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Annual report & accounts 2008

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# Excellence in the provision of mental healthcare

## 2008 – a record year

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# 7.3%

Turnover up from  
£152.9m to £164.1m

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# 4.0%

Increase in normalised  
Operating Profit\* from  
£34.6m to £36.0m

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# £49.4m

EBITDA up from £48.3m  
to £49.4m

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# 560

new admissions and  
1,332 patients treated

\* Normalised operating profit of £36.0m is based on operating profit of £33.2m adjusted for £2.5m of costs associated with the opening of new facilities and £0.3m of costs related to the change in accounting treatment for overtime and bank.

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Patient numbers up from 815 at the end of 2007 to 972 at the end of 2008

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209 patients moved to lower security (compared to 177 in 2007)

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Available beds up from 1,038 at the end of 2007 to more than 1,200 at the end of 2008

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Completion of the development programme including new hospitals at St Johns House, Calverton Hill and Arbury Court and expansion of The Dene

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Acquisition and development of The Ayr Clinic

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Launch of the PiC National Training Centre

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Compliance with MSU standards achieved at all relevant hospitals

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Nick Shaughnessy, Lead Nurse at Arbury Court, wins Nursing Times' Chief Nursing Officer's Award 2008

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Continued development of management, marketing and capacity pipeline

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Partnerships in Care (PiC) offers the largest independent network of secure mental health hospitals and facilities in the UK. We have over 20 years experience caring for people with complex mental health needs and specialise in:

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Mental illness  
Personality disorders  
Learning disabilities  
Brain injury rehabilitation

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**Our 23 centres provide services to over 180 primary care trusts (PCTs), commissioning consortia and social services departments.**

We provide individual care pathways through specialist assessment, treatment and rehabilitation services to help prepare patients for their return to local community services or alternative residential accommodation. Where patients require secure treatment, we provide the appropriate levels of security throughout their placement and work to ensure

that they move on, whenever possible, to safe and appropriate community placements.

Our rehabilitation services follow the recovery model designed to empower patients by providing opportunity and hope through active rehabilitation programmes.

We offer our independently recognised training in the management of violence and aggression to the NHS as well as other independent healthcare providers.

PiC has 23 facilities in England, Wales and Scotland. We also provide residential houses within the community.

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## Year at a glance

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**January 2008** PiC sponsors the Institute of Psychiatry's 5th National Conference of Research in Medium Secure Units.

**February 2008** Completion of our purchase of The Ayr Clinic, a low secure, purpose built psychiatric facility and our first facility in Scotland.

**www.partnershipsincare.co.uk** relaunched with online job application and referral process facilities.

**March 2008** Expansion and refurbishment of The Dene, West Sussex, is completed with Healthcare Commission registration.

**April 2008** Abbey House, a specialist unit for men, opens in the Midlands.

**June 2008** Our new, purpose built, medium secure learning disability unit at St John's House, Diss, opens on the Norfolk/Suffolk border. The new unit provides 32 beds in two wards of 16 beds each.

**July 2008** PiC holds its first national external conference in London. The event 'Personality Disorder – no longer a diagnosis of exclusion' includes presentations from the Department of Health and Imperial College London alongside PiC's specialist psychiatrists.

Calverton Hill, near Arnold, Nottinghamshire, opens as our newest hospital. The purpose built medium secure unit, with 64 beds, provides specialist treatment for men and women with mental illness and personality disorder. Dr Pete Snowden joins as Medical Director of PiC Midlands.

**August 2008** Joy Chamberlain is appointed Chief Operating Officer, Peter Thomas joins the Board as Chief Financial Officer in her place. Joy has been part of the senior management team within the Group since 1998.

**October 2008** Arbury Court hospital in Warrington is officially opened by the Government's National Director for Mental Health, Professor Louis Appleby CBE.

This includes opening the MacArthur Building, named after yachtswoman, Dame Ellen MacArthur – a 44 bed women's unit offering medium and low security – and the Gregory Building, named after Mike Gregory who played rugby locally and nationally – a 30 bed medium secure male service in partnership with the North West Commissioning Team.

It also includes our National Training Centre, a state-of-the-art centre providing training and development courses for our staff and third parties under the direction of Julie Pickford.

**November 2008** Nick Shaughnessy, Lead Nurse at Arbury Court, wins Nursing Times' Chief Nursing Officer's 2008 Award. The Prime Minister presented Nick with Nursing Times' most prestigious award for his outstanding work over the last two years.

Inaugural conference, Personality Disorder – Managing the risks, is held at the PiC National Training Centre, with Professor Robert Hare, University of British Columbia, as keynote speaker.

**December 2008** PiC achieves highest occupancy levels ever, 972 patients in December 2008.

**January 2009** PiC sponsors the Institute of Psychiatry's 6th National Conference of Research in Medium Secure Units. PiC appoints Dr Emmett Larkin to Stockton Hall.

**London & South East**

■ **Partnerships in Care Head Office**  
Borehamwood  
Hertfordshire

- 1 **Kneesworth House**  
Royston, Cambridgeshire
- 2 **The North London Clinic**  
Edmonton, London
- 3 **Suttons Manor**  
Romford, Essex
- 4 **The Dene**  
Hassocks, West Sussex
- 5 **Pelham Woods**  
Dorking, Surrey

**Eastern**

- 6 **St John's House**  
Diss, Norfolk/Suffolk
- 7 **Burston House**  
Diss, Norfolk/Suffolk
- 8 **Lombard House and Richmond House**  
Harleston, Norfolk/Suffolk
- 9 **Oaktree Manor**  
Tendring, Essex
- 10 **Brain Injury Services Essex**  
Colchester, Essex

**Midlands**

- 11 **Abbey House**  
Malvern Wells, Worcestershire
- 12 **Annesley House**  
Annesley, Nottinghamshire
- 13 **Hazelwood House**  
Chesterfield, Derbyshire
- 14 **The Willows**  
Newark, Nottinghamshire
- 15 **Calverton Hill**  
Arnold, Nottinghamshire
- 16 **Brain Injury Services Northamptonshire**  
Grafton Regis, Northampton

**North East**

- 17 **Stockton Hall**  
Stockton-on-the-Forest, York

**North West**

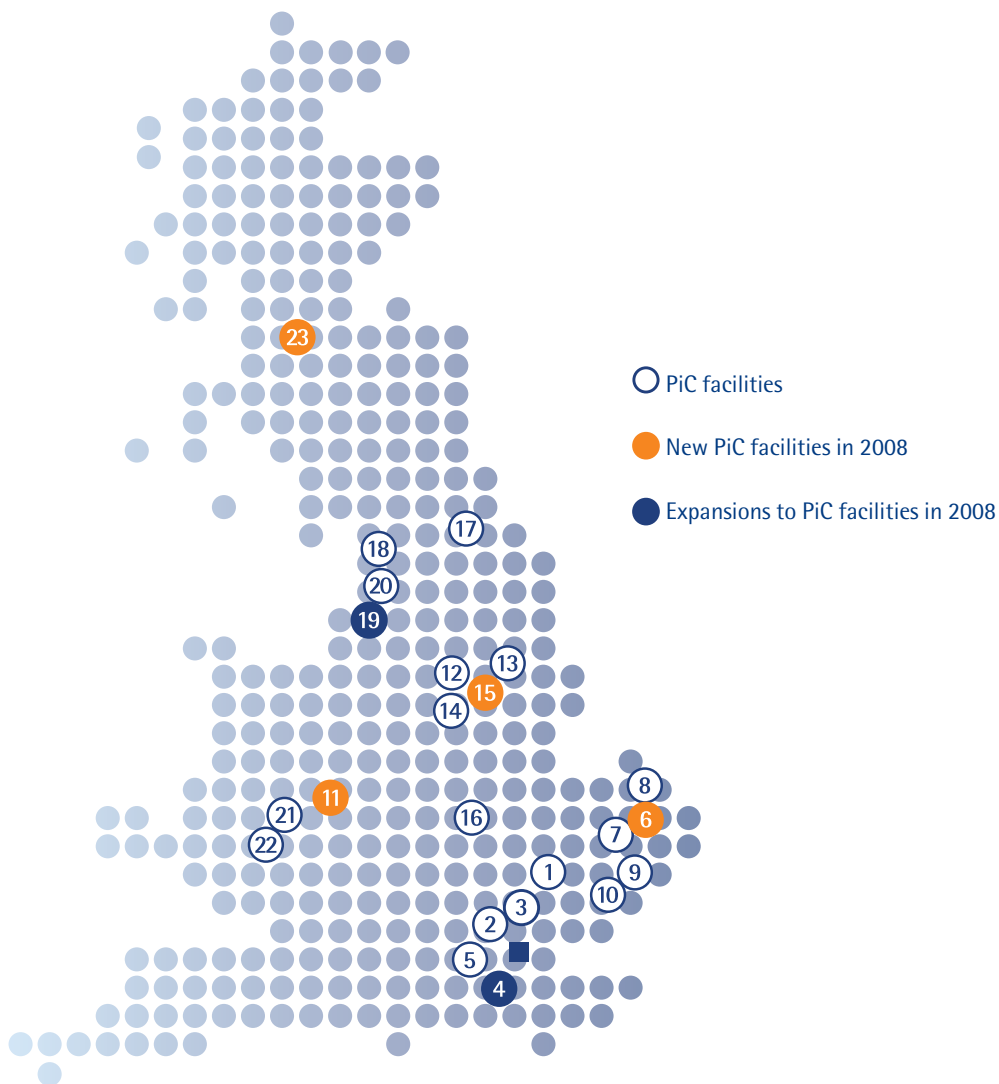
- 18 **Kemple View**  
Blackburn, Lancashire
- 19 **Arbury Court**  
Warrington, Cheshire
- 20 **The Spinney**  
Atherton, Manchester

**Wales**

- 21 **Llanarth Court**  
Abergavenny, Monmouthshire
- 22 **Aderyn**  
Nr Pontypool, Monmouthshire

**Scotland**

- 23 **The Ayr Clinic**  
Ayr, Ayrshire





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## Chairman's statement

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**2008 was another successful year for Partnerships in Care. We completed our planned investment and capacity expansion programme while improving both our operational and financial performance. Most important of all, our dedicated and expert staff treated some 1,332 people and helped 209 patients on their care pathways to lower security treatment and rehabilitation. We continue to strengthen our position as the country's premier independent provider of high quality mental healthcare.**

By year end our capacity was over 1,200 beds (2007: 1,038) and patient numbers stood at 972 (2007: 815). Occupancy rates for the year were down slightly at 79% (2007: 87%) as our new capacity started to be filled. All of which translated into turnover increasing 7.3% to £164.1 million (2007: £152.9 million), normalised\* operating profit increasing 4.0% to £36.0 million (2007: £34.6 million) and EBITDA increasing 2.2% to £49.4 million (2007: £48.3 million). PiC is a cash-generative business and we continue to trade within our agreed financial covenants.

These results and our strong trading performance continue positive year-on-year trends that have been maintained since PiC became an independent company in 2005. They are all the more impressive in the current economic climate, demonstrating, as they do, the strength of our market and the PiC service offering.

We enjoy positive support from, and relations with, all our primary lenders and shareholders. Our main shareholder is Cinven, one of Europe's leading buyout firms. It was established in 1977 and specialises in six industry sectors, one of which is healthcare. Cinven's philosophy of making substantial, longer term investments in successful, high-quality companies and their concern for employees, suppliers, local communities, the environment and society as a whole, accords well with our own business.

### Market overview

Healthcare remains a Government priority for investment and improvement. Within that context, there is a growing recognition of the role that private companies like PiC can play in supporting the NHS in the provision of mental healthcare. There are also a number of broader factors influencing the market: people are living longer; there is greater awareness of mental health issues among the medical profession and society as a whole; and there is a growing realisation that prison is not the right place to treat people with mental illness. This last point is of particular importance to PiC: the majority of our care is centred on medium secure facilities that are required for patients referred from the prison system.

Up to 20% of Britain's 83,000 prisoners are estimated to have a severe mental illness. Recent evidence points to people with any form of mental illness in a prison environment getting worse rather than better. For those treated in a hospital environment, the evidence clearly points to patients getting better and returning to the community with a much lower incidence of reoffending.

While prisons are full, there remains capacity within the medium secure hospital estate, particularly within the independent sector, enabling the transfer, treatment and, hopefully, successful rehabilitation of offenders in a much more effective environment. The initial cost of hospital treatment is higher, but the longer term benefits for the individuals and society as a whole must be taken into account.

\* Normalised operating profit of £36.0m is based on operating profit of £33.2m adjusted for £2.5m of costs associated with the opening of new facilities and £0.3m of costs related to the change in accounting treatment for overtime and bank.

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#### World class commissioning

The independent sector's role as a quality provider of mental health services is increasingly recognised by commissioners. While the NHS is both a commissioner, and one of a number of providers of services including mental health, senior management within the NHS see PiC and the independent sector as part of a supply chain that encourages standards to be driven up through effective competition and commissioning. We welcome this move towards a strategic approach to commissioning. It enables us to form long-term partnerships with our customers and to help them plan effectively for the future.

The supply side of mental healthcare provision can be a cyclical business. Lead times for the construction and staffing of new facilities are such that growth in capacity to satisfy demand tends to follow a stop/start pattern. This has been particularly true in the medium secure sector. Our own recent increase in capacity is now complete and being filled. Our referral levels are at a record high, partly because we are recognised as one of the highest quality providers in the marketplace and partly because demand is beginning to match or possibly outstrip supply.

#### Delivering growth

Over the last four years we have increased our capacity by over 50% through a major new build, extension and refurbishment programme. This has involved an enormous amount of work for our management and staff. The fact that this expansion programme has been delivered smoothly, on time and on budget is a testament to their outstanding contributions.

Looking forward, we are now concentrating on optimising the use of our capacity, increasing occupancy and fine-tuning operating efficiency, while maintaining the highest standards of care.

#### Board and management changes


We have continued to develop and strengthen the management of the business in step with our expansion. In August, we welcomed Peter Thomas to the Board as Chief Financial Officer as Joy Chamberlain moved to the newly created role of Chief Operating Officer. We have also strengthened our senior management and clinical resources with a series of new regional medical director and consultant psychiatrist appointments. I would like to welcome all new joiners to Partnerships in Care.

#### PiC people

In the past year I have visited almost all of our new and refurbished facilities. At every one I have been impressed by the quality and dedication of our staff. It is thanks to them that PiC is recognised as the premium quality provider in the marketplace: they are delivering outstanding care to patients across the country every day, changing lives for the better. Thank you to you all.

#### Outlook

These are uncertain times, but PiC has enjoyed four years of growth and, having successfully completed our latest construction and openings programme, we look forward with confidence to a further year of strong progress in 2009.



**Kevin Beeston**  
Chairman



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## Group Chief Executive's statement

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**Partnerships in Care is now four years along its planned investment and development path as an independent company. All our major projects are fully funded and completed. Significant changes in the healthcare landscape have led to a more equitable market for specialist secure psychiatric care and increasingly PiC is able to tender for business in an open market where public and independent providers have equal opportunities. Our reputation, quality of service and environments, together with the increased capacity, ensure that we are well placed to respond to all opportunities as they occur. We are now concentrating on optimising service delivery across our entire estate.**

Since PiC became an independent company in April 2005 our strategy has been to build the provision of comprehensive mental healthcare services, to the highest standards, throughout the UK. Our aim is to deliver high quality, value for money services, extending the choice and range of provision to purchasers and patients.

Over the last two and a half years we have invested over £90 million to develop and expand our facilities across the country. We have strengthened our clinical resources and our operational management structures to the point where we believe that PiC now has the best senior management team in the sector and a brand that is widely recognised for the quality of its specialist care.

We are well equipped to exploit the excellent knowledge and skills available to us and to consolidate our position as the number one independent provider of secure mental health services in the country.

The quality of our people and the care they provide is evident throughout our operations. The award of the Nursing Times' Chief Nursing Officer's 2008 Award to Nick Shaughnessy,

Lead Nurse at Arbury Court, this year, is a well deserved example of public recognition for his and PiC's work. Nick received Nursing Times' most prestigious award for his outstanding work over the last two years from the Prime Minister.

### **A maturing business**

2008 has seen the completion of a number of developments, including new hospitals at Calverton Hill, St John's and Arbury, the expansion of The Dene and the acquisition and development of The Ayr Clinic in Scotland. By the end of 2008 we had 1,200 available beds.

Our timing has been fortuitous given the current financial climate. We have completed our planned growth and can now concentrate on filling that capacity and developing our services. Patient numbers rose from 815 at the end of 2007 to 972 at the end of 2008 but we still have significant capacity for further expansion of patient numbers.

Our operating performance in 2008 showed the normal characteristics inherent in the expansion of residential mental healthcare hospitals. As a new ward is opened it has to be sufficiently staffed, even if there is initially only a single patient. As a result, relative efficiency declines, but then improves as the ward becomes fully occupied and we are in a position to fine-tune staffing to the mix of patients.

2008 was also characterised by significant pressures on our other operating costs – upward price movements on utility costs, fuel, food and pharmacy, countered, in part, by downward pressure derived from improved central purchasing.

2009 will see the business maturing. We will grow by filling capacity and precisely matching care, resource and staffing to demand. This will result in improved financial performance.

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#### **A maturing market**

PiC's key occupancy drivers revolve around two sets of factors: firstly, care quality, clinical innovation, the quality of our staff and our management of risk; and secondly, operational flexibility and communication with referrers and commissioners in order to deliver the services they require, at the right price.

The market for mental health hospital care is dominated by the NHS, with the independent sector supplying only some 24% of the hospital beds available. This equates to an independent mental health hospital market of some £878 million in 2007.

Independent provision has grown considerably over the last 20 years in response to the introduction of competition and NHS outsourcing, together with increased NHS funding, but until recently strategic commissioning and purchasing systems within the NHS had not kept pace. This situation is changing.

The implementation of the NHS's 'World Class Commissioning' initiative, together with public sector funding which is likely to become increasingly constrained as a result of the latest Comprehensive Spending Review and the general economic slowdown, means that the market is becoming increasingly competitive and challenging.

These developments are driving improvements in value and care quality. As the leading independent sector provider of secure mental healthcare, we regard this as an opportunity. 2008 saw the issue of new national Medium Secure Guidelines. All relevant PiC hospitals were inspected and have met the standards. In 2009 it is expected that the NHS will issue Low Secure Guidelines and we are confident that all of our units will meet or exceed these requirements. We welcome these initiatives to raise standards: commissioners can trust PiC to deliver the best in secure mental healthcare.

#### **Working with commissioners**

During 2008 we have continued to develop management and operational relationships with our key commissioners and purchasers at a central PiC level. In August Joy Chamberlain was promoted to the newly created role of Chief Operating Officer. Our regional directors now report directly to Joy and a crucial part of her role is to become the primary corporate contact with NHS commissioners and build even stronger relationships with our key commissioning customers.

We have also developed a centralised referrals and contract team to enable us to work more efficiently with commissioners and to maximise patient admissions. The capabilities and benefits of this approach were graphically demonstrated in October last year when, following a fire at an NHS facility at Camlet Lodge in North West London, we were able to accept and admit 39 patients within 24 hours. In order to accommodate these patients together we had to relocate some of our existing patients within three of our other facilities in close proximity. There are few, if any, other independent mental health or specialist care providers who could have assisted the NHS in this way, adapting and reacting swiftly with an innovative solution to a unique problem. And it could only be done by a centrally managed provider, with a known and strongly branded reputation for operating a range of hospitals to the same high standards throughout the country.

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## Group Chief Executive's statement (continued)

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### Building our brand

During 2008 we continued to develop our corporate brand and to market ourselves more actively. A consistent visual identity has been widely applied, perhaps most visibly on all of our hospital signage and recruitment advertising. A senior Communications and Marketing role has been created to enable us to raise our profile with key stakeholders. We are actively involved in the CBI's Healthcare Forum and several meetings have taken place at a senior level at the House of Commons and House of Lords. All of this is aimed at making the PiC name synonymous with the provision of high quality secure mental healthcare.

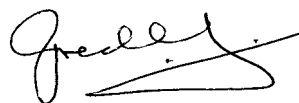
### The Bradley Report

We actively participated in the process to produce Lord Bradley's Report into people with mental health problems or learning disabilities in the criminal justice system and were the only independent sector provider making a submission. We welcome the final report and its recommendations and we hope to be involved in its implementation.

### The coming year

Our major development programme is complete for the current cycle. The present difficult economic times may provide opportunities for growth by selected acquisitions but that is not our priority. Our challenges in 2009 will be filling our newly created capacity in the face of NHS and independent sector competition and pricing pressure; continuing our cost control programme as we seek to achieve optimal operational efficiency; recruiting, training and retaining the best staff; and maintaining the highest standards of care provision.

PiC staff continue to demonstrate the passion and commitment that this demanding environment requires. I take this opportunity to thank them for their contribution to the mission which we all share at PiC; changing lives for the better.



**Fred Sinclair-Brown**  
Group Chief Executive



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## Chief Operating Officer's review

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**Delivering our strategy is based on operational fulfilment of our stated aims. During 2008 we were able to show actions and achievements in all areas. These are some of the highlights, reviewed under each of our strategic aims and demonstrating clearly how we are embedding elements of our strategy throughout our businesses.**

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### **Improve patient outcomes by continuing to develop care pathways and innovative clinical programmes which recognise the needs of patients and purchasers.**

Better patient outcomes, really changing lives for the better, is at the heart of everything we do. During the year we treated 1,332 patients and 209 successfully moved on through their care pathway to lower secure units and rehabilitation.

We have better defined our care pathways and made progress in developing our step down services, becoming more focused and specific about treatment objectives at the point of admission. This has made movement along the care pathway more predictable and financial planning for commissioners easier.

Specific examples of improvements to our care pathways include:

- our new low secure ward at The Dene which has enabled us to provide a comprehensive care pathway from medium secure through low secure, step down and then self contained flats in Pelham Woods.
- the opening of Calverton Hill, in Arnold, Nottinghamshire, which provides high specification medium secure services for men and women. The women's care pathway in the Midlands extends from low secure refurbished Annesley House to community care at The Willows.

- the care pathway for men in the Midlands will be enhanced through the opening of Hazelwood House after major refurbishment later in 2009.

Occupancy rates at all units increased steadily over the year as new capacity has become available, rising to 972 in December 2008. Our average patient day rates have fallen slightly reflecting a mix of the service to lower secure services.

### **Innovative treatment programmes**

PiC continues to be in the forefront of treatment developments. Two programmes in particular demonstrate our approach, both are based on the most up-to-date research, both are designed for patients with mental disorders and significant risk histories and both programmes utilise a modular format that facilitates the patterns of disengagement and relapse that are common for patients in secure settings.

The Life Minus Violence – Enhanced (LMV-E) treatment programme is an intensive programme for the treatment of aggression. It uses cognitive behavioural approaches and was originally developed as a joint venture between Merseycare NHS Trust and ourselves. The programme has been piloted and specifically adapted by psychologists in the North West region, for use in both medium and low secure services. An indication of its success is that within the North West, patients have remained in our services specifically because the commissioners have wanted them to complete their programmes. In a development of the programme we are piloting modules within learning disability and women's services.

## Treatment showcase

Sally was admitted to The Dene, one of the PiC medium secure specialist female units, from a local psychiatric intensive care unit where she had repeatedly tied ligatures and cut herself.

The multidisciplinary team agreed with Sally that she had difficulty managing her emotions and was diagnosed with personality disorder. She identified that she would like help with her flashbacks of childhood abuse and her extreme emotional states, with which she coped by self-harming or attempting suicide.

On her ward at The Dene, she was offered a structured programme of groups and activities designed to help her better understand her own difficulties and to improve her ability to cope.

With professional guidance, Sally chose dialectical behaviour therapy (DBT) as well as a Life Skills course to form part of this, the DBT element would help her learn new ways of coping with her emotional difficulties.

Over time Sally's coping skills improved and she was able to move on to receive psychological treatment for her childhood trauma.

Her risk behaviours had reduced so significantly she was considered suitable for a move from The Dene to Pelham Woods (a PiC rehabilitation unit) in the same area. Sally's treatment for her childhood trauma continued and she was able to start acquiring the practical skills and community experience which she needed to prepare for leaving inpatient care. Her final step before eventual discharge was to spend a few months further improving her skills and confidence in the context of the semi-independent living flat attached to the rehabilitation unit.

## Chief Operating Officer's review (continued)

Another significant and substantial project has been the development of the Sexual Behaviour Management programme. The manual for this programme has been scoped and a pilot is being delivered within low secure services. Once the initial pilot group has completed, the manual will be adapted and ready for delivery within both medium and low secure services.

Elements of the programmes and the results of the pilots have been presented at both national and international conferences including the NACRO Conference 2008, The British Psychological Society Annual Conference 2009 and the Congress of the International Academy of Law and Mental Health 2009.

### **Work in partnership with the NHS, ensuring our services complement and extend those already provided by the NHS**

During 2008 preparatory work was undertaken for the introduction of a standard NHS contract for psychiatric treatment in April 2009. Through the development of the NHS contract we have worked well with individual PCTs and we have no doubt that we will be fully prepared for the new contract when it is introduced. In the meantime, there continue to be a high volume of tendering opportunities and we respond to all of them with equal enthusiasm and efficiency.

We have contracts or service level agreements (SLAs) with London Procurement Hub, South Coast, Yorkshire, East of England and East Midlands and have a strong collaboration with North West Specialist Commissioners to provide long term beds for men as part of the Arbury Court development.

The purchase and development of our first service in Scotland, The Ayr Clinic, has proved successful. We have developed close relationships with the Forensic Network in Scotland and have agreed to be major sponsors of the International Association

of Forensic Mental Health Services (IAFMHS) Annual Conference, to be held in Edinburgh in June 2009.

Throughout 2008 we have continued to support and sponsor the London Prison Network (PETaR) events, which provide an opportunity for many healthcare professionals from within the prison service to share best practice on a variety of topics, such as primary care and mental health provision.

Our Management of Violence and Aggression (MVA) training continues to be used by a number of NHS Trusts. We offer both basic skills and 'train the trainer' packages at our National Training Centre where there is a specialist suite designed to host MVA and break away training.

Care First continues counselling to provide Employee Assistance programmes for the NHS and now covers 26,000 NHS staff. NHS customers include Addenbrookes NHS Trust, Papworth NHS Trust, North Middlesex NHS Trust, Colchester Hospitals NHS Trust and several PCTs.

### **Continue to attract, motivate and retain the best calibre staff**

At year end PiC employed in excess of 2,900 employees including nursing and related staff, psychiatrists, psychologists and therapists. During 2008 our human resources department focused on three key areas within the business: recruitment, training and development, and absence management.

### **Recruitment**

Building on the centralisation of the recruitment process last year, we have been able to attract high quality candidates to fill vacancies created by the significant expansion of the business. Over 90% of candidates now apply online and are processed by a small central recruitment team who liaise closely with hospitals and units to recruit by the quickest and most cost effective means.



With the assistance of hospital and unit staff, we have developed extremely successful recruitment campaigns for nurses and healthcare workers. The most popular, 'Who Cares', aimed at attracting nurses for our new Midlands service appeared on local radio and the transport network in Nottingham. The campaign also raised our local profile and strengthened our position as an employer of choice within the mental health sector.

During 2008 we ran a series of commercial recruitment programmes and events to help managers both assess candidates and ensure awareness of the legal aspects of employing staff. Particular emphasis was placed on the new points based immigration system used to employ foreign workers that came into effect in October.

#### **Training and development**

As part of our overall succession strategy, we have reorganised some of our management structures and transferred some senior staff to new units, to both strengthen existing management structures and spread best practice.

Further developments will focus on a graduate training scheme to supplement our succession programme.

The opening of our National Training Centre in October quickly attracted interest from local government, the NHS, nursing and mental health sectors. A number of high profile conferences have already been run including 'Personality Disorder' with a key note address from Professor Robert D Hare Phd., University of British Columbia, Canada. Newly developed programmes on Search and Self Harm, as well as more traditional developmental and management courses, are offered for our own staff, as well as staff from other organisations.

The establishment of the PIC Academy, based at the National Training Centre, is gaining momentum and will develop its collaborative links with other centres of research into mental healthcare during 2009.

#### **Occupational health and absence management**

We place great importance on staff moral and motivation and to this end we have engaged an external partner to assist in the management of occupational health and absence. With the introduction of this service in early 2009 we will have a single occupational health provider across all of our sites, offering an immediate response to all staff health related issues. Managers will be alerted to absences, enabling the prompt arrangement of suitable cover and the early investigation of any underlying health issues.

To enhance our approach to staff retention further, we intend to develop a pay and reward strategy that allows choice in the mix of salary and benefits to meet employees changing needs over time.

#### **Maintain a clear focus on the quality of service delivery by adhering to regulatory requirements and developing robust systems of clinical and corporate governance**

Following the publication of the Department of Health Best Practice Guidance – *Specification for Adult Medium Secure Services 2007*, all relevant PiC hospitals were inspected and have met the standards. In 2009 it is expected that the NHS will issue Low Secure Guidelines. We welcome these initiatives to raise standards and are confident that all our units will meet or exceed requirements. Commissioners can trust the PiC brand to deliver the best in mental healthcare.

Through 2008 we continued to meet all Healthcare Commission and Commission for Social Care Inspection (CSCI) standards. Our Director of Policy and Regulation has close links with these bodies and will initiate any changes

## Treatment showcase

Antony is a 20 year old British Pakistani male, who was admitted as an emergency to Oaktree Manor in October 2008 under Section 3 of the Mental Health Act.

He has a moderate learning disability, severe autism, epilepsy and long standing challenging behaviours including aggression, destruction to property and inappropriate sexual behaviour. His communication was very limited and he lacks insight and capacity. There was no evidence of co-morbid mental illness. He has a tendency to display high levels of anxiety culminating in panic states manifesting as aggression.

A person centred care plan with a clear and succinct care pathway was offered. Early Intense Behaviour Intervention (EIBI), with incentives and reinforcers for good behaviour was followed. He attended Oaktree Day Centre for his activity programmes which he enjoyed. He responded quickly to his treatment and rehabilitation programme with emphasis on skills development. His anti-psychotic medication was discontinued and his anti-convulsive medication maintained. The ability to meet his individual needs and greater understanding of his clinical conditions by the staff played a major role in his management. He was discharged back to the Community Learning Disability Team, Birmingham in December 2008.

## Chief Operating Officer's review (continued)

required as the new inspectorate, the Care Quality Commission (which also incorporates the Mental Health Act Commission), takes over regulation in April 2009. New generic standards across both the NHS and independent sectors are anticipated in 2010.

In 2008 we worked with a security consultant to ensure the physical, procedural and relational security of our hospitals achieve the highest standards. A substantive staff appointment to this role will be made in 2009.

The Mental Health Act 2007, which amended the 1983 Act, was implemented at the end of 2008 with a new Code of Practice. All our hospitals went through extensive planning and training for this change, resulting in a smooth transition.

### Maintain our position as the UK's leading independent sector provider of specialist mental health and related services

Our primary market is defined by Laing & Buisson in their Mental Health and Specialist Care Services UK Market Report as mental health hospitals, providing medium and low secure psychiatric units, psychiatric rehabilitation, special units for people with learning disabilities, community placements for supported living, brain injury rehabilitation and accommodation for older mentally ill people. We also offer employee assistance programmes through Care First.

Mental health, learning disabilities and children's services have all grown strongly under the current government, however, the funding environment is becoming more challenging, with the latest Comprehensive Spending Review looking at a 1% increase per annum over the next three years in local government revenue support. The government plans envisage a reduction in the growth rate of public sector spending, but in the current economic climate the possibility of real reductions

cannot be ruled out. We expect the credit crunch to slow both capacity growth and consolidation amongst suppliers in the absence of capital for either expansion or purchases.

The success of the independent sector in the provision of learning disability and the mental illness services (an estimated 86% by volume and 76% by value) is at least partially attributable to a clear cost advantage. While we are the largest independent provider in this sector, our business is in good stead going forward.

### Value of independent sector supply, mental health and other specialist services

Sector	Annual value of independent sector supply	Independent sector supply as % of total independent public sector supply
Mental Health Hospitals (UK 2007)	£878m	24% <sup>1</sup>
Care homes for learning disabled and mentally ill adults (UK 2008)	£2,721m	76%
Non-residential care for learning disabled and mentally ill adults (England only, 2006/07)	£1,199m	50%
Children's homes (England only, 2007/08)	£603m	57%
Fostering services (England only, 2007/08)	£408m	39%
Special education (England only, 2007/08)	£901m	35%
<b>Total sectors covered</b>	<b>£6,710m</b>	<b>47%</b>

<sup>1</sup> Based on mental health hospital bed numbers (Source: Laing & Buisson)



We also see scope for growth in the low secure, non-secure and step-down sector of provision, where we are currently ranked 8th amongst independent providers.

We have expanded our learning disability services across the UK in 2008 with the development of specialist services at Calverton Hill and The Dene. This will continue in 2009 with the reopening of Hazelwood House. PiC's national strategy continues to be focused around the treatment of individuals with learning disability and acquired brain injury as close to home as possible.

We continue to provide a flexible and creative approach to the rehabilitation of people suffering brain injury. The causes of the injury of those admitted has, over the past few years become more varied, from being predominantly traumatic brain injury (often through Road Traffic Accident) to the present time, where individuals may need rehabilitation as a result of the secondary effects of, for example, cardiac arrest, where the brain has been starved of oxygen. The consequences

of this type of damage are extremely varied so our Brain Injury Services offer a specialist approach from initial, intensive rehabilitation (in a secure unit if necessary) along the recovery pathway, to community placements in small, domestic homes.

Care First has increased its contracts with police forces adding Greater Manchester Police and Derbyshire Police in 2008. We also secured a support and welfare contract for the National Association of Retired Police Officers.

PiC is the UK's largest independent provider in the medium secure sector and whilst we do not currently plan to increase our capacity further after the major expansion of the last two years, increasing our occupancy and consolidating our income will enable us to make further progress.

With the completion of The Dene expansion at the end of 2008 we reached the end of a three year development phase. Apart from the refurbishment of Hazelwood House, there are no further developments planned in 2009. A number of planning consents have been obtained which gives us the potential to develop our estate further in the future when market conditions are appropriate.

Although it is not our priority, we will continue to consider potential infill acquisitions in England, Scotland and Wales to extend our range and consolidate our leading position.

**Ensure that our corporate systems and processes provide effective and efficient modes of working and enhance communication at a corporate, regional and local level**

Following consolidation of head office services at Borehamwood in 2007 we have continued to put in place processes to improve communications and efficiency throughout PiC.

**Major independent mental health hospital providers of medium secure services (mid-2008)**

Supplier	Beds in hospitals
Partnerships in Care	999
St Andrew's Group	318
Care Principles	272
Priory Group	144
Alpha Hospitals	119
Cygnets Health Care	90
Ludlow Street Healthcare	48
Craegmoor	24
All other providers	164

(Source: Laing & Buisson)



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## Chief Operating Officer's review (continued)

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The creation of my own role as Chief Operating Officer has provided for a division of senior management time between operational, financial and executive functions.

### Marketing and engagement

Focusing marketing and communications around a central team has enabled it to improve our profile. Through 2008 we have worked hard to ensure that key influencers including senior politicians have been aware of our work with a challenging group of patients.

In meetings with senior politicians of all parties we have emphasised the opportunities for engagement with the criminal justice system and the role of secure psychiatric hospitals in reducing re-offending. Our submissions to a report by the think tank Policy Exchange into prisoner mental health have been widely quoted.

PiC is a member of the CBI and the Company is represented on the Home Affairs and Health panels. Through the CBI we have engaged in constructive discussions with senior representatives of the Department of Health, Probation Service, Ministry of Justice and Prison Service.

We have also been active on the conference circuit. In addition to exhibiting and sponsoring several key conferences in 2008, we held two of our own: one focused on Personality Disorder in London in July, which attracted over 100 delegates from a range of disciplines and a second to celebrate the opening of the National Training Centre in October.

At the start of 2008 we sponsored the Institute of Psychiatry's 5th Annual Conference of Research in Medium Secure Units, and have since sponsored it again at the start of 2009.

We have also developed links with prison training services and primary care trusts to develop regionally focused seminars.

In relation to clinical governance, a new quarterly clinical governance newsletter has been developed which has helped promote the concept of clinical governance as well as providing the opportunity to celebrate and share good practice initiatives between the group.

### Risk assessment and treatment

The provision of medium secure mental healthcare involves risks for our staff and patients. Structured professional judgement remains at the centre of clinical risk assessment and management and this in turn is intrinsically linked to overall treatment and care planning. At all of our hospitals, rigorous risk assessments are carried out on any situation taking into account all relevant factors, and are reviewed on an ongoing basis.

The majority of our units implemented a new standardised clinical risk management system in 2008. Specific validated clinical risk assessment tools continue to be used by clinicians based on the individual's needs. These tools are used to help inform structured clinical risk decision-making. We aim to set up an evaluation process for the current Care Programme Approach and clinical risk management system in the latter part of 2009.

At a corporate level, we believe that our formal governance framework (incorporating risk management and internal control systems) provides adequate internal control.

## Treatment showcase

Elizabeth, 20 years, was transferred to Kneesworth House, a PiC medium secure women's service from another private secure unit. Her offence involved weapons but was actually a suicide attempt in a public park under the influence of alcohol. She had been having serious mental health problems and alcohol abuse for at least a year before admission. Most assessments considered she had an emotionally unstable (borderline) personality disorder. Her engagement with community psychiatric services was erratic.

She presented with very challenging behaviours including self harm by ligature, cutting, insertion of objects under the skin and head banging. She also had depressive mood changes with acute suicidal impulses.

Nursing care was intensive for the first year of admission. Her behaviours slowly improved under the influence of behaviour modification and engagement with therapeutic

activities and some medication. Close to 18 months the multidisciplinary team put increased emphasis on her need to be more consistently engaged with sessions and activities. She responded well to this and was soon moved to our low secure ward. From this point onwards she showed better and more consistent motivation. Her self harm behaviours stopped and her mood remained stable.

She steadily increased her community activities and began to spend time overnight with her family. Our social worker spent much time dealing with complex family problems to facilitate her re-entry to the family.

It was agreed that Elizabeth was close to discharge and so a Mental Health Tribunal made her an informal patient. She stayed with us until a community hostel was identified, her care eventually being handed back to the local NHS services.

### **Ensure the future growth and development of the company and in doing so meet the expectations of our investors, customers and employees.**

In 2009 we will concentrate on filling capacity in all our units.

As stated earlier, we have exceeded our targeted bed numbers by a combination of development and acquisitions, while extending our geographical spread from the South East to Scotland. The development of a pipeline of planning consents will allow us to create some additional capacity in the future.

Our track record and experience in managing acquisitions also puts us in a strong position to develop the services further into associated markets.

Future developments will be driven by the needs of commissioners and as in the past we will actively consult with interested parties.

Meanwhile, the central referrals line continues to be used by referrers and the success of the rapid response service has enabled us to roll this out to all PiC services. In many cases we are able to admit patients from prisons, hospitals or the community on the same day. Outstanding speed of response and the flexibility of our systems were graphically illustrated by our placing of 39 patients within 24 hours of the fire at the NHS facility at Camlet Lodge in North West London.

This success can only be attributed to the strong links that we have with purchasers and the Ministry of Justice and the commitment of our staff to ensure such a rapid response.

The hard work of everyone in PiC during 2008 has put the Group in a very strong position to further develop relationships and opportunities going forward and I anticipate 2009 being an equally rewarding year.



**Joy Chamberlain**  
Chief Operating Officer

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## Corporate social responsibility

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**Partnerships in Care acts as an ethical operator at all times, working in partnership with health and social care commissioners and providers as an integral part of local communities.**

### Partnership working

We continue to work in partnership with all our stakeholders as well as the communities local to our hospitals, through our local liaison groups. Our new units have worked hard to build good links with their communities. Due to the nature of our business, in some areas there can be concerns about mental health services being based close to local communities, though through trust and transparency, we have had several communities confirm how these concerns have been unfounded.

We comply with all legal requirements and proactively implement programmes and procedures to ensure compliance.

### Health and safety

We continue to ensure the health, safety and welfare of our employees whilst they are at work, and of others who may be affected by their undertakings. We comply with the Health and Safety at Work etc Act 1974 and all other allied relevant legislation as appropriate.

We consult with our employees on health and safety matters and have established the corporate management group as the Group risk management committee. We have also established a health and safety committee to provide a forum for continued consultation.

PiC continues to offer a systematic and consistent, professional and up-to-date approach for managing violence and aggression within its sites across the UK. This approach has continued at a national level throughout 2008 with PiC's continued representation on expert reference groups as well as involvement in national management of violence projects.

### The environment

We aim to conduct all operations in a manner that is environmentally sustainable and that protects our employees, neighbours and customers. We proactively work to implement procedures and programmes to minimise energy usage, waste production and our environmental impact.

We encourage and promote the conservation of nature and the earth's natural resources throughout the organisation. In particular, we work toward efficient energy management and resource use within all our premises and the use of vehicles through our fleet management process. As a result of this focus, 2008 energy usage, per available bed, declined by 7.5% compared to the previous year.

Specific examples of environmental initiatives include the introduction of virtualisation technology to consolidate the number of servers used within our Data Hosting Centre (each server virtualised saves 7,000kWh of electricity and 4 tonnes of CO<sub>2</sub> per year) and the introduction of document management and workflow systems to increase secure electronic communication and reduce paper usage.

### Purchasing

We have a responsible and ethical purchasing policy that includes reviewing the cost and lifetime environmental and social impact of our purchasing decisions and applying a vendor's code of conduct.

### Research

Many of our staff carry out research, and we encourage them to submit posters, workshops and presentations at relevant conferences. Our links with Cardiff University, who continue to work on a major outcome study of PiC patients, remain strong. We are currently looking to expand the database on regular basis over the foreseeable future which will increase the statistical significance of the outcome data.



## Financial review

**2008 marked another year of expansion for the PiC Group with the successful completion of our planned capital development programmes and improvements in both capacity and patient numbers.**

The financial highlights for 2008 are:

- Increase in turnover to £164.1 million, up £11.2 million (7.3%) on 2007
- Group EBITDA of £49.4 million
- Cash generated from operations of £52.2 million, up £1.1 million on the prior year
- Capital investment of £43.1 million during the year
- Repayment of bank debt and fees in the year of £25.4 million
- Cash at bank and in hand at year end of £16.8 million

### Group Turnover and Profit Before Interest and Tax

	2008 £m	2007 £m	Growth +/(-) £m
Turnover	<b>164.1</b>	152.9	11.2
EBITDA	<b>49.4</b>	48.3	1.1
Depreciation and amortisation	<b>(16.2)</b>	(13.7)	(2.5)
Profit before interest and tax	<b>33.2</b>	34.6	(1.4)

The Group increased turnover by 7.3% resulting in additional revenue of £11.2 million and total revenues of £164.1 million. This significant growth was driven by the completion of the capital development programme, the acquisition, in February

2008, of a 34 bed hospital in Ayr and improved occupancy at existing facilities. Available beds grew in the year to 1,200 and patient numbers improved by 157 (19.3%).

As a result of the increased bed capacity and patient numbers, operating costs grew by 9.8% to £114.7 million and included £2.5 million in relation to start up costs for the development of existing hospitals and the acquisition of The Ayr Clinic.

Operational costs in 2008 include the impact of a change in accounting treatment to more accurately reflect the costs of overtime and bank staff. Details of the change are given in note 1 to the financial statements, the effect in the year was an increase in operational costs of £0.3 million.

Excluding start up costs and the impact of the change in accounting treatment, operating expenses per available bed declined by 11.3% reflecting the improved operational efficiencies achieved in the year.

Operating Margins for 2008 were also affected by the opening of new developments where initial revenues tend to lag operating costs. Occupancy at all of the developed hospitals improved through 2008 driving increased margins month on month. These sites should provide returns in line with the more mature sites through 2009.

Group EBITDA was £49.4 million compared with £48.3 million in the prior year, reflecting increased start up costs associated with the completed development properties and the initial lower margins of these developments.

Depreciation and amortisation charges of £16.2 million reflect the increased estate and include the amortisation costs of the intangible assets arising from the acquisition of the Partnerships in Care Limited and Oaktree in 2005 and the acquisition of The Ayr Clinic in 2008.



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## Financial review (continued)

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As a result, profit before interest and tax at £33.2 million declined from the prior year figure of £34.6 million.

### Cash Flow

Group operating activities continue to be highly cash-generative, net cash inflow from such activities amounting to £52.2 million compared to a prior year figure of £51.1 million. Of this cash inflow from operations, £43.1 million was re-invested in the Group to fund capital expenditure (as summarised below) and £33.2 million was utilised to meet the cash interest and other financing costs of the Group's bank borrowings. In addition, the Group made debt and fee repayments of £25.4 million in the year, and drew down £34.9 million from the Group's capital investment facility.

The Group's targeted capital expenditure programme is aimed at developing and maintaining each of the Group's estates. All proposed capital projects are separately appraised both operationally and financially, and the Group sets clear project returns targets to assist in assessing the viability and prioritisation of capex projects. The principal capital expenditure projects undertaken in the financial year included the acquisition of The Ayr Clinic in February 2008 and the development of four hospitals. The Dene development concluded in November extending the facilities to 80 beds and the 17 bed facility at Abbey House admitted its first patients in May 2008.

### Bank Borrowings

At the end of December 2008, net bank debt was £477.3 million an increase of £25.0 million compared with December 2007. The net bank debt at the year end comprised senior bank debt of £391.9 million, junior bank debt of £65.3 million secured on certain of the properties in the Group and senior bank debt of £36.9 million secured on certain assets; which is partially offset by cash at bank and in hand of £16.8 million.

The Group's bank borrowings are available under a £60.0 million senior credit agreement put in place on 6 July 2005 and amended most latterly on 16 June 2008; a £424.2 million senior credit agreement put in place on 6 July 2005 and most latterly amended on 18 March 2009; and a £70.7 million junior credit agreement most latterly amended on 18 March 2009. Each of the bank credit agreements are long term and have various repayment dates.

The bank credit agreements require the Group to comply with certain financial and non-financial covenants. The financial covenants include annual limitations on capital expenditure and require the maintenance of certain minimum ratios of earnings before interest, taxes, depreciation and amortisation to both net interest payable and net debt. In addition, there is a requirement that the net operating cash flows generated are not less than the Group's cash cost of funding the bank debt and a requirement to maintain loan value to property value below certain maximum ratios.

The bank credit agreements are secured by a fixed and floating charge over certain of the Group's assets. Further detail on the Group's borrowings is set out in note 15 of the financial statements.

Included in the Group credit facilities is a revolving facility of £10 million, which is available to finance working capital requirements and for general corporate purposes, and a capital investment facility of £109.9 million. As at 31 December 2008, there had not been any draw downs from the revolving facility.

The following table shows details of current facilities including the available undrawn facilities and the balances due at 31 December 2008.

In addition, the Group has investor-funded debt of £225.3 million.

## Treatment showcase

Susan, 48, was found collapsed on the floor complaining of headache and in a confused state. Following a lumbar puncture at Addenbrookes Hospital she was diagnosed with herpes simplex encephalitis.

She was subsequently transferred to PiC Brain Injury Services, Grafton Manor, where her processing of information was markedly slow. She had word finding problems and there were lapses in her speech while she searched for the correct word.

Susan's encephalitis resulted in cognitive and behavioural deficits including hyperactivity, dysphasia, confusion, poor decision making and agitation. She presented with marked neglect of self-care, was unable to initiate tasks, resistive to eating and displayed demand avoidance behaviour.

The multidisciplinary treatment at Grafton Manor introduced a structured morning hygiene routine, eating procedures were put in place and Susan followed a behavioural incentive programme.

She attended speech and language sessions which helped her maintain effective and consistent communication with her family. Domestic skills sessions to promote initiation of tasks, reduce demand avoidance behaviour, promote sequencing of tasks and decision making were also maintained.

Susan was soon granted home leave and her family were encouraged to adopt meal 'set-up' to help her with decision making and re-development on independence. She became independent with her daily shower routine and eating all meals and was eventually discharged with a care package.

	Gross facility £000	Utilised facilities £000	Available facility at year end £000	Repayments to date £000	Balance at end of year £000
7 year senior credit agreement	60,000	60,000	–	23,050	36,950
10 year senior credit agreement	330,000	330,000	–	22,366	307,634
10 year junior credit agreement	55,000	55,000	–	3,728	51,272
10 year capital investment facility	109,900	105,767	4,133	7,518	98,249
Revolving facility	10,000	–	10,000	–	–
<b>Total bank debt</b>	<b>564,900</b>	<b>550,767</b>	<b>14,133</b>	<b>56,662</b>	<b>494,105</b>

Total bank debt at the end of the year excludes capitalised fees of £3.2m.

### Financial Risk

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential risks for the Group.

The Group's funding, liquidity and exposure to interest rate risk is managed by the Group's finance department and is subject to internal control procedures. All significant financing transactions are authorised by the Board of directors. The most important components of financial risk impacting the Group are interest rate risk, liquidity risk and, to a lesser extent, credit risk – these are discussed in turn below.

### Interest Rate Risk

The Group's trading income and operating cash flows are independent of changes in interest rates. The Group primarily finances its operations through a variety of bank borrowings, including syndicated bank facilities and the private debt markets. The Group's bank borrowings are denominated in sterling and are borrowed at floating interest rates. The Group utilises interest rate swaps to manage its exposure to interest rate fluctuations. At the year end, 91% of the Group's bank borrowings were hedged.

### Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. Cash forecasts identifying the liquidity requirements of the Group are produced frequently

and are regularly reviewed to ensure that sufficient financial headroom exists for at least a 12-month period. The Group maintains banking facilities, which are long term with a range of maturity dates, to mitigate any liquidity risk it may face.

### Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. With over 90% of our customers being quasi government organisations the default risk is very low. Late payment risk is managed through focused collection activities coupled with both cash clearance and outstanding debt targets.

### Going Concern

After reviewing the Group's position and policies, future trading budgets and forecasts along with projections of future cash flows the Directors believe that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.



**Peter Thomas**  
Chief Financial Officer



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## Board of directors

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### **Fred Sinclair-Brown**

#### **Group Chief Executive (age 48)**

Fred became Group Chief Executive of PiC in September 2006. He qualified as a Chartered Accountant with Price Waterhouse in 1985 before working in corporate finance with both the HSBC Group and Bank of Ireland. In 1993 he joined ANS plc where he spent 13 years, the last 10 as Group Finance Director. For the final five years Fred combined his finance role with that of acting Chief Executive. Fred has brought structure and focus to PiC, developing the management team and the vitality of the organisation.

### **Joy Chamberlain**

#### **Chief Operating Officer (age 45)**

Joy, previously Chief Financial Officer, was appointed Chief Operating Officer in July last year. She qualified as a Chartered Accountant with PricewaterhouseCoopers in 1990. Working within corporate recovery she managed the property and construction team and was responsible for the operation and sale of numerous hospitals and care homes. In 1998, Joy joined PiC as Commercial Manager. As part of the senior management team she was responsible for the development of the property portfolio and expansion in capacity since 1997.

### **Peter Thomas**

#### **Chief Financial Officer (age 50)**

Peter joined the Board in August last year replacing Joy Chamberlain as Chief Financial Officer. He qualified as a Chartered Certified Accountant in 1987 whilst working for Pitney Bowes Finance Plc. Peter held a number of senior financial positions at Pitney Bowes culminating in seven years as European Finance Director. He joined PiC in December 2006 as Financial Controller, coordinating the successful centralisation of the finance function and driving improved financial reporting.



**Kevin Beeston**

**Chairman (age 46)**

Kevin was appointed Chairman of PIC in May 2007. Kevin is also non-executive Chairman of Serco Group plc, the FTSE 100 public services company having previously served as Serco's Executive Chairman, Chief Executive and Finance Director. He is a member of the CBI President's Committee and Chairman of the CBI's Public Services Strategy Board, which promotes the role business has in transforming the UK's public services. He is also Chairman of Infinitas Learning BV, Chairman of Domestic and General Limited and a non-executive Director of IMI plc.

**Rebecca Gibson**

**Non-executive Director (age 34)**

Rebecca joined Cinven in 2002 and has worked on a number of transactions, including Spire Healthcare, PIC, Eutelsat, NCP and Gala Coral Group. She is a Cinven Partner and a member of the healthcare and the consumer sector teams. Prior to this she was a consultant at Bain & Company.

**David Barker**

**Non-executive Director (age 41)**

David was appointed to the Board on 31 January 2008. He is a Cinven Partner, having joined the firm in 1996. He has been involved in numerous transactions, including the buyouts of Eutelsat, Springer, Aprovia, MediMedia and Ziggo. Before joining Cinven, David worked for the industrial group Morgan Crucible for three years and prior to that he worked at Arthur Andersen.

## Corporate governance report

The Company is committed to maintaining high standards of corporate governance, as a key component of being a well run company. The Company adopts standards of good practice in relation to issues such as Board composition and development, remuneration, accountability and audit and relations with shareholders.

### The Board

The Board consists of two non-executive directors, three executive directors and is chaired by a non-executive chairman. To enable the Board to perform its statutory duties all directors have timely access to relevant information on the Company's activities and to the services of the Company Secretary. A schedule of matters is reserved for the decision of the Board for all major strategic and financial decisions. The schedule includes the approval of the annual budget, major acquisitions and disposals and material contracts.

The Board meets on a regular basis, and individual attendance is set out in the table below.

David Barker was appointed to the Board on 31 January 2008, replacing Simon Rowlands. Peter Thomas was appointed as Chief Financial Officer on 4 August 2008. Tony Rook was appointed as Company Secretary on 4 August 2008, replacing Siân Johnson.

### Board Committees

The Board has two main committees, an audit committee and a remuneration committee, each of which has its own terms of reference.

#### The audit committee

The members of the audit committee are Kevin Beeston (chair), David Barker and Rebecca Gibson (non-executive directors) and Peter Thomas (executive director). Only committee members have the right to attend meetings, but other individuals such as the Group Chief Executive, Chief Operating Officer and internal audit are regularly invited to attend when appropriate. External auditors attend committee meetings on a regular basis. The committee meets at least twice a year.

The committee's responsibilities include considering and where appropriate approving the financial statements of the Company, the internal audit programme and reports and the external audit plan.

#### The remuneration committee

The members of the committee are Kevin Beeston (chair) and David Barker, who are both non-executive directors. The committee meets at least once a year, or more frequently, if appropriate. Other individuals, such as the Group Chief Executive, may also be invited to attend. The committee's main role is to determine and agree with the Board, the remuneration of the chairman and the executive directors. The committee also reviews the emoluments of the senior managers of the Company, including salary reviews, the setting of bonus levels and performance targets, to encourage enhanced performance.

	31 Jan	27 Feb	19 Mar	28 Apr	5 May	26 Jun	31 Jul	28 Aug	2 Sep	6 Oct	27 Nov	18 Dec
Kevin Beeston	✓	✓	✓	✓	✓	by phone	✗	✓	✓	✓	✓	✓
Simon Rowlands	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David Barker	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓
Rebecca Gibson	✓	✓	✓	✓	✓	by phone	✓	✗	✓	✓	✓	✓
Fred Sinclair-Brown	✓	✓	✓	✓	✓	by phone	✓	✓	✓	✓	✓	✓
Joy Chamberlain	✓	✓	✓	✓	✓	by phone	✓	✓	✓	✓	✓	✓
Peter Thomas	n/a	n/a	n/a	n/a	n/a	by phone	✓	✓	✓	✓	✓	✓
Siân Johnson	✓	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tony Rook	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓	✓	✓	✓	✓

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## Directors' report

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The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

### Principal activities

The Company is a holding company; the Group is Partnerships in Care Group Limited, which provides mental healthcare services. The Company was incorporated on 31 March 2005.

### Business Review

During the year the Group acquired a new operational facility in Scotland and completed the development of four hospitals in England. These developments and the acquisition of The Ayr Clinic have enabled the Company to increase its bed numbers to 1,200 at the end of 2008. In addition the Group has continued its programme of refurbishment of existing facilities in the year, thereby ensuring the quality of its estate is maintained and it continues to be in a strong position to meet customer and service user needs.

The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

### Key Performance Indicators (KPIs)

#### Financial Performance

The Group prepares detailed financial budgets and projections for all of its facilities and operations, against which actual performance is monitored.

These projections relate both to operational performance of existing units and to capital projects, where emphasis is placed upon cost control and achievement of completion deadlines.

#### Quality and Compliance with regulations

The Group operates in a highly regulated environment and all of its care facilities are registered by either the Healthcare Commission or CSCI. In addition all of the Mental Health units are visited by the Mental Health Act Commission. In Wales they are registered by Healthcare Inspectorate Wales and in Scotland by the Care Commission. In 2009, however, the regulators will change.

The quality of care provided by the Group and its compliance with regulation, including those above, are monitored in a structured manner and subject to continuous review by the senior managers and executive directors.

#### Position at the year end

The Group's performance against these measures was satisfactory at the year end.

#### Principal Risks and Uncertainties

The Group's main customer for its mental health services is the National Health Service and any change in government policy away from the independent sector would constitute a risk to the Company. This has been a risk faced by the Group since it began to trade in 1991.

Details relating to financial risks are set out in the financial review.

#### Policy on Payment of Creditors

It is the Group's policy to comply with the payment terms of suppliers.

#### Political and charitable contributions

The Group made no political contributions during the period. Charitable donations in the period were £4,219 (2007: £2,725).

#### Proposed dividend

The directors do not recommend the payment of a dividend.

#### Directors and directors' interests

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

Simon Rowlands	Resigned 31 January 2008
David Barker	Appointed 31 January 2008
Rebecca Gibson	
Kevin Beeston	
Frederick Sinclair-Brown	
Joy Chamberlain	
Peter Thomas	Appointed 4 August 2008

The company secretary during the year was as follows:

Siân Johnson	Resigned 4 August 2008
Tony Rook	Appointed 4 August 2008

There are no directors retiring by rotation.

#### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

#### Tony Rook

Company Secretary  
2 Imperial Place  
Maxwell Road  
Borehamwood  
Hertfordshire WD6 1JN  
19 June 2009

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## Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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## Independent auditors' report to the members of Partnerships in Care Group Limited

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We have audited the Group and parent Company financial statements of Partnerships In Care Group Limited for the year ended 31 December 2008, which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of movements in Shareholders' Funds, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 24, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 31 December 2008 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

### KPMG LLP

Chartered Accountants  
Registered Auditor  
London  
19 June 2009

## Consolidated profit and loss account for the year ended 31 December 2008

	Note	2008 £000	2007 Restated £000
<b>Turnover</b>	2	<b>164,121</b>	152,899
Cost of sales		<b>(98,817)</b>	(92,609)
<b>Gross profit</b>		<b>65,304</b>	60,290
Administrative expenses		<b>(32,057)</b>	(25,699)
<b>Operating profit</b>		<b>33,247</b>	34,591
Interest receivable	6	<b>786</b>	1,109
Interest payable and similar charges	7	<b>(54,467)</b>	(50,990)
<b>Loss on ordinary activities before taxation</b>	3	<b>(20,434)</b>	(15,290)
Tax on loss on ordinary activities	8	<b>(891)</b>	(782)
<b>Loss for the year</b>	17	<b>(21,325)</b>	(16,072)

As described in the Directors' report all operations are continuing.

There is no difference between the loss for the current or prior year and its historic cost equivalent.

## Consolidated balance sheet at 31 December 2008

	Note	2008 Restated £000	2008 Restated £000	2007 Restated £000	2007 Restated £000
<b>Fixed assets</b>					
Intangible assets – Goodwill	9	78,251		82,552	
Tangible assets	10	569,679		537,874	
			647,930		620,426
<b>Current assets</b>					
Stock	12	459		379	
Debtors (including Enil 2006: Enil, due after more than one year)	13	11,007		13,512	
Cash at bank and in hand		16,824		32,004	
		28,290		45,895	
<b>Creditors: amounts falling due within one year</b>	14	<b>(44,306)</b>		<b>(40,757)</b>	
<b>Net current (liabilities)/assets</b>			<b>(16,016)</b>		5,138
<b>Total assets less current liabilities</b>			<b>631,914</b>		625,564
<b>Creditors: amounts falling due after more than one year</b>	15		<b>(688,551)</b>		(661,911)
<b>Provisions for liabilities and charges</b>	8		<b>(1,868)</b>		(865)
<b>Net liabilities excluding pension liability</b>			<b>(58,505)</b>		(37,212)
<b>Pension liability</b>	19		<b>(388)</b>		(856)
<b>Net liabilities including pension liability</b>			<b>(58,893)</b>		(38,068)
<b>Capital and reserves</b>					
Called up share capital	16		16,724		16,724
Profit and loss account	17		(75,617)		(54,792)
<b>Shareholders' deficit</b>			<b>(58,893)</b>		(38,068)

These financial statements were approved by the Board of directors on 19 June 2009 and were signed on its behalf by:



**Peter Thomas**  
Director

## Company balance sheet at 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
<b>Fixed assets</b>					
Investments in subsidiaries	11		<b>14,870</b>		14,870
<b>Current assets</b>					
Debtors	13	<b>3,017</b>		1,877	
Cash at bank and in hand		<b>186</b>		1,751	
		<b>3,203</b>		3,628	
<b>Creditors: amounts falling due within one year</b>	14	<b>(920)</b>		(994)	
<b>Net current assets</b>			<b>2,283</b>		2,634
<b>Total assets less current liabilities</b>			<b>17,153</b>		17,504
<b>Creditors: amounts falling due after more than one year</b>	15		<b>(844)</b>		(1,057)
<b>Net assets</b>			<b>16,309</b>		16,447
<b>Capital and reserves</b>					
Called up share capital	16		<b>16,724</b>		16,724
Profit and loss account	17		<b>(415)</b>		(277)
<b>Shareholders' funds</b>			<b>16,309</b>		16,447

These financial statements were approved by the Board of directors on 19 June 2008 and were signed on its behalf by:



**Peter Thomas**  
Director

## Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008 £000	2007 £000
<b>Cash flow statement</b>			
Cash flow from operating activities	20	52,227	51,062
Returns on investments and servicing of finance	21	(33,155)	(22,232)
<b>Taxation</b>		–	185
Capital expenditure and financial investment	21	(28,131)	(30,594)
Acquisitions and disposals	21	(15,391)	(7,500)
Cash outflow before management of liquid resources and financing		(24,450)	(9,079)
Financing	21	9,270	19,161
<b>(Decrease)/increase in cash in the year</b>		<b>(15,180)</b>	<b>10,082</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>(Decrease)/increase in cash in the year</b>		<b>(15,180)</b>	<b>10,082</b>
Cash inflow from increase in debt and lease financing		(9,270)	(19,374)
Non-cash changes		(21,313)	(19,511)
Change in net debt resulting from cash flows		(45,763)	(28,803)
<b>Movement in net debt in the year</b>		<b>(45,763)</b>	<b>(28,803)</b>
<b>Net debt at the start of the year</b>		<b>(650,214)</b>	<b>(621,411)</b>
<b>Net debt at the end of the year</b>	22	<b>(695,977)</b>	<b>(650,214)</b>

## Reconciliations of movements in shareholders' funds for the year ended 31 December 2008

	Group 2008 £000	Company 2008 £000	Group 2007 £000	Company 2007 £000
Opening shareholders' (deficit)/funds	(38,068)	16,447	(23,460)	16,395
<b>Loss for the financial year</b>	<b>(21,325)</b>	<b>(138)</b>	<b>(16,072)</b>	<b>(172)</b>
Actuarial gain relating to the year	682	–	1,772	–
Deferred tax on actuarial gain relating to the year	(182)	–	(532)	–
New share capital subscribed (net of issue costs)	–	–	171	171
Own shares issued to Ogier Trust Limited	–	–	53	53
<b>Closing shareholders' (deficit)/funds</b>	<b>(58,893)</b>	<b>16,309</b>	<b>(38,068)</b>	<b>16,447</b>

Opening Group shareholders' deficit was originally £36,803,000 (2007: £22,300,000) before deducting the restatement of £1,265,000 (2007: £1,160,000).

## Consolidated statement of total recognised gains and losses for the year ended 31 December 2008

	2008 £000	2007 Restated £000
<b>Loss for the financial year</b>	<b>(21,325)</b>	<b>(16,072)</b>
Actuarial gain/(loss) relating to the year	682	1,772
Deferred tax on actuarial gain relating to the year	(182)	(532)
<b>Total recognised gains and losses relating to the financial year</b>	<b>(20,825)</b>	<b>(14,832)</b>
Restatement (as explained in note 1)	(1,265)	–
<b>Total recognised gains and losses since last annual report</b>	<b>(22,090)</b>	<b>–</b>

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## Notes

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### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Group's financial statements except as noted below.

#### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

#### 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 Directors' report on page 23. The Chief Financial Officer's Review on pages 9 to 14 sets out the financial position of the Group, its cash flows, liquidity and borrowing facilities as well as details of its management of liquidity, credit and interest rate risk. In addition details of the Group's borrowings are set out in notes 15 and 22 to the financial statements demonstrating that they are substantially long term.

After reviewing the Group's position and policies, future trading budgets and forecasts along with projections of future cash flows the Directors believe that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### Change of accounting treatment

The accounting policies adopted by the Group are consistent with those of the previous financial year except in relation to the recognition of overtime and bank staff-related costs paid a month in arrears.

In previous financial years such costs have been recognised in the financial year in which they were paid. In the current financial year this policy has changed to an accruals basis. The Directors believe this is a more appropriate basis for recognition.

In accordance with FRS 18 prior year figures have been restated accordingly.

The effect on the financial statements of this change of accounting treatment is an increase in cost of sales of £229,000 (2007: £94,000), an increase in administrative expenses of £25,000 (2007: £11,000) and an increase in accruals at 31 December 2008 of £1,519,000 (2007: £1,265,000).

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

#### Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised.

#### Fixed asset investments

Fixed asset investments are carried at cost less impairment for any permanent diminution in value.

#### Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	over 50 years
Leasehold land and buildings	over primary term of lease
Building structural alterations and refurbishment	over 10 years
Fixtures and fittings	over 7 years
Building major decorative refurbishment	over 5 years
Furniture and fittings	over 7 years straight line
Plant and machinery	over 10 years straight line
Equipment	over 4 or 7 years straight line
Motor Vehicles	over 4 years straight line
No depreciation is provided on freehold land.	

## 1 Accounting policies (continued)

### Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

### Post retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

### Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

### Turnover

Company turnover comprises goods and services supplied in the normal course of business – net of all refunds, allowances and value added tax.

## 2 Segmental information

The Directors are of the opinion that the businesses of the Company are substantially similar in that they all relate to the provision of healthcare services. Turnover and profit before tax on ordinary activities arise from continuing operations entirely in the UK.

## 3 Loss on ordinary activities before taxation

	2008 £000	2007 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Group – audit of financial statements and subsidiaries pursuant to legislation	129	121
– other services related to taxation	103	135
Depreciation and other amounts written off tangible fixed assets:		
Owned	11,215	8,894
Leased	137	37
Amortisation of goodwill	4,781	4,761
Hire of other assets – operating leases	214	204

## Notes (continued)

### 4 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	<b>698</b>	607
Highest paid director:		
Included in above emoluments in respect of highest paid director	<b>326</b>	311

The highest paid director is not a member of a defined benefit scheme, in 2007 the highest paid director was not a member of the defined benefit scheme.

	Number of directors 2008	Number of directors 2007
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<b>1</b>	2

### 5 Staff numbers and costs

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

	2008 No.	2007 No.
Operations	<b>2,597</b>	2,495
Administration	<b>271</b>	123
	<b>2,868</b>	2,618

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 Restated £000
Wages and salaries	<b>77,837</b>	71,513
Social security costs	<b>7,858</b>	7,332
Other pension costs	<b>2,002</b>	2,005
	<b>87,697</b>	80,850

### 6 Interest receivable and similar income

	2008 £000	2007 £000
Bank interest received	<b>689</b>	1,074
Interest on pension scheme	<b>97</b>	35
	<b>786</b>	1,109

### 7 Interest payable and similar charges

	2008 £000	2007 £000
On bank loans and overdrafts	<b>33,113</b>	31,467
On all other loans	<b>20,446</b>	18,702
Finance charges payable in respect of finance leases and hire purchase contracts	<b>39</b>	13
Amortisation of finance costs	<b>869</b>	808
	<b>54,467</b>	50,990

## 8 Taxation

Analysis of charge/credit in the year

	2008 £000	2008 £000	2007 £000	2007 £000
<b>UK corporation tax</b>				
Current tax on income for the year	261		374	
Adjustment in respect of prior year	(313)		-	
Total current tax		(52)		374
<b>Deferred tax</b>				
Origination/reversal of timing differences	797		544	
In respect of pension scheme	-		19	
Adjustments in respect of prior periods	146		(155)	
Total deferred tax		943		408
Tax on loss on ordinary activities		891		782

### Factors affecting the tax credit for the current year

	2008 £000	2007 Restated £000
<b>Current tax reconciliation</b>		
Loss on ordinary activities before tax	(20,434)	(15,290)
Current tax at 28.5% (2007: 30%)	(5,824)	(4,586)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	6,953	5,592
Capital allowances for period in excess of depreciation	(538)	(544)
Other short term timing differences	(15)	(9)
Carry forward tax losses	(316)	(79)
Adjustment in respect of prior periods	(312)	-
Total current tax (credit)/charge (see above)	(52)	374

### Factors that may affect future current and total tax charges

The level of disallowable expenses and utilisation of tax losses carried forward will impact future tax charges

	2008 £000	2007 £000
<b>Net deferred tax</b>		
At start of year	(865)	(476)
Net charge for the year in the profit and loss account	(797)	(544)
Acquisition of deferred tax balance of Partnerships in Care Scotland Ltd	(60)	-
Adjustment for prior periods	(146)	155
At end of year	(1,868)	(865)
The amounts provided for deferred tax are set out below:		
Accelerated capital allowances	(2,345)	(1,165)
Short term timing differences	65	231
Tax losses carry forward	412	69
Provision at end of year	(1,868)	(865)

There is unprovided deferred tax in respect of revaluation uplifts in the properties of £95,603,306 (2007: £98,988,114).

There is unprovided deferred tax in respect of tax losses carried forward of £3,131,439 (2007: £3,962,315).

## Notes (continued)

### 9 Intangible fixed assets

#### Goodwill

Group	2008 £000	2007 £000
<b>Cost</b>		
At start of year	95,237	95,237
Acquisition	480	-
At end of year	95,717	95,237
<b>Amortisation</b>		
At start of year	(12,685)	(7,924)
Amortisation	(4,781)	(4,761)
At end of year	(17,466)	(12,685)
<b>Net book value</b>		
At end of year	78,251	82,552

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill is amortised over 20 years.

### 10 Tangible fixed assets

Group	Land and buildings £000	Plant and machinery £000	Furniture and fittings £000	Computers and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>						
At start of year	549,378	3,591	3,318	3,404	435	560,126
Additions	34,248	7,498	551	506	356	43,159
Transfers	-	(705)	-	-	705	-
Disposal	-	-	-	-	(128)	(128)
At end of year	583,626	10,384	3,869	3,910	1,368	603,157
<b>Depreciation</b>						
At start of year	18,238	781	1,547	1,597	89	22,252
Charge for year	8,846	1,367	515	469	155	11,352
Transfers	-	(495)	-	-	495	-
Disposal	-	-	-	-	(126)	(126)
At end of year	27,084	1,653	2,062	2,066	613	33,478
<b>Net book value</b>						
At 31 December 2008	556,542	8,731	1,807	1,844	755	569,679
At 31 December 2007	531,140	2,810	1,771	1,807	346	537,874

Included in the total net book value of motor vehicles is £625,121 (2007: £435,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £137,133 (2007: £18,000).

## 11 Fixed asset investments

Shares in subsidiary undertakings

	2008 £000	2007 £000
<b>Cost</b>		
At start of year and end of year	14,870	14,870
<b>Provisions/amortisation</b>		
At start of year and end of year	-	-
<b>Net book value</b>		
At end of year	14,870	14,870

The principal companies in which the Company's interest is more than 10% are as follows:

Subsidiary and associated undertakings	Country of registration or incorporation	Principal activity	Percentage of ordinary shares held
Partnerships In Care Holdings Limited	England and Wales	Holding company for trading and property holding companies	100%
<b>Indirect holdings</b>			
Partnerships In Care Management Limited	England and Wales	Holding company for trading companies	100%
Partnerships In Care Limited	England and Wales	Mental Healthcare services	100%
Oaktree Care Group Limited	England and Wales	Mental Healthcare services	100%
Partnerships In Care			
Property Holding Company Limited	England and Wales	Holding company for property companies	100%
Partnerships In Care Property 1 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 2 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 3 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 4 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 5 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 6 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 7 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 8 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 9 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 10 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 11 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 12 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 13 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 14 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 15 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 16 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 17 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 18 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 19 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 20 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 21 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 22 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 23 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 24 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 25 Limited	England and Wales	Property holding company	100%
Partnerships In Care Scotland Limited	England and Wales	Mental healthcare services	100%

In the opinion of the directors the investments in and amounts due from the Company's subsidiary and associated undertakings are worth at least the amounts at which they are stated in the balance sheet.

## Notes (continued)

### 12 Stocks

	Group 2008 £000	Company 2008 £000	Group 2007 £000	Company 2007 £000
Pharmaceuticals	225	–	201	–
Food and consumables	191	–	143	–
Stationery stock	43	–	35	–
	<b>459</b>	<b>–</b>	<b>379</b>	<b>–</b>

### 13 Debtors

	Group 2008 £000	Company 2008 £000	Group 2007 £000	Company 2007 £000
Trade debtors	6,606	–	7,472	–
Other debtors	293	–	134	–
Amounts due to fellow subsidiaries	–	2,989	–	1,877
Prepayments and accrued income	4,108	28	5,906	–
	<b>11,007</b>	<b>3,017</b>	<b>13,512</b>	<b>1,877</b>

### 14 Creditors: amounts falling due within one year

	Group 2008 £000	Company 2008 £000	Group Restated 2007 £000	Company 2007 £000
Bank loans and overdrafts (see note 15)	22,848	–	19,262	–
Other loans (see note 15)	920	920	920	920
Obligations under finance leases and hire purchase contracts	482	–	125	–
Trade creditors	1,342	–	1,614	–
Corporation tax creditor	432	–	335	–
Taxation and social security	45	–	32	–
Other creditors	5,275	–	3,578	–
Accruals and deferred income	12,962	–	14,891	74
	<b>44,306</b>	<b>920</b>	<b>40,757</b>	<b>994</b>

### 15 Creditors: amounts falling due after more than one year

	Group 2008 £000	Company 2008 £000	Group 2007 £000	Company 2007 £000
Debenture loans	220,488	844	199,996	1,057
Bank loans	468,016	–	461,642	–
Obligations under finance leases and hire purchase contracts	47	–	273	–
	<b>688,551</b>	<b>844</b>	<b>661,911</b>	<b>1,057</b>

### Analysis of debt:

Debt can be analysed as falling due:

In one year or less, or on demand	23,768	920	20,182	920
Between one and two years	24,566	–	23,823	–
Between two and five years	118,719	–	80,763	–
In five years or more	552,313	844	564,591	1,057
	<b>719,366</b>	<b>1,764</b>	<b>689,359</b>	<b>1,977</b>
Less capitalised finance fees	(7,094)	–	(7,539)	–
	<b>712,272</b>	<b>1,764</b>	<b>681,820</b>	<b>1,977</b>

### 15 Creditors: amounts falling due after more than one year (continued)

Debt balances are further analysed in the table below:

	Carrying value at start of period £000	Principal issued during the period £000	Capitalised fees movement in the period £000	Interest rolled into debt during the period £000	Repayment during the period £000	Carrying value at end of period £000
Bank loan to be repaid over seven years, secured by fixed legal charge over subsidiary company's assets, interest rate varying with LIBOR and is hedged until 31 December 2010 at 2.25%.	45,833	-	(284)	-	(9,251)	36,298
Bank loan to be repaid over 10 years, comprising main tranche of £358,905,989 and further development loan of £98,249,182 secured by way of fixed legal charge over subsidiary company's properties and a floating charge over all the assets and undertakings of the company. The interest rate varies with LIBOR and is hedged for 10 years at 5.0575% on term loans and 4.645% on development loans.	435,071	34,865	392	-	(15,762)	454,566
Loan from majority shareholder, interest free, due on demand.	920	-	-	-	-	920
Unsecured subordinated loan note due 2020 on which unsecured subordinated PIK notes due 2020 have been issued to satisfy interest at 10%.	198,939	-	337	20,369	-	219,645
Unsecured fixed rate loan note due 2020, compound interest at 7% pa.	290	-	-	-	(290)	-
Unsecured fixed rate loan note due 2020, compound interest at 10% pa.	522	-	-	52	-	574
Unsecured fixed rate loan note due 2020, compound interest at 10% pa.	245	-	-	24	-	269
	681,820	34,865	445	20,445	(25,303)	712,272

## Notes (continued)

### 16 Called up share capital

	Group 2008 £000	Company 2008 £000	Group 2007 £000	Company 2007 £000
<b>Authorised</b>				
Ordinary shares of £1 each	16,724	16,724	16,724	16,724
<b>Allotted, called up and fully paid</b>				
Ordinary shares of £1 each				
At start of year	16,724	16,724	16,553	16,553
Allotted during the year	–	–	171	171
At the end of the year	16,724	16,724	16,724	16,724

### 17 Profit and loss reserve

Group	2008 £000	2007 Restated £000
At start of year	(54,792)	(40,013)
Loss for the year	(21,325)	(16,072)
Actuarial profit recognised in the pension scheme in the year	682	1,772
Deferred tax arising on gains in the pension scheme in the year	(182)	(532)
Own shares disposed	–	53
At end of year	(75,617)	(54,792)
<b>Company</b>		2007 £000
At start of year	(277)	(158)
Loss for the year	(138)	(172)
Own shares disposed	–	53
At end of year	(415)	(277)

### 18 Commitments

(a) Capital commitments at the end of the financial period, for which no provision has been made, are as follows:

	Group 2008 £000	Company 2008 £000	Group 2007 £000	Company 2007 £000
Contracted	2,070	–	16,860	–

(b) Annual commitments under non-cancellable operating leases are as follows:

Group	2008 Property £000	2008 Motor vehicles £000	2008 Equipment £000	2008 Total £000	2007 Total £000
Operating leases which expire:					
Within one year	21	5	43	69	43
In the second to fifth years inclusive	221	27	–	248	289
Over five years	52	–	–	52	55
	294	32	43	369	387

### 19 Partnerships in Care Limited Pension and Life Assurance Plan

The Group operates a defined benefit scheme in the UK. A full actuarial valuation is being carried out as at 1 January 2006 – and this has been updated to 31 December 2008 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 December 2008	At 31 December 2007	At 31 December 2006
Rate of increase in salaries	3.25%	3.55%	3.25%
Rate of increase to pensions in payment accrued before 6 April 1997	3.00%	3.30%	3.00%
Rate of increase to pensions in payment accrued after 5 April 1997	3.00%	3.30%	3.00%
Rate of increase of deferred pensions	3.00%	3.30%	3.00%
Discount rate	6.40%	5.80%	5.30%
Inflation assumption	3.00%	3.30%	3.00%
Mortality	PXA92 Medium Cohort Projected by Year of Birth		

The Group contributions during the accounting period amounted to £859,000. The Company contribution rate for the coming year is 16.5% of pensionable salaries.

The Plan is closed to new entrants. In accordance with FRS 17, the valuation of the Plan's liabilities has been determined using the projected unit method.

In these circumstances the use of this method can lead to the contribution rate underlying the current service cost increasing in future years.

The assets in the scheme and the expected rate of return were:

	Value at 31 December 2008 £000	Value at 31 December 2007 £000	Value at 31 December 2006 £000
Assets			
Equities	3,860	6,668	9,387
Bonds	8,649	6,032	5,259
Absolute Return	7,044	6,549	2,224
Property	1,408	2,066	2,167
Other	62	1,011	394
Total market value of assets	21,023	22,326	19,431
Present value of scheme liabilities	(21,562)	(23,515)	(22,378)
Deficit in the scheme – Pension liability	(539)	(1,189)	(2,947)
Related deferred tax asset at 28% (2007: 30%)	151	333	884
Net pension liability	(388)	(856)	(2,063)
	Long-term rate of return	Long-term rate of return	Long-term rate of return
Expected rates of return	31 December 2008	31 December 2007	31 December 2006
Equities	8.50%	7.75%	7.75%
Bonds	5.00%	5.80%	5.30%
Absolute Return	8.50%	7.75%	7.75%
Property	8.50%	7.75%	7.75%
Other	2.00%	5.00%	5.00%

## Notes (continued)

### 19 Pension scheme (continued)

Movement in deficit during the year

	31 December 2008 £000	31 December 2007 £000
Deficit in scheme at beginning of the year	<b>(1,189)</b>	(2,947)
Movement in year:		
Current service cost	<b>(889)</b>	(985)
Contributions	<b>859</b>	936
Curtailment gains	–	–
Other finance income	<b>97</b>	35
Insurance premium paid	<b>(99)</b>	–
Actuarial gain	<b>682</b>	1,772
<b>Deficit in the scheme at the end of the year</b>	<b>(539)</b>	(1,189)

Analysis of other pension costs charged in arriving at operating profit/loss

	31 December 2008 £000	31 December 2007 £000
Current service cost	<b>889</b>	985
	<b>889</b>	985

Analysis of amounts included in other finance income/costs

	31 December 2008 £000	31 December 2007 £000
Expected return on pension scheme assets	<b>1,481</b>	1,248
Interest on pension scheme liabilities	<b>(1,384)</b>	(1,213)
Net interest on pension scheme	<b>97</b>	35

Analysis of amount recognised in statement of total recognised gains and losses

	31 December 2008 £000	31 December 2007 £000
Experience adjustments on scheme assets – (loss)/gain	<b>(3,378)</b>	1,220
Experience adjustments on scheme liabilities – gain	<b>4,060</b>	552
Actuarial gain recognised in statement of total recognised gains and losses	<b>682</b>	1,772

History of experience gains and losses

	31 December 2008 £000	31 December 2007 £000	31 December 2006 £000
Difference between the expected and actual return on scheme assets:			
Amount (£000)	<b>(3,378)</b>	1,220	346
Percentage of year end scheme assets	<b>16%</b>	5%	2%
Experience gains and losses on scheme liabilities:			
Amount (£000)	<b>(359)</b>	(433)	(1,546)
Percentage of year end present value of scheme liabilities	<b>2%</b>	2%	(7%)
Total amount recognised in statement of total recognised gains and losses:			
Amount (£000)	<b>682</b>	1,772	2,252
Percentage of year end present value of scheme liabilities	<b>3%</b>	8%	10%

## 20 Reconciliation of operating profit to net cash flow from operating activities

	2008 £000	2007 Restated £000
<b>Reconciliation of operating profit to net cash flow from operating activities</b>		
Operating profit	33,247	34,591
Depreciation and amortisation charges	16,133	13,692
Increase in stock	(80)	(23)
Decrease in debtors	2,505	746
Increase in creditors	297	2,038
Other	125	18
<b>Net cash inflow from operating activities</b>	<b>52,227</b>	<b>51,062</b>

## 21 Analysis of cash flow

	2008 £000	2008 £000	2007 £000	2007 £000
<b>Returns on investment and servicing of finance</b>				
Interest received	(780)		(1,109)	
Interest paid	33,935		23,341	
		<b>(33,155)</b>		<b>(22,232)</b>
<b>Capital expenditure and financial investment</b>				
Purchase and capital expenditure in respect of tangible fixed assets	28,131		30,594	
		<b>28,131</b>		<b>30,594</b>
<b>Acquisitions</b>				
The Ayr Clinic	15,391		-	
Suttons Manor	-		7,500	
		<b>15,391</b>		<b>7,500</b>
<b>Financing</b>				
Issue of ordinary share capital	-		171	
Debenture loan	(290)		-	
Bank loan				
Drawdowns	34,865		31,699	
Repayments & fees	(25,436)		(12,939)	
Loan notes	-		230	
Capital element of finance lease payment	131		-	
		<b>9,270</b>		<b>19,161</b>

## Notes

(continued)

### 22 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non-cash changes £000	At end of year £000
Cash in hand, at bank	32,004	(15,180)	-	16,824
Debt due after one year	(669,177)	(34,575)	8,154	(695,598)
Debt due within one year	(20,182)	25,013	(28,599)	(23,768)
Capitalised finance costs	7,539	423	(868)	7,094
Finance leases and hire purchase contracts	(398)	(131)	-	(529)
<b>Debt and finance leases</b>	<b>(682,218)</b>	<b>(9,270)</b>	<b>(21,313)</b>	<b>(712,801)</b>
<b>Total</b>	<b>(650,214)</b>	<b>(24,450)</b>	<b>(21,313)</b>	<b>(695,977)</b>

### 23 Related party disclosures

Fred Sinclair-Brown, a director, has provided an unsecured fixed rate loan note for £460,000 (2007: £460,000) with compound interest of 10% giving a total due of £574,000.

Kevin Beeston, a director, has provided an unsecured fixed rate loan note for £230,000 (2007: £230,000) with compound interest of 10% giving a total due of £269,000.

Cinven, the majority shareholder, has provided two unsubordinated loan notes on which unsecured PIK notes have been issued.

Full details of debt are set out in note 15.

### 24 Acquisitions

On 12 February 2008 the Group acquired the entire issued share capital of Covenant Healthcare Rehabilitation Services Limited and property from Abbey Hospitals (Property) Ltd for £14.5 million plus fees. The fair value of the property and other assets acquired was £15.0m, resulting in goodwill of £0.5m.

### 25 Ultimate parent company

The majority of the issued share capital is held by funds managed by Cinven Ltd, a company incorporated in England and Wales with registered offices at Warwick Court, Paternoster Square, London EC4M 7AG.

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The treatment showcases featured in this report are summaries based on real events. Names have been changed to protect the identities of the individuals involved. The photographs accompanying the treatment showcases are of PiC patients and staff and are for illustrative purposes only. They do not directly refer to the treatment showcases. Our thanks to all those who took part in the photography.

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## Glossary

**Behaviour Therapy** – a method of psychotherapy based on learning principles. It uses such techniques as counter conditioning, reinforcement and shaping to modify behaviour.

**Integrated Care Pathway** – a fully integrated care pathway facilitates proper transition for the patient through appropriate levels of security and treatment to a complete discharge from hospital. All critical decisions within the pathway are supported by appropriate risk assessments and engage the patient and appropriate clinicians as well as key stakeholders.

**Cognitive Behavioural Therapy** – a psychotherapy approach that emphasises the influence of a person's beliefs, thoughts and self-statements on behaviour. Combines behaviour therapy methods with techniques designed to change the way the individual thinks about self and events.

**Dialectical Behaviour Therapy** – a psychotherapy treatment for individuals with borderline personality disorder, although it is used for patients with other diagnoses as well. The treatment itself is based largely in behaviourist theory with some cognitive therapy elements as well. Unlike cognitive therapy it incorporates mindfulness practice (awareness of one's thoughts, actions or motivations) as a central component of the therapy.

**High Secure** – high secure treatment is provided exclusively by the public sector in the three NHS hospitals at Ashworth, Rampton and Broadmoor in England and Carstairs in Scotland.

**Medium Secure** – hospitals classed as medium secure meet certain standards as set out in the Department of Health Best Practice Guidance – *Specification for Adult Medium Secure Services 2007*, such as controlled entry and exit and high levels of observation. Patients are usually detained under the Mental Health Act ('sectioned').

**Low Secure** – there are no definite rules, but low secure services are similar to those of Psychiatric Intensive Care Units, requiring controlled entrance and exit and secure detention.

**Step down** – step down and rehabilitation units are non-secure with stays typically measured in years.

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