Company Name:- Equinox (Eclipse 2006-1) plc

Headline:- Ashbourne Portfolio Whole Loan – Update on the Portfolio

Date:- 12 August 2021

EQUINOX (ECLIPSE 2006-1) PLC

a public limited company incorporated in England and Wales with company registration number 5807977

(the "**Issuer**")

NOTICE TO THE HOLDERS OF

£329,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259279585

£18,500,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280088

£19,500,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280161

£22,500,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280591

£8,000,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280674

£3,840,000 Class F Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280914

(together, the "**Notes**")

The Notes are admitted to the official list of the Irish Stock Exchange plc and to trading on its regulated market.

Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (market abuse regulation) requires disclosure by or on behalf of the Issuer of any inside information concerning the Issuer. The EU Market Abuse Regulation (596/2014) requires disclosure of inside information relating to the Issuer.

The Special Servicer has made the following information available to the Issuer. The Issuer notes that it has not been involved in the preparation of this information and in accordance with normal practice, the Issuer expresses no opinion in respect of the information contained in this Notice. Furthermore, this Notice is issued without prejudice to any and all of the Issuer's rights under the Transaction Documents relating to the Notes, all of which are expressly reserved.

This Notice is solely directed to the holders of the Notes ("**Noteholders**") and should not be relied upon or used by any other person.

Please note that, in accordance with normal practice, neither the Trustee nor any of its advisors has been consulted or involved in the formulation or negotiation of the matters contemplated by this Notice or has verified the information contained in any part of this Notice.

Further neither the Trustee nor any of its advisors expresses any opinion as to the merits or purpose of the matters contemplated by this Notice or as to the action the Noteholders should take in relation to them.

Neither the Trustee nor any of its advisors makes any representation regarding the accuracy, sufficiency, relevance or otherwise of any information contained in this Notice or otherwise disclosed or to be disclosed to the Noteholders in connection with the matters contemplated by this Notice or that all relevant information has been disclosed to Noteholders in this Notice or otherwise. Neither the Trustee nor any of its advisors accepts any liability in relation to the matters contemplated by this Notice. Accordingly, the Trustee urges Noteholders who are in any doubt as to the impact of the matters contemplated by this Notice to seek their own independent financial and/or legal advice.

Capitalised terms used but not defined in this Notice shall have the meanings given to them in the Prospectus dated 28 June 2006 issued by the Issuer (the "**Prospectus**").

Background

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 11 May 2021 (the "**11 May Announcement**).

In the 11 May Announcement, the Special Servicer affirmed to Noteholders that, among other things, that in addition to the four closed homes presently being marketed for sale, that seven trading care homes are currently being marketed for sale.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 25 June 2021 (the "**25 June Announcement**").

In the 25 June Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £3.125m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 9 July 2021 (the "**9 July Announcement**").

In the 9 July Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a closed care home for a gross consideration of £1.4m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 4 August 2021 (the "**4 August Announcement**").

In the 4 August Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £950,000.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 9 August 2021 (the "**9 August Announcement**").

In the 9 August Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £2.45m.

Update on the Strategy for the Portfolio

Of the trading care homes initially marketed in 2019, fourteen homes have now been sold.

Ultimately, it is the intention of the Special Servicer, working with the Asset Manager and the Operator to continue preparing batches of trading homes for future marketing for sale so that eventually the entire portfolio is sold and recoveries made for the Lenders.

Covid-19

An update on the effects the current Coronavirus outbreak is having on the UK-mainland and Northern Ireland operations is included in the respective trading updates set out in Schedule 1 of the notice.

In terms of the effects on the disposal strategy, the lock-down of the care home sector and specifically the Larchwood Care business, has resulted in any non-essential visits being prohibited.

This in turn means that no visits by buyers' advisors (e.g. valuers) have been permitted and hence, the anticipated timeframes for progressing the current offers were elongated as a consequence.

As the restrictions ease further to permit more widespread, third-party access to the properties, it is the intention to market further care homes for sale during this year.

UK-mainland portfolio

Closed properties

Currently, there are three closed properties remaining namely:

a) three (Copper Beeches, Heathmount and Silver Birches, situated on the same site) and following the receipt of the "pre-app" response from the planners on the site, a data-room has been established for use in the sale of the properties and a sales agent has been engaged to undertake the marketing for sale of the site.

   Marketing of the three-property site has now been completed and an offer accepted.

Below is a summary of the number of closed care homes remaining in the Ashbourne portfolio.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Closed	England	3	3	100%	3	3	0

As the sales process for the closed properties develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Trading care homes

Following the completion of the various sales, currently there is one care home that having been marketed for sale, is now in legal documentation.

Below is a summary of the number of trading care homes remaining in the Ashbourne portfolio.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	29	7	24%	2	1	0
"	Scotland	6	1	17%	0	0	0
"	NI	7	7	100%	0	0	0
	Total	42	15	36%	2	1	0

The Special Servicer has chosen not to identify such assets so as not to detract from the future trading and marketing for sale of such businesses, however it will update noteholders as the various disposal processes develop.

For those trading homes that are in the course of legal documentation, approval will be required from the relevant regulator for the proposed change of registration to the proposed new owner, with the latter typically taking up to 26 weeks to conclude.

In light of a further easing of the restrictions of entry into care homes more generally, the Special Servicer discussed with the Asset Manager and the Operator, the possibility of commencing the marketing of a further batch of care homes.

Following this review, six homes located in England have been selected for disposal and a sales agent has been engaged to undertake the marketing for sale of the six homes, with initially five being marketed, as one of the homes is first to be closed.

As the sales processes for the remaining trading care homes develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Northern Ireland portfolio

A sales agent is currently engaged in the marketing for sale of the seven homes.

As the marketing process develops including with initial offers, the Special Servicer will update noteholders accordingly.

Larchwood portfolio summary

Below is a summary of the number of care homes remaining in the Ashbourne portfolio, their status (e.g. Closed or Trading) and the number of properties currently being marketed for sale.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Closed	England	3	3	100%	3	3	0
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	29	7	24%	2	1	0
“	Scotland	6	1	17%	0	0	0
“	NI	7	7	100%	0	0	0
	Total	42	15	36%	2	1	0
	Total	45	18	40%	5	4	0

Trading Update

Similar to the 11 May Announcement, the Special Servicer requested of the Asset Manager and the Operators (Health Care Management Solutions and Care Circle), that updated trading information on the respective businesses be prepared for disclosure to noteholders.

Such data has now been prepared and verified by the Operators and this is outlined in the attached Schedule 1.

Priority of Payments

As reported in the 11 May Announcement, following the restructure & restatement of the Ashbourne Whole Loan in December 2013, a re-ordering of the priority of payments was concluded.

The Special Servicer considers that it is beneficial to Noteholders to re-affirm such priority of payments and to that end (and for ease of understanding), below is a table showing the existing priority of payments waterfall, under the current Material Non-Payment Default of the Ashbourne Portfolio Whole Loan including those items that rank senior to the repayment of the principal amount outstanding of the Priority A Principal Loan.

The following excerpt of the waterfall as set out in the November 2013 Amended and Restatement Facility Agreement provides a description of (and amounts due) to certain creditors and the order in which any amounts received from the Borrower are applied by the Agent or Security Trustee. Payments subject to the waterfall which rank below the categories set out in the excerpt are not expected to be recovered and so are not included.

All the data therein is as at 16 July 2021 and has been reviewed and confirmed by the Agent as correct.

Rank	Description	Amount Outstanding (£)	Cumulative Amount Outstanding (£)
1st	In or towards payment pro-rata of any due & payable Asset Management Fee (provided that no Asset Management Fee Subordination Event has occurred)	Nil	Nil
2nd	In or towards payment pro-rata of any unpaid fees, costs and expenses of the Agent and Security Trustee under the Finance Documents	Nil	Nil
3rd	In or towards payment pro-rata of:		
(A) *	any accrued interest or commission which has accrued due after 21 November 2013 (the "Effective Date") but is unpaid to the Priority A Lenders; and	Nil	Nil
(B)	any periodic payments (not being as a result of termination or closing out) which have accrued due after the Effective Date but are unpaid to the hedging bank in respect of the Priority A Hedging Liabilities	Nil	Nil
4th	In or towards payment pro-rata of:		
(A) *	interest due but unpaid on the Outstanding Priority A Interest Advance	Nil	Nil

(B) *	interest due but unpaid on the Outstanding Priority A Amortisation Advance	Nil	Nil
(C)	interest due but unpaid on the Outstanding Priority A Hedging Advance; and	Nil	Nil
(D)	interest due but unpaid on the Outstanding LPI Hedging Advance	Nil	Nil
5th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Interest Advance	Nil	Nil
(B)	the Outstanding Priority A Hedging Advance; and	Nil	Nil
(C)	the Outstanding LPI Hedging Advance	Nil	Nil
6th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Amortisation Advance	305,479.59	305,479.59
(B) *	the Outstanding Priority A Principal Advance (including for the avoidance of doubt, any unpaid Priority A Amortisation Payments and unpaid Priority A Amortisation Payments deferred pursuant to Clause 5.1.3 of the November 2013 Amended and Restated Facility Agreement; and	111,890,580.64	112,196,060.23
(C)	Any payments due but unpaid to the hedging Bank as a result of the termination or closing out in respect of the Priority A Hedging Liabilities	Nil	112,196,060.23

For good order and ease of understanding, please note the following definitions:

Asset Management Fee – monthly fee due to the Asset Manager

Agent – The Royal Bank of Scotland PLC

Security Trustee – The Royal Bank of Scotland PLC

Priority A Lenders – Equinox (Eclipse 2006-1) PLC and Hercules (Eclipse 2006-4) PLC

Hedging Advance Lender – The Royal Bank of Scotland

LPI Hedging Advance Lender – The Royal Bank of Scotland

***** **-** the claims denoted with an asterisk relate to funds that will flow to the Issuer waterfalls

FURTHER UPDATES

The Special Servicer continues to evaluate various options in relation to maximising recoveries under the Priority A Loan. The Special Servicer will continue to update the Issuer as the process develops.

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Date: 12 August 2021

Schedule 1

Larchwood Care Trading Update

Disclaimer

This interim management statement (the "**Update Statement**") has been prepared by Healthcare Management Solutions Limited ("**HCMS**") and Care Circle Management Limited ("**Care Circle**"), managers of the Operators of the Larchwood Care UK-mainland and Larchwood Care Northern Ireland portfolios respectively.

Larchwood Care is the "trading name" of the care home business that comprises the security for the Ashbourne Portfolio Loan.

Further information can be found on the Larchwood Care websites at:

http://www.larchwoodcare.co.uk/ (UK-mainland portfolio); and

http://www.larchwoodni.com/ (Northern Ireland portfolio)

Nothing in this Update Statement constitutes any financial product, investment, tax, accounting or legal advice or promotion in respect of or any inducement, invitation endorsement or offer to invest or deal in any assets, securities or financial instruments in any jurisdiction. Accordingly any person in receipt of this Update Statement should not rely on or use this Update Statement for any purpose, in particular trading any debt or securities issued by any entity.

This Update Statement may include certain projections and forward looking statements. Such projections and forward looking statements reflect various assumptions of Care Circle, HCMS or their advisers concerning future performance and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Care Circle and HCMS. Accordingly, there can be no assurance that such projections or forward looking statements will be realised. Actual results may vary from anticipated results and such variations may be material.

The statements included in this Update Statement have not been audited or independently verified and are management estimates. No responsibility or liability is or will be accepted by Care Circle, HCMS or any other party, or any of their respective officers, affiliates, advisers, agents and representatives, in relation to the accuracy or completeness of this Update Statement or any other written or oral information made available to any person in receipt of these materials and any such liability is expressly disclaimed.

Neither Care Circle, HCMS, nor any of its respective officers, affiliates, advisers, agents or representatives undertakes any obligation to update any of the information contained in this Update Statement or to correct any inaccuracies herein which may become apparent.

Larchwood (UK Mainland Portfolio)

Unaudited trading statement as at 30 June 2021

Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders dated 14 June 2017, 15 November 2017, 19 February 2018, 30 May 2018, 31 August 2018, 18 December 2018, 1 March 2019, 21 May 2019, 23 August 2019, 15 November 2019, 17 February 2020, 20 May 2020, 17 August 2020, 20 November 2020, 18 February 2021 and 11 May 2021.

As detailed previously, eight homes were sold during the 12 months to 31 March 2021 being Harmony House (20 April 2020), King's Court (22 April 2020), Chaplin Lodge and Memory House (both 17 July 2020), Willow Brook (22 December 2020), Nether Hall (29 January 2021), Laureate Court (8 February 2021) and White Rose (29 March 2021).

In addition, the sale of St Mary's (6 April 2021) and Nayland House (25 June 2021) completed in the three months to 30 June 2021.

The results for the ten homes detailed above have been excluded from the figures in this update, therefore all results and KPIs are presented on a like for like (LFL) basis.

Therefore, unless otherwise stated, the figures in this update only include the results for the 37 homes ('the Homes') that were trading as at 30 June 2021.

The sales of Sowerby House and Ty Dinas concluded on 4 August 2021 and 9 August 2021 respectively. As these homes traded for the full year to 30 June 2021, the results from these homes are included in the figures presented in this update.

As and when further homes are sold or closed, the results from these homes will be excluded from the figures in the future updates with adjustments made to the LFL figures as required.

Summary Financial Performance – 3 months to June 2021

The trading results and main KPI's for the three months to June 2021 are summarised as follows:

	LFL Adjusted	**LFL Adjusted**	**LFL Adjusted**	Variance to Like For Like quarter in prior year £'m	Variance to prior quarter £'m
	3 months to 30-Jun-20 £'m	3 months to 31-Mar-21 £'m	3 months to 30-Jun-21 £'m		
Fee Income	14.92	13.59	13.84	(1.08)	0.25
Staff Costs	(9.83)	(9.65)	(9.81)	0.02	(0.16)
Operating Costs	(1.20)	(0.76)	(0.73)	0.47	0.03
Indirect Costs	(1.54)	(1.80)	(1.79)	(0.25)	0.01
EBITDARM	**2.35**	**1.38**	**1.51**	**(0.84)**	**0.13**
KPIs					
Usable Beds	1,735	1,735	1,735	-	-
Average occupancy	1,509	1,366	1,319	(190)	(47)
Average occupancy (%)	87.0%	78.7%	76.0%	(11.0%)	(2.7%)
Spot occupancy at period-end	1,464	1,352	1,325	(139)	(27)
Spot occupancy at period-end (%)	84.4%	77.9%	76.4%	(8.0%)	(1.5%)
Average weekly fee	759	773	807	48	34
CAPEX	0.38	0.59	1.27	0.89	0.68

Staff costs as a % of Fee Income	65.9%	71.0%	70.9%	(5.0%)	0.1%

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)

EBITDARM increased c.£130,000 (9.4%) from the quarter to March 2021 to the quarter to June 2021 as the 2.7 percentage point reduction in quarter-on-quarter occupancy was mitigated by an increase in average weekly fees of c.4.4%.

Compared to the comparative quarter in 2020, EBITDARM has reduced by c.£0.84 million (c.36%) principally driven by reduced occupancy (an 11.0 percentage point decrease from the quarter to June 2020 to the quarter to June 2021). As has been documented in previous updates, this decrease has principally been driven by the impact of the Covid-19 pandemic.

Whilst State funding had been accounted for by the Group in respect of Covid-19 financial assistance up to 30 June 2021, this funding has been largely excluded from the figures in the table above. The inclusion of these monies in the analysis would distort the LFL nature of the results and lessen the ability to draw meaningful conclusions from the quarter-on-quarter analysis of the figures.

In addition, an element of the funding is being used to invest into capital projects that have been initiated in respect of infection control; the recognition of this element of the funding as income would be misleading.

Covid-19

It has been pleasing to note that the overall level of deaths at the homes in the quarter to 30 June 2021 was significantly lower than both the comparative period in 2020 (down 118) and the prior quarter (down 30).

The numbers of clients requiring insolation remained steady throughout the quarter. This was mirrored in the number of positive Covid cases that totalled c.220 cases across the quarter to June 2021. There were no deaths from these positive cases.

As expected, vaccination rates dramatically improved during the period from a starting position of 37.1% of clients having had their second vaccination to 89.6% by the end of the quarter. This exceeded our initial target by 9.6%.

Staff isolation rates declined in the period from 2.3% of the workforce being absent for Covid-19 related reasons to 1.7%. Staff vaccination rates have continued to improve with those being doubly vaccinated now standing at 71.4% of all staff members across the Homes. By the end of the quarter, 125 staff had refused vaccination for non-medical reasons and 37 were medically exempt.

The announcement of the changes to registration regulations, which will make it an offense for a provider to employ staff in a care home who are not doubly vaccinated, comes into effect on 11 November 2021. The implications of these changes for the recruitment and retention of staff are being considered and an impact assessment and mitigation plan is being produced.

Restrictions on the numbers of visitors to the Homes and the infection control requirements that they are subject to have continued to ease. We have remained cautious, particularly in areas where variants of concern have been prevalent and we have retained measures to reduce footfall in homes wherever possible.

There is an increasing requirement to manage key suppliers and contractors in order to maintain essential supplies and competitive pricing, as most are under significant pressure due to product availability, staffing shortfalls and inflationary pressures.

Occupancy

On a LFL basis for the 37 homes in the portfolio as at 30 June 2021, occupancy decreased by 27 clients in the quarter to June 2021.

As reported in the previous update, a drop in occupancy of c.30 clients occurred on the 1 April 2021 following the expiry of a number of contract bed agreements. Following this reduction, occupancy remained broadly flat for the whole of the quarter ending at 1,325 clients at 30 June 2021 representing occupancy on useable beds of 76.4%.

The average level of admissions for the quarter on a weekly basis was up c.11.5% on the previous quarter. However, when comparing it to 2019 (2020 having been distorted by impact of the Covid-19 pandemic), admissions are c.13% lower in 2021 on a LFL basis. This highlights that, whilst there has been an improvement in the level of admissions quarter on quarter, the level achieved was lower than would have been expected in this quarter before the onset of Covid-19.

Admissions are being impacted by two major drivers; families remain concerned about Covid-19 safety in care homes and local commissioners are suffering from pressures on manpower that mean that people who need both physical and financial needs assessments are having to wait much longer for these to be completed. There is some evidence that providers that normally target the self-funding market are reducing their fee rates in order to capture a share of the Local Authority (LA) market in a situation where overall sector occupancy rates remain under pressure.

Post quarter-end, occupancy had reduced by c.11 clients by 9 August 2021 (excluding the reductions arising from the sale of Sowerby and Ty Dinas during August 2021).

We anticipated that occupancy will remain slow to recover for the remainder of the year due to ongoing pressure on admissions and an expected rise in deaths rates over the winter months due to an increase in infection rates from Flu, other respiratory illnesses and Covid-19.

The Carehome.co.uk score for the group remains strong at 9.4.

Average Weekly Fees

Average weekly fees for the quarter to 30 June 2021 were £807 compared to the previous quarter average of £773, an increase of £34 per week (4.4%).

Fee increases for all service users generally occur on 1 April each year. The status of the increases for 2021 is as follows:

- English LA’s – these fee increases will not be formally agreed (or received) for several months following the commencement of the new financial year. To date, 30 out of 51 English LA’s have communicated their rate increase; these rates apply to c.36% of Larchwood’s LA residents. The average increase to date has been c.2.42% against the budget of 3%.

  Note that these increases are not reflected in the management accounts until confirmed and thus a significant element of the impact for the current quarter of these increases will not be recorded in the accounts until either the September 2021 or December 2021 quarters.

- Scottish LA’s – One rate covers the whole of Scotland and is agreed centrally. In this regard, members of the providers group (Scottish Care) voted to accept an increase in the annual nursing fee of 3.00% and the residential fee of 2.85%.

- Self-funder fee increases this year have averaged 7%, the number of clients paying top-ups has fallen from 97 to 95 over the quarter to 30 June 2021 whilst in the same period there was a decrease in the number of self-funders from 374 to 371.

Costs

Staff costs for the quarter to 30 June 2021 represented 70.9% of fee income; this is a marginal decrease in the percentage recorded in the previous quarter of 71.0%. In actual terms, this represents a quarter-on-quarter increase in staff costs of £160,000 as the quarter to June is a longer quarter (by one day) than the quarter to March.

Note that the National Living Wage increased on 1 April 2021 from £8.72 an hour to £8.91 an hour, an increase of c.2.2%. This directly affects c.52% of Larchwood's workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

We continue to see upward pressure on Nurse pay rates as demand from the NHS rises and as staff emerge from this period of unprecedented demands it is reasonable to expect that we will see further wage inflation.

Since the onset of Covid-19, the various authority bodies across the UK have recognised the requirement for increased staffing, and a number of schemes have been put in place to provide compensation for increased staff costs such as the Infection Prevention and Control Fund. Whilst the income from this fund is not included in our analysis, it should be noted that the provision of this funding has now been extended through to the end of September 2021.

Agency hours used decreased from an average of 3,416 per week in the March 2021 quarter to 2,825 in the June 2021 quarter, a decrease of c.17.3%. This decrease was driven by a reduction in some of the impact on staffing numbers of the Covid-19 requirements and a fall in overall occupancy.

Our current projection is that we will see a reduction in the workforce of c.5% to 7% due to the requirement for staff to be fully vaccinated following the November deadline. As detailed above, the impact of this, both from operational and financial perspectives, is being considered and a mitigation plan is being developed as necessary.

Operating Costs decreased marginally quarter on quarter from c.£6.22 per resident day in the quarter to March 2021 to c.£6.09 per resident day in the quarter to June 2021. The business continues to carry sufficient levels of PPE equipment.

Indirect Costs in total were in line with the previous quarter as the seasonal decrease in utility costs was offset by increases in marketing and travel costs.

Compliance

A summary of the compliance grades for the Homes (on a country-by-country basis) is detailed below:

England:

Grade	30-Apr-20	31-Jul-20	31-Oct-20	9-Feb-21	30-Apr-21	9-Aug-21
Outstanding	1	1	1	1	1	1
Good	29	26	26	25	22	21
Requires Improvement	7	6	6	6	8	7
Inadequate	-	2	2	-	-	-
Total	37	35	35	32	31	29
Compliant %	81.1%	77.1%	77.1%	81.2%	74.2%	75.9%
Note: Homes are removed from the above analysis as and when they are closed or sold. As such this table excludes Sowerby House for the final column						

Scotland:

Average Grade	30-Apr-20	31-Jul-20	31-Oct-20	9-Feb-21	30-Apr-21	9-Aug-21
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	4	4	4	4	4	4
3	1	1	1	1	1	1
2	-	-	-	-	-	-
1	-	-	-	-	-	-
Note: Homes are inspected across five areas, each being awarded a grade as follows: 1–Unsatisfactory, 2–Weak, 3–Adequate, 4–Good, 5–Very Good, 6–Excellent. The Average Grade is the mean average of the five scores.						

As at 9 August 2021, 22 (75.9%) of the 29 English homes (those regulated by the CQC) were rated ‘Outstanding’ or ‘Good’.

As part of their response to the pandemic, the CQC has significantly curtailed their inspection activity and comprehensive inspections have been rare. As a result of this, no inspection reports have been published since our previous update.

HCMS continues to hold regular planned meetings with the CQC national provider relationship team and Larchwood with the CQC’s Market Oversight team and these meetings continue to be positive.

In respect of the Scottish homes, no full inspections have occurred since our last update.

As all Welsh homes have now been sold, no information has been included in this update about the historic compliance position of these two homes.

Capex

During the quarter to June 2021, total Capex of c.£1.27 million was invested into the portfolio. For the twelve months to 30 June 2021, Capex on the 37 homes totalled £3.76 million.

Based upon the average number of usable beds in the year (1,735) this equates to a run-rate of £2,160 Capex per usable bed per annum; this includes an element of catch-up Capex following the low level of Capex investment during the initial months of the Covid-19 pandemic.

The Capex spend in the quarter was over double the amount in the previous quarter given that access to the Homes for contractors was more freely available in the quarter to 30 June 2021, which enabled some of the capex projects delayed by Covid-19 to be undertaken.

The Capex detailed above was in addition to the c.£1,200 per usable bed spent on planned and preventative maintenance and general repairs in the year to 30 June 2021.

Closed and Sold Homes

At the start of the quarter to 30 June 2020, the portfolio stood at 47 trading homes.

Since that date, the following homes have closed and/or been sold:

- Harmony House and King’s Court were sold as going concerns in April 2020
- Chaplin Lodge and Memory House were sold as going concerns in July 2020
- Willow Brook closed in December 2020 following which the home was sold later that month
- Nether Hall was sold as a going concern in January 2021
- Laureate Court was sold as a going concern in February 2021
- White Rose was sold as a going concern in March 2021
- St Marys was sold as a going concern on 6 April 2021
- Nayland House was sold as a going concern on 25 June 2021

Therefore, as at 30 June 2021, the number of trading homes open was 37.

The sales of Sowerby House and Ty Dinas concluded on 4 August 2021 and 9 August 2021 respectively. As these homes traded for the full year to 30 June 2021, their results are included in the figures presented in this update (aside from the figures in the Compliance section above where they are excluded).

However, they will be removed from all figures (together with the LFL comparatives) when we provide the next update in respect of the quarter to 30 September 2021.

Summary Financial Performance – 12 months to June 2021

The trading results and main KPI's for the twelve months to June 2021 for the 37 homes open in the year to 30 June 2021 (compared to the year to March 2021) are summarised as follows:

	LFL Adjusted	**LFL Adjusted**	
	12 months to 31-Mar-21 £'m	12 months to 30-Jun-21 £'m	Variance £'m
Fee Income	57.41	56.33	(1.08)
Staff Costs	(38.87)	(38.85)	0.02
Operating Costs	(3.56)	(3.09)	0.47
Indirect Costs	(6.89)	(7.14)	(0.25)
EBITDARM	**8.09**	**7.25**	**(0.84)**
KPIs			
Usable Beds	1,735	1,735	-
Average occupancy	1,440	1,392	(48)
Average occupancy (%)	83.0%	80.2%	(2.8%)
Spot occupancy at period-end	1,352	1,325	(27)
Spot occupancy at period-end (%)	77.9%	76.4%	(1.5%)
Average weekly fee	768	780	12
CAPEX	2.87	3.76	0.89
Staff costs as a % of Fee Income	67.7%	69.0%	(1.3%)

As with the table on page one, while State funding has been received by the Group in respect of Covid-19 financial assistance up to 30 June 2021, this funding has been excluded from the figures in the table above.

Seven homes in the 37 home portfolio were loss making in the twelve months to June 2021 before accounting for any Covid-19 financial assistance; across these seven facilities, the gross annual EBITDARM loss was c.£0.96 million.

Excluding these loss-making homes, the EBITDARM for the remaining 30 homes was c.£8.21 million (pre Covid-19 funding) for the twelve months to June 2021.

The homes sold post quarter-end, Sowerby House and Ty Dinas, reported a combined EBITDARM loss of c.£0.04 million in the year to June 2021, pre-Covid-19 funding.

Overall Outlook

We continue be of the view that occupancy rates will return to pre-pandemic levels but that this is unlikely to be before the end of 2022.

Pressure on recruitment and retention of staff will increase in the coming year due to the combination of Covid-19 fatigue and wage inflation. Providers who can demonstrate flexible and responsive working environments and reward packages should be better placed to capture the dwindling pool of talent available until the market corrects itself.
A number of LA's are very actively linking fee increases to staff pay rates and these are in many cases very marginal deals meaning that increased revenue could be largely eroded by increased staff costs.

The continuation of the Infection Prevention and Control Fund until September 2021 (at the least) and the provision of free PPE should mitigate some of the pressure on indirect costs.

The strategy of the CQC (England) and Care Inspectorate (Scotland) in respect of home inspections remains to be seen coming out of the pandemic. A significant back log of inspections exists and we will be keen for the regulators to concentrate on the current non-compliant homes in order to improve the overall compliance profile of the Homes.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 30 June 2021

Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders dated 14 June 2017, 15 November 2017, 19 February 2018, 30 May 2018, 31 August 2018, 18 December 2018, 1 March 2019, 21 May 2019, 23 August 2019, 15 November 2019, 17 February 2020, 20 May 2020, 17 August 2020, 20 November 2020, 18 February 2021 and 11 May 2021.

Unless otherwise stated, the figures in this update are presented on a Like For Like ('LFL') basis. Over the period covering the results presented below, seven homes ('the Homes') were in the portfolio which is consistent with our previous updates.

As detailed in the previous update, Greenhaw Lodge was closed at the start of November 2020 in order to undertake some urgent remedial works to the property. The home re-opened on 16 June 2021 under the name Oakleaves Care Centre. This home is referred to as 'Oakleaves' throughout this update.

The results in the table below include the full results for each quarter for Oakleaves even though the home didn't trade between the end of October 2020 and 16 June 2021. The impact of this closure on certain of the KPIs is detailed throughout this update.

The 'Other Income' included in the table below represents the on-account payments for loss of income to 30 June 2021 that have been received from the business interruption insurers in respect of the claim for the closure of Oakleaves.

Summary Financial Performance – 3 months to June 2021

The trading results and main KPIs for the three months to June 2021 are summarised as follows:

	3 mths to 30-Jun-20 £'m	3 mths to 31-Mar-21 £'m	3 mths to 30-Jun-21 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	3.62	3.09	3.19	(0.43)	0.10
Other Income	-	0.20	0.18	0.18	(0.02)
Staff Costs	(2.35)	(2.21)	(2.25)	0.10	(0.04)
Operating Costs	(0.20)	(0.18)	(0.17)	0.03	0.01
Indirect Costs	(0.18)	(0.28)	(0.28)	(0.10)	-
EBITDARM	**0.89**	**0.62**	**0.67**	**(0.22)**	**0.05**
KPIs					
Usable Beds	323	281	288	(35)	7
Average Occupancy	304	248	259	(45)	11
Average Occupancy %	94.1%	88.3%	89.9%	(4.2%)	1.6%
Spot occupancy at quarter-end	305	252	270	(35)	18
Spot occupancy at quarter-end %	94.4%	89.7%	83.6%	(10.8%)	(6.1%)
Average weekly fee	£916	£969	£948	£32	(£21)
CAPEX (£'m)	0.04	0.13	0.29	0.25	0.16
Staff costs as a % of Fee Income	64.9%	71.5%	70.5%	(5.6%)	1.0%

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
Spot occupancy at quarter-end % is based on the number of usable beds at the period end, not the average number for the period

Overall, EBITDARM for the quarter to 30 June 2021 represented an increase of c.£50,000 from the previous quarter principally driven by the 1.6 percentage point increase in average occupancy in the quarter. There was also an increase in the underlying average weekly fee of c.2.7% once the Covid-19 financial assistance monies are excluded from Fee Income (see Average Weekly Fees section).

Covid-19 financial assistance of c.£100,000 was received in the quarter, a reduction from the figure of c.£240,000 received in the prior quarter. These monies (for both quarters) are included in Fee Income in the above table.

Before accounting for Covid-19 financial assistance, LFL EBITDARM increased by c.£190,000 quarter on quarter.

The increase in usable beds for the quarter to 30 June 2021 is driven by the fact that Oakleaves reopened for the final two weeks of the quarter compared to the previous quarter when it had been closed for the entire quarter.

Note that the decrease in Spot Occupancy % reported as at 30 June 2021 in the table above is an anomaly caused by the re-opening of Oakleaves in mid-June 2021. Excluding Oakleaves, Spot Occupancy for the remaining six homes increased from 89.7% as at 31 March 2021 to 91.8% as at 30 June 2021.

Covid-19

Northern Ireland is now in its fourth wave of the Coronavirus pandemic which has resulted in a number of staff across the Group isolating for contact reasons.

However, there are no current outbreaks at the Homes and no residents at the Homes are currently identified as having Covid-19. This is pleasing given that 25% of the total care homes across the Province have reported outbreaks recently; this figure has quadrupled in the past 3 to 4 weeks.

Visiting guidelines in this quarter have loosened with relatives now allowed two visits per week with a maximum of two individuals at each visit and children now also being included in the visiting. Further relaxations were due to come into force by now, however as the new wave is affecting all areas, a decision on this has been delayed until mid-August.

Testing is continuing for clients on a 4-weekly basis and staff and Care Partners on a weekly basis. Currently, 96% of clients have been vaccinated, with a small minority of refusals and some clients unable to receive the vaccine across the Group due to allergies. This is an increase of 9% on the last quarter which is pleasing to report.

With regard to staff vaccinations, uptake in the vaccine has increased gradually this quarter to 73%. This is an increase on the previous quarter of 11% which is pleasing. Further education and ongoing encouragement of staff seems to be helping to improve these percentages.

Occupancy

Across the quarter, occupancy increased by 18 clients, ending the quarter at 270 clients. Of this improvement, an increase of 12 clients arose following the re-opening of Oakleaves on 16 June.

The remaining increase of six clients arose at the six homes that were open as at 1 April.

Overall, occupancy for the quarter as a whole averaged 259 clients, an increase of 11 clients on the previous quarter.

In our previous update, we had highlighted the lower-than-average occupancy at Kingsland. We are pleased to report that the occupancy of this home has improved significantly since our meeting with the South Eastern Health & Social Care Trust in April 2021 and now stands at c.85%.

Current occupancy is returning to pre-pandemic levels as many people that were previously furloughed are returning to the workplace. It is therefore becoming more challenging for relatives to provide care within the family setting and as a result, the demand for care home beds is increasing. Confidence in the vaccine is also assisting bed fill.

Post quarter end, occupancy has continued to improve, closing at 288 clients as at the end of July. Of this improvement of 18 clients since the quarter end, an increase of 9 relates to an increase in the number of clients at Oakleaves.

In the quarter, the average ratings for the homes on the CareHome.co.uk website was 9.4.

Average Weekly Fees

The overall average weekly fee for the quarter was £948 which was a decrease of £21 (2.2%) on the previous quarter.

Note that the figure for both quarters are inflated by the Covid-19 financial assistance funds received which were included in Fee Income in each of the quarters. Before accounting for these monies, average weekly fees for the quarter to 30 June 2021 were £919, an increase of £24 (2.7%) on those for the previous quarter.

Pre any Covid-19 funding, the average weekly fee for nursing clients was £975 for the quarter (previous quarter £954) whilst for residential clients the average weekly fee was £641 (previous quarter £626).

Fee increases on 1 April 2021 were as follows:

- Nursing rates across all five Trust areas increased by 3.00% (2020: 4.75%)
- Residential rates across all five Trust areas increased by 3.00%. (2020: 5.00%)
- Self-funders increased in line with the Trust increases above depending on the care category; these increases took effect from 1 June 2021.

The Proportion of self-funded clients remains the same with approximately 8.5% of beds across the Group being self-funded.

Costs

Whilst staff costs increased by c.£40,000 (4.7%) on the previous quarter, this was driven by the fact that the June quarter is a day longer than the March quarter. Furthermore, Oakleaves was closed for the whole of the March quarter but was trading for the last two weeks of the June quarter.

Overall, staff costs as a percentage of fee income reduced by 1 percentage point quarter-on-quarter.

The National Living Wage increased on 1 April 2021 from £8.72 an hour to £8.91 an hour, an increase of c.2.2%. This directly affects c.65% of Larchwood's workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

During the quarter to June 2021, agency costs were c.£47,000 compared to the figure of £94,000 in the previous quarter. In the previous quarter there had been a number of outbreaks in the Homes which drove a high demand for agency to cover shifts when staff were Covid positive or isolating. There were no outbreaks during the quarter to June 2021 and agency demand was less as a result.

Recruitment continues to be an area of major focus especially in respect of nurses where there are c.10% vacancies across the Group. These vacancies have increased due to maternity and long-term sickness. It is certainly proving more difficult to recruit high calibre nurses with specialist skills for the specialist units across the Group. The lack of available nurses within the UK generally is nothing new and the impact of Brexit is clear.

Compulsory vaccination which is coming into effect in England is not being rolled out across Northern Ireland currently. The Department of Health has instead decided upon gradual encouragement, increased education around the potential side effects and financial incentives to improve the uptake of the vaccine for those employed in Health and Social Care.

Operating Costs were c.£7.34 per resident day in the quarter to June 2021 (a 2.3% decrease on the quarter to March 2021).

Overheads were in line with the previous quarter as the seasonal decrease in utility costs was offset by an increase in the cost of insurance.

Compliance and Quality

A total of five inspections took place in the quarter to June 2021. One of these inspections was a joint care and estates inspection of Oakleaves to enable the Regulator to assess the works completed and the processes designed to enable the re-admission of residents to the Home. This inspection reported that the works in the home had been completed to an exceptionally high standard and praised the dementia friendly design and layout.

The remaining four inspections focused on care in Dunanney, Glebe, Apple Blossom Lodge and The Sperrins Residential Home (which forms part of Melmount Manor).

The inspection in Dunanney reported good practice in care delivery and staff interaction with residents. Most of the Areas for Improvement from the previous inspection were assessed as compliant and three new areas were stated. These were quickly actioned and are being kept under review.

At Glebe, the inspector reported a high standard of person-centred care for residents and that all Areas for Improvement previously stated were assessed as compliant. The Sperrins Residential Home report was also very positive with all previously stated Areas for Improvement assessed as compliant. Between both these homes only three Areas for Improvement were stated and these have been addressed and actioned.

The final inspection was a care inspection at Apple Blossom Lodge. The home historically has performed well in Regulatory Compliance and once again the inspector praised the high standard of care and compassion demonstrated within this challenging care environment. No Areas for Improvement were stated.

Oakleaves Capex

As detailed in our previous update, the issue that caused the closure of Oakleaves was similar to the issue experienced at Melmount Manor between 2017 and 2019; the underground water pipes laid at the time of the construction of the home were leaking bringing significant water damage throughout the home. As at Melmount, these pipes have had to be decommissioned with new plumbing being laid in the roof space which is then connected to all rooms. Once laid, significant remedial work was then required to the home to bring it back up to the required standard.

The remedial works were completed at the end of May and the home re-opened on 16 June 2021 following the approval of the RQIA and Western Health & Social Care Trust.

The final quantum of the agreed insurance claim was c.£0.4 million and all of the claim has now been paid. Note that the amount spent on the works covered by the insurance claim are not included in the Capex figure in the table at the start of this update.

Of the Capex spend in the quarter reported, c.£250,000 was incurred at Oakleaves in respect of remedial costs not covered by the insurance claim that has been made. The final cost of the uninsured works, including amounts paid in the previous quarter and future payments, will be c.£465,000.

In addition to the claim under the property insurance, a claim has been made under the business interruption insurance and further on-account payments of £180,000 were received in the quarter to 30 June 2021. This brings the total received in respect of the claim to £530,000.

Further funds are anticipated to be received prior to the end of September 2021 however, this final amount is yet to be agreed with insurers.

Other Capex

In the quarter to June 2021, c.£40,000 was spent on 'non Oakleaves' Capex.

Over the past 12 months, c.£740 has been spent on average per effective bed across the Homes (excluding the Oakleaves Capex detailed above).

As access to the Homes is now more freely available than in previous quarters, a number of Capex projects previously deferred are currently being commenced.

<u>Summary Financial Performance – 12 months to June 2021</u>

The trading results and main KPI's for the twelve months to June 2021 for the Homes (compared to the twelve months to March 2021) are summarised as follows:

	12 mths to 31-Mar-21 £'m	12 mths to 30-Jun-21 £'m	Variance £'m
Fee Income	13.44	13.01	(0.43)
Other Income	0.35	0.53	0.18
Staff Costs	(9.27)	(9.17)	0.10
Operating Costs	(0.77)	(0.74)	0.03
Indirect Costs	(0.85)	(0.95)	(0.10)
EBITDARM	**2.90**	**2.68**	**(0.22)**
KPIs			
Usable Beds	306	297	(9)
Average Occupancy	281	269	(12)
Average Occupancy %	91.8%	90.6%	(1.2%)
Spot occupancy at year-end	252	270	18
Spot occupancy at year-end %	89.7%	83.6%	(6.1%)
Average weekly fee	£915	£926	£11
CAPEX (£'m)	0.33	0.67	0.34
Staff costs as a % of revenue	69.0%	70.5%	(1.5%)

The EBITDARM generation in the twelve months to June 2021 represents c.20.6% of Fee Income (a decrease of 1.0 percentage points when compared to the twelve months to March 2021). On a home-by-home basis (excluding Oakleaves), EBITDARM generation ranged from 12.8% to 33.8% in the twelve months to June 2021.

Overall Outlook

A further communication from the Health Trusts has confirmed that further Covid-19 financial assistance will be received for the next quarter.

This fourth wave of the virus has impacted vastly on the number of outbreaks reported in the local care home sector over the last 3-4 weeks. Therefore, it is anticipated that more staff will be needing to self-isolate and this will impact upon agency usage over the current quarter.

Costs have increased in relation to ongoing maintenance and repairs due to the Northern Ireland Protocol and the availability of parts. In addition, the availability of some product lines from food suppliers has also been severely impacted and costs have risen accordingly. There has been disruption of deliveries to the Homes in terms of logistics from some suppliers.

Ongoing recruitment challenges will continue for the foreseeable future. This will push up pay rates for nursing staff accordingly. As the economy is starting to open up again, retail and hospitality sectors will adversely impact upon the recruitment within the Health & Social Care sector.

The current pay rates of Health and Social Care staff have now become a discussion point particularly throughout this pandemic. Unions are increasingly pushing for increased pay rates that reflect and recognise the skill levels involved and the strong contribution that care home staff have made to society over the past 18 months.

Scrutiny from the Regulator will continue to drive standards, which should assist in renewing confidence in the sector.