family Business Prize and widely applauded for the quality and social integrity of the business they created. In 2009 they were both finalists in the Ernst & Young Entrepreneur of the Year Awards and in 2016 they received the Outstanding Contribution Award at the LaingBuisson Annual Healthcare Awards. In 2019 Haroon and Farouq were winners of the "Asian Business of the Year".

Haroon, a graduate of the University of London, is a Founder Trustee of the CareTech Charitable Foundation formed in 2017, and is Chairman of the Trustees, working closely with the Foundation's CEO and independent Trustees.



**Christopher Dickinson**  
Chief Financial Officer  
Aged 42

Chris has spent the past year as Chief Financial Officer of Cambian and prior to joining CareTech was a Managing Director at Jefferies where he acted for the Group on its acquisition of Cambian. Prior to Jefferies, Chris spent 14 years at J.P. Morgan advising on many significant M&A transactions and debt and equity raises. Chris is a chartered accountant, having been admitted as a member of the ICAEW in 2004 and as a Fellow in 2014, and has a degree in Computer and Management Science from the University of Warwick.



**Mike Adams OBE**  
Executive Director  
Aged 49

Mike has a significant track record in the social care, health and disability sectors. He is CEO of Purple Zest Limited, a Group disability business, and an Executive Director of CareTech. In previous roles he was Director of the National Disability Team, responsible for policy and practice for disabled students in higher education; Director of Operations for the Disability Rights Commission for two years; and Chief Executive Officer of ecdp, an Essex-based user-led disability organisation. Mike spent nine months as acting Chair of a large acute hospital trust in Essex and has previously chaired an expert panel on Access to Work, the Government's flagship disability employment programme. Mike has been awarded an Honorary Doctor of Education for disability leadership from Anglia Ruskin University.

Mike was honoured with an OBE in 2012 for his services to disability and became a Trustee of the CareTech Charitable Foundation in 2017.



### Jamie Cumming

Non-Executive Director  
Aged 70

Jamie joined the Board as a Non-Executive Director in 2013. Following a long career in corporate advisory and broking in the City, including acting as Chief Executive Officer of N+1Brewin LLP, and latterly as Senior Adviser to Cantor Fitzgerald Europe, Jamie has significant experience in working with small and mid-sized UK companies. Jamie currently utilises his commercial experience in supporting growth companies in non-executive roles, is an associate of Ruffena Capital and has qualified as a fellow of the Chartered Institute of Securities & Investment.



### Karl Monaghan

Non-Executive Director  
Aged 58

After graduating from University College Dublin with a Bachelor of Commerce Degree, Karl trained as a chartered accountant with KPMG in Dublin. He has worked in the corporate finance departments at a number of merchant banks and stockbrokers, latterly at Crédit Lyonnais Securities for seven years and Robert W. Baird for two years until June 2002. Karl set up Ashling Capital LLP in December 2002 to provide consultancy services to quoted and private companies. He sits on a number of AIM quoted and private company boards.



### Professor Moira Livingston

Non-Executive Director  
Aged 58

Moira has been involved in health and social care for 35 years. Moira spent many years working initially as a Doctor in the field of older-age psychiatry and latterly as a senior clinical leader and manager in the NHS.

Moira has held a number of Director level leadership roles in the healthcare sector. Moira has led national programmes for the Department of Health and was a specialist advisor with the CQC. Currently, Moira is the Managing Director of the healthcare consultancy, Dr Livingston Limited. Moira is also a Non-Executive Director at Leeds Teaching Hospitals NHS Trust, where she is a member of the Audit Committee and chairs the Quality Assurance Committee.

## Matters reserved for the Board

The Board delegates certain of its responsibilities to Board committees, individual Directors or executive management where appropriate.

However, there are certain matters that are considered to be so important to the long-term success of the Group that they are reserved to the Board for specific consideration and decision including:

- Financial reporting and controls including statutory matters such as the approval of final and interim financial statements and dividend declarations.
- Board membership and other senior, key personnel, appointments.
- Review of corporate governance arrangements.
- Group strategy matters including the approval of annual budgets, acquisitions and disposals.
- Review of the processes for monitoring and evaluating risk and the effectiveness of the Group's system of internal control and operational efficiency.
- Review and supervision of treasury and financial policies.
- Shareholder communications.

## How do we manage our internal controls and risks?

The Board is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. The system of internal controls is designed to manage rather than eliminate the risk of failure of the achievement of business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The recent challenging business climate has resulted in a sustained focus on the approach to risk. The Directors consider robust risk management to be crucial to the Group's success and give a high priority to ensuring that adequate systems are in place to evaluate and limit risk exposure. They have overseen the further development of processes and procedures for identifying, analysing and managing the significant risks faced by the Group. During the year the Board undertook an in-depth assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model. These risks have been discussed in the Strategic Report on page 51 to 52. Processes have been implemented during the year under review and up to the date of approval of this Annual Report and Financial Statements. The processes and procedures are regularly reviewed by the Board.

A process of control and hierarchical reporting provides for a documented and auditable trail of accountability. These procedures are relevant across all Group operations and they provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

## How do we deal with conflicts of interest?

Following amendments to the Company's Articles of Association in 2008 to reflect certain provisions of the Companies Act 2006 relating to conflicts of interest that came into force on 1 October 2008, the Board will follow a specific procedure when deciding whether to authorise a conflict or potential conflict of interest. Firstly, only independent Directors (i.e. those that have no interest in the matter under consideration) will be able to take the relevant decision. Secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Group's success. In addition, the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It remains the Board's intention to report annually on the Group's procedures for ensuring that the Board's power of authorisation in respect of conflicts is operated effectively and that procedures have been followed.

## Shareholder engagement

Through presentations and regular meetings between the executive Directors, analysts and institutional shareholders, including those following the announcements of the Group's annual and interim results, the Board seeks to understand the objectives of our shareholders.

Copies of the Annual Report and Financial Statements are issued to all shareholders where requested and copies available on the Group's website ([www.caretech-uk.com](http://www.caretech-uk.com)). The Group also uses its website to provide information to shareholders and other interest parties. The Company Secretary deals with correspondence as and when it arises throughout the year.

Further details on the Group's engagement with shareholders is contained in the s172 statement on page 50.

## Workforce policies and practices

Our reputation for acting responsibly plays a critical role in the Group's success as a business and our ability to generate value for shareholders. We maintain high ethical conduct that is reflected in policies that are embedded across the Group including the Modern Slavery Act, and anti-bribery and corruption policy.

## Modern Slavery Act 2015

The Modern Slavery Act 2015 came into force in October 2015 consolidating legislation surrounding modern slavery and human trafficking. We have a zero tolerance approach towards modern slavery or human trafficking across all areas of our business including in our supply chain and are committed to acting ethically and with integrity throughout all of our dealings.

We aim to work in partnerships with all of our contractors, suppliers and other business partners to ensure that they share and work towards the same values we hold against slavery and human trafficking.

A full version of our Anti-Slavery and Trafficking Statement can be found on our website.

## Anti-bribery and corruption

The Group maintains a policy for anti-bribery and corruption and has a zero tolerance towards such activities; and requires compliance with the laws of the UK, including the Bribery Act 2010 in respect of Group conduct both in the UK and overseas.

Internally we operate a suite of policies that are embedded into our culture and help govern our activities. Examples of these include:

- **Code of Conduct Policy**, which sets out the behaviours we expect of our staff when acting for the Group.
- **Recruitment Policy**, all of UK employees are recruited after a robust recruitment process in line with UK employment laws and are required to undertake appropriate Disclosure and Barring Service checks.
- **Whistleblowing Policy**, we want staff to feel confident and empowered to raise any issues or concerns and have a whistleblowing policy in place. Our whistleblowing policy helpline is managed by a third-party provider, enabling staff to raise concerns about issues of safety or wrongdoing, anonymously if necessary. All such concerns received through the helpline are sent to the Head of Compliance for review, and to ensure that they are appropriately investigated and concluded. The Board is provided with updates on material whistleblowing events as they are reported from time to time to the Executive Leadership Team.

We also continue to regularly monitor the risks we face. All risks are reviewed by either our Audit Committee or our Care Quality and Governance Committee.

## General Data Protection Regulations (GDPR)

We take our responsibilities as a data controller/ processor very seriously and are committed to operating within the boundaries of any necessary data security regulations to include the Data Protection Act. We are conversant with the requirements of both the GDPR and the Data Protection Bill and are constantly updating our Information Governance practices.



## 2. Principles: F-I: Division of responsibilities

Ultimate responsibility for the management of the Group rests with the Board of Directors. Details of the Board are set out on pages 60 to 61. The Board focuses primarily upon strategic and policy issues and is responsible for:

- Leadership of the Group.
- Implementing and monitoring effective controls to assess and manage risk.
- Supporting the senior leadership team to formulate and execute the Group's strategy.
- Monitoring the performance of the Group.
- Setting the Groups' values and standards.

The Board consists of three independent Non-Executive Directors and four Executive Directors. The Board does not currently comply with provision 2.11 of the UK Corporate Governance Code and this is under review. To address the balance of independent directors, a new Non-Executive Director will be appointed in the 2020/21 financial year.

Business review meetings are held monthly with attendance of Executive Directors at these meetings. These meetings provide the Executive Directors with a comprehensive understanding of the current performance of, and the key issues affecting, the Group's operations. The Board also visits sites and has continued to do this virtually during COVID-19.

Detailed briefing papers containing financial and operational summaries and an agenda are provided to the Directors in advance of each Board, Committee or business review meeting. The Directors are able to seek further clarification and information on any matter from any other Director, the Company Secretary or any other employee of the Group whenever necessary.

The Company Secretary is responsible for advising and supporting the Group Executive Chairman and the Board on corporate governance matters as well as assisting the Group Executive Chairman in ensuring a smooth flow of information to enable effective decision-making. All Directors have access to the advice and services of the Company Secretary and, through him, have access to independent professional advice in respect of their duties, at the Group's expense. The Company Secretary, supported by the Group company secretariat, acts as secretary to the Board, the Audit Committee and the Remuneration Committee.

The Group provides its Directors and officers with the benefit of appropriate insurance, which is renewed annually.

The roles and responsibilities of certain members of the Board and Company Secretary are explained and their respective responsibilities summarised below.

### Group Executive Chairman

As Group Executive Chairman, Farouq Sheikh leads the Board and is responsible for its effective running. The Group Chief Executive Officer is Haroon Sheikh. The Directors' biographies appear on pages 60 to 61 and detail their experience and suitability for leading and managing the Group.

Farouq Sheikh as Group Executive Chairman leads the Company's strategic development and takes a special responsibility in respect of acquisitions and investor relations.

Farouq Sheikh is responsible for:

- The effective running of the Board.
- Promoting high standards of Corporate Governance.
- Ensuring Board agendas take full account of relevant issues and Board members' concerns.
- Ensuring the Directors receive accurate and timely information.

Farouq Sheikh is the co-founder of the Group and is integral to its success and growth. Whilst the Group Executive Chairman is not independent and therefore currently does not comply with provision 2.9, the Board believe Farouq Sheikh, as co-founder, provides effective leadership in directing the Group and facilitates a culture of openness and debate.

### Group Chief Executive Officer

Haroon Sheikh is the Group CEO and accountable to the Board for the day-to-day running of the Group and management of the strategic plan.

Haroon Sheikh is responsible for the following:

- Executive leadership of the Group's business on a day-to-day basis.
- Developing the overall commercial objectives, and proposing and developing the strategy in conjunction with the Board as a whole.
- Responsibility, together with the senior management team, for the execution of the strategy and implementation of Board decisions.
- Recommendations on senior appointments and development of the management team.
- Ensuring that the affairs of the Group are conducted with the highest standards of integrity, probity and corporate governance.

### Group Chief Financial Officer

Christopher Dickinson was appointed Chief Financial Officer on 13 January 2020. Christopher is accountable to the Board for all financial matters and responsible for:

- Preparation and integrity of financial information.
- Operating effective systems of risk management and control.
- Developing and implementing the financial strategy and policies.

### Executive Director

Mike Adams, Executive Director, is a champion of disability and the needs of disabled people adding to the Board a wealth of knowledge around the sector with responsibility for policy and practice. In addition, Mike is CEO of Purple Zest Limited, a disability business wholly owned by the Group, which supports both disabled people and businesses.

### Non-Executive Directors

Collectively, the Non-Executive Directors bring a valuable range of expertise and experience in assisting the Group to achieve its strategic aims and provide constructive challenge and strategic guidance. In the furtherance of their duties, all Directors are able to take independent professional advice at the expense of the Group and those newly-appointed are made aware of their responsibilities by the Company Secretary. The Board approves the appointment and removal of the Company Secretary.

The Non-Executive Directors comprise Jamie Cumming, Karl Monaghan and Professor Moira Livingston and are considered to be independent. Although Karl Monaghan has served on the Board for more than nine years, the Board is satisfied that there are no matters which affect the independence of his judgement and as such that Karl continues to act independently.

The Non-Executive Directors are responsible for:

- Constructively challenging the Executive Directors and supporting the Group to develop its strategy.
- Satisfying themselves as to the integrity of the financial information and that there are effective systems of risk management and financial control.
- Chairing and/ or serving on relevant Committees.

### Senior Independent Non-Executive Director

- Acting as a sounding board for the Group Executive Chairman.
- Available to shareholders if they have concerns which cannot be resolved through the Group Executive Chairman or other executive management.
- Acting as an intermediary for the Directors where necessary.

### Corporate governance framework and terms of reference

The Board has an overarching corporate governance framework to ensure continued alignment of the Board and Committee members' roles and division of responsibilities. Each member of the Board is provided with a copy of the Company's corporate governance framework, which they review, discuss and update regularly. Each of the Committees have their own written terms of reference. The Company Secretary supports the Committees in updating these terms of reference in order to comply with the Code and other good corporate practice.

### 3. Principles: J-L: Composition, Succession and Evaluation

Matters are delegated to Board Committees, individual Directors or executive management where appropriate. To date, given the stage of the Group's development, it has been felt the functions of a Nominations Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review (non-compliant with 3.17 and 3.23 of the Corporate Governance Code 2018). When the need for additional Non-Executive Directors are identified, the Board appoints advisers to nominate experienced relevant and appropriate candidates. Currently Board members meet the candidates and come to a collective view on appointments.

Currently all Directors are required to submit themselves for re-election at least every three years (non-compliant with 3.18 of the Corporate Governance Code 2018) and new Directors are subject to election by shareholders at the first opportunity following their appointment.

Whilst the performance of each the Directors is kept under review, no formal evaluation is currently conducted by the Group. The Board does not believe the requirement is commensurate with the size and nature of the business but is aware that this does not comply with the Code provision 3.21-3.22 and will therefore keep under review.

CareTech is committed to developing a working environment and culture that promotes fairness and inclusivity. We initiated an Equality, Diversity & Inclusion Programme during the year which will shape our strategy and embed this into everything we do. Our priorities for 2020/21 are to conduct an internal audit of our practice to establish where we can improve. During the course of 2020/21, we are looking to work with senior leaders to provide training, development, workshops and coaching to help increase their understanding of the importance of this work to the Group.

The Board maintains regular focus on succession planning for both Board and senior leadership roles. During the year, the Board has considered the desired skills, personal attributes and experience that would be of benefit to the Board in future Non-Executive Directors and during 2021 we plan to appoint an additional independent Non-Executive Director. During the year, Christopher Dickinson joined the Board as Group Chief Financial Officer along with some senior appointments which reinforces our commitment to build a strong Group executive team. A number of members of the Executive Committee have attended a number of Board meetings at which they have presented their respected strategies. We will continue to review our succession planning strategy to ensure the Board composition and that of the Group executive team reflects and aligns with the needs of the business.

### 4. Provisions M-O: Audit, Risk and Internal Control

The Board has established an Audit Committee comprising Karl Monaghan (Chairman), Professor Moira Livingston and Jamie Cumming. The Group Chief Financial Officer and representatives of the external auditor attend meetings by invitation as required.

The Committee meets at least twice each year and receives reports from the Group's management and external auditor relating to the annual and interim accounts and the accounting and internal control systems throughout the Group. The Committee has direct and unrestricted access to the external auditor and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non-audit services. The Committee has carefully considered the level of non-audit services and has concluded that this does not impact on the independence of the auditors.

The Board, as advised by the Audit Committee, is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. The system of internal controls is designed to manage rather than eliminate the risk of failure of the achievement of business objectives. In pursuing these objectives, internal controls can only provide reasonable and not an absolute assurance against material misstatement or loss.

The Directors consider robust risk management to be crucial to the Group's success and give a high priority to ensuring that adequate systems are in place to evaluate and limit risk exposure. They have overseen the further development of processes and procedures for identifying, analysing and managing the significant risks faced by the Group. Risks facing the Group are described on pages 51 to 52 in this report. These processes have been implemented during the year under review and up to the date of approval of this Annual Report and Financial Statements. The processes and procedures are regularly reviewed by the Board and the Audit Committee.

A process of control and hierarchical reporting provides for a documented and auditable trail of accountability. These procedures are relevant across all Group operations: they provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

The new General Data Protection Regulations have changed how the Group manages, protects and administers data. A team of Senior Managers are responsible for how data flows in and out, and where it is stored throughout the Group.

The processes used by the Board to review the effectiveness of the system of internal controls include the following:

- Annual budgets are prepared for each operating business. Monthly management reporting focuses on actual performance against these budgets for each operating business.
- Management reports and external audit reports on the system of internal controls and any material control weaknesses that are identified.
- The whistleblowing helpline is managed by a third-party provider, enabling staff to raise concerns they may have about issues of safety or wrongdoing, anonymously if necessary. All such concerns received through the helpline are sent to the Head of Compliance for review, and to ensure that they are appropriate investigated and concluded.
- Discussions with management including those on the actions taken on problem areas identified by the Board members or in the external audit reports.
- Policies and procedures for such matters as delegation of authorities, capital expenditure and treasury management as well as regular updates.
- Review of the adequacy of the level of experienced and professional staff throughout the Group and the expertise of individual staff members so that they are capable of carrying out their individual delegated responsibilities.
- Review of the external audit work plans.
- The Audit Committee receive the audit report and discusses the impact in the meetings of the Board.
- Reports from management on significant matters are reviewed and challenged, and the impact on the financial statements and the statutory audit are considered. In the year, these relate to the adoption of IFRS 16 'Leases', going concern and viability statement, impairment of assets and control assessment.

The Group continues to review its system of internal controls to ensure compliance with best practice and Code guidance, whilst also having regard to our size and the resources available. The external auditor obtained an understanding of our internal controls for the purposes of forming their audit opinion as set out on pages 79 to 85. No significant deficiencies in our internal controls were reported by our external auditor in the course of their external audit. The Committee, taking into account the current nature of the operations and the experience and skill of the management team, believes that management is able to discharge their duties in the management of the Group without the need for an internal audit function. This matter will continue to be actively reviewed by the Committee.

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Any material whistleblowing matters in relation to financial reporting are on the Committee's agenda. During the year, there were no major incidents for consideration.

## 5. Provisions P-R: Remuneration

The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 72 to 77. Also detailed in that report are Directors' remuneration, shareholdings and share options scheme information.

The composition and role of the Remuneration Committee includes details of Directors' remuneration, shareholdings and share options scheme information. A key Group strategy is to attract and retain talented and committed staff at every level of the organisation and the Remuneration Committee aims to foster remuneration philosophy, policies and procedures to achieve this.

The Group operates in a highly competitive environment. For the Group to continue to compete successfully, it is essential that the level of remuneration and benefits offered achieve the objectives of attracting, retaining, motivating and rewarding the necessary high calibre of individuals at all levels across the Group. In 2020, AON Hewitt were commissioned to prepare a benchmarking report which has been used to provide a useful analysis of the market for each element of pay. The Group therefore sets out to provide competitive remuneration to all its employees, appropriate to the business environment in the market in which it operates. To achieve this, the remuneration package is based upon the following principles – total rewards should be set to provide a fair and attractive remuneration package – appropriate elements of the remuneration package should be designed to reinforce the link between performance and reward; and Executive Directors' incentives should be aligned with the interests of shareholders. The remuneration strategy is designed to be in line with the Group's fundamental values of fairness, competitiveness and to support the Group's corporate strategy. A cohesive reward structure consistently applied, and with links to corporate performance, is seen as critical in ensuring attainment of the Group's strategic goals.

The Group therefore sets out to provide competitive remuneration to all its employees, appropriate to the business environment in the market in which it operates. To achieve this, the remuneration package is based upon the following principles:

- Total rewards should be set to provide a fair and attractive remuneration package.
- Appropriate elements of the remuneration package should be designed to reinforce the link between performance and reward.
- Executive Directors' incentives should be aligned with the interests of shareholders.

The Remuneration Committee's principal duties are to review the scale and structure of the remuneration and service contracts for Executive Directors and Senior Management, and it also administers the Company's share option schemes. The Committee takes into consideration environmental, social and governance (ESG) issues in relation to corporate performance, when setting the remuneration of Executive Directors and takes steps to ensure that the incentive structure for Senior Management does not raise ESG risks by inadvertently motivating irresponsible behaviour. The remuneration for Non-Executive Directors is set by the full Board on the recommendation of the Executive Directors. In line with the UK Corporate Governance Code, remuneration for Non-Executive Directors does not include share options or other performance-related elements.

Pensions for Executive Directors are based on their basic salary but pension contribution rates are not aligned with those available to the workforce.

By order of the Board



**Farouq Sheikh**  
Group Executive Chairman  
10 December 2020

# Care Quality and Governance Report



**Professor Moira Livingston**  
Chair of the Care Quality and Governance Committee

“Quality is defined by the level of service we deliver and the outcomes we achieve for children, young people and adults and the Group as a whole.”

## Ambition

We remain committed to becoming the highest quality provider of care, education and therapeutic support across the Group. We provide services to over 4,900 adults and children across 550 locations. We work with the majority of commissioners in England, Scotland and Wales and employ approximately 10,000 people. For us, quality is defined by the level of service we deliver and the outcomes we achieve for children, young people and adults and the Group as a whole.

Our mission is to provide every service user with extraordinary days, every day.

## Quality framework

Quality is assured through a “three-line of defence” framework.

### 1st line – Our operational team

Each part of the Group has a clear operating model. Our Chief Operating Officer line manages a number of Managing Directors who each hold accountability and responsibility for the day-to-day performance of their portfolio of services. Each Managing Director leads a team of site managers, regional managers and operations directors. Our approach is to embed quality throughout the Group’s operations and employ well-qualified and skilled professionals who operate within a quality framework.

### 2nd line – Quality monitoring and independent visiting

Our quality improvement team oversee our policies and procedures, performance KPIs, improvement programme, data analysis and our independent visiting contract (delivered through the National Youth Advocacy Service (NYAS)).

### 3rd line – Compliance and regulation

Our experienced internal compliance and regulation team operates across all divisions, reporting to our Group Executive Director – Compliance. The team undertakes a programme of regular service inspections and thematic reviews, assessing against an internal quality assurance framework.

These three lines of defence form our quality framework which aims to ensure the Group operates to the highest professional standards.

Strategic oversight of the quality of our services is provided by our independent Care Quality and Governance Committee. The Committee has oversight of all aspects of care, safety and service-user well-being.

## Regulatory data and performance (at year-end: 30 September 2020)

Whilst the majority of our Group’s 500+ services are located in England we also have a strong presence within Scotland and Wales. As such we operate under a number of different regulators.

Each registered site is inspected and given a rating. The highest ratings are “Outstanding”, “Good” or equivalent.

We continue to work closely with our regulators and commissioners across England, Scotland and Wales. In addition to localised links with inspectors, we have held meetings with senior leaders from our two main regulators – CQC and Ofsted, to review the performance of our portfolio. In addition, during 2020 we have shared and discussed our approach to managing COVID-19. As a consequence of the varying restrictions imposed during the pandemic our regulators adapted their inspection framework from March 2020. At all times since March we have worked closely with regulators, local and national government to ensure we maintain safe and effective care and follow infection control guidance.

Our Adults Services and a small number of our Children’s Services residential and college portfolio are regulated by the CQC who assess the services against approved essential standards of quality and safety. The regulators test and publicly record whether services are compliant or non-compliant against those standards.

Adults Services in Wales are regulated under different national legislation and are not currently rated on any form of scale, though all are compliant.

The Foster Care services in England are regulated by Ofsted and 100% services are rated Good.

In Wales the services are regulated by the Care Inspectorate Wales (CIW) and are not currently rated on any form of scale.

The Care Inspectorate of Scotland who regulate both Adults and Children’s Services have the majority of the Group’s rated residential services as Excellent or Very Good for both the established services and the acquired services in Scotland.

## CQC

We have 162 CQC-registered services, of which 155 have been graded. The statistics below show that we continue to operate well-above the national averages for the adult social care sector.

We have made progress on these ratings whereby in 2018 86% of CQC-registered services were rated as Good or Outstanding, in 2019 it was 95% and in 2020 it is 91%. In each of these years we have operated well above national averages for the adult care sector.

## Ofsted

The majority of our Children’s Services are regulated by Ofsted in England and these services are rated as Outstanding, Good, Requires Improvement or Inadequate.

We have 233 Ofsted registered services. We have maintained our Group’s blended (2019: 82%) position of 82% Good or Outstanding (30 September 2020).

## Quality governance and strategy

The Care Quality and Governance Committee is chaired by Professor Moira Livingston and the other members of the Board Committee are Karl Monaghan and Jamie Cumming plus John Ivers, Chief Operating Officer and Amanda Sherlock, Group Executive Director – Compliance.

The purpose of the Committee is to lead the development of the Group’s quality strategy and be responsible for the strategic oversight and assurance of care standards across the Group. In particular, to hold the Executive to account for the governance, risk and assurance process in place to identify, mitigate and manage risk and to maintain and improve the quality and safety of Group services.

During 2020 it has met four times to provide oversight and assurance on the quality strategy, quality standards, safety and compliance of the Group on behalf of the Board. In addition to standard business, as with previous years the Committee has invited operational directors to attend and present on topics ranging from restraint reduction strategy, data protection and GDPR, and clinical governance strategy.

## Our commitment to improving quality

Building upon the integration of Cambian, and a successful 2019, in January 2020 the Care Quality and Governance Committee endorsed a programme for further improving operational quality over the coming three years. This programme, consisting of seven workstreams (as set out below), is designed to consolidate operational policy and practice, improve quality inspection ratings and evidence strong and improving outcomes for children, young people and adults. Implementation began in early 2020. For each workstream we provide below the objectives, key achievements during 2020 and what we plan to deliver in the coming year.

### Workstream 1: Child, young person and adult-centred outcomes

#### Our objectives:

- To improve our ability to measure and demonstrate both quantitative and qualitative improvements in outcomes for all service users.
- Expand our therapeutic framework (STEP) across more children's services, enabling us to better meet the needs of all service users at each stage of their journey with us.

#### What have we achieved in 2020?

- Trialled and evaluated a number of outcome frameworks within different services and have now selected "Child and Adolescent Needs and Strengths" (CANS) as our outcome framework of choice for Children's Services.
- Conducted a survey of our children and young people to assess their views on how well supported they felt during the COVID-19.
- Introduced the STEP therapeutic framework into parts of our Children's Services.

#### Looking ahead to 2021

- Expand the roll-out of our outcome-framework, and select appropriate frameworks for Adults' Services.
- Expand the use of Mind of My Own (Voice of the Child application).
- STEP will be rolled out to our Specialist Services (mental health portfolio).

### Workstream 2: Improving quality standards, policies and procedures

#### Our objectives:

- Define our own quality standards, which enable us to operate above and beyond those expected by our different regulators.
- Implement corporate policy where applicable which engenders consistent high quality practice.
- Ensure our policies and procedures are fit for purpose and accessible.

#### What have we achieved in 2020?

- Designed and implemented a new and robust policy review process for all operational policies across the Group.
- Integrated a step within the review cycle which enables us to review quality standards across regulators and identify the highest standards which can then be integrated into our policies.
- Reviewed key operational policies to ensure they align to national best practice.

#### Looking ahead to 2021

- We will prepare and implement key corporate policies across the Group.
- We will investigate effective methods to update staff on changes in policy and test their understanding.

### Workstream 3: Recruitment, retention and development of skilled professionals

#### Our objectives:

- Ensure every site has the staff required to meet the needs of service users.
- Every role (education / care / clinical) has a competency framework that defines the knowledge and understanding, skills and behaviours expected of that role.
- Ensure we listen to the voices of our staff so that we can enable them to do their best.

#### What have we achieved in 2020?

- Reviewed our safer recruitment policy and processes.
- Reviewed and improved our induction programmes for residential and education portfolio.
- Designed competency matrices for care staff.
- Conducted a whole-organisation staff survey.

#### Looking ahead to 2021

- Implement our new safer recruitment policy.
- Integrate our competency matrices with our Myrus HR system to link with supervision and appraisal.

### Workstream 4: Quality monitoring and assurance

#### Our objectives:

- Have a robust cycle of quality monitoring and assurance operating across all services.
- Consistent independent visiting and reporting contract operating across Children's Services.
- A consistent suite of operational KPIs to inform performance monitoring and reporting.
- We meet and exceed nationally recognised safeguarding standards.

#### What have we achieved in 2020?

- We have expanded the scope of the Compliance and Regulation team to support the enlarged Children Services portfolio.
- Completed the roll-out of the "CareTech" Children's Services quality framework.
- Expanded the National Youth Advocacy Service's (NYAS) independent visiting contract to cover over 98% of the Children's Services portfolio.
- Reviewed our safeguarding practice against NSPCC safeguarding standards.

#### Looking ahead to 2021

- Implement the quality framework for CQC-registered sites and Children's (residential) Services.
- Implement a new dynamic risk assessment "line of sight" system to monitor performance.
- Introduce changes to our compliance and regulation audits for our CQC portfolio.

#### Workstream 5: Embedding a culture of continuous improvement

##### Our objectives:

- Establish and implement a consolidated programme of improvement across the Group.
- Every site has a consolidated improvement plan that is regularly reviewed.
- Forums of excellence are established to review performance and share best practice.
- Learn from every regulatory inspection.

##### What have we achieved in 2020?

- We are one year into our three-year quality improvement programme.
- All sites have quality improvement plans in operation.
- Established a Heads of Care Forum, a Heads of Education Forum and Safeguarding Boards.

##### Looking ahead to 2021

- All quality improvement plans will be reviewed monthly.
- Establish our Responsible Individual forum, our Outstanding Practitioner Forum and implement an expanded safeguarding governance framework.

#### Workstream 6: Management Information Systems (MIS) enabling data-informed practice and decision making

##### Our objectives

- Transition our services to be underpinned by management information systems (MIS).
- Become a data-informed organisation.

##### What have we achieved in 2020?

- Procured a new MIS for our education portfolio.
- Transitioned to a new MIS for our By the Bridge services within Foster Care.
- Trialled an online outcome tool in our Children's (complex care) Services.
- Built and implemented a bespoke MIS to manage our response to COVID-19.

##### Looking ahead to 2021

- Roll-out the new MIS into our Children's (schools) Services.
- Embed the new MIS into Foster Care.
- Extend our weekly KPI system to more of our Children's (residential) Services.

#### Workstream 7: Strong and robust site to Board governance

##### Our objectives

- Have a stronger and more robust site to Board governance framework.
- Have consistent performance reporting across every operational portfolio.
- Have productive and regular engagement with key stakeholders to assure the quality of our services offer.

##### What have we achieved in 2020?

- Strengthened our safeguarding governance and assessed it against the NSPCC safeguarding standards.
- Implemented compliance and regulation visits and inspections across Children's Services.
- Operated a pandemic response taskforce and leadership team to manage the effective handling of COVID-19 across the Group.
- Commenced Board-level site visits to triangulate quality assurance evidence of behalf of the Board.

##### Looking ahead to 2021

- Establish our Friends and Families Forums to enable their collective voice to inform policy and practice.
- Focus upon strengthening our clinical governance work.

We are committed to this journey of improvement and our aspiration to become the highest quality provider in our sector.



**Professor Moira Livingston**

Non-Executive Director  
10 December 2020

The Directors present their Report and the audited Group Financial Statements for the year ended 30 September 2020.

## Principal activities

The principal activity of the Group is the provision of high quality support and care for individuals who often have complex needs.

## Business review and future developments

The results for the financial year ended 30 September 2020 are set out in the consolidated statement of comprehensive income detailed on pages 86 to 87. Revenue for the year amount to £430.0m, operating profit for the year before non-underlying items amounted to £73.5m and operating profit after non-underlying items amounted to £53.3m.

Key performance indicators are set out in the "Highlights" on page 1.

## Key risks and uncertainties

There are a number of risks and uncertainties which could impact on the Group's long-term performance. These are set out in the Strategic Report on pages 51 to 52.

## Employee engagement

Details in relation to employment policies, employee involvement, development, together with details of some of the human resource improvement initiatives implemented during the year and priorities for the year 2020/21 are shown in the Strategic Report, all of which are incorporated by reference into this Directors' Report.

## Business relationships

Details of the Group's commissioners, service users, regulators and suppliers; and how we engage with them are described in the Strategic Report, all of which are incorporate by reference into the Directors' Report.

## Environmental

Details of the Group's Greenhouse gas emissions and the methodology used to calculate such emissions are set out on page 47 which is incorporated by reference into this Directors' Report.

## Dividends

Dividends of £13m have been paid during the year. The Directors propose a final dividend of 8.75p per share (2019: 7.95p) subject to the approval at the forthcoming Annual General Meeting.

## Share listing

The Group's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange. Further information regarding the Group's share capital, including movements during the year, are set out in note 23 to the financial statements.

## Directors

The names of the current Directors together with brief biographical details are shown on pages 60 to 61.

In accordance with the articles of association, Karl Monaghan retires by rotation and, being eligible, offer himself for re-election.

The names of all Directors who held office in the year are as follows:

Director's name	Title
Farouq Sheikh	Group Executive Chairman
Haroon Sheikh	Group Chief Executive Officer
Christopher Dickinson	Group Chief Financial Officer
Mike Adams	Executive Director
Karl Monaghan	Non-executive Director
Jamie Cumming	Non-executive Director
Professor Moira Livingston	Non-executive Director

Christopher Dickinson (FCA) joined the Group in January 2019 as Cambian Chief Financial Officer, having previously been a Managing Director of Jefferies where he acted for CareTech Holdings PLC on its merger with Cambian. Prior to Jefferies, Chris spent 14 years in the investment banking division of J.P. Morgan and three years at Deloitte, qualifying as a Chartered Accountant. Christopher Dickinson was appointed as Group Chief Financial Officer and joined the Board on 13 January 2020.

The terms of the Directors' service contracts and details of the Directors' interests in the shares of the Group, together with details of share options granted and any other awards made to the Directors, are disclosed in the Remuneration Report commencing on page 72.

## Directors' insurance

The Company maintains appropriate Directors' and Officers' liability insurance, as permitted by the Companies Act 2006.

## Share capital

### Substantial shareholdings

As at 3 December 2020, being the date of the preliminary results announcement, the Group had been notified of, or was otherwise aware of, the following substantial interests of 3% or more in the ordinary share capital of the Group, other than those in respect of the Directors which are set out in the Remuneration Report on page 76.

	No. of Ordinary shares of 0.5p	Percentage %
Liontrust Asset Mgt	16,573,407	14.6
Lombard Odier Asset Mgmt	15,468,657	13.7
Hof Hoorneman Bankiers (Netherlands)	9,349,584	8.3
Canaccord Genuity Wealth Mgt (London)	8,097,000	7.2
Mr Richard Griffiths (Jersey)	5,835,323	5.2

## Capital structure

As at 30 September 2020, the Group had 113,173,992 issued ordinary shares of 0.05p each. The Company has, and as at 30 September 2020, had, one class of ordinary shares and each share carries the right to one vote at general meetings of the Group and to participate in any dividends declared in accordance with the articles of association. No person has any special rights of control over the Group's share capital.

## Financial instruments

The Group is exposed to a combination of price, credit, interest rate and cash flow risks. The Group uses financial instruments including cash, borrowings and interest rate swaps, the main purpose of which are to raise finance for the Group's activities and to manage interest rate risks. Disclosures in respect of these instruments are set out in note 26 to the financial statements.

## Employees

The Directors recognise the benefits which arise from keeping employees informed of the Group's progress and plans and through their participation in the Group's performance. The Group is therefore committed to providing its employees with information on a regular basis, to consulting with them on a regular basis so that their views and/or concerns may be taken into account in taking decisions which may affect their interests, and to encouraging their participation in schemes through which they will benefit from the Group's progress and profitability. The Group aims to foster a working environment in which all employees are treated with courtesy and respect and seeks at all times to provide opportunities to develop and reach their full potential.

The Group established Sharesave share option schemes for eligible employees in both 2016, 2017 and 2020, details of which can be found in note 22 along with options remaining on previous schemes. The Board feels that share ownership among employees fosters team spirit and motivation and will contribute to the ultimate success of the Group.

It is the Group's policy to ensure that disabled persons are treated fairly and consistently in terms of recruitment, training, career development and promotion and that their employment opportunities should be based on a realistic assessment of their aptitudes and abilities. Wherever possible, the Group will continue the employment of persons who become disabled during the course of their employment through retraining, acquisition of special aids and/or equipment or the provision of suitable alternative employment.

## Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting on 17 March 2020 the Directors were granted authority to allot shares with an aggregate nominal value of up to the value of one third of the share capital of the Group.

Resolutions for the renewal of the above will be proposed at the forthcoming Annual General Meeting and also a resolution to give the Directors authority to allot equity securities for cash to the holders of ordinary shares as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective shareholding or in accordance with the rights attached thereto. Further details of which, together with explanations of the resolutions to be proposed at the meeting, appear in the "Notice of AGM and explanatory circular to shareholders" which will be sent to shareholders in good time prior to the meeting.

## Post balance sheet events

On 23 November 2020 an interim dividend of 4.0p per share was paid to shareholders.

On 6 October 2020, the Group completed the acquisition of a majority holding in Smartbox Assistive Technology Limited and associated subsidiaries, and Sensory Software International Ltd (collectively "Smartbox").

Smartbox is a market-leading creator of software and hardware that helps disabled people without speech to have a voice and live more independently. It makes communication as quick, simple and effective as possible for those service users for whom speech difficulties can be a challenge. Its solutions include communication aids, environmental control devices, computer control technology and interactive learning.

To facilitate the acquisition, the Group has established a new subsidiary, Smartbox Holdings Ltd, which is 70% owned by the Group, with the remaining minority ownership held by the Smartbox management team comprising Dougal Hawes, Jarrod Inott and Hannah Church as well as previous owners Paul and Alyson Hawes.

Smartbox Holdings Ltd will pay up to £10,600,000 comprising of an aggregate initial purchase price of £7,050,000, funded through an equity contribution and loan note from the Group and equity contribution from the minority holders of Smartbox Holdings Ltd. Earn-outs of up to £3,550,000 are payable over a two-year period from completion. The Group's contribution will be funded from existing cash resources.

## 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 Group Executive Chairman's Statement, Group Chief Executive's Statement and Performance Review on pages 22 to 24 and pages 25 to 27 and Viability Statement on page 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 53 to 56. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through cash flow from profits which together with existing bank facilities are sufficient to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, which are shown in the table in note 26 and indicates their contractual cash flow maturities.

The Group has Banking facilities with a consortium of eight banks (Barclays Bank plc, HSBC UK Bank plc, Santander UK plc, AIB Group (UK) plc, Clydesdale Bank plc and Credit Suisse AG, Lloyds Bank plc and National Westminster Bank plc) for committed financing by way of term loans, none of which are repayable before February 2022. In addition to the term loans, a £25m revolving credit facility is available to provide working capital for the Group together with a day-to-day overdraft facility of £2m. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants, which are reviewed regularly.



The Group's underlying operating business is cash generative, much of the business has a long-term profile with both debtor days and creditor days comparatively low. As at the balance sheet date, the Group had cash balances of £54.3m.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. The Group has run downside scenarios including, but not limited to, a reduction in revenue, site closures, a cyber-attack and additional costs associated with COVID-19. This is done to identify risks to liquidity and covenant compliance. After making due enquiries and applying the downside sensitivities both individually and in combination, the Directors have not identified any material uncertainties to the Group and the parent company's ability to continue to operate over a period of at least 12 months from the date of approval of the financial statements. Therefore the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

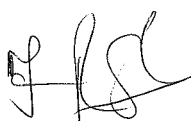
COVID-19 was identified as an emerging risk for the business in March 2020. Less than 3% of our service users fall into the formal NHS high-risk categories for COVID-19 such as those with underlying health conditions. Throughout the pandemic, all our services remain fully operational and funded. Adult social care providers have had additional funding available via local authorities to help support the provision of additional resources and associated costs necessary to halt any transmission of COVID-19. Through the use of a dynamic risk assessment tool we have been able to provide real time monitoring and support across all our services as well as ensuring that we have a business continuity plan at each site. This covers arrangements to provide staff cover between services. For these reasons we do not consider COVID-19 a significant risk to the business based on the current position.

The United Kingdom left the European Union on 31 January 2020 on the terms of the Withdrawal Agreement, which introduced a transition period until 31 December 2020. It is possible that the UK-EU will not have agreed a UK-EU trade deal by 31 December 2020, or a UK-EU trade deal will be agreed but the terms of the deal are such that it will cause disruption to our business post 31 December 2020. We have fewer than 5% of our employees who are EU citizens; however, from 1 January 2021 there may be a reduction in the numbers of candidates that are able to work in the UK. The Board have considered this specific impact in respect of Brexit and concluded, on the basis the Group is substantially a UK-based operation with no reliance on exports and limited reliance on imports, that Brexit is not a significant risk to the business.

### Auditor

Grant Thornton UK LLP have expressed their willingness to continue in office and, in accordance with section 489 of the Companies Act 2006, a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

By order of the Board



**Farouq Sheikh**  
Group Executive Chairman  
10 December 2020

# Directors' Remuneration Report

## Statement from the Chairman of the Remuneration Committee



**Jamie Cumming**  
Chairman of the Remuneration Committee

### Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report ("DRR") for the year ended 30 September 2020. The Group is listed on the Alternative Investment Market ("AIM") market of the London Stock Exchange and the information provided is disclosed to fulfil the requirements of AIM Rule 19. This report is split into two main parts:

- **This statement to shareholders** which includes a summary of our approach to pay, our policy, remuneration outcomes for the year just ended and how we intend to operate remuneration arrangements for the year ahead; and
- **The Annual Report on Remuneration** which provides more detail on the above, as well as setting out other remuneration-related disclosures.

### Remuneration Committee

The Remuneration Committee currently comprises three Non-Executive Directors, Jamie Cumming (Chairman), Karl Monaghan and Professor Moira Livingston, and meets at least twice each year. The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided and all are considered to be independent Directors of the Group. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. They do not participate in any bonus, share option or pension arrangements.

The Committee's principal duties are to review the scale and structure of the remuneration and service contracts for Executive Directors and it also administers the Company's share option schemes. The Committee takes into consideration ESG issues, in relation to corporate performance, when setting the remuneration of Executive Directors and takes steps to ensure that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour. The principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture prescribed by the UK Corporate Governance Code were taken into account by the Committee when determining the approach to Group executive remuneration.

### Remuneration Policy

CareTech's remuneration policy is to provide for each of its Executive Directors and key personnel a package which is adequate to attract, retain and motivate individuals of the appropriate calibre, whilst at the same time not paying more than is necessary for this purpose.

The Committee has the objective of ensuring that remuneration packages are offered that:

- Are set at a level reflecting the competitive market in which the Group operates.
- Have a significant part of remuneration linked to the achievement of performance targets.
- Have due regard to actual and expected market conditions.
- Are structured in accordance with the interests of shareholders.
- Foster the development of a high-performance culture across the Group.

The following comprised the principal elements of remuneration for Executive Directors for the year under review: base salary; annual bonus; benefits; and pension.

On 8 November 2019, the Group issued 2,504,475 new ordinary shares of 0.5p in the Group under an Executive Shared Ownership Plan ("ExSOP") to 30 executive and senior managers.

Executive Directors have existing options under the Group's ExSOP.

The remuneration for Non-Executive Directors is set by the Board on the recommendation of the Executive Directors. Non-Executive Directors are not eligible to participate in any of the Group's bonus or share option schemes.

### Directors' service agreements

All Executive Directors' service contracts are subject to a 6 or 12 months' notice (period) of termination on either side.

The Non-Executive Directors have each been appointed under contracts, which are subject to three months' notice of termination on either side.

### Business context

CareTech have 26 years of experience in the care sector and 15 years on the public markets. In that time, the business has grown from a single home to 550 facilities with 10,000 staff supporting close to 5,000 service users. Since listing on the AIM market in 2005 ("IPO"), the business has transformed from being focused on supporting adults with a learning disability through residential and day care settings to one today where we cater for young people and children with complex needs across a range of settings, be it residential, education, CAMHS or community support.

The business has expanded its range of services to encompass mental health, education, children's residential care and therapeutic fostering. Over the last 26 years, CareTech has become a trusted partner for local authorities with a proven track record of delivering the highest standards of care and governance. Across the Group, CQC quality ratings are 91% Good or Outstanding in Adults Services, which compares favourably to the market average of 85%. The Ofsted ratings for Children's services are 82% Good or Outstanding.

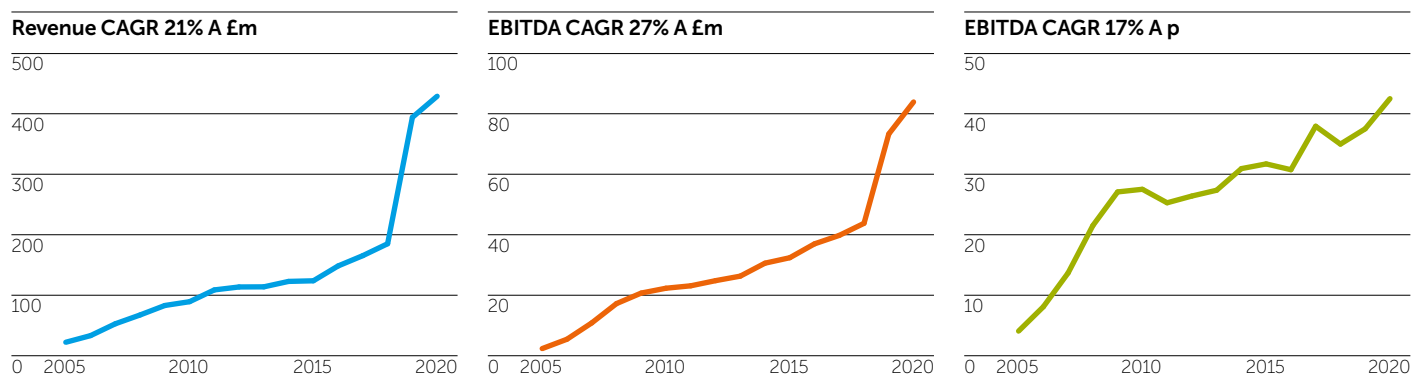
CareTech has continued to deliver the highest standards of care during the COVID-19 pandemic and the Group has played a vital role in ensuring our services remain fully operational. In these unprecedented times, the Group's focus has been on delivering safe services and the health, safety and wellbeing of our employees and service users. A COVID-19 taskforce, comprising both divisional leadership and members of the Group Executive Team, was set up at the outset of the pandemic outbreak. Through the use of a dynamic risk assessment tool we have been able to provide real time monitoring and support across all of our services as well as ensuring that we have a business continuity plan at each site. Through all of the above and the incredible dedication of our staff, support teams and management, we continue to provide excellent support and care to those in our services.

The Group has been less severely affected by the COVID-19 pandemic than the care home sector for older people. The Government introduced two grants in England from which local authorities can disburse money to social care providers. These grants have helped support the provision of additional resources and associated costs necessary to improve prevention and infection control in our services, and to support financially to self-isolate where this has been necessary.

Over the years, CareTech has developed a range of care pathways and helped many of the adults and young people that we support to live more independently. This is an outstanding outcome for both CareTech and the individuals the Company supports and assists local authorities to meet the ever-increasing cost of social care provision.

Since IPO, EBITDA and EPS have grown by CAGR of 20% and 25%. CareTech's market capitalisation has gone from £60m at IPO to £510m, an increase of over 8-fold in size. The Group has put in place a dividend policy, which increases in line with growth in underlying EPS. It is within this context that the Committee has considered remuneration over recent years in order to align Executive Board Directors' remuneration with the sector and the size of the business and its organisational structure.

The Company's growth in revenue, EBITDA (pre IFRS 16) and Underlying EPS (pre IFRS 16) are graphically demonstrated as follows:



## Remuneration decisions and outcomes

### Salary

The following table sets out salaries for Executive Directors for the year ended 30 September 2020 and intended salaries effective for the year ending 30 September 2021.

		2019 salary with effect from 1 October 2019	2020 salary with effect from 1 October 2020	
Executive Directors				
Group Executive Chairman	Farouq Sheikh	£400,000	<b>£400,000</b>	(+0%)
Group Chief Executive Officer	Haroon Sheikh	£450,000	<b>£450,000</b>	(+0%)
Executive Director	Mike Adams OBE	£125,000	<b>£125,000</b>	(+0%)
Chief Financial Officer	Christopher Dickinson	£278,000*	<b>£300,000</b>	(+8%)

\* From appointment on 13 January 2020.

### 2020 bonus

The Committee assessed outcomes over the year ended 30 September 2020 with respect to Group Underlying EPS, EBITDA and the quality of regulatory reports, and determined that bonuses of 91% of the maximum were appropriate for the Executive Directors. Achievement against these measures is described in more detail in the Annual Report on Remuneration.

### 2021 bonus

For the year ending 30 September 2021, maximum bonus opportunities will be between 50% and 100% of salary for the Executive Directors. For the FY21 bonus, we will use the same mix of three measures, with a weighting of a third each on EPS, EBITDA and Quality. In line with our approach for the FY20 bonus, we will retrospectively set out the targets and performance achieved in next year's Annual Report on Remuneration.

### Executive Shared Ownership Plan ("ExSOP")

CareTech operates a discretionary ExSOP for Executive Directors and other selected senior executives. In November 2019, the Company issued a total of 2,504,475 new ordinary shares of 0.5p in the Company under an ExSOP to 30 members of senior and executive management, as disclosed in Stock Exchange announcements at the time. Details of Directors' interests and share option details for ExSOP and Sharesave awards are provided in the Annual Report on Remuneration.

The ExSOP provides each holder of shares awarded pursuant to the ExSOP ("ExSOP Shares") a joint beneficial ownership in the ExSOP shares (shared with the Employee Benefit Trusts) such that upon sale of the ExSOP shares, the holder will be entitled to the proceeds of the sale less the initial market value of the ExSOP shares and a carrying cost of 3% per annum. The ExSOP shares have a three-year vesting period with vesting subject to performance criteria being met and are usually conditional on continuous employment.

### All-employee share-based arrangements

CareTech operates Sharesave option arrangements, allowing all employees (including Executive Directors) to participate in share ownership and to share in our success over the medium term. CareTech also operates a Company Share Option Plan ("CSOP") for selected individuals below Board level.

On 15 September 2020, the Company granted options in aggregate over 480,678 ordinary shares of 0.5p in the Company pursuant to the CareTech Holdings Plc Sharesave Scheme 2020.

## Directors' Remuneration Report

Statement from the Chairman of the Remuneration Committee  
continued

### Executive remuneration at a glance

This table summarises the approach to remuneration arrangements for Executive Directors for FY20 and intended operation for FY21.

Element of remuneration	Year ended 30 September 2020	Year ending 30 September 2021
Salary	Group Executive Chair	£400,000
	Group CEO	£450,000
	Executive Director	£125,000
	Chief Financial Officer	£278,000
Maximum discretionary bonus opportunity	Group Executive Chair and Group CEO – 100% of salary payable in cash	Group Executive Chair and Group CEO – 100% of salary payable in cash
	Group Financial Officer – 50% of salary payable in cash	Group Financial Officer – 66% of salary payable in cash
	Executive Director 50% of salary payable in cash	Executive Director 50% of salary payable in cash
Bonus performance measures	Three measures each with equal weighting: adjusted EPS; EBITDA; and quality of regulatory reports	
ExSOP options	Grants made in October 2019	(number of shares):
	Group Executive Chair	400,000
	Group CEO	400,000
	Executive Director	93,750
	Chief Financial Officer	155,250
Pension arrangements	15% of salary pension contribution (which can be taken as 13% of salary cash allowance)	

## Annual Report on Remuneration

### Directors' Remuneration (audited)

The table below reports a single figure of total remuneration for each of the Directors for the financial year ended 30 September 2020 and their comparative figures for the financial year ended 30 September 2019.

	Salary and fees		Benefits		Annual bonus		LTIP		Pension		Total	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
<b>Executive Directors</b>												
Farouq Sheikh	400	350	22	32	367	350	–	–	44	53	833	785
Haroon Sheikh	450	400	58	58	413	400	–	–	50	62	971	920
Christopher Dickinson	198	–	10	–	91	–	–	–	26	–	325	–
Gareth Dufton	58	155	3	6	–	100	–	–	6	17	68	278
Mike Adams OBE	125	69	8	3	57	–	–	–	–	–	190	72
Michael Hill	–	71	–	7	–	–	–	–	–	–	–	78
<b>Non-Executive Directors</b>												
Karl Monaghan	53	53	–	–	–	–	–	–	–	–	53	53
Professor Moira Livingston	45	15	–	–	–	–	–	–	–	–	45	15
Jamie Cumming	42	42	–	–	–	–	–	–	–	–	42	42
<b>Total</b>	<b>1,371</b>	<b>1,155</b>	<b>101</b>	<b>106</b>	<b>928</b>	<b>850</b>	<b>–</b>	<b>–</b>	<b>126</b>	<b>132</b>	<b>2,527</b>	<b>2,243</b>

Notes to the table:

- Michael Hill, the Company's then Group Chief Financial Officer, passed away on 9 December 2018. Gareth Dufton was appointed Interim Group Chief Financial Officer the following day. Christopher Dickinson was appointed Group Chief Financial Officer on 13 January 2020, replacing Gareth Dufton as Interim Chief Financial Officer. Remuneration details for Christopher Dickinson and Gareth Dufton represent only those amounts in relation to their services as a Director on the Board.

### Benefits

Benefits include car allowance (or company vehicle), vehicle expenses, healthcare insurance and relocation assistance.

### Annual bonus

Annual bonus awards were made in respect of the year ended 30 September 2020. Christopher Dickinson and Mike Adams were eligible for a maximum bonus opportunity of 50% of salary. Farouq Sheikh and Haroon Sheikh were eligible for a maximum bonus opportunity of 100% of salary. For the avoidance of doubt, Non-Executive Directors are not eligible to participate in any annual bonuses or share-based incentives at CareTech.

The awards were structured by reference to performance against three performance measures and targets, all equally weighted. If an individual target is met, a third of the bonus award is payable. Given the suspension of site visits from our Regulators due to COVID-19, the Remuneration Committee has exercised its discretion in relation to how they have judged performance in relation to the Quality performance measure as Regulatory inspections were suspended in March 2020 due to the pandemic. The Remuneration Committee's judgement has been based on Quality ratings during the period up until suspension of site visits, internal compliance monitoring of our sites and strong leadership during the pandemic to support the health and safety of our staff and service users. The following table sets out performance measures, weightings, targets and outcomes in respect of the bonus for the year ended 30 September 2020.

Performance measure	Weighting	Target	Outcome
Group underlying EPS	One third	42.0p (pre IFRS 16)	43.02p resulting in one third payable
Group EBITDA	One third	£82.0m (pre IFRS 16)	£84.1m resulting in one third payable
Quality % of regulatory reports rated good or outstanding, and there are also no serious reputational risks identified	One third	85-90%	75% payable
<b>Total</b>			<b>91% of the maximum bonus opportunity available is payable</b>

### Long Term Incentive Plan ("LTIP")

To date, the Group has not operated a typical LTIP in the form of performance shares. CareTech does occasionally grant share options and shares under its Executive Shared Ownership Plan ("ExSOP") to the Executive Directors.

In November 2019, the Remuneration Committee made awards to the Executive Directors (and other senior management) under the ExSOP. These awards are subject to a time-related performance condition measured over a three-year period beginning at the date of the grant. The performance condition is that underlying EPS increases by 15% by the third anniversary of the grant. The awards to the Executive Directors were:

Group Executive Chairman	400,000 shares
Group CEO	400,000 shares
Executive Director	93,750 shares
Chief Financial Officer	155,250 shares

# Directors' Remuneration Report

## Statement from the Chairman of the Remuneration Committee continued

Details of share options made in previous years are set out in the share options section below.

The Group's Remuneration Committee has been reviewing a new LTIP to attract, retain and motivate key senior members of the CareTech leadership team. After receiving expert advice from AON Hewitt Consulting Services, the Group's Remuneration Committee will look to implement a LTIP which will operate alongside the Group's existing share option plan and be established to encourage long-term value creation for the Group's shareholders and align the interests of the senior management team.

### Pension arrangements

Executive Directors are offered a contribution of 15% of salary into a pension plan. Alternatively, they can take this as a cash allowance of 13% of salary in lieu of a pension contribution.

### Non-Executive Director Fees

The following sets out the current fee policy for Non-Executive Directors:

- Base fee of £42,000-£45,000; and
- Additional fee of £10,500 for the role of Senior Independent Director.

### Directors' share options and Sharesave options

On 29 March 2017, the Group's ExSOP was created. Farouq Sheikh and Haroon Sheikh each own 320,000 ordinary shares (total 640,000 ordinary shares) of 0.5p respectively under the Group's Executive Shared Ownership Plan 2017 (see note 21) and 400,000 ordinary shares (total 800,000 ordinary shares) of 0.5p respectively under the Group's Executive Shared Ownership Plan 2019.

On 17 October 2017, the Group granted options in aggregate over 254,681 ordinary shares pursuant to the CareTech Holdings plc Sharesave Scheme 2017. This is a three-year contract with a start date of 1 December 2017, with options exercisable at a price of 308p per share between 1 December 2020 and 31 May 2021.

On 15 September 2020, the Group granted options in aggregate over 480,678 ordinary shares pursuant to the CareTech Holdings plc Sharesave Scheme 2020. This is a three-year contract with a start date of 1 November 2020, with options exercisable at a price of 355p per share between 1 November 2023 and 30 April 2024. Within the options described above, there were 5,070 options each granted to Farouq Sheikh, Haroon Sheikh and Christopher Dickinson under the Sharesave Scheme.

Christopher Dickinson has an interest in 155,250 ordinary shares in CareTech pursuant to the Executive Shared Ownership Plan, details of which were announced on 8 November 2019.

No other Director has any share options in the Group.

None of the options above are subject to clawback arrangements. However, it is a requirement of the ExSOP that the employee must have continuous service by the third anniversary for the shares to vest.

The total number of shares issued in the ExSOP and options in the approved share option scheme in November 2020 was 4,657,643 million shares, representing less than 5% of the Group's share capital.

### Directors' interests

The Directors who held office at the end of the financial year had the following interests in the ordinary share capital of the Company according to the register of Directors' interests:

	30 September 2020 Number of ordinary 0.5p shares	30 September 2019 Number of ordinary 0.5p shares
Westminster Holdings Limited <sup>(1)</sup>	10,047,864	10,547,864
Cosaraf Pension Fund <sup>(2)</sup>	230,000	230,000
Sheikh Holdings Group <sup>(3)</sup>	2,579,145	500,000
Farouq Sheikh	–	638,919
Haroon Sheikh	–	690,226
Karl Monaghan	41,795	41,795
Jamie Cumming	2,500	2,500
Mike Adams	2,145	2,145
Christopher Dickinson	–	–

Notes to the table:

(1) Westminster Holdings Limited is a company owned by a trust, the beneficiaries of which include Farouq Sheikh and Haroon Sheikh.

(2) Cosaraf Pension Fund is a self-administered scheme established for the benefit of Farouq Sheikh and Haroon Sheikh.

(3) Grosvenor UK Limited is beneficially interested in these shares via a Contract for Difference (CFD) which was effected at a price of 350p per shares. Grosvenor UK Limited is a wholly owned subsidiary of Sheikh Holdings Group Investments Limited, which is wholly owned by Haroon and Farouq Sheikh and their immediate family.

### Additional disclosures relating to CEO pay

The following section sets out a number of additional disclosures relating to CEO pay, typically provided by FTSE-listed companies in their remuneration reports:

- Percentage change in CEO remuneration.
- Historic CEO pay.

### Percentage change in the Board's remuneration

The following table compares the percentage change in the CEO's salary, benefits and annual bonus to the average percentage change in salary, benefits and bonus for all employees from the year ending 30 September 2019 to the year ending 30 September 2020.

Change in remuneration	Salary	Benefits	Annual bonus
Chief Executive Officer	12.5%	0%	3.1%
Average pay of all employees	6.6%	0%	3.0%

### Historic CEO pay

The following table sets out historic CEO pay over the past ten years. The single figure of total remuneration is provided, as well as the annual bonus expressed as a percentage of the maximum for the year.

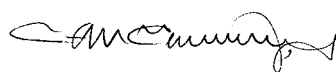
In the years to 2017, the maximum potential bonus opportunity for the CEO was 25% of salary, changing to 100% of salary in 2018. As set out above, CEO pay has been reviewed together with Executive Board remuneration periodically to align it with the growth in the Group, the changes in organisational structure and the sector as a whole.

Year ending 30 September	Chief Executive	Single figure of total remuneration £000	Annual bonus as a % of maximum	LTIP as a % of maximum
2020	Haroon Sheikh	971	91%	n/a
2019	Haroon Sheikh	920	100%	n/a
2018	Haroon Sheikh	794	62%	n/a
2017	Haroon Sheikh	430	64%	n/a
2016	Haroon Sheikh	375	76%	n/a
2015	Haroon Sheikh	304	96%	n/a
2014	Haroon Sheikh	298	69%	n/a
2013	Haroon Sheikh	247	0%	n/a
2012	Haroon Sheikh	259	0%	n/a
2011	Haroon Sheikh	246	0%	n/a

Notes to the table:

- Single figure of total remuneration is as disclosed in previous Annual Reports, being the total figure in the relevant table plus any pension amounts disclosed in the same table.

By order of the Board



**Jamie Cumming**

Chairman of the Remuneration Committee  
10 December 2020

## Statement of Directors' Responsibilities

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 to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company and 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 IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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.

By order of the Board



**Farouq Sheikh**  
Group Executive Chairman



## Opinion

### Our opinion on the financial statements is unmodified

We have audited the financial statements of CareTech Holdings PLC (the "parent company") and its subsidiaries (the "Group") for the year ended 30 September 2020, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (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 30 September 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 as applied to listed entities, 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.

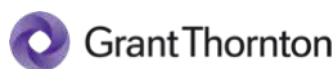
COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach 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.

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report and accounts set out on page 51 that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated (including the impact of COVID-19 and Brexit);
- the Directors' confirmation, set out on page 51 of the Annual Report and accounts, that they have carried out a robust assessment of the principal and emerging risks facing the Group (including the impact of COVID-19 and Brexit), including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement, set out on page 91 of the financial statements, about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the parent company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; or
- the Directors' explanation, set out on page 91 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

As an AIM listed company, the Company is not required to comply with Listing Rule 9.8.6R(3) and therefore we do not report on whether we have anything material to add or draw attention to in respect of the Directors' statements relating to going concern and the prospects of the Group required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) and whether they are materially consistent with our knowledge obtained in the audit.



**Overview of our audit approach**

- Overall materiality: £2,505m, which represents 5% of the Group's normalised profit before tax after adjustments for specific non-routine items, at the planning stage of the audit;
- Key audit matters were identified as:
  - Occurrence of revenue and existence of deferred income;
  - Valuation of goodwill and customer relationships;
  - Identification of control and accuracy of acquisition accounting;
  - Measurement of lease assets and liabilities;
  - Valuation of non-current "sleep-in" provisions; and
  - Going concern.
- The parent company, CareTech Holdings PLC and its subsidiaries, excluding Cambian Group Limited and its subsidiaries ("CareTech"); and Cambian Group Limited and its subsidiaries ("Cambian") were each identified as significant components on which we performed full scope audit procedures using component materiality on all entities included in the respective components.
- Other smaller components of the Group were subject to a combination of specified audit procedures and analytical procedures using component materiality, with the exception of Spark of Genius North East LLP, which was subject to full scope audit procedures using entity materiality.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on, the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
<p><b>Occurrence of revenue and existence of deferred income</b></p> <p>Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumption that there are risks of fraud in revenue recognition.</p> <p>We have identified fraud risk relating to service users discharged for Adult/Supported services and Children revenue streams for the current year. We have identified the revenue associated with users who have been discharged in the year as susceptible to fraud risk because this is predominantly a manual process which requires adjustments to revenue billed, when notification of discharge of a service user is received.</p> <p>In addition, IFRS 15 'Revenue from Contracts with Customers' involves management judgement for the recognition of revenue from care services and therefore there is a risk that a material error could occur if it was incorrectly recognised.</p> <p>We have focused the significant risk of occurrence in the Adult/Supported services and Children revenue streams on revenue relating to service users discharged in the year. Due to the nature of the risk identified, this also results in a significant risk in respect of the existence of year-end deferred income balances. Fostering revenues are considered to have a significant risk of occurrence.</p> <p>We therefore identified occurrence of revenue and existence of deferred income as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>- considering the Group's revenue recognition accounting policies to check these were in compliance with IFRS 15 and consistently applied across the Group;</li> <li>- evaluating and testing the design and operating effectiveness of key controls over the admission, discharges and fee movement during the year for the material revenue streams (Adult, Children, Residential and Education). The testing of these revenue streams was disaggregated between CareTech and Cambian due to different processes and control environments;</li> <li>- performing substantive testing on fostering and other smaller revenue streams in the significant components and on revenues in those smaller components, where we did not place reliance upon the operating effectiveness of controls;</li> <li>- agreeing a sample of revenue transactions to subsequent cash receipt and evidence of right to revenue recognition, to ensure that service has been provided and accordingly the performance obligation is satisfied;</li> <li>- testing the completeness of credit notes recognised in the year against revenues billed in advance for discharged service users; and</li> <li>- testing the deferred income recognised at the end of the year and agree them to supporting evidence, on a sample basis.</li> </ul> <p>The Group's accounting policy on revenue is shown in note 2(m) to the financial statements and related disclosures are included in note 4.</p> <p><b>Key observations</b></p> <p>Our audit testing did not identify any material misstatements in relation to the occurrence of revenue and existence of deferred income.</p>

## Key Audit Matter – Group

## How the matter was addressed in the audit – Group

**Valuation of goodwill and customer relationships**

The Group has goodwill with a carrying value of £84.6m (2019: £79.5m) and customer relationships included within intangible assets with a carrying value of £76.3m (2019: £73.0m) at the year-end, which have arisen as a result of acquisitions.

Under IAS 36 'Impairment of Assets', management is required to test the goodwill annually for impairment. Given the current economic climate, we believe impairment indicators also exist in relation to the other intangible assets.

Significant judgements in the determination of recoverable amount of an asset/CGU include the determination of the CGUs, the forecast growth rates and the applicable discount rates.

IAS 36 requires that assets are not carried at more than their recoverable amount.

We therefore identified the valuation of goodwill and customer relationships as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- evaluating the Group's accounting policy for consistency with IAS 36 and considering whether the accounting policy has been applied accurately and consistently across the Group;
- testing the arithmetical accuracy and integrity of the models and underlying data used by management in their impairment assessment by checking the consistency of formulae used and agreeing the underlying forecasts to approved budgets;
- challenging management's identification of CGUs within the business for reasonableness;
- using our in-house valuation specialists as an auditor's expert to assess (in respect of value-in-use assessments) the reasonableness of the discount rates and growth rates applied to cash flows, and (in respect of fair value less costs to sell assessments) the multiples used to derive fair value;
- challenging management's model in respect of unallocated costs and unallocated capital expenditure; and
- challenging management's assumptions concerning forecast cash flows, based on historical trends and any changes in customer preferences and regulations.

The Group's accounting policy on intangible assets and goodwill, including their valuation, is shown in note 2(e) to the financial statements and related disclosures are included in note 15.

**Key observations**

Our audit testing did not identify any material misstatements in relation to the valuation of goodwill and customer relationships. The assessment of potential impairment is highly sensitive to reasonable changes in the key assumptions and inputs. We have satisfied ourselves that the disclosures made are reasonable and consistent with the assessment performed.

**Identification of control and accuracy of acquisition accounting**

The Group acquired controlling interests in AS Investment Holdings Ltd and AS1 Investment Holdings Ltd and their respective operating entities in the United Arab Emirates (UAE) (the "AS Group") on 4 February 2020. The Group indirectly holds less than 50% of the voting rights of the operating company of AS1 Investment Holdings Ltd giving rise to a significant risk relating to whether "control" exists.

IFRS 10 'Consolidated Financial Statements' involves significant judgement by management regarding when an acquired entity is "controlled" by the acquiring entity and there is a risk that material error could occur in the consolidation of such entities.

IFRS 3 'Business Combinations' involves significant judgement regarding the measurement of assets acquired (including goodwill) and there is a risk that material error could occur in the reporting of this business combination.

We therefore identified identification of control and accuracy of acquisition accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included but was not restricted to:

- inspecting documentation including articles and memorandum of association and share purchase agreements to ensure that the Group controls the entities acquired and that the date of control was accurately recorded and reflective of when such control was achieved;
- reviewing management's paper and challenging management's assessment that control exists for the operating entity of AS1 Investment Holdings Ltd where the Group holds less than 50% of voting rights;
- evaluating the calculations and management judgements on the fair value of assets and liabilities acquired, including any identified intangibles on the acquisition of the AS Group in line with IFRS 3;
- engaging internal experts to assist with our audit of significant inputs to the fair valuation of assets identified as part of the acquisition;
- inspecting evidence to support the accuracy of prepaid assets and deposits and the recoverability of receivables; and
- performing specific testing to ensure that transactions undertaken in the pre-acquisition period were eliminated from the consolidation.

The Group's accounting policy on business combinations is shown in note 2(r) to the financial statements and related disclosures are included in notes 3 and 5(a).

**Key observations**

Our audit testing did not identify a material misstatement in relation to the identification of control and the accuracy of acquisition accounting. The identification of control of the operating entity of AS1 Investment Holdings Ltd is a significant judgement and accordingly has been disclosed in notes 3 and 5(a).

**Independent Auditor's Report**  
to the members of CareTech Holdings PLC  
continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
<p><b>Measurement of lease assets and liabilities</b></p> <p>The Group has adopted IFRS 16 'Leases' for the year ended 30 September 2020.</p> <p>IFRS 16 involves significant management estimation and judgement regarding the determination of appropriate incremental borrowing rates (IBR) to use when discounting lease cashflows, and in relation to the selection/application of an adoption method and practical expediciencies therein. There is a risk that material error could occur in the reporting on the first-time adoption of IFRS 16.</p> <p>We therefore identified measurement of lease assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>– evaluating the Group's accounting policy for consistency with IFRS 16 and considering whether the accounting policy has been applied accurately and consistently across the Group;</li> <li>– understanding and documenting the processes and controls relating to the implementation of IFRS 16;</li> <li>– testing the arithmetical accuracy and integrity of the calculations made by management in the model adopted and ensured they were in accordance with the requirements of IFRS 16;</li> <li>– checking the completeness of the leases included in the computations prepared by management by performing a combination of checking prior year accounts disclosure relating to operating lease commitments; locations as listed in the Group's websites; and sampling rent transactions;</li> <li>– performing substantive testing, for a sample of leases, to ensure accuracy of inputs in management calculations by tracing leases to signed lease contracts;</li> <li>– challenging the reasonableness of the IBR rates used by management in their lease calculations; and</li> <li>– using our in-house valuation specialists as an auditor's expert to assess the reasonableness of the IBR rates used in the calculations.</li> </ul> <p>The Group's accounting policy on leased assets is shown in note 2(p) to the financial statements and related disclosures are included in note 14.</p>
<p><b>Valuation of non-current "sleep-in" provisions</b></p> <p>As at 30 September 2020, the Group's provisions include an amount for sleep-in payments. There is currently an ongoing legal case involving HMRC and the care provider, Mencap, the outcome of which will confirm the legal position in respect of those payments and the national minimum wage. The case relates to the application of minimum wage law for care workers on "sleep-in" shifts.</p> <p>The case has been heard at the Supreme Court and is awaiting judgement. As a result, there is uncertainty around the outcome of the case, which could have a material impact on amounts the Group is liable for. The determination of whether a provision is required, and its quantum, is a significant judgement exercised by management.</p> <p>We therefore identified valuation of non-current "sleep-in" provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Key observations</b></p> <p>Our audit testing did not identify any material misstatements in relation to the measurement of lease assets and liabilities.</p> <hr/> <p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>– obtaining an understanding of the position taken by management based on discussion with the in-house legal team and management;</li> <li>– obtaining management's workings of the provisions and checking the mathematical calculations to supporting documentation for the costs to verify the amount of the provision; and traced a sample of employees to and from the payroll system;</li> <li>– challenging management's assumptions used in calculating the amount of the "sleep-in" liability, which include the number of years to be provided for; and</li> <li>– updating our understanding of the probable outcome and status of the case through review of the information on the Supreme Court website, to check whether the case has been heard but not concluded on and therefore whether our prior year discussions and review of external legal documentation are still appropriate.</li> </ul> <p>The Group's accounting policy on the provisions is shown in note 2(l) to the financial statements and related disclosures are included in note 21.</p>
<p><b>Key observations</b></p> <p>Our audit testing did not identify any material misstatements in relation to the valuation of non-current "sleep-in" provisions.</p>	

## Key Audit Matter – Group

## How the matter was addressed in the audit – Group

**Going concern**

As stated in the “The impact of macro-economic uncertainties on our audit” section of our report, COVID-19 is amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Group and the parent company and as such increases the extent of judgement and estimation uncertainty associated with management’s decision to adopt the going concern basis of accounting in the preparation of the financial statements. The Group has external financing which has covenants that must be complied with.

We therefore identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- obtaining management’s base case cash flow forecasts covering the period from October 2020 to December 2021;
- performing walkthroughs to update and document our understanding of the budgeting and forecasting process, management’s considerations in forming their own assessment and any internal review process;
- assessing the accuracy of management’s historical forecasting to check the reliability of current forecasting process;
- assessing the banking facilities and covenant compliance to check whether these support the going concern assumptions;
- obtaining and testing management’s sensitivity analysis, including the reverse stress test workings, prepared to assess the potential impact of COVID-19 on the business;
- challenging the key assumptions in the forecasts and the scope of scenario planning undertaken given current social and economic conditions in the UK and wider world; and
- assessing the appropriateness of the going concern accounting policy.

The Group’s accounting policy on going concern is shown in note 1 to the financial statements.

**Key observations**

We have nothing to report in addition to that stated in the “Conclusions relating to going concern” section of our report.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent company
<b>Financial statements as a whole</b>	<p>£2,505,000, which is 5% of the Group’s normalised profit before tax after adjustments for specific non-routine items, including acquisition costs, integration costs, redundancy and site closure costs and COVID-19 related costs, at the planning stage of the audit. This benchmark is considered the most appropriate because it is most reflective of the performance of the business.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2019 to reflect the increase in the Group’s normalised profit before tax after adjustment for specific non-routine items, notwithstanding the adjustments being higher last year.</p>	<p>£2,254,000, which is 2% of the Company’s total assets capped at its component materiality, which is based on a percentage of Group materiality. This benchmark is considered the most appropriate because the Company holds the Group’s investments and other assets and does not trade.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2019 to reflect the increase in the Company’s total assets and the capping, noted above, at a higher percentage of Group materiality, which was also higher this year.</p>
<b>Performance materiality used to drive the extent of our testing</b>	70% of financial statement materiality.	70% of financial statement materiality.
<b>Specific materiality</b>	We determined a lower level of specific materiality for certain areas such as Directors’ remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as Directors’ remuneration and related party transactions.
<b>Communication of misstatements to the Audit Committee</b>	£125,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£112,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

# Independent Auditor's Report

to the members of CareTech Holdings PLC  
continued

## An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- Evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality, considering the relative size of each component as a percentage of total Group assets, liabilities, revenues and earnings before interest, tax, depreciation and amortisation (EBITDA). CareTech and Cambian were significant components for which we performed full scope audit procedures on all entities included in the respective components, using component materiality, with the exception of Spark of Genius North East LLP, which was subject to full scope audit procedures using entity materiality. For other smaller components, we performed a combination of specified audit procedures and analytical procedures.
- The acquisition of controlling interest in AS Group on 4 February 2020 for £9.0m caused a change in scope of the audit. We assessed the accounting treatment for the acquisition (particularly in relation to whether and when "control" was obtained) and for certain assets acquired as part of the acquisition. The AS Group was collectively identified as not financially significant to the Group for the year and hence was subject to specified audit procedures relating to specifically identified risk areas.
- Evaluating the design and implementation of controls over the financial reporting systems identified as part of our risk assessment. With respect to payroll and operating expenses, we evaluated the design of controls and their implementation in addition to performing substantive procedures. With respect to revenue recognition and certain selling and other operating expenses, we evaluated the design and implementation of controls and tested their operating effectiveness in addition to performing substantive procedures.
- Inspecting the processes management follow to prepare and report results. Management prepare and report on the results on a Group basis rather than on a Company basis. The subsidiaries in the Group are all controlled by the Company. The Company provides a guarantee for all the subsidiaries' liabilities, apart from those stated in note 29 of the financial statements.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and accounts, 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.

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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable (set out on page 78) – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting (set out on page 64) – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

As an AIM listed company, the Company is not required to comply with Listing Rule 9.8.10R(2) and therefore we do not report on whether we have nothing to report in regard to our responsibility to specifically address the Directors' statement of compliance with the UK Corporate Governance Code and the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for our review in accordance with Listing Rule 9.8.10R(2), and to report as uncorrected material misstatements of the other information where we conclude that the Directors' statement does not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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.

### Matters 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 statement of Directors' responsibilities set out on page 78, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

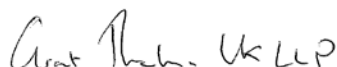
### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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.



#### Rebecca Eagle

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
11 December 2020

# Consolidated Income Statement

for the year ended 30 September 2020

	Note	2020			2019		
		Underlying £000	Non- underlying <sup>(ii)</sup> £000	Total £000	Underlying £000	Non- underlying <sup>(ii)</sup> £000	Total £000
<b>Revenue</b>	4	<b>429,966</b>	–	<b>429,966</b>	394,994	–	394,994
Cost of sales		<b>(282,029)</b>	–	<b>(282,029)</b>	(262,018)	–	(262,018)
<b>Gross profit</b>		<b>147,937</b>	–	<b>147,937</b>	132,976	–	132,976
Other income	6	–	<b>2,550</b>	<b>2,550</b>	–	–	–
Administrative expenses		<b>(74,356)</b>	<b>(22,769)</b>	<b>(97,125)</b>	(70,121)	(23,379)	(93,500)
<b>Operating profit</b>		<b>73,581</b>	<b>(20,219)</b>	<b>53,362</b>	62,855	(23,379)	39,476
EBITDA <sup>(i)</sup>		<b>90,932</b>	<b>2,550</b>	<b>93,482</b>	73,546	–	73,546
Depreciation	13,14	<b>(17,021)</b>	–	<b>(17,021)</b>	(10,631)	–	(10,631)
Amortisation of intangible assets	6,15	–	<b>(10,186)</b>	<b>(10,186)</b>	–	(10,188)	(10,188)
Acquisition expenses	6	–	<b>(545)</b>	<b>(545)</b>	–	(10,331)	(10,331)
Profit on ground rent transaction	6	–	–	–	–	4,565	4,565
Other non-underlying items	6	–	<b>(4,497)</b>	<b>(4,497)</b>	–	(7,425)	(7,425)
COVID-19 costs	6	–	<b>(3,422)</b>	<b>(3,422)</b>	–	–	–
Share-based payments charge		<b>(330)</b>	<b>(4,119)</b>	<b>(4,449)</b>	(60)	–	(60)
<b>Operating profit</b>		<b>73,581</b>	<b>(20,219)</b>	<b>53,362</b>	62,855	(23,379)	39,476
Finance expenses	6,9	<b>(13,928)</b>	<b>(1,611)</b>	<b>(15,539)</b>	(12,690)	(2,446)	(15,136)
<b>Profit before tax</b>		<b>59,653</b>	<b>(21,830)</b>	<b>37,823</b>	50,165	(25,825)	24,340
Taxation	6,10	<b>(11,325)</b>	<b>553</b>	<b>(10,772)</b>	(9,423)	5,209	(4,214)
<b>Profit for the year</b>		<b>48,328</b>	<b>(21,277)</b>	<b>27,051</b>	40,742	(20,616)	20,126
Non-controlling interest		<b>(1,933)</b>	–	<b>(1,933)</b>	(422)	–	(422)
<b>Profit for the year attributable to owners of the parent</b>		<b>46,395</b>	<b>(21,277)</b>	<b>25,118</b>	40,320	(20,616)	19,704
<b>Earnings per share</b>							
Basic	11,12			<b>22.88p</b>			18.38p
Diluted	11,12			<b>22.03p</b>			18.31p

(i) EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items.

(ii) Non-underlying items comprise: amortisation, acquisition expenses, integration, reorganisation and redundancy costs, donations to the CareTech Foundation, COVID-19 income and costs, and profit associated with the ground rent transaction (prior year only), and are explained in note 6.



# Consolidated Statement of Comprehensive Income

for the year ended 30 September 2020

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	Note	2020			2019		
		Underlying £000	Non- underlying <sup>(i)</sup> £000	Total £000	Underlying £000	Non- underlying <sup>(i)</sup> £000	Total £000
<b>Profit for the year</b>		<b>48,328</b>	<b>(21,277)</b>	<b>27,051</b>	40,742	(20,616)	20,126
<b>Item that may be subsequently reclassified to the income statement:</b>							
Exchange movements on overseas net assets		53	–	53	–	–	–
<b>Items that will not be reclassified to income statement:</b>							
Exchange movements on overseas net assets of non-controlling interests		45	–	45	–	–	–
<b>Other comprehensive income for the year</b>		<b>98</b>	<b>–</b>	<b>98</b>	–	–	–
<b>Total comprehensive income for the year</b>		<b>48,426</b>	<b>(21,277)</b>	<b>27,149</b>	–	–	–
<b>Non-controlling interest</b>		<b>(1,978)</b>	<b>–</b>	<b>(1,978)</b>	(422)	–	(422)
<b>Profit for the year attributable to owners of the parent</b>		<b>46,448</b>	<b>(21,277)</b>	<b>25,171</b>	40,320	(20,616)	19,704


(i) Non-underlying items comprise: amortisation, acquisition expenses, integration, reorganisation and redundancy costs, donations to the CareTech Foundation, COVID-19 income and costs, and profit associated with the ground rent transaction (prior year only), and are explained in note 6.

# Consolidated Statement of Financial Position

as at 30 September 2020

	Note	2020 £000	2019 £000
<b>Non-current assets</b>			
Property, plant and equipment	13	604,096	609,658
Right-of-use assets	14	87,790	–
Intangible assets	15	83,084	80,348
Goodwill	15	84,604	79,456
		<b>859,574</b>	769,462
<b>Current assets</b>			
Inventories		1,937	998
Trade and other receivables	16	51,055	51,011
Cash and cash equivalents		54,273	29,238
		<b>107,265</b>	81,247
<b>Total assets</b>		<b>966,839</b>	850,709
<b>Current liabilities</b>			
Trade and other payables	19	55,017	56,937
Lease liabilities	14	6,208	1,763
Contingent consideration payable		1,569	–
Deferred income	17	30,309	28,710
Corporation tax		14,757	13,777
		<b>107,860</b>	101,187
<b>Non-current liabilities</b>			
Loans and borrowings	18	318,955	315,878
Lease liabilities	14	82,480	17,805
Deferred tax liabilities	20	69,844	63,951
Provisions	21	21,286	14,884
Derivative financial instruments	26	2,198	1,640
		<b>494,763</b>	414,158
<b>Total liabilities</b>		<b>602,623</b>	515,345
<b>Net assets</b>		<b>364,216</b>	335,364
<b>Equity</b>			
Share capital	23	565	545
Share premium	24	133,079	121,304
Shares held by Executive Shared Ownership Plan	24	(13,305)	(3,537)
Merger reserve	24	125,842	125,536
Other reserves	24	53	–
Retained earnings	24	107,120	90,559
<b>Total equity attributable to equity shareholders of the parent</b>		<b>353,354</b>	334,407
Non-controlling interest	24	10,862	957
<b>Total equity</b>		<b>364,216</b>	335,364

These financial statements were approved by the Board of Directors and authorised for issue on 10 December 2020 and were signed on its behalf by:



**Farouq Sheikh OBE**  
Group Executive Chairman  
Company number: 04457287



**Christopher Dickinson**  
Group Chief Financial Officer

# Consolidated Statement of Changes in Equity

as at 30 September 2020

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	Share capital £000	Share premium £000	Shares held by Executive Shared Ownership Plan £000	Retained earnings £000	Merger reserve £000	Foreign currency translation reserve £000	Total attributable to owners of the parent £000	Non-controlling Interest £000	Total equity £000
At 1 October 2018	379	120,820	(4,750)	81,597	9,023	–	207,069	639	207,708
Profit for the year and total comprehensive income	–	–	–	19,704	–	–	19,704	422	20,126
Issue of ordinary shares net of transaction costs	166	484	–	–	116,513	–	117,163	–	117,163
Equity-settled share-based payments charge	–	–	–	60	–	–	60	–	60
Redemption of share options	–	–	1,213	–	–	–	1,213	–	1,213
Dividends	–	–	–	(10,802)	–	–	(10,802)	–	(10,802)
Non-controlling interest	–	–	–	–	–	–	–	(104)	(104)
Transactions with owners recorded directly in equity	166	484	1,213	(10,742)	116,513	–	107,634	318	107,952
<b>At 30 September 2019</b>	<b>545</b>	<b>121,304</b>	<b>(3,537)</b>	<b>90,559</b>	<b>125,536</b>	<b>–</b>	<b>334,407</b>	<b>957</b>	<b>335,364</b>
Profit for the year	–	–	–	25,118	–	–	25,118	1,933	27,051
Other comprehensive income	–	–	–	–	–	53	53	45	98
Issue of ordinary shares net of transaction costs	18	10,043	(9,997)	–	–	–	64	–	64
Redemption of share options	–	–	229	–	–	–	229	–	229
Acquisition (note 5a)	2	1,732	–	–	306	–	2,040	7,927	9,967
Equity-settled share-based payments charge	–	–	–	4,449	–	–	4,449	–	4,449
Dividends	–	–	–	(13,006)	–	–	(13,006)	–	(13,006)
Transactions with owners recorded directly in equity	20	11,775	(9,768)	16,561	306	53	18,947	9,905	28,852
<b>At 30 September 2020</b>	<b>565</b>	<b>133,079</b>	<b>(13,305)</b>	<b>107,120</b>	<b>125,842</b>	<b>53</b>	<b>353,354</b>	<b>10,862</b>	<b>364,216</b>

# Consolidated Statement of Cash Flows

for the year ended 30 September 2020

	Note	2020 £000	2019 £000
<b>Cash flows from operating activities</b>			
Profit before tax		37,823	24,340
Adjustments for:			
Finance expenses	9	15,539	15,136
Depreciation	13	17,021	10,631
Amortisation	15	10,186	10,188
COVID-19 income	6	(2,550)	–
COVID-19 costs	6	3,422	–
Acquisition expenses	6	545	10,331
Profit arising from the ground rent transaction	6	–	(4,565)
Other non-underlying items	6	4,497	7,425
Share-based payments charge	8,22	4,449	60
<b>Operating cash flows before movement in working capital and non-underlying items</b>		<b>90,932</b>	<b>73,546</b>
Increase in inventory		(46)	(100)
Decrease / (increase) in trade and other receivables		5,563	(6,518)
Decrease in trade and other payables		(2,227)	(604)
<b>Operating cash flows before non-underlying items</b>		<b>94,222</b>	<b>66,324</b>
Integration and restructuring costs	6	(3,795)	(5,748)
Payment of charitable donations	6	(702)	(736)
COVID-19 receipts	6	2,550	–
COVID-19 payments	6	(3,420)	–
Payment of acquisition costs		(545)	(14,393)
<b>Cash inflows from operating activities</b>		<b>88,310</b>	<b>45,447</b>
Tax paid		(3,899)	(5,889)
<b>Net cash from operating activities</b>		<b>84,411</b>	<b>39,558</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		1,536	23,894
Payments for business combinations net of cash acquired	5	(2,000)	(160,271)
Acquisition of property, plant and equipment	13	(23,842)	(27,810)
Acquisition of software	15	(2,840)	(2,699)
Payment of deferred consideration		(739)	(966)
<b>Net cash used in investing activities</b>		<b>(27,885)</b>	<b>(167,852)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares net of transaction costs	23	294	1,697
Proceeds from sale and leaseback		–	7,888
Proceeds from shareholder loans	5	1,808	–
Interest paid		(10,737)	(10,945)
Cash outflow arising non-underlying finance expenses		(1,053)	(308)
Bank loans drawdown		–	431,910
Loan arrangement fees paid		–	(4,696)
Repayment of borrowings		–	(263,576)
Principal payment of lease liabilities		(8,797)	(3,057)
Dividends paid	25	(13,006)	(10,802)
<b>Net cash (used in)/arising from financing activities</b>		<b>(31,491)</b>	<b>148,111</b>
<b>Net increase in cash and cash equivalents</b>		<b>25,035</b>	<b>19,817</b>
<b>Cash and cash equivalents at 1 October</b>		<b>29,238</b>	<b>9,421</b>
<b>Cash and cash equivalents at 30 September</b>		<b>54,273</b>	<b>29,238</b>

## 1. Background and basis of preparation

CareTech Holdings PLC (the "Group" or "Company") is a company registered and domiciled in England and Wales. The consolidated financial statements of the Company for the year ended 30 September 2020 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in pounds sterling, which is the Company's functional currency, rounded to the nearest thousand. The parent company financial statements on pages 124 to 129 present information about the Company as a separate entity and not about its Group.

The consolidated financial statements were approved for release by the Board of Directors on 10 December 2020.

### 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 Group Executive Chairman's Statement and Group Chief Executive's Statement and Performance Review on pages 18 to 21 and pages 22 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Financial Review on pages 53 to 56. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through cash flow from profits which together with existing bank facilities which are sufficient to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, which are shown in the table in note 26 and indicates their contractual cash flow maturities.

The Group is financed by bank loan facilities that mature in 2022 and 2023. The Directors have considered the Group's forecasts and projections, and the risks associated with their delivery, and are satisfied that the Group will be able to operate within the covenants imposed by bank loan facilities for at least twelve months from the date of approval of the consolidated financial information. In relation to available cash resources, the Directors have had regard to both cash at bank and a £25m committed undrawn revolving credit facility. The Group has undertaken extensive activity to identify and mitigate its exposure to plausible risks which may arise from COVID-19.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. After making due enquiries and current assessment of the likelihood of the COVID-19 risks arising together with their assessment of the planned mitigating actions being successful, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis of accounting for the Group and parent company in preparing the consolidated financial statements.

## 2. Accounting policies

### (a) Applicable accounting standards

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS") and those parts of the Companies Act 2006 relevant to those companies which report in accordance with IFRS.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

### New and amended standards and interpretations effective in the year IFRS 16 'Leases'

In 2020 the Group has adopted IFRS 16 and follows this standard for the recognition of leases.

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Accordingly, the Group is not required to present a third statement of financial position as at that date. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 October 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months, including those on a rolling basis, and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. Leases on a rolling basis are assessed as short-term due to the legal enforceable period being less than 12 months.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

## Notes to the Financial Statements

continued

### 2. Accounting policies continued

Sale and leaseback transactions entered into before the date of initial application have not been reassessed to determine whether the transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. On transition, finance sale and leaseback transactions under IAS 17 are accounted for in the same way as any other finance lease that exists at the date of initial application and any gains are amortised over the lease term. For operating sale and leaseback transactions, the leaseback is accounted for in the same way as any other operating lease that exists at the date of initial application, and the leaseback right-of-use asset is adjusted for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was between 2.5% to 2.6% for equipment, 2.6% for motor vehicles and 3.5% for land and buildings. The incremental borrowing rate was determined by considering the Group's current borrowing rates, comparator borrowing rates and property yield rates.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 October 2019:

	Carrying amount at 30 September 2019 £000	Remeasurement £000	IFRS 16 carrying amount at 1 October 2019 £000
Right-of-use assets (note 14)	19,535	71,730	91,265
Lease liabilities	(19,568)	(71,730)	(91,298)
<b>Total</b>	<b>(33)</b>	<b>–</b>	<b>(33)</b>

Lease liabilities recognised under IAS 17 and previously presented in loans and borrowings, and ground rent liabilities arising under IAS 17, have been represented as lease liabilities.

Right-of-use assets have been reclassified into a separate category from property, plant and equipment as at 1 October 2019, see note 13.

The following is a reconciliation of total operating lease commitments at 30 September 2019 (as disclosed in the financial statements to 30 September 2019) to the lease liabilities recognised at 1 October 2019:

	£000
<b>Total operating lease commitments disclosed at 30 September 2019</b>	<b>251,639</b>
Operating lease liabilities before discounting	251,639
Discounted using incremental borrowing rate	(201,865)
Short-term operating lease commitments	(3,793)
Other adjustments*	25,749
<b>Total lease liabilities recognised under IFRS 16 at 1 October 2019</b>	<b>71,730</b>

\* Other adjustments include predominantly certain hundred year leases that did not previously form part of the operating lease commitments disclosed at 30 September 2019.

### Impact of IFRS 16

The financial impacts of IFRS 16 on 2020 are set out in the table below.

	2020 (pre IFRS 16) £m	Impact of IFRS 16 £m	IFRS 16 (post IFRS 16) £m
Underlying operating profit	72.0	1.6	73.6
Net underlying finance costs	(11.5)	(2.4)	(13.9)
<b>Underlying profit before tax</b>	<b>60.5</b>	<b>(0.8)</b>	<b>59.7</b>
Right-of-use assets	18.7	69.1	87.8
Other assets	877.1	–	877.1
Lease liabilities	(19.3)	(69.4)	(88.7)
Other liabilities	(511.5)	(0.5)	(512.0)
<b>Net assets</b>	<b>365.0</b>	<b>(0.8)</b>	<b>364.2</b>

The changes in accounting resulting from the implementation of IFRS 16 will not affect the way liquidity is assessed against the Group's banking covenants, which will continue to be assessed as though the accounting rules had not changed. As such, headline financial leverage will continue to be measured on a consistent (i.e. "frozen GAAP") basis in 2020 and the Group continues to target a headline financial leverage, excluding the increase in leverage associated with the implementation of IFRS 16, of below 3.0x in the medium term.

### Issued IFRS not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and these have not been applied early by the Group. Management anticipates that the following pronouncements relevant to the Group's operation will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement, once adopted by the EU:

Title	Subject	Effective date per standard
Amendment to IFRS 16 'Leases'	COVID-19 – Related Rent Concessions	1 June 2020 per IASB.
COVID-19 – Related Rent Concessions (May 2020)		
Amendments to References to the Conceptual Framework in IFRS Standards	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020 per IASB.
Amendments to IFRS 3 (Oct 2018)	Definition of Business	1 January 2020 per IASB.
Amendments to IAS 1 and IAS 8 (Oct 2018)	Definition of Material	1 January 2020 per IASB.
IFRS 17	Insurance Contracts	1 January 2023 per IASB.
Amendments to IFRS 10 and IAS 28 (Sept 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed

The Directors expect that the adoption of the standards listed above will not have a material impact on the financial information of the Group in future reporting periods.

**(b) Measurement convention**

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value and contingent consideration is stated at fair value through profit or loss.

**(c) Basis of consolidation**

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 30 September 2020. All subsidiaries have a reporting date of 30 September, except for "the AS Group" which has a year end of 31 December. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Subsidiaries are only consolidated where control exists. Control is determined to exist when the Group has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

**(d) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately.

Following implementation of IFRS 16 there is no longer disaggregation of finance lease assets; however in the prior financial year leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in note 2(p).

Depreciation is charged to the consolidated income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The Directors reassess the residual value estimates, particularly in respect of properties, on an annual basis. The estimated useful lives are as follows:

- freehold buildings 2% straight-line to residual value;
- long leasehold property over the life of the lease;
- short leasehold property over the life of the lease;
- fixtures, fittings and equipment 15% straight-line; and
- motor vehicles 25% reducing balance.

**(e) Intangible assets and goodwill**

All business combinations are accounted for by applying the acquisition method as described in note 2(s). Goodwill represents the excess of the fair value of the consideration over the fair value of the assets, liabilities and contingent liabilities acquired on acquisition of subsidiaries. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Negative goodwill (bargain purchase credit) arising on an acquisition is recognised immediately in the consolidated income statement.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Included within software are development costs in relation to software which are capitalised when the related projects meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- (a) technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) it can be demonstrated that the asset will generate probable future economic benefits;
- (c) adequate technical, financial and other resources are available to complete the development;
- (d) the expenditure attributable to the intangible asset can be reliably measured; and
- (e) management has the ability and intention to use or sell the asset.

These projects are designed to enhance the existing software within the Group. Salaries associated with development time and directly attributable overheads are capitalised within intangible assets.

Development costs recognised as assets are amortised on a straight-line basis over their expected useful life. Development expenditure is only amortised over the period the Group is expected to benefit and is subject to annual impairment testing.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives are as follows:

- customer relationships 1–20 years; and
- software and licences 5 years.

**(f) Inventories**

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on a first-in first-out cost basis.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from inception.

## 2. Accounting policies continued

### (h) Financial Instruments

#### Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Except for those trade receivables that do not contain a significant financing component are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Financial assets at amortised cost.
- Financial assets/liabilities held at fair value through profit or loss (FVTPL).

FVTPL assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

All income and expenses relating to financial assets that are recognised in the consolidated income statement are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other administrative expenses.

#### Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

#### Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

#### Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in the consolidated income statement. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in consolidated income statement are included within finance costs or finance income.

From time to time, the long-term debt held by the Group are either refinanced as these come to maturity, or the margin on these facilities moves in line with the ratio of the Group's net debt to EBITDA. In either scenario, the Group reviews whether the debt is accounted for as a modification or an extinguishment of the liability. A substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability. A non-substantial modification should be accounted for as an adjustment to the existing liability. Both the quantitative and qualitative aspects of the modification are taken into account to ascertain whether the modification is substantial and these can include the change in covenants, repayment dates and the effective interest rate. If modification accounting is adopted, the carrying value of the existing liability is adjusted for fees paid or costs incurred and the effective interest rate is amended at the modification date. If extinguishment accounting is adopted, the existing liability is de-recognised and the new or modified liability is recognised at its fair value, the gain or loss equal to the difference between the carrying value of the old liability and the fair value of the new one is recognised, any incremental costs or fees incurred and any consideration paid or received is recognised in profit or loss and a new effective interest rate for the modified liability is calculated and used in future periods.

#### Derivative financial instruments

From time to time, the Group enters into derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the consolidated income statement immediately. A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

#### Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

Trade receivables and contract assets have been grouped based on share credit risk characteristics and the days past due in order to measure expected credit losses. Contract assets related to unbilled work in progress have substantially the same risk characteristics as trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 48 months and before 30 September 2019 and 30 September 2020 respectively as well as the correspondingly historical credit losses during that period. The vast majority of the Group's customers are state-owned entities such as local authorities. As such, credit loss is not expected to increase significantly since initial recognition.



**(i) Impairment (excluding deferred tax assets)**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date. For goodwill and assets which are not amortised or depreciated, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Calculation of recoverable amount**

The recoverable amount of the Group's financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Financial assets with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. This includes right-of-use assets, which cannot be operated independently.

**Reversals of impairment**

An impairment loss in respect of a financial asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Any impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist or there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(j) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and the redemption value being recognised in the consolidated income statement over the period of the borrowings on an effective interest basis.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs. Refer to note 9.

**(k) Employee benefits****Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

**Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model (Black-Scholes valuation model), taking into account the terms and conditions upon which the options were granted. The amount recognised on exercise as an expense is adjusted to take into account an estimate of the number of shares that are expected to vest as well as to reflect the actual number of share options that vest, except where forfeiture is due only to share prices not achieving the threshold for vesting. Options lapsed are expunged from the relevant scheme.

**Employee Benefit Trust**

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the consolidated financial statements. Any assets held by the EBT cease to be recognised on the consolidated balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated income statement.

**(l) Provisions**

A provision, other than provisions for deferred taxation, is recognised in the balance sheet where a reliable estimate can be made when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, and future cash flows at a pre-tax risk-free rate.

**(m) Revenue**

IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

The Group provides care services to vulnerable adults and children which are consumed as soon as they are provided. It satisfies its performance obligations as care services are rendered to the client. There are no significant financing components and invoice payment terms are typically 30 days. For Foster Care, the Group is acting as a principal as contracts are between the Group and local authorities and separately between the Group and foster carers with a number of performance conditions attached to each. Our contracts provide that the Group is entitled to consideration based on the amount of care services delivered (for example number of days' worth of care delivered in the period) and an agreed rate. On this basis, the Group have applied the practical expedient set out in IFRS 15 para 121. There are no significant judgements used in the recognition of revenue.

## 2. Accounting policies continued

Revenue in respect of the provision of care services is measured as the fair value of fee income received or receivable in respect of the services provided and is recognised in respect of the care that has been provided in the relevant period. Any additional services provided by the Group are recognised as services are provided. Foster Care revenue is recognised on the basis of the daily placements made with a full day's revenue recognised for every night a placement is with a foster carer. Revenue in respect of educational services is recognised when the young person is in school, over the academic year, as this is when the service user is receiving the educational services.

Revenue in respect of apprenticeship and related learning services is recognised over time and at a point in time. 80% of the revenues are recognised over time as the courses are delivered. 20% of the funding is directly linked to course completion milestones reached by apprentices at which point the remaining funding is receivable and recognised. A corresponding balance is recognised in receivables.

Revenue in respect of long-term contracts is recognised over the period that services are performed and is recognised in respect of the services that have been provided.

Income which has been invoiced but irrecoverable is treated as a bad debt expense. Revenue invoiced in advance is included in deferred revenue until the service is provided. Revenue is recognised net of VAT and credit notes.

### Contract assets and liabilities/accrued and deferred income

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income in the balance sheet (see note 17). An example of this is where the Group will invoice in advance for education services. This is held in deferred income until the service has been provided.

Similarly the Group recognises a contract asset when a contract has been agreed with a customer and a service user has been admitted to our facilities but no sales invoice has been issued. This is disclosed as accrued income.

The Group will estimate the accrued income using the agreed contractual rate and the number of days where the service user was receiving care from the Group.

### Revenue disaggregation

The vast majority of the Group's customers are state-owned entities such as local authorities. The Group's operations are substantially within the UK. As such the Group has determined that because its revenue is earned in one geographical location to one specific type of customer, it is appropriate to report the revenue recognised from contracts with customers in the same operating segments as are used for segmental analysis (see note 4).

### (n) Non-underlying items

The Group has applied an income statement format which seeks to highlight significant items within Group results for the year. Such items may include significant restructuring and onerous lease provisions, fair values movements in contingent consideration, profit or loss on disposal or termination of operations, litigation costs and settlement of share-based payments, profit or loss on disposal of investments and impairment of assets. The Group exercises judgement in assessing the particular items which, by virtue of their scale and nature should be disclosed in the income statement and related notes as non-underlying items. The Group believes that such a presentation is useful for the users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. Details are included in note 6.

### (o) Expenses

#### Finance lease payments – prior year only

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### Financing costs

Financing costs, comprising interest payable on bank loans and overdrafts, finance charges on finance leases, the unwinding of the discount on provisions and the costs incurred in connection with the arrangement of borrowings are recognised in the consolidated income statement using the effective interest method.

Interest payable is recognised in the consolidated income statement as it accrues, using the effective interest method. Financing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.

Financing costs also include losses arising on the change in fair value of derivatives that are recognised in the consolidated income statement.

### (p) Leased assets

As described in note 2(a), the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

### Accounting policy applicable from 1 October 2019

#### The Group as a lessee

For any new contracts entered into on or after 1 October 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition the Group assesses whether the contract meets three key evaluations which are whether the:

- Contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

#### Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been disclosed separately.

#### Accounting policy applicable before 1 October 2019

##### The Group as a lessee

###### Finance leases

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term. For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life. See note 2 for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

###### Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

#### (q) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date.

#### (r) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. The calculation of contingent consideration is based on the provisions included in the sale and purchase agreement of each acquisition and is updated if circumstances change. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values. The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in the AS Group, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

#### (s) Government grants

Government grants are recognised only when there is reasonable assurance that the Group will comply with any conditions attached to the grant and the grant will be received. The grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, is recognised as income in the period in which it is receivable.

### 3. Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In the process of applying the Group's accounting policies, the Directors have made the following estimates and judgements which have the most significant effect on the amounts recognised in the financial statements:

#### Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### Goodwill

The Group annually tests whether there is any impairment in goodwill, in accordance with the accounting policy outlined in note 2(e). Determining whether goodwill is impaired requires comparison of the value in use for the relevant CGUs to the net assets attributable to these CGUs. The value-in-use calculation is based on an estimate of future cash flows expected to arise from the CGUs and these are discounted to net present value using an appropriate discount rate. In calculating value in use, management judgement is required in forecasting cash flows of cash-generating units, in determining terminal growth values and in calculating an appropriate discount rate. The goodwill impairment test is sensitive to these estimates. The Group has performed sensitivity analysis over the value-in-use calculation with respect to the key estimates. The discount rates applied in these calculations are disclosed in note 15.

#### Incremental borrowing rate

Implementation of the new leasing standard IFRS 16 requires the Group to apply judgement in determining an appropriate incremental borrowing rate to use as the discount rate when the interest rate implicit in the lease cannot be readily determined. Further information is given in note 2(a).

### 3. Accounting estimates and judgements continued

#### Judgements

##### Business combination

Judgement is required in determining the date of acquisition and when control was obtained of AS Investment Holdings Limited and AS1 Investment Holdings Limited (AS holding companies) and their operating subsidiaries (together collectively, the AS Group). Where the economic interest in the operating entities of the AS Group was less than 50%, judgement has been used in determining control of the underlying subsidiaries. Due to the absence of explicit substantive control (on the basis of voting rights held), the Company considered other aspects detailed in IFRS 10 around design and purpose of the investee and their current ability to control and direct the relevant activities of the AS Group and also the rights of the other investors and their powers before making a judgement around existence of control. As part of the assessment, the Company noted that the board of AS holding companies, over which the Company held explicit substantive control, was in charge of the key operating and financial decisions of the operating entities.

In determining the date of acquisition, the Board has assessed this as the date on which it obtained control over the AS Group in accordance with IFRS 3 paragraph 8, as 4 February 2020. This is also the date in which the exposure, or rights, to variable returns from its involvement with the AS Group were obtained. Disclosure in respect of the business combination is given in note 5a.

##### Provisions

As part of the Cambian business combination, certain provisions were identified including sleep-in payments and onerous contracts. A "sleep-in" payment refers to a type of work, common in the care sector, where employees "sleep-in" and are paid an allowance for doing so. HMRC's initial view was that hours spent by employees performing sleep-in count as "working time" and therefore should be included when calculating whether or not someone has been paid in accordance with the National Minimum Wage Regulations 2015. In November 2017, HMRC reiterated its position and invited companies to join the Social Care Compliance Scheme, a self-reporting scheme aimed at concluding historic payments regarding sleep-ins. Whilst a number of other care service providers have challenged HMRC's original view, if it is ultimately individually determined that the Group had to pay each individual engaged in a sleep-in an amount by reference to the National Minimum Wage, the additional cost could be material. A Court of Appeal judgment in the case of Royal Mencap Society v Tomlinson-Blake (2018) EWCA 1641 found that the care workers who did "sleep-ins" overnight in that case were available for work during their sleeping shift, rather than actually working. Accordingly, HMRC are considering the implications of this judgment. Since this Court of Appeal ruling, the Supreme Court has heard the appeal to the judgment, however it has yet to give its position. The outcome of the case and therefore the implication on HMRC's position is uncertain and the Directors have used their judgement to provide for this matter for the affected employees. Amounts in respect of sleeps are not separately disclosed to avoid any potential prejudice in the outcome of each matter.

##### Capitalised development costs

Capitalisation of development costs within software and licences requires the Directors to make judgements in allocating staff time appropriately to relevant projects and in assessing the technical feasibility and economic potential of those projects as well as forecasts for the useful economic life of each asset have been used. The useful economic life of development costs is determined to be five years.

#### CareTech Charitable Foundation

Judgement is required in determining whether the Group has control of the CareTech Charitable Foundation (the "Foundation"). In assessing control, the Group has assessed whether it is exposed, or has rights, to variable returns from its involvement in the Foundation. Consideration has been given to the fact the Group cannot directly appoint or remove a Trustee but can remove a member and veto the appointment of a new member. The membership of the charitable company is restricted to the independent trustees and relevant activities of the charity governed by the Board of Trustees. Given the majority of the Trustees are Group employees, an assessment has been made as to whether the Group employees are able to exercise control and therefore generate variable returns.

The Foundation's Trustees owe very strict legal duties under the Charity Commission to act as fiduciaries and each trustee must act independent of its own interest or indeed anyone else's save for those of the charity. Based on these legal duties, the Directors have used their judgement that a Foundation trustee could not act on behalf of a third party if acting in compliance with their duties and how the law permits and therefore the Group does not control the Foundation.

### 4. Segmental information

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Group Chief Executive Officer as he is primarily responsible for the allocation of resources to segments and the assessment of the performance of each of the segments.

The CODM uses EBITDA as reviewed at monthly Executive Committee meetings as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. EBITDA is a consistent measure within the Group.

Inter-segment turnover between the operating segments is not material.

The Group's operating segments have been determined based on the services that are summarised as follows:

- Adults Services – the provision of care and residential services for adults with learning disabilities, individuals recovering from mental health disorders, adults with autistic spectrum disorder, those with one or more physical impairment and adults with acquired brain injury.
- Children's Services – the provision of assessment, residential care and education for young people with challenging behaviours, and those with behavioural and emotional disorders.
- Foster Care – the provision of foster care for both mainstream and specialist foster care in small supportive groups across England and Wales for children with disabilities.

The results as at the balance sheet date report segmental information on the Group's three operating divisions.

The segmental results for the current financial year ending 30 September 2020 and prior year ending 30 September 2019 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial information are as follows:

	Year ended 30 September 2020 Total £000	Year ended 30 September 2019 Total £000
<b>Adults Services</b>		
Client capacity	1,997	1,968
Revenue £000	136,219	123,635
Pre IFRS 16 EBITDA before unallocated costs £000	33,585	32,726
IFRS 16 adjustment £000	2,091	–
EBITDA before unallocated costs £000	35,676	32,726
<b>Children's Services</b>		
Client capacity	1,959	1,933
Revenue £000	252,863	230,575
Pre IFRS 16 EBITDA before unallocated costs £000	65,874	55,632
IFRS 16 adjustment £000	3,687	–
EBITDA before unallocated costs £000	69,561	55,632
<b>Foster Care</b>		
Client capacity	1,028	1,178
Revenue £000	40,884	40,784
Pre IFRS 16 EBITDA before unallocated costs £000	8,047	7,551
IFRS 16 adjustment £000	516	–
EBITDA before unallocated costs £000	8,563	7,551
<b>Total</b>		
Client capacity	4,984	5,079
Revenue £000	429,966	394,994
Pre IFRS 16 EBITDA before unallocated costs £000	107,506	95,909
IFRS 16 adjustment £000	6,294	–
EBITDA before unallocated costs £000	113,800	95,909

## Reconciliation of EBITDA to profit after tax:

	Year ended 30 September 2020 £000	Year ended 30 September 2019 £000
EBITDA before unallocated costs	113,800	95,909
Unallocated corporate overheads	(22,868)	(22,363)
EBITDA	90,932	73,546
Depreciation	(17,021)	(10,631)
Share-based payments charge	(330)	(60)
Non-underlying items	(20,219)	(23,379)
Operating profit	53,362	39,476
Finance expenses	(15,539)	(15,136)
Profit before tax	37,823	24,340
Taxation	(10,772)	(4,214)
Non-controlling interest	(1,933)	(422)
Profit after tax	25,118	19,704

Operations of the Group are primarily carried out in the UK, the Company's country of domicile. On 4 February 2020 the Group completed the acquisition of the AS Group, registered in the United Arab Emirates ("UAE"). Revenue of £15.5m has been generated in the UAE. All other revenues arise within the UK. No single external customer amounts to 10% or more of the Group's revenues. £14.3m of intangible assets, and £0.4m of property, plant and equipment are located in the UAE. All other non-current assets are located in the UK.

No asset and liability information is presented above as this information is not allocated to operating segments in the regular reporting to the Group's CODM and are not measures used by the CODM to assess performance and to make resource allocation decisions.

## 5. Business combinations

### (a) Acquisition of "the AS Group"

On 4 February 2020, the Group acquired controlling interest in AS Investments Holding Limited and AS1 Investments Holding Limited and their respective operating entities (collectively "the AS Group"). The Group indirectly controls 33% and 46% voting rights in the operating entities of AS Investments Holding Limited and AS1 Investments Holdings Limited respectively. Note 29 details the list of entities and the direct voting rights held in each of the entities comprising the AS Group.

The initial consideration for the investment is £7.4m (which included £0.7m deferred consideration satisfied in May 2020), and a performance driven earn-out mechanism of up to £1.6m to be paid out in 2021. The Group expects this amount to be paid within one year from the date of acquisition and accordingly this amount is deemed to be at fair value. The expected range of the amount payable is between £0 to £1.6m.

As part of the acquisition, the acquiree shareholders who are now shareholders of the Company have provided a cash loan to the AS Group of £1.8m to be used for investment in future growth. This has resulted in a shareholder loan as noted in the cash flow statement. 50% of the unutilised amount will be repaid on 4 February 2021, and the remaining balance on 4 August 2021.

The AS Group is the largest provider of outpatient mental health services in the UAE and comprises two well-established brands, Maudsley Health and ACPN. Services provided by the AS Group have been cited earlier in this note.

The book values attributable to the acquisition were £2.0m net assets and the fair value and adjustments were £10.2m. The AS Group operates in the UAE which is a 0% tax jurisdiction. Accordingly, there are no deferred tax assets and liabilities recognised.

The acquisition table is as follows:

	Book values £000s	Fair value adjustments £000s	Total £000s
Intangible assets	–	10,443	10,443
Property plant & equipment	399	–	399
Trade and other receivables	2,827	(211)	2,616
Prepayments	534	–	534
Other current assets	925	–	925
Inventory	893	–	893
Cash	2,704	–	2,704
Trade and other payables	(5,364)	–	(5,364)
Deferred income	(875)	–	(875)
<b>Net assets on acquisition</b>	<b>2,044</b>	<b>10,232</b>	<b>12,276</b>
<b>Less: Non-controlling interest</b>			<b>(7,927)</b>
			<b>4,349</b>
Consideration paid			9,052
Goodwill			4,703
Consideration paid:			£000
Cash			4,704
Settled in shares			2,040
Contingent consideration			2,308
<b>Total consideration</b>			<b>9,052</b>
Reconciliation to the cash flow statement			£000
Cash paid			4,704
Cash acquired			(2,704)
<b>Payments for business combination net of cash acquired</b>			<b>2,000</b>

Goodwill of £4.7m, which is not expected to be deductible for tax purposes, has been recognised. The goodwill represents the value of the workforce acquired. The non-controlling interest in the AS Group has been calculated by applying the proportionate share in the fair value of the net assets acquired and represents their share of the AS Group.

Costs relating to this acquisition are expensed in the income statement in accordance with IFRS 3 and are identified in note 6, non-underlying items.

The AS Group contributed revenue of £15.5m and £1.8m to the Group's profit after tax for the year between the date of acquisition and the balance sheet date. Had the acquisition of the AS Group been completed on the first day of the financial year, Group revenues for the year would have been higher by £7.7m and Group profit after tax would have been higher by £0.9m for the current year ended.

**(b) Acquisition after the balance sheet date****Non-adjusting subsequent event**

Subsequent to the year end, on 5 October 2020, the Group acquired a majority holding in Smartbox Assistive Technology Limited and associated subsidiaries, and Sensory Software International Limited (Collectively "Smartbox") a creator of augmentative and alternative communication (AAC) solutions (the "Investment").

The Group will pay up to £10.6m comprising of an aggregate initial purchase price £7.0m, funded through an equity contribution and loan note from the Group and equity contribution from the minority holders of Smartbox Holdings Limited. Earn-outs of up to £3.6m payable over a two-year period from completion. The Group's contribution will be funded from existing cash resources.

Smartbox is a market-leading creator of software and hardware that helps disabled people without speech to have a voice and live more independently. It makes communication as quick, simple and effective as possible for those service users for whom speech difficulties can be a challenge. Its solutions include communication aids, environmental control devices, computer control technology and interactive learning.

Smartbox, headquartered in Malvern, UK with offices in Bristol and Pennsylvania US, was acquired by Tobii AB in 2018. Following a full inquiry from the UK Competition and Markets Authority, Tobii was required to sell Smartbox on competition grounds, providing the Group an opportunity to secure a majority equity stake in the innovative tech firm.

To facilitate the acquisition, the Group has established a new subsidiary, Smartbox Holdings Ltd, which is 70% owned by the Group, with the remaining minority ownership held by the Smartbox management team.

On 30 November 2020, the Group completed the transfer of seven services previously operated by The Huntercombe Group. These services are highly specialised facilities for the treatment and care of adults with complex learning disabilities, autism and mental health diagnoses. They consist of three hospitals, two care homes with nursing, a number of single accommodation units with residential care registration and the support of people in their own tenancies in a step-down facility. The capacity of the services today is 125 beds. The transfer was structured with no capital outlay and is expected to be immediately earnings accretive.

Given the proximity of the acquisition to the announcement date it is not possible to provide an estimate of the financial effect at this time.

## Notes to the Financial Statements

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### 6. Non-underlying items

Non-underlying items are those items of financial performance which, in the opinion of the Directors, should be disclosed separately in order to improve the reader's understanding of the trading performance of the Group. Non-underlying items comprise the following:

	Note	2020 £000	2019 £000
COVID-19 income	(i)	(2,550)	–
Amortisation of intangible assets		10,186	10,188
COVID-19 cost	(i)	3,422	–
Acquisition expenses	(ii)	545	10,331
Profit arising from the ground rent transaction	(iii)	–	(4,565)
Integration and restructuring costs	(iv)	3,769	5,597
Onerous leases	(v)	–	1,092
Charitable donations	(vi)	728	736
Share-based payments charge	(vii)	4,119	–
<b>Other non-underlying expenses</b>		<b>12,583</b>	13,191
<b>Included in operating profit</b>		<b>20,219</b>	23,379
<b>Finance expenses</b>			
Fair value movements relating to derivative financial instruments	(viii)	557	1,487
Charges relating to derivative financial instruments	(viii)	591	217
Ground rent imputed interest		463	345
Termination of old banking arrangements		–	397
<b>Included in finance expenses</b>		<b>1,611</b>	2,446
<b>Tax on non-underlying items</b>			
Current tax	(ix)	(5,988)	(1,090)
Deferred tax	(x)	5,435	(4,119)
<b>Included in taxation</b>		<b>(553)</b>	(5,209)
<b>Total non-underlying items</b>		<b>21,277</b>	20,616

- (i) The Group has incurred additional costs as a result of COVID-19 in relation to higher sickness absence rates, personal protective equipment (PPE) costs, infection control and higher administration costs. The Group has received additional funding by way of Government grants through local authorities to assist in dealing with this. The Group has worked closely with all local authorities in establishing a dedicated funding arrangement to support our services which has been collected to offset the additional costs, as noted above, that the Group has incurred in relation to COVID-19.
- (ii) In accordance with IFRS 3 (as revised) items associated with business combinations have been taken to the income statement as incurred and includes costs relating to the review by the Competition and Markets Authority ("CMA"). CMA costs relate to prior year only.
- (iii) In the prior year, profit arises from a ground rent transaction with Alpha Real Capital LLP at a net yield of 2.85% which raised £31.0m in cash to further support growth strategy. The £31.0m proceeds are categorised as £23.1m relating to the operating lease element and £7.9m relating to IAS 17 ground rent liabilities.
- (iv) The Group incurred a number of costs relating to the integration of the Cambian acquisition and reorganisation of the internal operating, finance and management structures as outlined in the Scheme of Arrangement dated 19 September 2018.
- (v) During the previous year, the Group implemented a reorganisation of its internal operating, finance, IT and management structures with a view to achieving the integration of the Cambian business combination into the Group, achieving greater flexibility, accountability and performance of a number of its back office divisions. Costs incurred in the year include redundancy costs, post termination payments and transformation project delivery costs which comprise the costs of staff teams incurred in respect of the reorganisation, costs related to the dual running and knowledge transfer of the back office division as part of the integration project and professional fees incurred in respect of advice and consultancy activities associated with the integration and restructuring.
- (vi) These charges represent charitable donations made to the CareTech Foundation, an independent grant-making corporate foundation registered with the Charity Commission. Funded and founded by the Group, the Foundation has a number of independent Trustees responsible for delivering its Charitable Objects. The Trustees also include Haroon and Farouq Sheikh, Christopher Dickinson and Mike Adams, Directors of the Group.
- (vii) To further support the CareTech Foundation, the Group has donated one million new ordinary Company shares to the Foundation. This donation will provide the Foundation with additional income and demonstrates the Group's commitment to wider society, to its staff, and its desire to play a strong leadership role within the social care sector. In connection with the donation, the CareTech Foundation has entered into a lock-up undertaking not to sell the new shares without the Company Board's approval.
- (viii) Non-underlying items relating to the derivative financial instruments include the movements during the year in the fair value of the Group's interest rate swaps which are not designated as hedging instruments and therefore do not qualify for hedge accounting, together with the quarterly cash settlements and accrual thereof.
- (ix) Represents the current tax on items (i), (iii), (iv) and (v) above, and includes a prior year adjustment of £3.4m, see note 10.
- (x) Deferred tax arises in respect of the following:

	2020 £000	2019 £000
Derivative financial instruments	107	219
Change in rate (note 10)	(7,592)	–
Intangible assets	1,373	2,357
Fixed asset	1,925	–
Prior year adjustments	(966)	–
Other adjustments	(282)	1,543
	<b>(5,435)</b>	4,119

Other adjustments comprise a number of deferred tax movements which are individually insignificant.



## 7. Auditor's remuneration

	2020 £000	2019 £000
Fees payable to the Group's auditor for the audit of the consolidated and parent company's annual accounts	397	397
Audit of the accounts of subsidiaries	16	14
Audit related assurance services	25	28
Company secretarial	–	13
All other non-assurance services	11	214

Other non-assurance services of £11,000 in 2020 (2019: £214,000) represents the reporting accountant work carried out on the acquisition of Cambian Group plc.

## 8. Staff numbers and costs

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

	Number of employees	
	2020	2019
Operational and service delivery staff	9,074	9,111
Maintenance	108	111
Management and administration	947	707
	10,129	9,929

The aggregate payroll costs of these persons (including Directors) were as follows:

	2020 £000	2019 £000
Wages and salaries	214,105	203,387
Share-based payments charge	330	60
Social security costs	19,473	19,523
Other pension costs	5,250	4,467
	239,158	227,437

## 9. Finance expenses

	2020 £000	2019 £000
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	11,186	12,345
Finance charges in respect of leases	2,742	345
Underlying financial expenses	13,928	12,690
Derivative financial instruments (note 6)	1,148	1,704
Ground rent lease imputed interest (note 6)	463	345
Termination of old banking arrangements (note 6)	–	397
Total finance expenses	15,539	15,136

## Notes to the Financial Statements

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### 10. Taxation

#### (a) Recognised in the consolidated income statement

	2020 £000	2019 £000
<i>Current tax expense</i>		
Current year	(10,494)	(8,842)
Current tax on non-underlying items (note 6)	5,988	1,090
Prior year adjustments	(374)	–
Total current tax	(4,880)	(7,752)
<i>Deferred tax expense</i>		
Current year	(840)	(581)
Deferred tax on non-underlying items (note 6)	(5,434)	4,119
Prior year adjustments	382	–
Total deferred tax	(5,892)	3,538
Total tax in the consolidated income statement	(10,772)	(4,214)

#### (b) Reconciliation of effective tax rate

	2020 £000	2019 £000
Profit before tax for the year	37,791	24,340
Tax using the UK corporation tax rate of 19.0% (2019: 19.0%)	7,180	4,625
Non-deductible expenses including impairment charge	1,549	2,438
Income not taxable	(500)	–
Other tax adjustments	(1,644)	(2,849)
Change in tax rate	7,592	–
Current tax prior year adjustments	(3,988)	–
Deferred tax prior year adjustments	583	–
Total tax in the consolidated income statement	10,772	4,214

Included in the current tax prior year adjustments is an amount of £3.4m previously recognised on the acquisition of the Cambian Group PLC. Following a review of the tax position and the Cambian tax liabilities this liability is no longer required.

Deferred tax assets and liabilities have been measured in line with IAS 12 using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply when the asset is realised or the liability is settled. As the rate of 19% was substantively enacted on 17 March 2020 this is the rate used (2019: 17%). The tax rate has remained constant at 19% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements. Other tax adjustments comprise a number of items which are individually insignificant.

### 11. Earnings per share

	2020 £000	2019 £000
Profit attributable to ordinary shareholders	25,118	19,704
Weighted number of shares in issue for basic earnings per share	109,772,214	107,231,912
Effects of share options in issue	4,220,077	365,090
Weighted number of shares for diluted earnings per share	113,992,292	107,597,002

Diluted earnings per share is the basic earnings per share adjusted for the dilutive effect of the conversion into fully paid shares of the weighted average number of share options outstanding during the period.

	2020	2019
Earnings per share (pence per share)		
Basic	22.88p	18.38p
Diluted	22.03p	18.31p

## 12. Underlying earnings per share

A measure of underlying earnings and underlying earnings per share has been presented in order to present the earnings of the Group after adjusting for non-underlying items which are not considered to reflect the underlying trading performance of the Group.

	2020 £000	2019 £000
Profit attributable to ordinary shareholders	25,118	19,704
Non-underlying items (note 6)	21,277	20,616
Underlying profit attributable to ordinary shareholders	46,395	40,320
Underlying earnings per share (pence per share)		
Basic	42.26p	37.60p
Diluted	40.70p	37.48p

## 13. Property, plant and equipment

	Land and buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 October 2018	284,305	28,412	11,798	324,515
Acquisitions through business combinations	295,208	11,599	390	307,197
Additions	16,342	11,866	2,305	30,513
Disposals	(15,803)	(3,061)	(1,076)	(19,940)
At 30 September 2019	580,052	48,816	13,417	642,285
At 1 October 2019	580,052	48,816	13,417	642,285
Acquisitions through business combinations	–	399	–	399
Additions	11,529	12,813	1,769	26,111
Reclassified as ROU asset (note 14)	(15,098)	–	(4,437)	(19,535)
Disposals	(1,294)	–	(1,307)	(2,601)
<b>At 30 September 2020</b>	<b>575,189</b>	<b>62,028</b>	<b>9,442</b>	<b>646,659</b>
<b>Depreciation and impairment</b>				
At 1 October 2018	6,489	11,181	5,736	23,406
Depreciation charge for the year	1,717	7,430	1,484	10,631
Disposals	(213)	(630)	(567)	(1,410)
At 30 September 2019	7,993	17,981	6,653	32,627
At 1 October 2019	7,993	17,981	6,653	32,627
Depreciation charge for the year	1,183	8,648	1,133	10,964
Disposals	(62)	–	(966)	(1,028)
<b>At 30 September 2020</b>	<b>9,114</b>	<b>26,629</b>	<b>6,820</b>	<b>42,563</b>
<b>Net book value</b>				
At 1 October 2018	277,816	17,231	6,062	301,109
At 30 September 2019	572,059	30,835	6,764	609,658
<b>At 30 September 2020</b>	<b>566,075</b>	<b>35,399</b>	<b>2,622</b>	<b>604,096</b>

Included in the result for the year is a loss of £135,000 (2019: £4,565,000) on the disposal of freehold property, plant and equipment and motor vehicles. Included in property, plant and equipment are amounts held under leases of nil (2019: £19,535,000).

## Notes to the Financial Statements

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### 14. Leases

#### Right-of-use assets

	Land and buildings £000	Motor vehicles £000	Equipment £000	Total right-of-use assets £000
<b>Gross carrying amount</b>				
Balance 1 October 2019	82,537	8,030	698	91,265
Additions	2,497	85	–	2,582
<b>Balance at 30 September 2020</b>	<b>85,034</b>	<b>8,115</b>	<b>698</b>	<b>93,847</b>
<b>Depreciation and impairment</b>				
Balance 1 October 2019	–	–	–	–
Depreciation	3,686	2,027	344	6,057
<b>Balance at 30 September 2020</b>	<b>3,686</b>	<b>2,027</b>	<b>344</b>	<b>6,057</b>
<b>Carrying amount 30 September 2020</b>	<b>81,348</b>	<b>6,088</b>	<b>354</b>	<b>87,790</b>

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

#### Lease liability

Lease liabilities are presented in the statement of financial position as follows:

	2020 £000	2019 £000
Current	6,208	1,763
Non-current	82,480	17,805
	<b>88,688</b>	<b>19,568</b>

The Group has leases for land and buildings, motor vehicles and office equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Lease liabilities recognised under IAS 17 and previously presented in loans and borrowings, and ground rent liabilities arising under IAS 17, have been represented as lease liabilities.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over land and buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 September 2020 were as follows:

	Within 1 year	1 - 2 years	2- 3 years	3 - 4 years	4- 5 years	After 5 years	Total
30 September 2020							
Lease payments	9,086	7,600	5,423	4,394	4,103	324,188	354,794
Finance charges	(2,878)	(2,713)	(2,595)	(2,520)	(2,461)	(252,939)	(266,106)
<b>Net present values</b>	<b>6,208</b>	<b>4,887</b>	<b>2,828</b>	<b>1,874</b>	<b>1,642</b>	<b>71,249</b>	<b>88,688</b>
30 September 2019							
Lease payments	2,339	1,758	1,445	1,133	552	72,489	79,716
Finance charges	(576)	(523)	(506)	(471)	(456)	(57,616)	(60,148)
<b>Net present values</b>	<b>1,763</b>	<b>1,235</b>	<b>939</b>	<b>662</b>	<b>96</b>	<b>14,873</b>	<b>19,568</b>

#### Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

Interest expense on lease liabilities for the year ended 30 September 2020 was £2,181,000.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2020 £000
Short-term leases	3,783
Leases of low-value assets	10
	<b>3,793</b>

At 30 September 2020 the Group was committed to short-term leases and the total commitment at that date was £3,793,000.

Total cash outflow for leases for the year ended 30 September 2020 was £3,793 (2019: £2,200).

Lease liabilities recognised under IAS 17 and previously presented in loans and borrowings, and ground rent liabilities arising under IAS 17, have been represented as lease liabilities.

## 15. Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
<b>Cost</b>				
At 1 October 2018	45,717	19,951	63,344	129,012
Acquisitions through business combinations	35,392	–	47,354	82,746
Additions	375	3,054	–	3,429
At 30 September 2019	81,484	23,005	110,698	215,187
At 1 October 2019	81,484	23,005	110,698	215,187
Acquisitions through business combinations	4,703	–	10,433	15,136
Exchange adjustments	27	–	60	87
Additions for the year	418	2,429	–	2,847
<b>At 30 September 2020</b>	<b>86,632</b>	<b>25,434</b>	<b>121,191</b>	<b>233,257</b>
<b>Amortisation and impairment</b>				
At 1 October 2018	2,028	12,597	30,570	45,195
Amortisation for the year	–	3,066	7,122	10,188
At 30 September 2019	2,028	15,663	37,692	55,383
At 1 October 2019	2,028	15,663	37,692	55,383
Amortisation for the year	–	3,044	7,142	10,186
<b>At 30 September 2020</b>	<b>2,028</b>	<b>18,707</b>	<b>44,834</b>	<b>65,569</b>
<b>Net book value</b>				
At 1 October 2018	43,689	7,354	32,774	83,817
At 30 September 2019	79,456	7,342	73,006	159,804
<b>At 30 September 2020</b>	<b>84,604</b>	<b>6,727</b>	<b>76,357</b>	<b>167,688</b>

### Amortisation

The amortisation charge is recognised in the following line items in the consolidated income statement:

	2020 £000	2019 £000
Administrative expenses	10,186	10,188

### Impairment testing for cash-generating units containing goodwill

The Group tests goodwill for impairment on an annual basis by considering the recoverable amount of individual cash-generating units ("CGUs") against carrying value.

For the purpose of annual impairment testing, goodwill is allocated into four identifiable CGUs, Adults Services, Children's Services, Foster Care and Middle East. This broadly aligns to the reported operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises, with exception to Middle East. Whilst Middle East performs Adults Services and Children's services, given its geographical location, it has been identified as a separate CGU. This is the lowest level at which goodwill is monitored for impairment by management. There are no intangible assets with indefinite useful lives (other than goodwill).

## 15. Intangible assets continued

The carrying value of goodwill is split between the following cash-generating units:

	2020 £000	2019 £000
Adults Services	27,944	27,525
Children's Services	44,769	44,769
Foster Care	7,162	7,162
Middle East	4,729	–
	<b>84,604</b>	79,456

During the year the Group carried out a review of the recoverable amount of its goodwill throughout the business. The recoverable amount, which is the higher of fair value less cost to sell and the value in use, has been determined initially based on value-in-use calculations. These calculations use cash flow projections for operational assets at the balance sheet date based on financial budgets approved by the Board of Directors for the forthcoming year which are based on assumptions of the business, industry and economic growth. Cash flows beyond this year are extrapolated using growth rates, which do not exceed the expected long-term economic growth rate of 2%, into perpetuity.

The key assumptions for the period over which management approved forecasts are based and, beyond this, for the value-in-use calculations overall, are those regarding discount rates, growth and occupancy rates, achievement of future revenues and expected changes in direct costs during the periods. Management estimates discount rates using pre-tax rates that reflect the market assessment of the time value of money as at each balance sheet date, adjusted for the risks specific to the Group.

In arriving at the values assigned to each key assumption management make reference to past experience and external sources of information regarding the future – for example changes in tax rates. The key features of these calculations are shown below:

	2020	2019
Period over which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	2%	2%
Pre-tax discount rate		
Adults Services	8.4%	8%
Children's Services	9.7%	10%
Foster Care	9.6%	12%
Middle East	14.7%	–

### Sensitivities

A sensitivity analysis has been performed on each of the base case assumptions used for assessing the goodwill with other variables held constant. Consideration of sensitivities to key assumptions can evolve from one financial year to the next. The Directors consider that a reasonable possible change in assumptions would be an increase in pre-tax discount rate of 50 basis points, or a reduction in budgeted cash flows of 5%.

None of these sensitivities would result in an impairment in Children's Services or Foster Care.

For Adults Services the current headroom £4.7m. The impact of the above reasonable changes are as follows:

- An increase in pre-tax discount rate of 50 basis points results in an impairment of £18.5m.
- A reduction in budgeted cash flows of 5% results in an impairment of £13.2m.

The Directors have also considered the amount by which the value assigned to each key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the Adults Services CGUs recoverable amount to be equal to its carrying amount as follows:

- An increase in pre-tax discount rate of 10 basis points.
- A reduction in budgeted cash flows of 1.1%.

For Middle East the current headroom £0.1m. The impact of the above reasonable changes are as follows:

- An increase in pre-tax discount rate of 50 basis points results in an impairment of £0.8m.
- A reduction in budgeted cash flows of 5% results in an impairment of £1.1m.

The Directors have also considered the amount by which the value assigned to each key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the Middle East CGUs recoverable amount to be equal to its carrying amount as follows:

- An increase in pre-tax discount rate of 6 basis points.
- A reduction in budgeted cash flows of 0.4%.

The Directors believe that, notwithstanding the sensitivity of Adults Services and Middle East, there is no requirement for an impairment on the carrying value of the existing CGUs.

## 16. Trade and other receivables

	2020 £000	2019 £000
Trade receivables (note 26)	37,604	36,299
Other debtors and prepayments	5,025	8,343
Accrued income (note 17)	8,426	6,369
	<b>51,055</b>	<b>51,011</b>

On 30 September 2019 a balance of £2m has been restated from accrued expenses to a reduction in trade receivables.

## 17. Accrued income and deferred income

	Accrued income £000	Deferred income £000
<b>At 1 October 2019</b>	6,369	(28,710)
Amounts acquired at acquisition	–	(875)
Accrued revenue invoiced	(6,369)	–
Revenue recognised in the reporting period.	–	29,585
Revenue billed in period but relates to future periods	–	(30,309)
New accrued revenue	8,426	–
<b>At 30 September 2020</b>	<b>8,426</b>	<b>(30,309)</b>

The Directors consider that the carrying value of accrued income and deferred income approximates to its fair value.

## 18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 26.

	2020 £000	2019 £000
<b>Non-current liabilities</b>		
Secured bank loans	317,122	315,878
Shareholder loans (note 5)	1,833	–
	<b>318,955</b>	<b>315,878</b>

## Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2020 £000	Book value 2019 £000
Term loan	£	2.25 (2019: 2.25) <sup>1</sup>	2022	158,561	167,000
Term loan	£	2.50 (2019: 2.50) <sup>1</sup>	2023	158,561	148,878
Revolving credit facility term loan	£	2.50 (2019: 2.75) <sup>1</sup>	2023	–	–
				<b>317,122</b>	<b>315,878</b>

<sup>1</sup> The margin on the facilities is stated at the current rate and can change between 1.50% and 3.25% based on the ratio of the Group's net debt to EBITDA.

The Group entered into new banking facilities in August 2018 to facilitate the acquisition of Cambian and the previous banking facilities were extinguished. The facility is a term loan of £322m and revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks PLC, Santander UK PLC, AIB Group (UK) PLC, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank PLC and National Westminster Bank PLC and is stated net of loan finance costs in accordance in IAS 23.

## Notes to the Financial Statements

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### 19. Trade and other payables

	2020 £000	2019 £000
Trade payables	15,576	12,378
Accrued expenses	39,441	44,559
	<b>55,017</b>	56,937

On 30 September 2019, a balance of £2m has been restated from accrued expenses to a reduction in trade receivables, see note 16.

### 20. Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2020		2019	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	–	52,552	–	42,213
Intangible assets	–	11,616	–	18,270
Derivative financial instruments	(418)	–	(278)	–
Share-based payments	(163)	–	(90)	–
Rolled-over gains on property, plant and equipment	–	6,593	–	3,836
Trading losses carried forward	(27)	–	–	–
Short-term timing differences	(309)	–	–	–
Tax (assets)/liabilities	(917)	70,761	(368)	64,319
Net of tax assets		(917)		(368)
Net deferred tax liabilities		<b>69,844</b>		63,951

There are no unrecognised deferred tax assets or liabilities.

Movement in deferred tax during the year:

	1 October 2019 £000	Recognised in income £000	Reclassification balances £000	Prior year adjustment £000	30 September 2020 £000
Property, plant and equipment	42,213	4,521	5,685	133	<b>52,552</b>
Derivative financial instruments	(278)	(140)	–	–	<b>(418)</b>
Intangible assets	18,270	(5)	(5,685)	(964)	<b>11,616</b>
Share options	(90)	(73)	–	–	<b>(163)</b>
Rolled-over gains on property	3,836	946	–	1,811	<b>6,593</b>
Trading losses carried forward	–	(2)	–	(25)	<b>(27)</b>
Short-term timing differences	–	62	–	(371)	<b>(309)</b>
	63,951	5,309	–	584	<b>69,844</b>

Movement in deferred tax during the previous year:

	1 October 2018 £000	Recognised in income £000	Acquired in business combination £000	30 September 2019 £000
Property, plant and equipment	1,901	(141)	40,453	42,213
Derivative financial instruments	(59)	(219)	–	(278)
Intangible assets	14,395	(4,311)	8,186	18,270
Share options	(443)	353	–	(90)
Rolled-over gains on property	3,060	776	–	3,836
	18,854	(3,542)	48,639	63,951



## 21. Provisions

	£000
<b>At 1 October 2019</b>	<b>14,884</b>
Provisions raised during the period	8,218
Amounts used during the period	(1,388)
Unused amounts reversed	(428)
<b>At 30 September 2020</b>	<b>21,286</b>

Provisions principally comprise an amount provided for "sleep-in payments" and a provision for dilapidations. These have been explained in note 3 to the financial statements.

## 22. Employee benefits

### Share-based payments

The Group operates four share option schemes: The CareTech Holdings 2017 Sharesave Scheme, the CareTech Holdings 2020 Sharesave Scheme, the CareTech Holdings 2015 Approved Share Option Scheme and the Executive Shared Ownership Plan. All share options are equity settled.

The Executive Shared Ownership Plan (ExSOP) was formed in March 2017. Under the provisions of the ExSOP, shares (the ExSOP shares) are jointly owned by nominated senior employees and by an employees' share trust. The ExSOP awards are subject to a time-related performance condition measured over a three-year period beginning with the date of the grant. To the extent the performance condition is satisfied, the participant can benefit from any growth of the share price in excess of the issue price.

The grant of the ExSOP scheme requires specific performance conditions being satisfied. The EPS Target requires the growth in the Company's underlying Diluted EPS over the Performance Period to be at least 15% (being an average 5% annual growth rate, calculated without compounding) during the year.

On 8 November 2019, the Group issued 2,504,475 new ordinary shares of 0.5p in the Company (the New Ordinary Shares) under the Executive Shared Ownership Plan (Share Plan) to 30 members of the senior and executive management team. An award under the Share Plan enables the participant to benefit only from the future growth in the value of the New Ordinary Shares above their market value on the award date, in excess of a "carrying cost" of 3% per annum.

The vesting of the Share Plan requires specific performance conditions being satisfied. As with the previous issuance of the Share Plan, the target is an EPS Target which requires the growth in the Group's underlying Diluted EPS over the three-year period beginning on the date of issue of the awards to be at least 15% (being an average 5% annual growth rate, calculated without compounding). Participants may not normally realise any such benefit from the Share Plan awards before 8 November 2022.

The options have been valued using the Black-Scholes option pricing model in line with IFRS 2 'Share Based Payments'. The assumptions used as part of the model include the following:

	29 March 2016	8 November 2019
Expected volatility	25%	25%
Expected dividend yield	3.90%	3.5%
Risk free interest rate	2.39%	1.25%
Vesting period	3 years	3 years

## Notes to the Financial Statements

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### 22. Employee benefits continued

Approved and Unapproved scheme options are exercisable at any time from the third anniversary of the date of grant to the tenth anniversary, other than nominal cost options which may become exercisable at the earliest after a period of 30 dealing days following the third anniversary of being granted. SAYE scheme options are normally exercisable within six months following the third anniversary of the date of grant. Options granted under the above schemes, together with those remaining at 30 September 2020 are as follows:

Date of grant	Scheme	Options remaining as at 30 Sep 2019	Options granted 30 Sep 2020	Options lapsed to 30 Sep 2020	Options exercised to 30 Sep 2020	Options remaining as at 30 Sep 2020	Exercise price of share option (pence) 30 Sep 2020	Average exercised price (pence) 30 Sep 2020
3 Aug 2010	Approved Scheme	33,546	–	(22,890)	(10,656)	–	305	451
3 Aug 2010	Unapproved Scheme	33,873	–	–	(33,873)	–	305	455
17 Mar 2016	Sharesave Scheme 2016	77,071	–	(27,937)	(49,154)	–	194	382
29 Mar 2016	Executive Share Ownership Plan	1,429,000	–	–	(92,400)	<b>1,336,600*</b>	247.5	407
1 Dec 2017	Sharesave Scheme 2017	220,600	–	–	–	<b>220,600*</b>	308	–
23 Oct 2019	Approved Share Option Plan 2015	–	1,190,000	(332,228)	–	<b>857,772**</b>	380	–
5 Nov 2019	Approved Share Option Plan 2015	–	898,106	–	–	<b>898,106**</b>	380	–
8 Nov 2019	Executive Share Ownership Plan	–	2,504,475	–	–	<b>2,504,475**</b>	399	–
21 Sep 2020	Sharesave Scheme 2020	–	480,678	–	–	<b>480,678**</b>	355	–

\* All options exercisable at 30 September 2020.

\*\* No options exercisable at 30 September 2020.

The charge for the year was £330,000 (2019: £60,000) which relates to the Executive Share Ownership Scheme, the Sharesave Scheme 2017 and the Approved Share Option Plan 2015. The weighted average exercise price of the remaining options is 398.7p.

The weighted average remaining contractual life of all share options outstanding is 7.6 years.

## 23. Equity

Share Capital	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Allotted, called up and fully paid:</b>		
113,173,992 (2019: 109,144,369) ordinary shares of 0.5p each	<b>565</b>	545
53,402 deferred shares of 0.5p each	–	–
	<b>565</b>	545

Share capital represents the nominal (par) value of shares that have been issued. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The deferred shares have no such rights.

Movements in the number of issued shares were as follows:

### 2020

	At 1 October 2019	Issued during the acquisition of AS Group	Issued to the CareTech Charitable Foundation	Issued under Share Schemes	At 30 September 2020
Ordinary shares of 0.5p each	109,144,369	431,465	1,000,000	2,598,158	<b>113,173,992</b>
Deferred shares of 0.5p each	53,402	–	–	–	<b>53,402</b>

### 2019

	At 1 October 2018	Issued during the acquisition of Cambian	Issued under Save as You Earn Scheme	At 30 September 2019
Ordinary shares of 0.5p each	75,691,423	33,188,817	264,129	109,144,369
Deferred shares of 0.5p each	53,402	–	–	53,402

## 24. Reserves

### (a) Share premium account

During the year, the issue of new shares charged to the share premium account are as follows:

	<b>2020</b>	2019
	<b>£000</b>	£000
Opening balance 1 October 2019	<b>121,304</b>	120,820
Premium on issue of shares	<b>11,775</b>	484
At 30 September 2020	<b>133,079</b>	121,304

Share premium includes any premiums received on issue of share capital, with the exception of shares issued in consideration in acquisitions. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

### (b) Merger reserve

The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company (merger relief) (note 5).

	<b>2020</b>	2019
	<b>£000</b>	£000
Opening balance 1 October	<b>125,536</b>	9,023
Issue of shares	<b>306</b>	118,182
Costs associated with share issue	–	(1,669)
At 30 September	<b>125,842</b>	125,536

### (c) Shares held by Executive Shared Ownership Plan

Further information relating to the EBT reserve of the Group is detailed in note 22 to the consolidated financial statements of the Group.

### (d) Retained earnings

Retained earnings includes all current and prior period retained profits and share-based employee remuneration. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

### (e) Foreign currency translation reserves

A foreign currency translation reserve exists following the acquisition of the AS Group. This consists of exchange differences that arise on the translation on overseas net assets.

## Notes to the Financial Statements

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### 25. Dividends

The aggregate amount of dividends comprises:

	2020 £000	2019 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year (3.75p per share, (2019: 3.50p per share))	4,093	2,645
Final dividend paid in respect of the prior year (7.95p per share, (2019: 7.50p per share))	8,913	8,157
Aggregate amount of dividends paid in the financial year (11.70p per share (2019: 11.00p per share))	<b>13,006</b>	10,802

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 12.75p per share, £14,000,000 (2019: 11.7p per share, £13,000,000).

### 26. Financial instruments

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Group, which primarily relate to credit, interest and liquidity risks, which arise in the normal course of the Group's business.

#### Credit risk

Financial instruments which potentially expose the Group to credit risk consist primarily of cash equivalents and trade receivables. Cash equivalents are deposited only with major financial institutions that satisfy certain credit criteria.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are carried out on all significant prospective customers and all existing customers requiring credit beyond a certain threshold. Varying approval levels are set on the extension of credit depending upon the value of the sale.

Where credit risk is deemed to have risen to an unacceptable level, remedial actions including the variation of terms of trade are implemented under the guidance of senior management until the level of credit risk has been normalised.

The Group provides credit to customers in the normal course of business. The amounts presented in balance sheet in relation to the Group's trade receivables are presented net of loss allowances. The Group measures loss allowances at an amount equal to the lifetime expected credit losses (ECLs) using both quantitative and qualitative information and analysis based on the Group's historical experience and forward looking information. During the year there was a credit to the consolidated income statement of £28,000 (2019: £403,000 charge) to decrease the loss allowance.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Based on past experience, the Group believes that no further impairment allowance is necessary in respect of trade receivables not past due. The Group considers that the carrying value of trade receivables approximates to its fair value.

The trade receivables as at 30 September are aged as follows:

	2020 £000	2019 £000
Not due	26,304	23,417
Not more than three months past due	10,494	12,217
More than three months but not more than six months past due	805	2,665
Trade receivables (note 16)	<b>37,604</b>	38,299

The movement in provisions for impairment of trade receivables are as follows:

	£000
At 1 October 2018	761
Adoption of IFRS 9	525
Charged to the consolidated income statement	403
At 30 September 2019	1,689
Credit to the consolidated income statement	(28)
At 30 September 2020	<b>1,661</b>

Included in the provision for impairment of trade receivables is an expected credit loss of £220,000 (2019: £525,000).

### Interest rate risk

The Group finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR. The Group has not adopted hedge accounting.

As at 30 September, the Group carried five hedging instruments, details of which are as follows:

- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6 million at LIBOR fixed at 1.076%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6 million at LIBOR fixed at 1.056%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £27.6 million at LIBOR fixed at 1.076%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6 million at LIBOR fixed at 1.071%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £27.6 million at LIBOR fixed at 1.066%

### Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Group has available bank facilities, sufficient, with cash flow from profits, to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities. The following table indicates their contractual cash flow maturities.

	2020					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1 – 5 years £000	5 years & over £000
Trade and other payables		(49,843)	(49,843)	(49,843)	–	–
Secured bank loans	3.5%	(317,122)	(338,457)	(7,116)	(331,341)	–
Shareholder loans		(1,833)	(1,833)	–	(1,833)	–
Lease liabilities		(88,688)	(293,452)	(8,581)	(19,897)	(264,974)
Derivative financial instruments		(2,198)	(2,198)	–	(2,198)	–
		(459,684)	(685,783)	(65,540)	(355,269)	(264,974)

	2019					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1 – 5 years £000	5 years & over £000
Trade and other payables		(52,369)	(52,369)	(52,369)	–	–
IAS 17 Ground rent		(15,131)	(15,131)	(100)	(500)	(14,531)
Secured bank loans	3.5%	(315,878)	(355,569)	(10,146)	(345,423)	–
Lease liabilities	6%	(4,437)	(4,689)	(1,783)	(2,906)	–
Derivative financial instruments		(1,640)	(1,640)	–	(1,640)	–
		(389,455)	(429,398)	(64,398)	(350,469)	(14,531)

See note 18 for the maturity dates and interest rates charged on the secured bank loans.

## Notes to the Financial Statements

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### 26. Financial instruments continued

#### Analysis of changes in liabilities from financing activities

The below table represents the movement in liabilities from financing activities:

	Secured bank loans £000	Lease liabilities £000	Shareholders loan £000	Derivative financial instruments £000	Total £000
1 October 2018	151,748	11,956	–	152	163,856
Cash flows	163,638	4,806	–	(308)	168,136
New leases	–	2,305	–	–	2,305
Changes in fair value	–	–	–	1,796	1,796
Acquisitions	–	515	–	–	515
Other	492	(14)	–	–	478
<b>30 September 2019</b>	<b>315,878</b>	<b>19,568</b>	<b>–</b>	<b>1,640</b>	<b>337,086</b>
Cash flows	–	(8,797)	1,808	(1,053)	(8,042)
Adoption of IFRS 16	–	71,730	–	–	71,730
New leases	–	6,187	–	–	6,187
Changes in fair value	–	–	–	1,611	1,611
Effect of foreign exchange	–	–	25	–	25
Other	1,244	–	–	–	1,244
<b>30 September 2020</b>	<b>317,122</b>	<b>88,688</b>	<b>1,833</b>	<b>2,198</b>	<b>409,841</b>

CareTech's three key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 4.5), interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4x) and LTV (ratio of property value to net debt to be no more than 62.5%). As at 30 September 2020, we were operating comfortably within these ratios at 3.1x, 7.8x and 42% respectively. The Board believes the Group will achieve its target of reducing net debt/EBITDA to below 3.0x for the year ended 30 September 2021.

#### Capital risk management

The Group manages its capital to ensure that activities of the Group will be able to continue as a going concern whilst maximising returns for shareholders through the optimisation of debt and equity.

The Group's capital structure is as follows:

	2020 £000	2019 £000
Net debt	268,886	291,077
Equity (see note 23)	364,216	335,364

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 7.95p per share demonstrating a confident view of the Group's fundamental strength.

#### Net debt

Net debt comprises cash and cash equivalents net of bank loans and borrowings and HP leases previously accounted for under IAS 17 excluding Project Teak sale and leaseback. Net debt remains unchanged following the adoption of IFRS 16.

	Note	2020 £000	2019 £000
<b>Net debt in the balance sheet comprises:</b>			
Cash and cash equivalents		54,273	29,238
Bank loans	18	(317,122)	(315,878)
Shareholder loan		(1,833)	–
Lease and hire purchase contracts	18	(4,204)	(4,437)
<b>Net debt at 30 September</b>		<b>(268,886)</b>	<b>(291,077)</b>

### Foreign currency risk

Most of The Group's transactions are carried out in GBP. Exposures to currency exchange rates arise from the Group's investment in "the AS Group", registered in the United Arab Emirates, which is denominated in AED. All other revenues arise within the UK and all non-current assets are likewise located in the UK. No single external customer amounts to 10% or more of the Group's revenues.

### Sensitivity analysis

In managing interest rate risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on consolidated earnings.

At 30 September 2020, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax and equity by approximately £2,020,000 (2019: £1,950,000). Economic hedging instruments have been included in this calculation.

### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2020 £000	Fair value 2020 £000	Carrying amount 2019 £000	Fair value 2019 £000
<i>Financial Instruments at amortised cost</i>				
Cash at bank and in hand	54,273	54,273	29,328	29,328
Trade receivables (note 16)	37,604	37,604	38,299	38,299
Trade payables (note 19)	(15,576)	(15,576)	(12,378)	(12,378)
Secured bank loans (note 18)	(317,122)	(317,122)	(315,878)	(315,878)
Contingent consideration	(1,569)	(1,569)	-	-
Shareholder loan	(1,833)	(1,833)	-	-
<i>Held at fair value through profit and loss:</i>				
Derivative financial instruments	(2,198)	(2,198)	(1,640)	(1,640)

Where market values are not available, fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates with the following assumptions being applied:

- for trade and other receivables and payables with a remaining life of less than one year the carrying amount is deemed to reflect the fair value;
- for cash and cash equivalents the amounts reported on the balance sheet approximates to fair value;
- for secured bank loans at floating rate the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the market place;
- for shareholder loans the amount is repayable in less than one year and the carrying amount is deemed to reflect the fair value;
- for contingent consideration the amount is repayable in less than one year and the carrying amount is deemed to reflect the fair value; and
- for the derivatives financial instruments, these were entered into to manage the Group's exposure to interest rate risk on its external borrowings.

### Fair value hierarchy

The financial instruments carried at fair value by valuation methods are:

	2020 £000	2019 £000
Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities	-	-
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices	(2,198)	(1,640)
Level 3 – inputs for the asset or liabilities that are not based on observable market data	(1,569)	-

The fair values for all financial instruments carried at amortised costs are within level 3 of the fair value hierarchy.

## Notes to the Financial Statements

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### 27. Operating leases

#### Prior year only

Non-cancellable operating lease rentals are payable as follows:

	2019	
	Land and buildings £000	Other £000
Within one year	6,426	1,935
Between two and five years	12,425	2,726
More than five years	228,127	–
	246,978	4,661

Included in the operating lease rentals for land and buildings in more than five years are leases relating to the land element for the properties sold to third parties and then leased back on 150 year leases. During the year the following was recognised as an expense in the consolidated income statement in respect of operating leases:

	2019	
	Land and buildings £000	Other £000
Charge for amounts currently payable	6,300	1,841
Total recognised in the consolidated income statement	6,300	1,841

### 28. Related parties

During the year, the Group paid rent totalling £408,343 (2019: £226,000) in respect of properties in which Farouq Sheikh and Haroon Sheikh have an interest. At the year-end rent of £240,595 (2019: £20,000) was outstanding. The current lease liability recognised at 30 September 2020 is £2,705,000. The corresponding liability at 1 October 2019 under IFRS 16 was £3,018,000.

Dividends paid to Directors in the year totalled £192,000 (2019: £157,000).

#### Transactions with key management personnel

	2020 £000	2019 £000
Salary	4,131	4,775
Benefits	322	354
Bonus	1,348	1,110
Total short-term remuneration	5,801	6,239
Post-employment benefits	255	288
Share-based payments	220	50
	6,276	6,577

Key management personnel are defined as Directors of the Group and members of the Senior Management Team.

Directors' emoluments are set out on page 75.

During the year, the Group made donations to the CareTech Charitable Foundation which are set out in note 6.



## 29. Group undertakings

The Group has the following investments in trading subsidiaries included in the consolidated results for the year. The operating subsidiaries are engaged in either owning property ("Property") or in the provision of services to adults or children ("Trading"). Additionally, the Group has subsidiaries that are non-trading, act as holding companies, or are dormant ("Non-trading").

Company	Company number	Country of incorporation	Type	Ownership 2020%	Ownership 2019%
Addington House Limited*	4404355	England and Wales	Operating	100	100
Advanced Childcare Services Limited*	07559570	England and Wales	Non-trading	100	100
Advances In Autism Care & Education Limited*	3252453	England and Wales	Non-trading	100	100
Applied Care and Development Ltd*	SC224352	Scotland	Operating	100	100
Ashcroft House Limited*	3390658	England and Wales	Operating	100	100
Ashring House Limited*	3370991	England and Wales	Operating	100	100
Ashview House Limited*	3304446	England and Wales	Operating	100	100
Barleycare Limited*	5156601	England and Wales	Operating	100	100
Beacon Care Holdings Limited*+	3293998	England and Wales	Non-trading	100	100
Beacon Care Investments Limited*+	4351554	England and Wales	Non-trading	100	100
Beacon Care Limited*	3160894	England and Wales	Non-trading	100	100
Beech Care Limited*	4050685	England and Wales	Operating	100	100
Branas Isaf (Ashfield House) Limited*	5761962	England and Wales	Operating	100	100
Branas Isaf (Bythnod & Hendre Llwyd) Limited*	4826628	England and Wales	Operating	100	100
Branas Isaf (Dewis) Limited*	4828115	England and Wales	Operating	100	100
Branas Isaf (Education Centre) Limited*	4826662	England and Wales	Operating	100	100
Branas Isaf (Llyn Coed) Ltd*	4826774	England and Wales	Operating	100	100
Branas Isaf (personal development & approach training) Limited*	4826959	England and Wales	Non-trading	100	100
Branas Isaf (Therapeutic Provision Limited)*	5355404	England and Wales	Non-trading	100	100
Branas Isaf Holdings Ltd*	4827227	England and Wales	Non-trading	100	100
Branas Isaf Personal Development Centre Ltd*	3744583	England and Wales	Non-trading	100	100
Bright Care Limited*	4050733	England and Wales	Operating	100	100
By the Bridge Holdings*	05712186	England and Wales	Non-trading	100	100
By the Bridge Limited*	04050928	England and Wales	Operating	100	100
By the Bridge Management Company Limited*	8587714	England and Wales	Non-trading	100	100
By the Bridge North West Limited*	05448746	England and Wales	Operating	100	100
Cambian Asperger Syndrome Services Limited*	04117476	England and Wales	Operating	100	100
Cambian Autism Services Limited*	03449214	England and Wales	Operating	100	100
Cambrian Care (Powys) Limited*	3813824	England and Wales	Non-trading	100	100
Cambian Childcare Limited*	04280519	England and Wales	Operating	100	100
Cambian Childcare Properties Limited*	05274924	England and Wales	Property	100	100
Cambian Education Services Limited*	05554772	England and Wales	Non-trading	100	100
Cambian FS Limited*	09501886	England and Wales	Non-trading	100	100
Cambian Group Holdings Limited*	08929407	England and Wales	Non-trading	100	100
Cambian Group Limited**	8929371	England and Wales	Non-trading	100	100
Cambian Heritage I Limited*	5150238	England and Wales	Non-trading	100	100
Cambian Heritage II Limited*	3898254	England and Wales	Property	100	100
Interact Care Limited*	4822716	England and Wales	Operating	100	100
Cambian Properties (UK) Limited*	5554819	England and Wales	Non-trading	100	100
Cambian Signpost Limited*	6253729	England and Wales	Operating	100	100
Cambian Whinfell School Limited*	4617562	England and Wales	Operating	100	100
Cameron Care Limited*	SC283940	Scotland	Operating	100	100
Care Support Services Limited*	5356025	England and Wales	Operating	100	100
CareTech Community Services (No 2) Limited*	3894564	England and Wales	Operating	100	100
CareTech Community Services Limited**	2804415	England and Wales	Operating	100	100
CareTech Consulting Limited*	7186925	England and Wales	Non-trading	100	100
CareTech Estates (No 2) Limited**	6518327	England and Wales	Property	100	100
CareTech Estates (No 3) Limited**	6518491	England and Wales	Property	100	100
CareTech Estates (No 4) Limited**	6543818	England and Wales	Property	100	100

## Notes to the Financial Statements

continued

### 29. Group undertakings continued

Company	Company number	Country of incorporation	Type	Ownership 2020%	Ownership 2019%
CareTech Estates (No 5) Limited**	7027116	England and Wales	Property	100	100
CareTech Estates (No 6) Limited**	8420656	England and Wales	Property	100	100
CareTech Estates (no 7) Limited**	8628141	England and Wales	Property	100	100
CareTech Estates Limited**	5964868	England and Wales	Property	100	100
CareTech Foster Care Limited*	5185612	England and Wales	Non-trading	100	100
CareTech Fostering Holdings Limited*	7206363	England and Wales	Non-trading	100	100
CareTech Fostering Services*	7205262	England and Wales	Non-trading	100	100
CareTech Housing Services*	3438332	England and Wales	Non-trading	100	100
CareTech International (Previously Family Assessment Services Limited) Limited*	6902547	England and Wales	Non-trading	100	100
Clifford House Limited*	3320573	England and Wales	Non-trading	100	100
Colerne Community Care (kent) Limited*	2755757	England and Wales	Non-trading	100	100
Community Support Project Limited**	5941774	England and Wales	Non-trading	100	100
Complete Care & Enablement Services Limited*	5905163	England and Wales	Operating	100	100
Continuum Care and Education Group Limited*	5804360	England and Wales	Non-trading	100	100
Counticare Limited*	2585666	England and Wales	Non-trading	100	100
Coveberry Limited*	1208511	England and Wales	Operating	100	100
Daisybrook Limited*	3026221	England and Wales	Operating	100	100
Dawn Hodge Associates Limited*	4130146	England and Wales	Operating	100	100
Delam Care Limited*	2995783	England and Wales	Operating	100	100
Delham Care Limited*	2748991	England and Wales	Non-trading	100	100
Elite Children's Care Limited*	5251327	England and Wales	Non-trading	100	100
Emeraldpoint Limited*	3098166	England and Wales	Operating	100	100
EQL Solutions Limited**	8758477	England and Wales	Operating	100	100
Farrow House Limited*	3504115	England and Wales	Non-trading	100	100
Fostering Support Group Limited*	2359399	England and Wales	Operating	100	100
Franklin Homes Limited*	3002865	England and Wales	Operating	100	100
Glenroyd House Limited*	4326288	England and Wales	Operating	100	100
Gloucestershire Autism Services Limited*	3091510	England and Wales	Non-trading	100	100
Green Corns Limited*	3918305	England and Wales	Non-trading	100	100
Greenfields Adolescent Development Limited*	4068839	England and Wales	Operating	100	100
Greenfields Care Group Limited*	4642100	England and Wales	Non-trading	100	100
Hereson House Limited*	4385252	England and Wales	Operating	100	100
Herts Care (Escort and Supervision Services) Limited*	3648069	England and Wales	Non-trading	100	100
Herts Care Group Limited*	4539660	England and Wales	Non-trading	100	100
Herts Care Limited*	3400914	England and Wales	Non-trading	100	100
Herts Care Property Limited*	4132387	England and Wales	Non-trading	100	100
Huntsmans Lodge Limited*	4668317	England and Wales	Operating	100	100
Independent Childcare Group of Schools Limited*	2525026	England and Wales	Non-trading	100	100
Inhoco 2993 Limited*	4495879	England and Wales	Non-trading	100	100
K O B Care Limited*	3039698	England and Wales	Non-trading	100	100
Kirkstall Lodge Limited*	4778674	England and Wales	Operating	100	100
Leigham Lodge Limited*	4583599	England and Wales	Operating	100	100
Lonsdale Midlands Limited*	2834141	England and Wales	Operating	100	100
Lyndhurst Psychiatric Residential Care Limited*	2958528	England and Wales	Non-trading	100	100
Magnolia Court Limited*	5444649	England and Wales	Operating	100	100
Mason Property Development Company Limited*	4308273	England and Wales	Property	100	100
Oakleaf Care (Hartwell) Limited*	5225317	England and Wales	Operating	100	100
One Six One Limited*	4136284	England and Wales	Operating	100	100
One Step (Support) Limited*	4534652	England and Wales	Operating	100	100
Onetrue Step Limited*	8339192	England and Wales	Non-trading	100	100
Outlook Fostering Services Limited*	4357704	England and Wales	Operating	100	100

Company	Company number	Country of incorporation	Type	Ownership 2020%	Ownership 2019%
Palm Care Limited*	4050739	England and Wales	Operating	100	100
Park Foster Care Ltd*	4861395	England and Wales	Operating	100	100
Park Foster Care Services Scotland Limited*	SC427502	Scotland	Operating	100	100
Phoenix Therapy and Care Limited*	SC254555	Scotland	Operating	100	100
Pinnacle Supported Living Limited*	2736242	England and Wales	Non-trading	100	100
Prestwood Residential Homes Ltd*	4129564	England and Wales	Operating	100	100
Primrose Court Limited*	4803769	England and Wales	Operating	100	100
Professional Integrated Care Services Limited*	4771613	England and Wales	Non-trading	100	100
Purple Zest Limited**	11421082	England and Wales	Operating	100	100
Roborough House Limited*	5054294	England and Wales	Operating	100	100
ROC North West Ltd*	5564417	England and Wales	Operating	100	100
Rosedale Children's Services Limited*	4932054	England and Wales	Operating	100	100
SACCS Care Limited*	3400914	England and Wales	Non-trading	100	100
SACCS Limited*	4497910	England and Wales	Non-trading	100	100
Selborne Care Limited*	5513162	England and Wales	Operating	100	100
Selwyn Care Limited*	3737832	England and Wales	Operating	100	100
South East Care Services Limited*	2296352	England and Wales	Non-trading	100	100
Spark of Genius Limited*	SC479758	Scotland	Non-trading	100	100
Spark Of Genius (North East) LLP	OC384807	England and Wales	Operating	50	50
Spark Of Genius (Training) Limited*	SC196146	Scotland	Operating	100	100
St Michael's Support & Care Limited*	5978585	England and Wales	Operating	100	100
Sunnyside Care Homes Ltd*	4589719	England and Wales	Operating	100	100
The Community Care Company UK Limited*	2816119	England and Wales	Non-trading	100	100
TLC (Wales) Independent Fostering Limited*	4824925	England and Wales	Operating	100	100
Trojan Spark Limited*	SC453152	Scotland	Non-trading	100	100
Uplands (Fareham) Limited*	3488896	England and Wales	Operating	100	100
Valeo Community Projects Limited*	3941224	England and Wales	Non-trading	100	100
Valeo Limited**	4099715	England and Wales	Operating	100	100
Victoria Lodge Limited*	4454845	England and Wales	Operating	100	100
Vosse Court Limited*	4778676	England and Wales	Operating	100	100
White Cliffs Lodge Limited*	4351559	England and Wales	Operating	100	100
Wyatt House Limited*	4319271	England and Wales	Non-trading	100	100
Advanced Childcare Capital Limited	107650	Jersey <sup>2</sup>	Non-trading	100	100
Advanced Childcare Finance Limited	107661	Jersey <sup>2</sup>	Non-trading	100	100
Advanced Childcare Group Limited	107672	Jersey <sup>2</sup>	Non-trading	100	100
Advanced Childcare Holdings Limited	107660	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Capital Limited	87311	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Developments I Limited	106304	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Developments II Limited	104724	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Developments Limited	102148	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Finance Limited	91181	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Holdings Limited	87312	Jersey <sup>2</sup>	Non-trading	100	100
Cambian Manco Limited	109922	Jersey <sup>2</sup>	Non-trading	100	100
Care Aspirations Finance Limited	101512	Jersey <sup>2</sup>	Non-trading	100	100
Care Aspirations Holdings Limited	101522	Jersey <sup>2</sup>	Non-trading	100	100
Care Aspirations Capital Limited	101503	Jersey <sup>2</sup>	Non-trading	100	100
H2O Limited	FC97291	Gibraltar	Non-trading	100	100
Hazeldene UK Limited <sup>1</sup>	FC015967	Gibraltar	Operating	100	100
Cambian Properties II Limited	91131	Jersey <sup>2</sup>	Property	100	100
Caretech Cloud Limited*	12392889	England and Wales	Non-trading	100	-
CareTech Mena Social Care LLC	1010563230	Saudi Arabia	Non-trading	100	-
CareTech Holdings Limited	3381	United Arab Emirates	Non-trading	100	-
AS1 Investments Holding Ltd (ADGM)	3272	United Arab Emirates	Non-trading	94	-

## Notes to the Financial Statements

continued

### 29. Group undertakings continued

Company	Company number	Country of incorporation	Type	Ownership 2020%	Ownership 2019%
AS Investments Holding Ltd (ADGM)	3087	United Arab Emirates	Non-trading	52	–
Macani Medical Centre	CN-1937451	United Arab Emirates	Operating	49	–
AS Northwood Investments Holdings LLC (ADGM)	CN-2696945	United Arab Emirates	Non-trading	99	–
ACPN Dubai	674030	United Arab Emirates	Operating	65	–
ACPN Abu Dhabi	CN-1142528	United Arab Emirates	Operating	65	–
ACPN Al Ain	CN-1142528-1	United Arab Emirates	Operating	65	–
Care Talent Advisors Limited*	12391623	England and Wales	Non-trading	60	–
Jobzooma Limited	10127824	England and Wales	Operating	29.4	–
Recruiterlink Limited	11665920	England and Wales	Operating	29.4	–

1 Has a UK designated trading branch, Hazeldene UK Limited.

2 Registered office 9 Burrard Street, St Helier, Jersey JE4 5SE.

+ Owned directly by the Company.

\* These subsidiaries have taken advantage of the audit exemption under s479A and s479C of the Companies Act 2006 for the period ended 30 September 2020. As such, the Company has provided a guarantee against all debts and liabilities in these subsidiaries as at 30 September 2020.

#### Exemption from audit by parent guarantee

The Company being the ultimate sole shareholder of its subsidiaries has decided to take the exemption from audit of a number of subsidiaries for the year ended 30 September 2020 under Sections 479A and 479C of the Companies Act 2006 and the Company will provide a guarantee for all the liabilities of those entities as at 30 September 2020 detailed above with the exception of Hazeldene UK Limited, H2O Limited and Spark of Genius (North East) LLP and Advanced Childcare Capital Limited, Advanced Childcare Finance Limited, Advanced Childcare Group Limited, Advanced Childcare Holdings Limited, Cambian Capital Limited, Cambian Developments I Limited, Cambian Developments II Limited, Cambian Developments Limited, Cambian Finance Limited, Cambian Holdings Limited, Cambian Manco Limited, Care Aspirations Finance Limited, Care Aspirations Holdings Limited, Care Aspirations Capital Limited and Cambian Properties II Limited.

Wholly owned subsidiaries incorporated in Gibraltar and Jersey will not be covered by the parent company guarantee as they are incorporated outside of the UK.

Unless otherwise stated above, the registered offices of all subsidiaries is 5th Floor Metropolitan House, 3 Darkes Lane, Potters Bar, England, EN6 1AG with the exception of:

Company	Address
Applied Care and Development Ltd	Netherlea House, Bankend Road, Dumfries, DG1 4AL
Cameron Care Limited	Inspire Children Services, Lochview, Fort William, Inverness-Shire, PH33 7NP
Dawn Hodge Associates Limited	Fiveways House, Buildwas Road, Neston, CH64 3RU
Park Foster Care Services Scotland Limited	272 Bath Street, Glasgow, G2 4JR
Phoenix Therapy and Care Limited	1 Lodge Street, Haddington, East Lothian, EH41 3DX
Professional Integrated Care Services Limited	Tan Y Fron, Pontardulais Road, Crosshands, Carmarthenshire, SA14 6PG
Spark of Genius Limited	Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH
Spark Of Genius (North East) LLP	King Edwin School Mill Lane, Norton, Stockton-On-Tees, North Yorkshire, TS20 1LG
Spark Of Genius (Training) Limited	Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH
Trojan Spark Limited	Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH
H2O Limited	Montagu Pavillion, 8-10 Queensway, Gibraltar
Hazeldene UK Limited	Montagu Pavillion, 8-10 Queensway, Gibraltar
CareTech Mena Social Care LLC	7534 King Abdul Aziz Road – Al Ghadeer District, Unit No 44, Riyadh 13311-4672, Kingdom of Saudi Arabia
CareTech Holdings Limited	2459, 24, Al Sila Tower, Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates
AS1 Investments Holding Ltd (ADGM)	2458 Al Sila Tower, ADGM Square, Al Marya Island Abu Dhabi, UAE
AS Investments Holding Ltd (ADGM)	2458 Al Sila Tower, ADGM Square, Al Marya Island Abu Dhabi, UAE
Macani Medical Centre	Ahmed Ali Mohamed Abdulla Alsayegh Building, Office 205, GH 10, Q 63, T 2, Al Khalidiah Street, Abu Dhabi, UAE
AS Northwood Investments Holdings LLC (ADGM)	Unit of Ahmed Ali Mohamed Abdulla Alsayegh, West 10,0, P.O. Box No. 52613, Abu Dhabi, UAE
ACPN Dubai	Jumeirah Sunset Mall, Jumeirah 3, PO Box 66026, Dubai, UAE
ACPN Abu Dhabi	Khalid bin Abdul Aziz Street, Mounira Sheikh Ahmed Al Mubarak Building, PO Box 108699, Abu Dhabi, UAE
ACPN Al Ain	Villa of Mohammed Raashid Mohammed and others, Al Ghil, Al Ma'atarid, Al Ain, Abu Dhabi, UAE

**Subsidiaries with material non-controlling interest ("NCI")**

The Group has aggregated the subsidiary financial information of the AS Group acquired on 4 February 2020. The Group has considered it appropriate to aggregate the information due to geographical location and the nature of the activities being performed being consistent. The below table shows the subsidiaries that form part of the Group.

Subsidiary name	Principal place of business	Proportion of ownership interests held by non-controlling interests	Proportion of voting rights held by non-controlling interests
AS Investments Holding Ltd (ADGM)	United Arab Emirates	48%	48%
AS Northwood Investments Holdings LLC (ADGM)	United Arab Emirates	1%	1%
ACPN Dubai	United Arab Emirates	35%	35%
ACPN Abu Dhabi	United Arab Emirates	35%	35%
ACPN Al Ain	United Arab Emirates	35%	35%
AS1 Investments Holding Ltd (ADGM)	United Arab Emirates	6%	6%
Macani Medical Centre	United Arab Emirates	51%	51%
		<b>2020</b>	2019
		<b>£'000</b>	£'000
Profit allocated to NCIs during the reporting period		<b>1,234</b>	–
Accumulated NCI at 30 September		<b>9,206</b>	–

Dividends of £1.9m were paid during the year to the NCI.

Summarised financial information for the AS Group is set out in the table below:

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Current assets	<b>8,139</b>	–
Non-current assets	<b>274</b>	–
Current liabilities	<b>(2,870)</b>	–
Non-current liabilities	<b>(1,833)</b>	–
Revenue	<b>15,548</b>	–
Profit and total comprehensive income	<b>1,881</b>	–
Net cash from operating activities	<b>2,202</b>	–
Net cash used in investing activities	<b>(77)</b>	–
Net cash used in financing activities	<b>(161)</b>	–
<b>Net cash inflow</b>	<b>1,964</b>	–

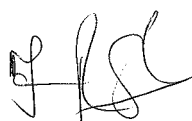
# Company Statement of Financial Position

as at 30 September 2020

	Note	2020 £000	2019 £000
<b>Non-current assets</b>			
Investments	32	399,859	395,822
		<b>399,859</b>	395,822
<b>Current assets</b>			
Trade and other receivables	33	247,171	257,731
Cash and cash equivalents		485	1,012
		<b>247,656</b>	258,743
<b>Total assets</b>		<b>647,515</b>	654,565
<b>Current liabilities</b>			
Trade and other payables	35	48,411	44,065
		<b>48,411</b>	44,065
<b>Non-current liabilities</b>			
Loans and borrowings	34	318,592	317,358
<b>Total liabilities</b>		<b>367,003</b>	361,423
<b>Net assets</b>		<b>280,512</b>	293,142
<b>Equity</b>			
Share capital	37	565	545
Share premium		133,080	121,304
Merger reserve		125,842	125,536
Retained earnings		21,025	45,757
<b>Total equity attributable to equity shareholders of the parent</b>		<b>280,512</b>	293,142

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement. The loss for the year included in the financial statements of the Company was £15,845,000 (2019 profit: £25,778,000).

These financial statements were approved by the Board of Directors and authorised for issue on 10 December 2020 and were signed on its behalf by:



**Farouq Sheikh**  
Group Executive Chairman  
Company number: 04457287



**Christopher Dickinson**  
Chief Financial Officer

# Company Statement of Changes in Equity

as at 30 September 2020

Strategic Report

Governance

Financial Statements

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total Equity £000
At 1 October 2018	379	120,820	9,023	30,781	161,003
Profit for the year and total comprehensive income	-	-	-	25,778	25,778
Issue of shares	166	-	116,513	-	116,679
Sharesave Scheme charge	-	484	-	-	484
Dividends	-	-	-	(10,802)	(10,802)
At 30 September 2019	545	121,304	125,536	45,757	293,142
At 1 October 2019	<b>545</b>	<b>121,304</b>	<b>125,536</b>	<b>45,757</b>	<b>293,142</b>
Profit for the year and total comprehensive income	-	-	-	(15,845)	(18,846)
Issue of shares	20	11,776	306	-	2,058
Share-based payment charge	-	-	-	4,119	4,119
Dividends	-	-	-	(13,006)	(13,006)
<b>At 30 September 2020</b>	<b>565</b>	<b>133,080</b>	<b>125,842</b>	<b>21,025</b>	<b>280,512</b>

## 30. Accounting policies

### (a) Basis of preparation

CareTech Holdings PLC (the Company) meets the definition of a qualifying entity under Financial Reporting Standard (FRS) 100, issued by the Financial Reporting Council (FRC). Accordingly, the financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. The financial statements have been prepared on a historical cost basis except in respect of those financial instruments that have been measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of cash flow statement and certain related party transactions.

Accounting policies for financial instruments have been listed under part of the accounting policies for the main Group's consolidated accounts.

### (b) Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost less impairment written off.

### (c) Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand and those with maturities of three months or less from inception, less overdrafts payable on demand.

### (d) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and the redemption value being recognised in the consolidated income statement over the period of the borrowings on an effective interest basis.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### (e) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

### (f) Revenue

Revenue represents management fees receivable, in respect of the period to which management services relate.

### (g) Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

### (h) Employee Benefit Trust (EBT)

The Company has not elected to consolidate the employee benefit trust and consequently recognise it as an investment in subsidiary, and recognise a receivable balance for any shares issued to the trust, and is subsequently measured at amortised cost. These receivables are payable on demand and do not carry any interest. Considering these amounts are receivable on the sale of shares held by the trust and such shares are quoted higher than the value receivable, the Company are of the view that there are no credit losses as at balance sheet date.

### (i) Financial Instruments

#### Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Financial assets at amortised cost.
- Financial assets/liabilities held at fair value through profit or loss (FVTPL).

FVTPL assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.



All income and expenses relating to financial assets that are recognised in the consolidated income statement are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other administrative expenses.

#### Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

#### Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

#### Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in the consolidated income statement. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in consolidated income statement are included within finance costs or finance income.

From time to time, the long-term debt held by the Company are either refinanced as these come to maturity, or the margin on these facilities moves in line with the ratio of the Group's net debt to EBITDA. In either scenario, the Company reviews whether the debt is accounted for as a modification or an extinguishment of the liability. A substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability. A non-substantial modification should be accounted for as an adjustment to the existing liability. Both the quantitative and qualitative aspects of the modification are taken into account to ascertain whether the modification is substantial and these can include the change in covenants, repayment dates and the effective interest rate. If modification accounting is adopted, the carrying value of the existing liability is adjusted for fees paid or costs incurred and the effective interest rate is amended at the modification date. If extinguishment accounting is adopted, the existing liability is de-recognised and the new or modified liability is recognised at its fair value, the gain or loss equal to the difference between the carrying value of the old liability and the fair value of the new one is recognised, any incremental costs or fees incurred and any consideration paid or received is recognised in profit or loss and a new effective interest rate for the modified liability is calculated and used in future periods.

#### Derivative financial instruments

From time to time, the Company enters into derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the consolidated income statement immediately. A derivative is presented as a non-current asset or non-current liability if the Company has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

#### (j) Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### (k) Merger reserve

The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company (merger relief).

#### Merger reserve

	2020 £000	2019 £000
Opening balance 1 October	125,536	9,023
Issue of shares (see note 23)	306	116,513
At 30 September	125,842	125,536

# Notes to the Company Financial Statements

continued

## 31. Dividends

The aggregate amount of dividends comprises:

	2020 £000	2019 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year (3.75p per share, (2019: 3.50p per share))	4,093	2,645
Final dividend paid in respect of the prior year (7.95p per share, (2019: 7.50p per share))	8,913	8,157
Aggregate amount of dividends paid in the financial year (11.70p per share (2019: 11.00p per share))	<b>13,006</b>	10,802

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 12.75p per share, £14,000,000 (2019: 11.7p per share, £13,000,000).

## 32. Investments

	Shares in Group undertakings £000
<b>Cost and net book value</b>	
At 1 October 2019	395,822
Acquisitions (see note 5)	4,037
<b>At 30 September 2020</b>	<b>399,859</b>

## 33. Trade and other receivables

	2020 £000	2019 £000
Amounts owed by Group undertakings	235,382	255,788
Amounts owed by the Employment Benefit Trust	11,769	1,943
	<b>247,151</b>	257,731

These balances owed by Group undertakings accrue intercompany interest at a rate of 3% per annum. Please refer to note 1 and the statement on going concern. Intercompany financial assets were assessed by management for impairment using the expected credit loss model under IFRS 9. The assets are considered to have low credit risk and consequentially an immaterial credit loss was assessed and no provision has been made.

The prior year balance has been restated for an amount of £40.2m due to a prior year amount owed by a Group undertaking being incorrectly netted off against other amounts receivable from Group undertakings. See note 35.

## 34. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, please see note 25 in the Group accounts.

### Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2020 £000	Book value 2019 £000
Term loan	£	2.25 (2019: 2.25) <sup>1</sup>	2022	160,031	167,000
Term loan	£	2.50 (2019: 2.50) <sup>1</sup>	2023	158,561	150,358
Revolving credit facility term loan	£	(2019: 2.75) <sup>1</sup>	2023	—	—
				<b>318,592</b>	317,358

<sup>1</sup> The margin on the facilities is stated at the current rate and can change between 1.50% and 3.25% based on the ratio of the Group's net debt to EBITDA.

The facility is a term loan of £322m and revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks PLC, Santander UK PLC, AIB Group (UK) PLC, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank PLC and National Westminster Bank PLC and is stated net of loan finance costs in accordance in IAS 23.

### 35. Trade and other payables

	2020 £000	2019 £000
Amounts due to Group undertakings	42,769	40,199
Other creditors	5,642	3,866
	<b>48,411</b>	44,065

The prior year balance has been restated for an amount of £40.2m due to a prior year amount owed by a Group undertaking being incorrectly netted off against other amounts receivable from Group undertakings. See note 33.

### 36. Contingent liabilities

As per note 29, the Company have taken the audit exemption for a number of subsidiaries by virtue of s479A of the Companies Act. A parent company guarantee has been provided for these entities under s479C of the Companies Act.

### 37. Called up share capital

	2020 £000	2019 £000
<b>Allotted, called up and fully paid:</b>		
113,173,992 (2019: 109,144,369) ordinary shares of 0.5p each	565	545
53,402 deferred shares of 0.5p each	–	–
	<b>565</b>	545

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The deferred shares have no such rights. Details in respect of the movements in equity are given in note 22 to the Group financial statements.

Details in respect of the reserves are given in note 23 to the Group financial statements.

### 38. Staff numbers and costs

The Company has no employees (2019: none) other than the Directors. Directors' emoluments are shown on page 75.

### 39. Employee benefits

#### Defined contribution plans

The Company operates a number of defined contribution pension plans. The total Company expense relating to these plans in the current year was £nil (2019: £nil).

#### Share-based payments

There was no expense for share-based payments relating to the Company's employees in the year (2019: £nil). There was a grant of shares to the CareTech Charitable Foundation in the year, which is accounted for as a share-based payment with a charge of £4.1m (2019: nil) to the income statement in the year.

The grants and related accounting treatment adopted by the Company is identical to that operated by the Group under IFRS 2 'Share-Based Payments' (see note 22).

### 40. Related parties

The Company receives dividends from its subsidiaries according to their ability to remit them and received interest in intergroup loans. Other details of related party transactions have been given in note 27 to the consolidated accounts.

Under FRS 101, the Company is exempt from disclosing key management personnel compensation and transactions with other entities wholly owned by the Company.

## Appendix: Alternative Performance Measures

The Group reports certain non-IFRS performance measures, known as Alternative Performance Measures (APMs). The Directors believe that they provide useful supplemental information for the readers of the Annual Report and, when read in conjunction with the IFRS financial information, assist in providing a balanced view of the Group's financial performance and financial position.

In assessing its performance, the Group has adopted a number of APMs because statutory measures can have limitations as analytical tools and are necessary to readers of the accounts when understanding our performance relative to other companies in our sector and in the wider economy.

We set out below those APMs which management use in assessing its own performance and a reconciliation of those APMs to the statutory IFRS financial statements.

### a) EBITDA

EBITDA is defined as Earnings Before Interest, Tax, Depreciation, Amortisation, share-based payments and non-underlying items. EBITDA is considered the most relevant performance measure in our (and many other) sectors. We reconcile EBITDA to the statutory measure of operating profit on the face of the income statement as below:

		2020 £000	2019 £000
EBITDA		90,932	73,546
Adjusted for:			
COVID-19 income	6	2,550	–
Depreciation	13	(17,021)	(10,631)
Amortisation of intangible assets	6,14	(10,186)	(10,188)
Profit on ground rent transaction	6	–	4,565
Acquisition cost	6	(545)	(10,331)
Other non-underlying items		(4,497)	(7,425)
COVID-19 costs	6	(3,422)	–
Share-based payments charge		(4,449)	(60)
<b>Operating profit</b>		<b>53,362</b>	<b>39,476</b>

### b) Non-underlying items

Non-underlying items relate to events or transactions that, in the opinion of the Directors, by virtue of size and incidence are disclosed separately in order to improve a reader's understanding of the financial statements. They include: costs relating to the acquisition of new businesses, the integration of acquisitions and the reorganisation of the internal operating and management structure, redundancy costs, costs associated with terminating lease agreements and profit arising on the ground rent transaction.

Also included are the non-cash charges of amortisation of intangible fixed assets together with any impairment of intangible assets or goodwill. Non-underlying items also comprise costs relating to derivative financial instruments and include the movements during the year in the fair value of the Group's interest rate hedging arrangements which do not qualify for hedge accounting, together with the quarterly cash settlement and accrual thereof.

They also include the current tax and deferred tax adjustments relating to the above.

We present a reconciliation of our underlying earnings to our statutory profit on a line by line basis including Operating profit, Finance expenses, Profit before Tax and Taxation as follows:

	Note	2020			2019		
		Underlying £000	Non- underlying £000	Statutory £000	Underlying £000	Non- underlying £000	Statutory £000
<b>Operating profit</b>		<b>73,581</b>	<b>(20,219)</b>	<b>53,362</b>	62,855	(23,379)	39,476
Financial expenses	9	(13,928)	(1,611)	(15,539)	(12,690)	(2,446)	(15,136)
<b>Profit before tax</b>		<b>59,653</b>	<b>(21,830)</b>	<b>37,823</b>	50,165	(25,825)	24,340
Taxation	6,10	(11,325)	553	(10,772)	(9,423)	5,209	(4,214)
<b>Profit for the year</b>		<b>48,328</b>	<b>(21,277)</b>	<b>27,051</b>	40,742	(20,616)	20,126

### c) Net debt

A key performance indicator for many readers of accounts is the level of net debt within the business. Net debt comprises cash net of all loans and borrowings as defined by the Group's banking facilities. Accordingly, the Group provides information on its net debt which is reconciled to the statutory financial statements as follows:

	Note	2020 £000	2019 £000
<b>Net debt in the balance sheet comprises:</b>			
Cash at bank and in hand		54,273	29,238
Bank loans	18	(317,122)	(315,878)
Shareholder loan		(1,833)	–
Lease and hire purchase contracts	18	(4,204)	(4,437)
<b>Net debt at 30 September</b>		<b>(268,886)</b>	<b>(291,077)</b>

### d) Working capital conversion

The Group considers that a key element of its performance is the cash generation from its EBITDA and that there is a correlation between working capital performance and the quality of earnings. In the 2019 financial year, the working capital conversion is impacted by the fact that Cambian was acquired mid-October and as such cash receipts in the first few weeks of the month are excluded, whereas payroll payments and creditor payments, which typically fall at the end of each month, are included given a skewed working capital position. Accordingly, the Group provides a calculation of working capital conversion both including and excluding the first 19 days of October which is reconciled to the statutory financial statements as follows:

	2020 £000	2019 £000
Operating cash flows before adjustment items	94,222	66,324
EBITDA	90,932	73,546
<b>Working capital conversion</b>	<b>103.6%</b>	<b>90.2%</b>

	2020 £000	2019 £000
Operating cash flows before adjustment items	94,222	66,324
Cambian cash receipts and payments pre-acquisition	–	8,140
<b>At 30 September</b>	<b>94,222</b>	<b>74,464</b>
EBITDA	90,932	73,546
<b>Working capital conversion</b>	<b>103.6%</b>	<b>101.2%</b>

## Directors and Advisers

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Haroon Sheikh	(Group Chief Executive Officer)
Christopher Dickinson	(Chief Financial Officer)
Mike Adams	(Executive Director)
Karl Monaghan	(Non-Executive Director)
Jamie Cumming	(Non-Executive Director)
Moir Livingston	(Non-Executive Director)

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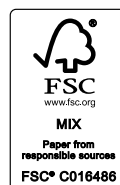
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