## Notes *(continued)*

### 1 Accounting policies *(continued)*

***Going concern***

The company is part of the Elli Investments Limited group of companies (the "Elli Investments group" or "the group"). The group is party to a number of financing arrangements under which the company has provided guarantees. The company meets its day to day working capital requirements from cash resources and intercompany balances with other companies in the group (as shown in the notes to these financial statements). Therefore, in light of the group's funding arrangements, the cross guarantees, and the operational and financial support provided by the group, the going concern assessment of the company is dependent on that of the Elli Investments group as a whole. The Financial statements of the group for the year ended 31 December 2016, authorised for issue on 26 April 2017, included the following disclosure:

*"In July 2012 the group issued £350m of senior secured notes which pay interest at 8.75% and are due for repayment in June 2019 and £175m of senior notes which pay interest at 12.25% and are due for repayment in June 2020. In addition, the group has a £40m super senior secured term loan facility (the "£40m term loan facility") which has a repayment date in December 2017.*

*Capital structure*

*The directors have previously recognised that the current funding structure of the group may not be appropriate for the long term needs of the business and in October 2015 advisors were appointed to conduct a review of the group's current financing arrangements.*

*As part of this review and as previously announced, the group's shareholder, FSHC Group Holdings Limited (the "Parent"), and certain stakeholders have, since the summer of 2016, been engaged in discussions and efforts to bring about a consensual solution to the group's capital structure. As part of the discussions with various existing stakeholders, non-binding and confidential proposals have been exchanged although, to date, no agreement has been reached with any stakeholder.*

*However, the directors are reassured that the group's stakeholders have been actively engaged in efforts to bring about a consensual solution and will continue to consider all options available with respect to seeking a capital structure more appropriate to the long-term requirements of the group. The directors acknowledge that there can be no certainty that these options will be successfully implemented. However, at the date of approval of these financial statements and notwithstanding the passage of time since the review of the capital structure commenced, they have no reason to believe otherwise.*

*The Parent and its advisors continue to consider a number of options to repay, refinance or extend the maturity of the group's £40m term loan facility. Whilst, to date, a final decision has not been taken as to the most appropriate course of action, the directors' current opinion, based on indicative proposals, is that there remain a number of solutions to address the facility's maturity.*

*Cash flow forecast*

*The directors have prepared trading and cash flow forecasts for the group to December 2018. These forecasts include a number of assumptions in relation to trading performance and indicate that the increased cost base, driven by the National Living Wage, the Apprenticeship Levy and underlying inflation, is expected to be met by further improved operational performance, additional sector funding as a result of the permitted increase in the Social Care Precept to 3% of Council Tax in 2017/18, and further funding pledges announced in the Government's Budget on 8 March 2017. These forecasts include an assumption that the £40m term loan facility is refinanced ahead of the maturity in December 2017 and the receipt of proceeds of approximately £20m in the next six months from the disposal of properties. Of these disposal proceeds, £5m, assuming the operational forecasts are achieved, is required to ensure adequate resources to continue to meet the group's liabilities as they fall due in the next 12 months.*

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***Going concern (continued)***

*Material risks and uncertainties*

*As outlined in the Strategic Report, the operating environment presents a number of challenges which could contribute to the group failing to achieve its operational and cash flow forecasts. These risks and uncertainties include, but are not limited to, the following:*

- *Occupancy – there is a risk that the group does not achieve the levels of occupancy assumed in its forecasts as a result, for example, of higher than expected winter deaths or embargoes. To illustrate the sensitivity of the forecasts to this key financial driver, the annual earnings before interest, tax, depreciation and amortisation (EBITDA) impact from a one percentage point reduction in occupancy across the group is approximately £1.7m, based on the fee and cost structure assumed in the forecasts;*

- *Agency costs – appropriate staffing levels are required to ensure that the correct level of care is provided. With a shortage of qualified nursing staff across the sector, the group may be required to use higher than anticipated levels of agency staff. In addition, the impact of Brexit on the availability of nurses and hence the level of future agency usage is yet to be fully understood. In general, agency staff are considerably more expensive than the group's own employees. By way of illustration, a 0.5 percentage point increase in the group's agency usage as a percentage of payroll has a negative EBITDA annual impact of £2.2m.*

*Related party liabilities*

*Although the group has net liabilities of £521.9m (2015: net liabilities of £439.5m), they include £411.7m (2015: £358.0m) within creditors falling due after more than one year which is due to related undertakings which are controlled by the same parent undertaking. This facility accrues effective interest at 15% on a compounding basis and is due for repayment in 2022. The directors of the related undertaking have confirmed that this facility will continue to be available to the group."*

**Conclusion**

The directors of Elli Investments Limited have considered ISA 570 and concluded that the circumstances outlined above give rise to a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern and therefore it may be unable to continue to realise its assets and discharge its liabilities in the normal course of business.

The directors of the company have also considered ISA 570 and concluded that the group financing arrangements and the operational and financial support provided by the group together with the above matters give rise to a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to continue to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company has adequate resources to continue to meet its liabilities as and when they fall due for the foreseeable future. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.