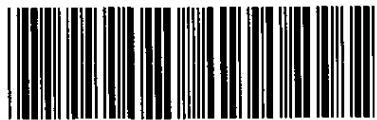


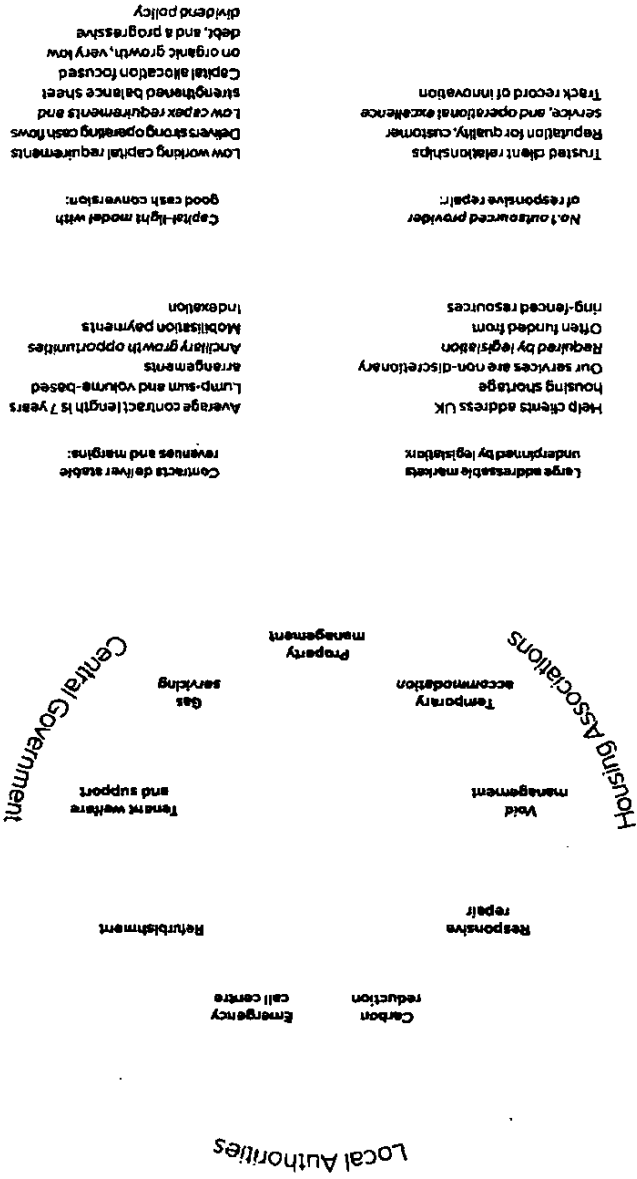
A CLIMATE FOR CHANGE

THU THURSDAY			
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	A27	22/09/2022	#260
	COMPANIES HOUSE		
THU THURSDAY	*ABA0MYT6*		
	A15	18/08/2022	#248
	COMPANIES HOUSE		
	AB6NT00V		
THU THURSDAY	A05	21/06/2022	#215
	COMPANIES HOUSE		

Mears Group PLC
Annual Report and
Accounts 2021

Mears today

Mears is one of the UK's leading and most trusted providers of a wide range of specialist Housing services to Local and Central Government.



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Highlights

Financial highlights

Group revenue	Net debt (inclusive of lease obligations)
Adjusted profit/(loss) before tax**	Reported profit/(loss) before tax*
Adjusted net cash/(debt) (exclusive of lease obligations)	EBITDA to cash conversion***
Statutory diluted EPS*	Adjusted diluted EPS*
Order book	Accident frequency rate

* On continuing activities.

** On continuing activities, stated before exceptional costs and amortisation of acquisition intangibles.

*** Being EBITDA divided by cash inflow from operating activities of continuing operations.

Strategic highlights

- New client relationship with the Ministry of Justice to provide housing services
- Significant capabilities to support the decarbonisation of the UK's housing stock including an end-to-end offer for clients, enabling projects to be designed, funded, implemented and measured
- Good progress in managing the controlled closure of our Development activities, releasing working capital absorbed in that area
- Excellent working capital management
- Underlying net debt (before lease obligations) at close to zero

ESG highlights

- Staff delivered 1,500 local community projects generating over £29.4m of social value
- Plans to eliminate our carbon footprint by 2030
- Awarded Order of Distinction by the Royal Society for the Prevention of Accidents (RoSPA), having achieved Gold Award standard in our safety record for 19 consecutive years
- Recognised as one of the Best Big Companies to work for by the Sunday Times

Reconciliations between the statutory figures and the alternative performance measures are reconciled on pages 55 and 56 of the Financial review. The Financial review also provides detailed analysis of the financial impact from the discontinued operations.

Specialists in housing solutions

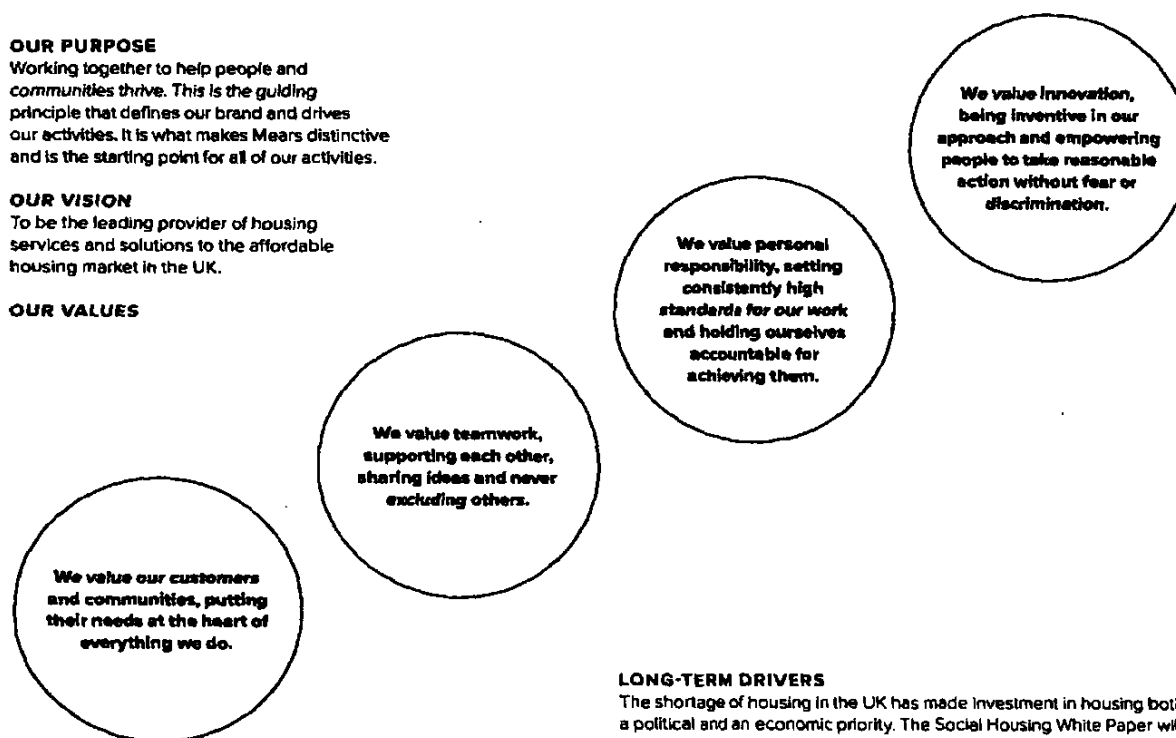
OUR PURPOSE

Working together to help people and communities thrive. This is the guiding principle that defines our brand and drives our activities. It is what makes Mears distinctive and is the starting point for all of our activities.

OUR VISION

To be the leading provider of housing services and solutions to the affordable housing market in the UK.

OUR VALUES



Our business at a glance

WHAT WE DO

Mears has a single-minded focus on the housing market and delivering services to the residents of these homes. We operate within the affordable housing sector, which is an area that will see continued investment given the significant housing shortage and the rising number of people who are regarded as statutorily homeless. We are also a key player in the Net Zero agenda. As the largest provider of repairs and maintenance to the social housing sector, we are already delivering Net Zero housing solutions with our partners.

OUR SERVICES

Our core services are in the maintenance and management of homes. Increasingly we operate an intelligent approach to maintenance, using technology and experience to operate preventative maintenance programmes that reduce levels of emergency repairs. As regards management, we collect rent and ensure homes are managed and maintained to a decent standard, whilst often providing other welfare services to the tenants. Our particular focus is on providing sustainable alternatives to homelessness, helping reduce the rising problems created by the housing shortage in the UK.

OUR CUSTOMERS

We work predominantly with Central Government and Local Government, in the delivery of housing services. These are typically through long-term contracts. We equally consider the residents of the homes that we manage and/or maintain to be our customers, and we take pride in the high levels of customer satisfaction that we achieve.

LONG-TERM DRIVERS

The shortage of housing in the UK has made investment in housing both a political and an economic priority. The Social Housing White Paper will lead to greater focus on tenant engagement and safety. UK carbon reduction targets will also mean that significant further investment in housing is needed, including the replacement of gas boilers.

We are already seeing rising investment in our markets and a greater attention to the quality of delivery.

Demographic change is also a key long-term driver, given the growing and ageing population of the UK. This will create opportunity for more specialist housing, where management and maintenance services can be effectively combined through a single partner.

WHERE WE OPERATE

We operate across the UK through a range of local branches and facilities with a national coverage. A sample of our branches and recent contract wins is given below.

Great service will see an increase in volume, including new contracts expected to increase to c. £13m in 2022. We also retained our Supported Living contract which delivers revenues in excess of £5m per year in Aberdeenshire.

Maintaining over 8,000 homes with UK in since 2008, we have recently received a further contract extension to 2026. We have also worked with the client to secure funding of £2.2m to deliver energy efficiency improvements in 111 homes in County Durham.

see page 19

We are providing housing and support to over 20,000 asylum seekers across Scotland, Northern Ireland and parts of the north of England. The contract delivers annual revenues in excess of £100m in Darlington, Glasgow and Belfast.

Appointed in 2016 to deliver a range of services to council stock, the contract reports revenues in excess of £40m per annum. We also worked with our client to secure £3m of Central Government funding to deliver decarbonisation works. **Wiltshire**

Won a 7-year extension of our long-standing maintenance partnership with United Welsh, worth £70m, in Caerphilly.

Awarded a contract with the Ministry of Justice to provide transitional housing services and support to low and medium risk prisoners upon their release. The contract mobilised in July 2021 with annual revenues of circa £10m in the North West and North East.

see page 17

Awarded new Rental Living Accommodation Project (RLAP) contract, providing a wide range of housing services to the Defence Infrastructure Organisation. The new contract is for a period of up to 7 years and has a contract value of approximately £35m per annum in Blasingstone.

Orbit Housing contract extension to 2027, delivering maintenance services and reporting revenues of over £20m per annum in Kent.

2021 accreditations

An organisation that promotes a safe working environment

ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS

Health and safety is paramount to our business. In 2021 Mears Group was awarded the RoSPA Order of Distinction alongside its 19th consecutive Gold Award in the internationally renowned Health and Safety Awards run by RoSPA.

An organisation that actively promotes support to Armed Forces Veterans

ARMED FORCES COVENANT – GOLD AWARD

Mears has signed up to the Armed Forces Covenant to demonstrate our commitment to ensure that those who serve or who have served in the armed forces, and their families, are treated fairly.

An organisation that engages with customers

TPAS CONTRACTOR ACCREDITATION AND AWARD WINNER

Mears has continuously held the TPAS Contractor accreditation since 2015. It is an independent evidence-based accreditation scheme that assesses and recognises resident engagement arrangements. Mears is privileged to have been awarded the TPAS Award for best contractor – tenant engagement.

A great employer

BEST COMPANIES

Mears was named in 2021 as one of the Top 25 large businesses to work for in the Sunday Times Best Companies to work for list. Best Companies recognises businesses that take workplace engagement seriously in order to build a happier, healthier workforce. Our listing in the top 25 has been maintained for 3 years.

An organisation that delivers quality

CUSTOMER SERVICE EXCELLENCE

Mears aims to put customers at the heart of everything we do. The Customer Service Excellence accreditation is a practical tool for driving customer-focused change.

A diverse and inclusive business

EW GROUP INCLUSIVE CULTURE PLEDGE

Mears is proud to have signed the EW Group Inclusive Culture Pledge. The Pledge will focus on keeping the equality and diversity conversation alive in our organisation and how we continue to progress our diversity and inclusion agenda and achievements.

An organisation that champions Social Mobility

SOCIAL MOBILITY INDEX

Mears is listed as a top 75 Social Mobility Employer in the Social Mobility Index. The Index is an important bench-marking Initiative that ranks Britain's employers on the actions they are taking to ensure they are open to accessing and progressing talent from all backgrounds and it showcases progress towards improving social mobility.

An organisation that believes good people make a great business

INVESTORS IN PEOPLE

Mears is proud to have long held the Investors in People standard. Investors in People is the industry standard for people management.

A socially responsible business

FTSE4GOOD

Mears Group is placed in the top 9% of the UK's most socially responsible businesses in the FTSE4Good Index which recognises excellent environmental, social and governance (ESG) practices.

Colleagues receive best in class training

ICS TRAININGMARK

The Institute of Customer Service (ICS) TrainingMark demonstrates that our Customer Excellence Training (Making a Positive Difference) programmes meet national standards for customer service, as independently recognised by the ICS.

Delivering excellent customer service

ICS SERVICEMARK

Mears aims to put customers at the heart of everything we do. The ICS ServiceMark helps organisations understand how effective their customer service strategy is, and identifies areas for improvement.

Backing our essential workers

ICS – SERVICE WITH RESPECT

Mears is proud to support the ICS's new 'Service with Respect' campaign combatting the abuse and anti-social behaviour experienced by essential workers in customer-facing roles.

Chairman's letter

For much of the last two years, Mears' strategy has been to streamline and refocus its activities on the core provision of low capital intensity housing services to public sector clients and in doing so to reduce its indebtedness. This has now been achieved.

Kieran Murphy
Chairman

INTRODUCTION

The most obvious theme for 2021 was the gradual and progressive return to normal working across most of Mears' activities. At the start of the year, a version of lockdown was still in place, our repair and maintenance activities were restricted and a number of contracts continued, as they had for much of 2020, to repay our costs but eliminated the scope for profit generation. By the half year, we had returned to almost normal operations and contractual conditions. Activity continued to build throughout the second half of the year, with growing work volumes and a more active bidding process. The resilience of our markets and our operations was underlined by the fact that the appearance late in the year of the Omicron Covid variant, while creating some operational challenges, had very little impact on activity levels, service quality or financial performance. We entered 2022 with a strong trading and financial position, a good pipeline of work and continued high levels of customer service.

This resilience in performance owes much to three factors. The first, and most important, is the quality of our staff. I have seen many examples of extraordinary dedication and resilience in the face of difficult circumstances and a determination to deliver a good experience for customers, not simply to execute a piece of work. The second is the strength of our customer relationships, fostered by our belief that excellent customer service is the key to effective cooperative working between client and provider. Finally, our information technology platform has been integral to the delivery of our high quality, responsive service. Mears' people have much to be proud of in the way they navigated 2021.

Mears in 2022 is a financially strong group whose business is to fulfil contracts from UK Local and Central Government bodies to provide essential services to customers in need. No UK company will be entirely immune to the consequences of the current deterioration in the world geopolitical climate, but Mears' financial stability and increasing certainty of revenue provides the Group with strong defensive qualities and confidence in our sustainable future.

RESULTS

Mears' results for the year reflect this pattern of underlying activity, with activity and profitability growing as the year progressed. Full year revenue from continuing activities reached £878.4m, very close to that achieved in 2019 (£881.5m) and a significant increase on 2020 (£805.8m). Adjusted profit before tax reached £25.6m (2020: £3.4m loss). Cash generation throughout the year was particularly strong, both in the core operations and in proceeds from realisations in the residual development business. The year end adjusted net cash balance was £54.6m but, more importantly, average daily adjusted net debt for the year was effectively zero. Underlying cash conversion of over 100% in the last two years, (as defined and detailed in the Finance Review), has, along with strategic disposals, transformed the Group's financial position and created the current balance sheet strength which Mears is determined to retain into the future.

The value of new contracts bid and secured in the year was relatively low given the delay caused by Covid. The Group was pleased to develop a new Central Government client relationship with the Ministry of Justice (MoJ) to provide housing services, supporting low and medium risk prisoners upon their release into initial accommodation and then providing a clear pathway to a settled home. While the initial value of the contract is modest, there is scope to extend the longevity and geographic coverage of this work as we become familiar with the requirements of a new and different customer base and a new client.

We were delighted that in early 2022, the Ministry of Defence (MoD) notified Mears that it had been successful in its bid to continue to provide housing services to military personnel in the community under the new RLAP. This is an extremely important client and contract for the Group, and we look forward to continuing to provide a very high quality service to our military customers for a number of years. Including this successful retention, the Company's order book remains strong at some £2.4bn (2020: £2.6bn).

DIVIDEND

The Board is proposing a final dividend of 5.50 pence per share, bringing the total dividend for the year to 8.00 pence per share. We are pleased to have been able to reinstate dividend payments as our trading returned towards normal during 2021 and it is the Board's policy to pay a progressively growing dividend, keeping cover at between 2x and 2.5x normalised earnings.

STRATEGY

For much of the last two years, Mears' strategy has been to streamline and refocus its activities on the core provision of low capital intensity housing services to public sector clients and in doing so has realised value from non-core activities to reduce its indebtedness. This has now been achieved. During the last year, the Board has invested considerable time in working with the management team, supported by external advisers, to assess the scope for the Group's future development.

The backdrop is encouraging. Demographic trends are increasing the demand for affordable housing and more sophisticated retirement living solutions. Social housing waiting lists remain long and there is growing pressure on Local Authorities and Housing Associations to find, service and maintain homes to a high standard. Finally, the Government's commitment to national carbon reduction targets cannot be achieved without both a very substantial investment in the quality of the existing housing stock as well as significant changes in the way houses are heated.

Mears is positioned to benefit from all of these trends. We expect to use our position as the market leader in housing maintenance to win new business at good margin and to progressively extend our range of services to clients. We will explore ways in which we might be able to operate profitably with private sector clients. We will grow our capabilities, especially in relation to the 'greening' of housing and, once effective funding mechanisms are found to pay for this work, expect to be a market leader in this transformation of the country's social housing stock. We will maintain a strong financial position and our focus on excellent cash generation.

Continuing revenues

£878.4m

(2020: £805.8m)

Adjusted diluted EPS

18.23 p

(Statutory diluted EPS 11.50p)

Chairman's letter continued

Our commitment to all of our stakeholders will remain at the forefront of our development. We will continue to support customers and communities, both in how we undertake our core work and in the social value projects we support. We will invest in our business to generate incremental opportunity and quality improvements in the service we can provide customers and clients. Our commitment to our staff's welfare and their personal and career development will also be strengthened. We will institute a programme to eliminate our own carbon footprint by 2030. We will maintain close relationships with our bank lenders, although our facilities will be smaller than in past years. And we will keep a close eye on the need to balance retained financial strength for the Group with a steady and growing return of value to our shareholders.

BOARD DEVELOPMENTS

As foreshadowed in last year's report, both Roy Irwin and Geraint Davies stood down from the Board at the 2021 Annual General Meeting (AGM). The Board is grateful for their services. At that time, the Board proposed to add one new Non-Executive Director during 2022.

Much work was undertaken by the Nominations Committee to identify both what skills and experience would be of most value in recruiting a new director and in examining our need for a continued effort to reflect at Board level the Group's overall commitment to diversity. This work is discussed further in the Report of the Nominations Committee. Following an extensive process, the Board was pleased to announce the appointment of Angela Lockwood as its new Non-Executive Director with effect from 1 January 2022. Angela has held senior roles in the affordable housing sector for many years and her in-depth understanding of that community will be of immense value to Mears as it continues to develop its business.

RELATIONSHIPS WITH SHAREHOLDERS

For a number of years, Mears' largest shareholder was Primestone Capital, which held over 12% of the Company's shares. Over the last 12 months, Primestone progressively reduced its holding and, by the end of 2021, it was no longer a shareholder. Mears' current shareholder base is dominated by a small number of funds with significant holdings, most of whom have been substantial and supportive owners of the Company for many years.

"We will continue to emphasise the need to support customers and communities, both in how we undertake our core work and in the social value projects we support."

While day-to-day dialogue with shareholders is led by the senior management team, it is important for me as Chairman to have the opportunity to talk with shareholders from time to time so that I can understand the key issues which underpin their support for Mears. During 2021, I held discussions on at least one occasion with most of the largest 15 shareholders in the Group, which allowed them to question me about the position and prospects for the Group and facilitated my understanding of what matters for them in their continuing support for the Company. I intend to continue that dialogue, both reactively and proactively, through 2022.

ESG

I referred above to the importance of the 'carbon zero agenda' in the future development of the Mears' business, and this is discussed further in the CEO's review. Mears is developing its plan to eliminate its own carbon footprint by 2030. This plan will be closely monitored by the Board as it is rolled out across the Group to ensure that the changes we make are sustainable, effective, and permanent.

Mears' commitment to responsible business and the creation of social value is an integral part of the fabric of the Group. We are pleased that it continues to be recognised by a wide range of outside observers. We were delighted to be awarded the Order of Distinction by RoSPA (the Royal Society for the Prevention of Accidents), having achieved Gold Award standard in our safety record for 19 consecutive years. We remain one of the Best Big Companies to work for in the annual Sunday Times survey. We have continued to develop a range of programmes to support staff from apprentices through to middle management in their career development. Our commitment to customer service was reflected in the retention of the ICS's ServiceMark Accreditation for Housing.

We remain in the forefront of the development of good business practice with the production of our report on Ethical Procurement and in the development of our Scottish Business Charter.

Further details of other initiatives are included in the ESG section of the Strategic Report.

CONCLUSION AND OUTLOOK

Much has been achieved by Mears over the last three years to optimise its position and prospects, despite the strong headwinds of the Covid pandemic for much of that period. Credit for this must go to the management team and the workforce generally, and it is a pleasure, on behalf of the Board, to acknowledge the hard and effective work which has been put in over this period. We are confident in our capabilities, our ability to add value and our capacity to generate sustainable profitable growth.

An interview with the Chief Executive Officer

There has been so much publicity around the challenges in the asylum system. How is this likely to impact the business going forward?

It is correct to say that there have been major challenges this year and our staff have been brilliant in reacting to very high levels of demand, often at very short notice. We find initial and dispersed accommodation, on behalf of the Home Office across Scotland, Northern Ireland and parts of the north of England. At the time of writing this response, there is no sign of the number of people requesting asylum decreasing, although we have assumed that this will start to happen from the middle of 2022. We will continue to focus on providing good quality housing and to work with other groups to support the welfare of the individuals concerned.

“Our staff have been brilliant in reacting to very high levels of demand, often at very short notice.”

What is the situation regarding materials availability and inflation, as well as the pressures arising from labour shortages? Worldwide demand had put pressure on both the supply and price of some materials. We are fortunate that all our major contracts provide for increases in inflation, but we still have a duty to mitigate the impact on our clients. We have close working relationships with our suppliers and ensured there is good visibility of forward demand. There are some pressures on front line trade roles. To mitigate this, we have put increased focus on apprenticeships, invested in the Kickstart Scheme and developed new entry level roles. Our continued focus on promoting diversity is also important in ensuring that we reach out to all people in society. The most important thing is staff retention, and it is obviously helpful that we are recognised as being one of the best large companies to work for in the UK. We have, however, gone further, improving terms and conditions for staff, in areas such as holidays, flexible benefits and sick pay.

Covid must still be presenting challenges to Mears. How are you dealing with them? Covid has almost become a business-as-usual challenge within Mears. By this I mean staff have been excellent in sticking to stringent safety procedures and being able to balance working from home and the office, sometimes changing at very short notice. We have tried and tested procedures, and whilst it is possible that more severe lockdowns may happen, it is evident that the work will not disappear, but just get delayed.

Do you believe that the focus on carbon reduction is a real opportunity for Mears? Without doubt. The business is already winning work in this space and had developed an end-to-end service capability to support clients' work towards net zero within their housing stock. I am also excited by the benefit this work has on reducing fuel poverty. While being ambitious in our development planning and specifically in broadening the skills in our workforce here, we are being cautious as regards to the speed at which clients invest, given some uncertainties with grant funding availability. Overall, though, this is probably the biggest opportunity for Mears over the next 5 years.

What steps are you taking to promote diversity in Mears?

Our clients are very diverse and so is our workforce. I am pleased that staff have readily shared EDI data with us, so we have a very good picture of our workforce, and we monitor closely how our workforce is progressing. It's been good to see significant growth in the percentage of managers who are women in Mears and that the gender pay gap is closing. We have an Employee Director on the main Board and a Deputy Employee Director, who is also the disability champion for the Group. Diversity training has taken place at every level in the Group, including at the main Board. We have a Social Diversity and Inclusion Board, with three independent Directors, that reports to the main Board on the progress the Group is making. Our succession planning procedures, at all levels, fully consider diversity aspects and our ongoing goal to be a leader in this field.

“Our clients are very diverse and so is our workforce.”

Now the cash position of the Group has improved so much, do you see a role for acquisitions?

We don't believe that any major acquisitions are likely. We have a very clear strategy with some good opportunities for organic growth. We will, of course, continue to have this position under review.

Chief Executive Officer's review

We are trusted partners to our Local and Central Government clients, who increasingly recognise the need for a high quality housing specialist to help them provide a wide range of accommodation and related services to often vulnerable people within their care.

David Miles
Chief Executive Officer

INTRODUCTION

2021 was a strong year for the Group, characterised by high quality operations and customer service, a robust financial position and trading outperformance. Our track record of operational excellence underpins everything we do; from winning new work, attracting and retaining the best staff, delivering a strong and sustainable financial performance. The pandemic again placed additional operating challenges this year. Prior long-term investment in client relationships, our people and systems ensured the business continued to perform well relative to its peers.

We are a trusted partner to our Local and Central Government clients, who increasingly recognise the need for a high quality housing specialist to help them provide a wide range of accommodation and related services to often vulnerable people within their care.

I am keen to put on record its appreciation for the ongoing dedication and commitment shown by all staff and the cooperation and support received from our clients and customers.

Accident frequency rate

0.19

(2020: 0.15)

Order book

£2.4bn

(2020: 2.6bn)

GROUP REVIEW

The trading performance of the Group continued to recover strongly over the course of the year as the financial impacts of the Covid-19 pandemic receded. The recovery in revenue in the continuing operations to near 2019 levels in 2021, and the rise in operating margins, especially in the second half, were very positive.

Continuing activities

	H1 2021 £m	H2 2021 £m	2021 £m	2020 £m
Revenue				
Maintenance-led	286.5	257.9	544.4	536.9
Management-led	139.5	168.9	308.4	253.8
Development	17.7	7.9	25.6	15.1
Total	443.7	434.7	878.4	805.8
Operating profit before tax measures:				
Statutory operating profit/(loss) ¹	9.7	14.7	24.4	(6.3)
Adjusted operating profit/(loss) (post-IFRS 16) ²	15.6	18.1	33.7	6.6
Adjusted operating profit/(loss) (pre-IFRS 16) ²	13.7	15.9	29.6	0.6
Adjusted operating margin (pre-IFRS 16)	3.1%	3.7%	3.4%	0.1%
Profit before tax measures:				
Statutory profit/(loss) before tax	5.6	10.7	16.3	(15.2)
Adjusted profit/(loss) before tax ²	11.1	14.5	25.6	(3.4)

1. Statutory operating profit/(loss) includes share of profit in associates.

2. Adjusted measures are defined in the Alternative Performance Measures section of the Finance Review.

Group revenues for the year were £878.4m (2020: £805.8m), a 9% increase on the prior year, driven by elevated volumes across the Management-led contracts, repair volumes returning to pre-pandemic levels within responsive Maintenance and a good sell-through in Development, especially in the first half of 2021.

Operating profits and margins continued to strengthen over the course of the year as lockdown restrictions eased, volumes increased, and the business reverted to its original commercial mechanisms with clients. Pre-IFRS 16 adjusted operating profit for the year was £29.5m (2020: £0.6m), with pre-IFRS 16 adjusted operating margins recovering from 3.1% in the first half to 3.6% by the second half.

Adjusted profit before tax for the year was £25.6m (2020: £3.4m loss), benefitting from the improved trading performance and lower interest costs given the Group's much improved debt position throughout 2021.

OPERATING REVIEW

Maintenance-led

Through its portfolio of Maintenance-led contracts, Mears is responsible for the upkeep, repair, and maintenance of social housing across the UK, on behalf of around 50 Local Authorities and Housing Associations.

The Group's Maintenance-led contracts saw an improving volume and revenue trend during 2021 as restrictions eased and more normalised trading conditions returned to most branches. All contracts reverted to their original commercial mechanisms.

We experienced particularly high volumes in reactive maintenance activity in the second half of 2021 as we worked with clients and customers to clear the backlog of lower priority maintenance jobs that had been delayed by lockdowns. Higher Covid-related levels of sickness in our workforce during 2021, together with some reduction in productivity given ongoing social-distancing protocols, has resulted in a higher level of overdue works orders. Planned maintenance works have been slower to return to normal levels. However, this spend is non-discretionary over the longer term and we are confident these works will return during 2022.

Our procurement procedures have meant that we have not experienced significant problems with material supply. Where lead times have lengthened, we have managed to plan for this in our operational delivery. However, as evidenced across the industry, we have experienced input price inflation in the period, impacting upon both materials and labour. The Group's customer contracts include inflationary uplift mechanisms which negate much of this risk over the medium term, although there can be timing differences in the short term. The Mears model has always been to invest in and retain our own staff as much as possible, with lesser reliance than peers on sub-contracted and other short-term labour. Our employee turnover remains low relative to the industry and, accordingly, we are better protected from the shortages and accompanying price inflation seen in the broader construction labour markets.

Management-led

Mears' Management-led contracts include the procurement, management, and maintenance of over 10,000 affordable homes and support to the people in those homes. Most of the revenues in this area are generated through contracts with Central Government.

Our contracts in this Management-led category performed strongly throughout 2021, with revenues up 22% year on year. This was largely driven by the Asylum Accommodation and Support Contract (AASC) in which we find initial and dispersed accommodation on behalf of the Home Office across Scotland, Northern Ireland, and parts of the north of England. AASC continued to experience elevated volumes across the entire asylum process, with more service users entering the system than exiting. The process of supporting these vulnerable people into dispersed accommodation is continuing.

Chief Executive Officer's review continued

I am immensely proud of how the Mears AASC team and Group infrastructure have managed such high demand (often at short notice) and continued to provide good quality accommodation and tenant support throughout the year. While volumes remain elevated at the time of writing, we anticipate that numbers within the system will start to normalise from the middle of 2022.

Mears was awarded a contract with the MoJ (MoJ) to provide transitional housing services and support to low and medium risk prisoners upon their release, from initial accommodation into a settled home. A key aim of this pilot scheme is to ensure that no one leaves prison without the offer of a good quality place to live from their first night in the community, and a clear pathway to a settled long-term home. This is a new customer for Mears. We will provide an integrated service including the provision of the property, maintenance, management, and welfare support. The contract mobilised in July 2021 and has ramped up slowly during the initial six-months, reaching an annualised run-rate value of circa £6m revenue by the year end. Initial feedback from the MoJ has been positive and discussions continue in respect of extending both the term and geographic reach of the programme.

Mears was delighted to be awarded the new RLAP contract, providing a wide range of housing services to the Defence Infrastructure Organisation (DIO). The new contract is for a period of up to seven years and has a contract value in excess of £50m a year. Under the contract, Mears will provide a wide range of accommodation and property services to service personnel and their families across the UK. Services include property search, selection and leasing, relocation services, tenancy management, responsive repairs, and maintenance. The new contract is expected to commence in April 2022. Mears has been successfully providing similar services since 2016 under the predecessor Substitute Service Accommodation contract, delivering a high level of service and operational delivery, which has contributed to this successful re-bid.

Development

Our few remaining development sites achieved a strong sell-through, particularly in the first half year. The Group sold 50 units in the year, generating cash and revenues of £25.6m (2020: £15.1m). The Group anticipates a full exit from the remaining Development portfolio during 2022.

Development plots	Units
Completed units as at 1 January 2021	49
Units completed during period	17
Units sold during period	(50)
Completed units at 31 December 2021	16
Building in progress at 31 December (in addition to completed units)	25
Net working capital absorbed (31 December 2021)	£12m (2020: £25m)

Energy efficiency

The Social Housing sector, comprising some 20% of the total number of 28 million dwellings in the UK, has been tasked by Government to lead the way in the decarbonisation of the UK's housing stock, in line with the UK's overall climate change ambitions. Furthermore, rising levels of fuel poverty as energy prices surge demand further action on energy efficiency. Mears has built significant capabilities in this area and is heavily engaged with its Local Authority and Housing Association client base to help them rise to these challenges.

An analysis by Inside Housing put the estimated cost of decarbonising the UK's social housing stock at £104bn or circa £21,000 per property. While Central Government has not yet released enough funding for clients to achieve their 2030 targets, there are now increasing funding commitments available to enable progress to be made. April 2022 will see £800m released for the English Social Housing Decarbonisation Fund (SHDF), with similar funds existing in devolved nations. The Warm Homes Front and Energy Company Obligation (ECO4) scheme also present significant investment opportunities.

Mears has created an end-to-end offer for clients, enabling projects to be designed, funded, implemented, and measured.

Mears has worked collaboratively with several clients to design tailored retrofit solutions and secure funding through the SHDF. This is the first tranche of funding from Central Government, which will be released over the next 10 years to improve the energy performance of social rented homes on the journey to achieve net zero by 2050 in England. The funding applications were facilitated by Mears in partnership with Livin Housing, Crawley Homes and Milton Keynes Council. The Group created a 'carbon reduction team' focused on developing solutions to support our existing clients to decarbonise their housing stock by taking a resident first approach that is centred on reducing fuel stress, improving residents' quality of life, and improving the condition and energy performance of clients' housing stock.

The successful funding awards to date, combined with client investment, will deliver schemes to our Milton Keynes Council, Crawley Homes and Livin Housing to an aggregate value of over £15m (including grant funding of circa £5m), with works to be completed before March 2023.

It is obviously important for clients to integrate green investment with other planned maintenance work and for this work to be well maintained after installation. Mears is uniquely placed to integrate such projects efficiently into clients' ongoing maintenance and regeneration programmes. Creating energy efficiency is not a one-off piece of work, it will become an ongoing key part of the management of housing stock, along with rising standards of building safety and tenant engagement. The current Decent Homes standards review can only give further momentum to these improvements.

Of course, we have a responsibility to take action on our own direct operations to increase carbon efficiency and aim to achieve Net Zero on Scope 1 and 2 emissions by 2030. We will publish our roadmap to this target in 2022.

CUSTOMERS

The Group conducts over 36,000 'Voice of the Customer' surveys a year to demonstrate to ourselves and our clients that the highest standards of customer service are maintained. These show that the Group's 'Satisfied with Service' and 'Likely to Recommend (NPS)' scores remained consistently above 80% and 60% respectively, throughout the year. Such scores are substantially above the benchmark for the industry across both the public and private sector, with 35% being the average. Integral to this performance was the Mears Contract Management (MCM) technology platform, which facilitated a seamless transition to and from remote working, for both Mears employees and crucially our clients.

“At a time when competition for skilled labour is high, it has never been more important for Mears to continue its commitment to being a great place to work for our staff.”

EMPLOYEES

At a time when competition for skilled labour is high, it has never been more important for Mears to continue its commitment to being a great place to work for our staff. For the third year running, we have secured our place in the 2021 Sunday Times Best Companies list of top 25 large companies to work for in the UK, and encouragingly our score is higher than both 2019 and 2020. Our culture is defined by our values, as set out in the 'Red Thread'. We recognise that through great employee engagement we will achieve commercial and customer success. A culture of investment, inclusion and development in the workforce ensured that the Group saw only modest increases in staff turnover and costs during the year, despite labour markets tightening significantly across the sector.

The benefits of this effort can be seen in the extraordinary effort and commitment from our staff during the Covid period, which has had such a big impact on our operational delivery. As new opportunities arise, such as energy efficiency, open up, we will have to continue investing in our staff to develop both the capability and capacity of our teams to take advantage of such opportunities.

During the year, we have used staff feedback to further strengthen our workforce proposition, with the following key initiatives implemented during the year:

- Improved holiday and sick pay for front line operatives
- Building the workforce of tomorrow, through investing in apprentices, supporting the Kickstart programme and creating new entry level roles to drive social mobility
- Introducing flexible benefits and enabling a better balance between home and office working
- Providing excellent communication and support around Covid and maintaining the highest standards of internal communication more broadly
- Increasing investment in staff, through bespoke training such as our 'Emerge' development programme, for staff looking to progress to senior management positions
- Externally appointed Social and Diversity Impact Board and accredited by the Housing Diversity Network, including growing the number of women in management positions and reducing the gender pay gap. We will publish our first 'ethnicity gap' report by the end of 2022
- The development of new low carbon technology and awareness training to help transition our staff to these new opportunity areas
- Providing comprehensive mental health and wellbeing support, especially given the difficult situations many of our staff face on a day-to-day basis

Chief Executive Officer's review continued

HEALTH AND SAFETY

The Group's health and safety record across the year was exceptionally good, as evidenced by our Health and Safety Team being awarded its 19th Consecutive RoSPA Gold Award and retaining its place on RoSPA's Order of Merit.

The Health and Safety team worked closely with the operational team mobilising the Ministry of Justice contract, to ensure robust governance policies and procedures were embedded into contract delivery. In this regard, the Group's knowledge, expertise, and experience derived from managing AASC was hugely beneficial and was a key element in the very successful deployment of services during the latter part of the year.

The ever-increasing importance of data security is a key strategic consideration for the Group and, in this regard, I have recently widened the role of the Compliance Committee to encompass greater scrutiny of this essential area moving forward into 2022, to enhance the level of information available to the main Board.

SOCIAL VALUE AND RESPONSIBLE BUSINESS

Our business is founded in local communities where we deliver the highest standards of care to people, their homes and their lived environment. By caring about the people and communities we work with, we are welcomed into people's homes, are a trusted partner to our clients, and an attractive and valued local employer. Despite a challenging year in which to engage with our local communities, the Group's staff delivered over 1,500 local community projects generating over £29.4m of social value. Our AASC staff delivered laptops to schools and supported children through lockdown with self-isolation packs in 11 different languages. Our Key Worker contract teams contributed over £11m of social value through the 'Reuse' initiative that donates and distributes used furniture to those in local need.

We have targeted each employee to generate £5,000 of social value in 2022 and the Mears Foundation (our in-house, company/employee funded charity) to award £200,000 in funding to support local projects.

ORDER BOOK AND PIPELINE

The order book as at 31 December 2021 stood at £2.4bn (2020: £2.6bn), reflecting the timing of contract renewals over the last 12 months and lower levels of re-tender activity across the industry due to Covid.

Whilst Mears itself enjoyed several short-term extensions, such as at Tower Hamlets, the Group was also pleased to secure important longer-term extensions to a few existing contracts, notably:

- a 5-year contract extension with Orbit Housing which will see Mears continue to provide services, with an annual value of circa £20m, until at least March 2027;
- a 3-year contract extension with Livin Housing, based in Sedgfield, which will see Mears continue to provide services, with an annual value of around £12m per annum until at least April 2025; and
- as discussed above, the Group was delighted to secure work with a new Central Government client, the MoJ.

We are seeing increasing levels of bid activity and the Group's bid pipeline currently stands at circa £1bn. The Group continues to prioritise the retention and expansion of work within existing client relationships. The reported pipeline excludes the North Lanarkshire Future Integrated Housing Services contract re-tender estimated at more than £1.0bn, where the Group is well placed, with further feedback expected during Q2 2022. The Group has also had positive initial feedback from the MoJ in respect of the CAS 3 temporary accommodation pilot programme and discussions continue around the potential extension and expansion of these services.

STRATEGY REVIEW

We are leaders in the affordable housing market in the UK. Our services include responsive repair, refurbishment, and regeneration of housing stock, as well as the procurement and management of temporary accommodation and tenant support for Local and Central Government clients. The future demand profile for these specialist housing services remains positive, given the fundamental shortage and poor quality of affordable housing in the UK.

In 2021, we completed a 5-year strategic plan for the Group, focused on this affordable housing sector. We see opportunities to grow consistently and sustainably over the medium term, given the following market drivers:

- Increased Government investment in the affordable housing sector given expanding social housing waiting lists and renewed political focus on quality housing post-Covid.
- Social Housing White Paper and Government policy towards higher standards for safety and customer engagement. Changes in procurement procedures, post-Brexit, are also likely to bring advantages to those companies who have high focus on social value and service quality.
- The commitment to raise the carbon efficiency of all social housing stock by one EPC band by 2030 presents significant investment requirements. We are now starting to see increased funding come through.
- Increasing Local Authority spend on long-term, cost-effective homelessness solutions.
- Ongoing demographic pressure on the UK housing shortage, particularly in Mears' core competencies of affordable rental and specialist retirement living.
- Delivering ESG commitments in line with the high standards of social responsibility that are the foundations of our business.

Mears will address these market opportunities through the following measures:

- Leveraging our market-leading position in housing maintenance to better cross-sell/upsell our broader housing services through more effective client planning and thereby growing our share of wallet with existing clients.
- Continuing to evolve our affordable rental, temporary accommodation, and integrated housing offer to meet increasing market demands.
- Participation in larger, integrated housing contracts, across Local and Central Government.
- Driving greater operational efficiencies through more centralised administrative and support services such as our regional Hub network.
- Continued digital innovation to increase the agility of front line operations whilst continuing to drive improvements to the customer experience.
- Operational consistency across the Group and driving improvements where contracts are underperforming.

Even with the potential post-Covid economic challenges, Housing is a sector that will gain investment to support economic recovery and to meet longer term challenges, such as those posed by climate change. There is clear opportunity to grow both our maintenance-led and management-led work and indeed we see a number of opportunities that will integrate all of our services. The responsible approach that we have taken to business through Covid, and from the start of Mears, has left us well placed to benefit.

The business continues to make strategic progress towards the vision to be the UK's most respected and trusted provider of housing solutions.

CAPITAL ALLOCATION

Over the last couple of years, the Group has significantly reduced its indebtedness and re-established its cash generative, lease-based business model. Following this successful de-gearing process, the Board will continue to keep under close review its policy as to the appropriate allocation of the Group's capital resources. At least in current market conditions, it is intended to continue to operate the Group with no more than modest levels of debt.

The Board considers that the Group can continue to deliver organic growth within that framework, with a relatively modest level of capital expenditure. This business model will continue to generate strong free cash flows.

The Board is committed to investing in the business and to innovation, and will be willing to increase capital investment, especially in technology, to develop new digital solutions both to drive operational efficiency and to develop business lines. Opportunities may also arise to complete small strategic acquisitions, again particularly of technology or data-oriented businesses, where they can add value to the development of the Group's business lines, especially in carbon reduction. The Group's current view is that larger acquisitions are unlikely to drive shareholder value, but the Group will retain the flexibility to act where opportunities arise at short notice. Mears will continue to promote its objective of being the most socially responsible business working with the public sector and in that context would expect to continue to drive improvements in payment practices.

Having restored the payment of regular dividends to shareholders, the Board intends to continue to maintain a progressive dividend policy and would expect to reduce earnings cover over the relatively short term toward two times. The scope to make further distributions to shareholders, whether by way of share buybacks or special dividends, will be kept under review as the investment policy described above unfolds.

Accident frequency rate

0.19

(2020: 0.15)

Order book

£2.4bn

(2020: 2.6bn)

Case study

Repairs and Maintenance

in partnership with North Lanarkshire Council

485

employed within North Lanarkshire contract

Mears delivers an all-encompassing service carried out in partnership with North Lanarkshire Council, to fully maintain and repair every property within the Council's portfolio. In 2022 we will be bidding for a new contract with the Council – one of the largest contracts in our pipeline, which will deliver repairs and maintenance to every property within the Council's portfolio of 36,700 tenanted properties and over 1,000 public buildings.

If successful, the new contract will significantly grow our work volume across the Authority.

North Lanarkshire Council and Mears are joint partners in the LLP, ensuring we have continued investment in the North Lanarkshire community for the long term. The two organisations are truly integrated, with a shared commitment to deliver excellent services to residents, whilst bringing community and training benefits to the North Lanarkshire community in a sustainable way. Contract KPIs have been increased from 90% to 95% as part of this commitment.

These include the following:

Flexible working patterns to address emergencies – to ensure Mears offers emergency repairs 7 days per week, 365 days a year with coverage from 8.00am to 10.00pm.

Joint contact centre – joint working arrangements between Mears and North Lanarkshire have delivered efficiencies across the contract and enable closer working for both parties.
Van stock review – the strategic review has minimised down time and driven efficiencies.
Void property approach – through a joint pre-inspection of all void properties, the delivery of materials is now automated to site in advance of works. This has minimised travel and down time of the team to focus on productive installation.

INVESTMENT IN NORTH LANARKSHIRE

Salaries totalling £19m per annum
Local procurement of materials totalling £8m per annum
Payments of £14m per annum to local supply chain partners
Training 150 and employing 51 apprentices, achieving a 98% retention rate on all apprenticeships
Employment of 485 employees within North Lanarkshire working on the contract

Read more
about new contracts
in our strategy section

Case study

Changing Lives

with the Ministry of Justice

£70m

dedicated to the provision of temporary accommodation

We have added to our stable of contracts for housing services to Central Government with our successful bid to win the Ministry of Justice CAS 3 project. This is one part of a wider £70m project to reduce reoffending, through the provision of temporary accommodation.

CAS 3 will accommodate and provide services to people on probation – this means adult offenders of all genders who are 18 or above who have been released as homeless from prison following a custodial sentence. Residents will be accommodated for up to 84 days in Mears managed properties and will receive support and assistance to enable a successful move on to their own home.

The MoJ's key requirement is 'to ensure that no one leaves prison without the offer of a place to live, from their first night in the community and a pathway to settled accommodation'.

MEARS HOUSING MANAGEMENT CHIEF OPERATING OFFICER JOHN TAYLOR SAID:

"We knew when bidding for the contract that we had the necessary skills and expertise of working with vulnerable people to deliver a supporting service. Enabling people to move on with their lives is so important to us. We understand that even the risk of homelessness and the instability caused means that people are more likely to reoffend. Mears is proud to be part of a journey to reduce the likelihood of a downward spiral once people have served their time and deserve to be rehabilitated."

The contract will run for 1 year, subject to an option to extend for a further 3 years based on value for money and positive outcomes, and we are in the process of bidding for further housing opportunities with the Ministry of Justice.

Read more
about new contracts
in our strategy section

Case study

Building an Exemplar Relationship

in outer London – London Borough of Havering

Mears will be a safe pair of hands for residents, and we will bring our specialist approach to each property.

Lucas Critchley
Chief Operating Officer

With over 12,000 dwellings, the contract builds on our existing presence in East London with our current contract in Redbridge.

**CHIEF OPERATING OFFICER
AT MEARS, LUCAS CRITCHLEY,
WELCOMED THE NEW RELATIONSHIP:**

"From the outset we have made it clear that we will work with Havering to make this contract the best in London and an exemplar for other councils to follow. Mears will be a safe pair of hands for residents, and we will bring our specialist approach to each property. Mears will start from the beginning with strong communication with residents and give them every opportunity to feed back on our performance.

Mears will bring its IT expertise to the new partnership to ensure the best customer approach possible. Customers waiting for a repair will be informed by automated text and will have access to a live tracker – our in-house approach, MCM Live. A key part of the software is that it directly links the customer with an immediate satisfaction survey so both Mears and the client can see how we are performing.

Our social value commitment looks to deliver for the residents of Havering. This includes commitments to careers advice, local employment, apprenticeships, job mentoring and support. We also have a firm commitment to use the local supply chain.

The London Borough of Havering has announced Mears as its new repairs and maintenance provider. The Local Authority is a dynamic organisation with a core ethos of continuous improvement and the client has made it clear that its intention is to build the highest performing contract that is seen as the best in London.

"I particularly welcome the focus on developing local employment opportunities – for both current residents who are unemployed and existing local supply chains. We look forward to meeting our new suppliers and to a great partnership for the future."

Read more
about new contracts
in our strategy section

Case study

Mears and Livin Partnership

to give Shildon estate a £6m revamp to address major issues including fuel poverty and carbon reduction

As a business, Mears is committed to generating zero carbon housing in the UK and this project brings us one step closer to meeting our target of zero carbon emissions by 2030.

Lucas Critchley
Chief Operating Officer

Mears and Livin have embarked on a multi-million-pound project to regenerate a housing estate, addressing fuel poverty and carbon reduction in County Durham.

Following extensive engagement with tenants, residents, owners, private landlords and stakeholders, The Courts on the Jubilee Fields estate in Shildon will undergo an extensive transformation that will include:

- introducing private garden spaces;
- providing allocated parking;
- converting unwanted flats into spacious family homes;
- creating an improved estate layout; and
- energy efficiency.

The Courts will be made more energy-efficient and economical to heat.

Mears will deliver the £6m scheme between November 2021 and spring 2023, creating 20 homes for rent and 15 homes for sale, available in phases.

ALAN BODDY, LIVIN'S CHIEF EXECUTIVE, SAID: "Our place making approach is a proven way of addressing issues on estates, balancing investment in existing and new homes and addressing community needs and aspirations.

"By listening to our tenants and local residents, and through working with our trusted partners, we have designed a £6m scheme that transforms homes and lives, and creates an estate that is sustainable and fit for the future."

MEARS CHIEF OPERATING OFFICER, LUCAS CRITCHLEY, SAID: "We are delighted to be working in partnership with Livin and the residents of Shildon on a project that will make a massive difference to the community.

"As a business, Mears is committed to generating zero carbon housing in the UK and this project brings us one step closer to meeting our target of zero carbon emissions by 2030.

"We are looking forward to revitalising the estate to create something special – something that everyone can be proud of."

Read more
about decarbonisation
in our ESG section

Market drivers

HOUSING MARKET

Affordable housing continues to be an attractive sector for the longer term, given the UK housing shortage, decarbonisation contracts, long social housing waiting lists, cycles of outsourcing, policy changes encouraging more social house building and broader resilience of demand.

Market position

A leading provider of affordable housing solutions in the UK

A go-to, end-to-end expert on decarbonising our social housing stock

A large provider of repairs to the affordable housing sector

Provider of affordable rental management solutions

A private registered provider of housing sits within the Group

Leading partner to both Central and Local Government

Political and economic landscape

- The Government's focus on achieving Net Zero and a particular focus on housing
- The Social Housing White Paper will be implemented with an increased focus on tenants and a new Decent Homes Standard
- Changes to the procurement framework in 2022
- We face a national skills gap for new Net Zero works

Opportunities

- Retrofitting and future proofing existing housing stock
- A further commitment to better repairs through the Future Homes Programme and the Social Housing Regulation Bill in 2022
- The Procurement White Paper will hopefully see a more transparent and fair bidding process which takes into account social value with more impact

Risks

- A reliance on piecemeal Government funding for Net Zero which could prevent our clients delivering Net Zero plans whilst maintaining stock in a strategic way
- Further Covid restrictions

Mears' response

- We will continue to deliver a market-leading service as a pure-play specialist in housing solutions
- We are winning more work with Central Government, with contracts to provide housing provision for three Government departments
- We have developed a clear carbon offer for our clients, including funding models, and have already won contracts to aid our clients' carbon journey
- Through our Independent Scrutiny Board, we have gone further than we believe legislation will require to ensure tenants have a say in how our service runs
- We have remodelled our apprenticeship approach to bring through the next generation of skills, whilst creating technical positions for those who are retired to enable them to continue working without a longer-term commitment. We have also been an active supporter of the Kickstart programme

Rising levels of homelessness, asylum claims and housing need for the most vulnerable

- The UK is experiencing the highest influx of refugees and economic migrants in recent history, all of whom have a right to be housed
- Councils lack funding to provide their statutory homelessness duties
- The Scotland 2040 Housing plan adopted by the Scottish Government envisages a role for private providers in meeting housing targets

Opportunities

- Innovative and rapid solutions needed, given likely continued slow growth on new build provision
- Homelessness still growing, with councils looking for solutions which innovate and support
- A growth in the market for housing and support for vulnerable individuals

Risks

- Associated reputational risks through working with the most vulnerable

Mears' response

- We have award winning solutions for more homelessness and affordable homes, such as our partnership with the London Borough of Waltham Forest, which we hope will see a further tranche of housing over 2022
- We have become the leading provider of cost-effective homelessness solutions
- In 2021 we have further broadened our footprint to areas of specific need following our successful bid to the Ministry of Justice
- Our Housing Associations Plexus and Omega now represent the largest Private Registered Social Landlord in the UK
- We await confirmation from the Scottish Housing Regulator that we will be the first private Housing Association in Scotland, with our Shadow Board already up and running
- We are working well with the Home Office to continue housing supply in the face of increased migration

Demographic change

- The UK's over 85 population will grow from 1.6 million in 2020 to 2.1 million in 2030, and 3.7 million by 2050
- Funding for social care has now been announced but a White Paper is still to be delivered
- Of the UK's care homes, an estimated 70% are now aged 20 years or older. Conversion homes and even 1990s purpose-built homes are becoming increasingly outdated

Opportunities

- More specialist housing is needed to limit escalating cost to the NHS and social care
- A growth in the market and concept of retirement living
- The next generation of over 85s will have many affluent and high income members who won't qualify for state funded care and will also want to pay a premium for the best possible residential care

Mears' response

- We are developing 750 extra care units in partnership with Cornwall Council
- We continue to service our specialist housing solutions such as extra care and Supported Living
- We have shown that the cost to the NHS per person is over £2,400 when not in extra care through commissioning independent data from HousingLin
- All of our services are rated adequate or better in England and Scotland

Pace of technological development

- There are rising Government and customer expectations that services will be easier to navigate through technology
- Technology is playing an increasing role in all aspects of service management

Opportunities

- Our customers will experience a service which gives them control over appointments
- Fewer customer complaints as we introduce more easily navigable services

Mears' response

- We have market-leading technology to reduce long-term costs and enable us to integrate our services
- We are making use of self-service technology in support of changing expectations such as MCM Live and chatbot
- There is a greater use of customer insight and development of bespoke consultation tools with our Voice of Customer programme
- We will be introducing more technology to improve every step of the customer journey

The impact of Covid and Brexit

- Supply chains to the UK are stressed due to Covid and Brexit

Opportunities

- To further demonstrate our health and safety expertise and risk management approach
- Further develop workforce engagement

Risks

- Loss of work
- Rising cost of materials
- Safety challenges

Mears' response

- Mears has emerged healthily from the pandemic. Our procedures are tried and tested and, while it is possible that there will be interruptions in work levels, it is likely that any delay work will be subsequently delivered. We have strong relationships with suppliers and a good understanding of demand levels, enabling us to manage material supply challenges well
- We have an excellent workforce engagement approach that gives us the best possible chance of recruiting new people as well as retaining our staff. While there are inflationary pressures, our major contracts have built-in uplift mechanisms that limit these impacts significantly

Rising customer expectations

- There are rising resident expectations
- The Government focus on 'levelling up' and a commitment to the renewal of democracy so people's voices can be heard
- A new Future Homes Standard is expected in the next 3 years

Opportunities

- Customers' quality, communication and speed expectations continue to increase
- Stronger tenant voice demanded by White Paper
- Opportunity to demonstrate the core strengths of our business model
- Our social value impact is the basis of our business

Mears' response

- We now have a sole focus on housing, having divested unprofitable, non-housing related businesses
- We are benchmarking well against the best across all industries
- We continue to support regulatory change that gives service users a bigger voice, as promised in the forthcoming White Paper
- We continue to demonstrate our approach to outsourcing proactively
- We are working to continuously improve tenant engagement, highlighted by accreditation from TPAS and winning the Inside Housing Award for Outstanding Tenant Engagement – Contractor
- We are continuing to support better communities in which service users live, with a focus on developing skills for the next generation and bringing people back into the workplace
- Our commitment to social value and tenant engagement through Your Voice and our Independent Scrutiny Board
- Our social value work remains at the heart of our business and is bolstered by the work of the Mears Foundation

Our value creation model

OUR PURPOSE

Working together to help people and communities thrive. This is the guiding principle that defines our brand and drives our activities. It is what makes Mears distinctive and is the starting point for all of our activities.

OUR VISION

To be the leading provider of housing services and solutions to the affordable housing market in the UK.

Key resources and relationships

OUTSTANDING PARTNERSHIPS:

Firmly rooted in Local Government and Housing Associations, we are also an important partner for Central Government. Our end service users are the recipients of housing services and extra care living.

A RESPONSIBLE APPROACH:

Creating social value is a key part of our business strategy, as this enables us to be seen as a trusted partner by our clients and is an essential part of building stronger relationships. Our new ESG strategy sets out how we will continue on our socially responsible journey

see pages 33 to 45

EXCEPTIONAL PEOPLE:

Proud to be in the Sunday Times Top 25 Big Companies to work for. We recognise our staff as our greatest asset. Mears employees are skilled in delivering an excellent service whilst showing a strong customer service ethos and an empathy for our service users.

MARKET-LEADING TECHNOLOGY:

Our performance is built on a bedrock of first-class IT platforms, giving market-leading capability and driving innovation and resident engagement.

SUPPLY CHAIN PARTNERS:

We choose suppliers who share our values and meet our standards. We work closely with suppliers to develop innovative services and integrate them with our core systems.

FINANCIAL STRATEGY:

We are funded from a combination of shareholder funds, retained profits and moderate levels of bank debt. Our underlying business has good forward visibility, stable margins, strong cash conversion and limited capital requirements. Accordingly, free cash flow can predominantly be used to invest further in the business, to maintain low levels of debt and to provide returns to capital providers.

INNOVATION:

The challenge of delivering service improvements at lower cost requires innovative thinking and the use of technology. We create and lead best practice in our markets.

What we do and how

HOUSING MANAGEMENT

- Procure, manage and maintain portfolios of affordable housing stock

HOUSING MAINTENANCE

- Regenerate, refurbish and re-purpose stock
- Intelligent maintenance
- Decarbonise homes

SUPPORTING PEOPLE IN THESE HOMES

- Tenancy management
- Tenant welfare and support

REVENUE GENERATION

Mears' revenue is generated from payments from Government, Local Authority and Housing Association clients in respect of its Housing services. Whilst the end service users are at the centre of our business model, they do not pay for the service directly. These payments are made under long-term contracts (average 7 years).

STABLE MARGINS AND GOOD CASH CONVERSION

We have a long-standing record of stable profit margins on contracts (once mobilised) and converting profit into cash, utilising strong financial management combined with good relationships with clients and the supply chain.

Value 1

We value our customers and communities, putting their needs at the heart of everything we do.

Value 2

We value teamwork, supporting each other, sharing ideas and never excluding others.

Value 3

We value personal responsibility, setting consistently high standards for our work and holding ourselves accountable for achieving them.

Value 4

We value innovation, being inventive in our approach and empowering people to take reasonable action without fear or discrimination.

Community outcomes

Create better places to live

Reduce pressures on the NHS and the public purse

Reduce homelessness

Improve life chances for people

KEY STATISTICS

>£165m

wages and salaries paid to circa 5,400 employees

£878m

revenue delivered to over 100 clients

>1m

service users

>200

apprentices

>30%

women in senior positions

>£2,800

average social value delivered per employee

>£160m

taxes paid

c. £9m

dividends paid and proposed

The value we share

SHAREHOLDERS:

Given the public health emergency, in 2020 Mears did not pay a dividend for the first time in 25 years, as we believed that given the over-riding importance of cash management meant it would be imprudent to declare a dividend during 2020. In 2021 we were able to restore the dividend to our shareholders.

GOVERNMENT:

In 2021 we paid an aggregate sum in direct and indirect taxes of £167.4m. In addition, through the services we provide to the public sector, we are delivering significant cost savings and better value to Central Government, Local Authorities and the NHS.

CUSTOMERS

We maintain homes throughout the UK, undertaking around 5,000 repairs per day. Mears has extended its activities to provide solutions to resolve the challenges of homelessness, asylum housing, MoD and MoJ accommodation.

COMMUNITIES

At the heart of Mears lies a strong sense of responsibility towards improving people's lives. We create opportunities and enable people to develop new skills within some of the most disadvantaged and marginalised communities in the UK. Every branch of Mears makes a social value pledge, which focuses on specific activities to improve its local community in at least one of our social value priorities.

EMPLOYEES

Mears is committed to training. We have an extensive apprenticeship programme and provide a number of alternative training solutions for upskilling employees and for the professional development of Mears managers. We are proud to be rated as one of the best 25 large companies in the UK to work for by the Sunday Times.

Our strategy

Strategic priorities

To be recognised as the most trusted large private provider working with the public sector

To have the highest levels of customer service in the affordable housing sector where we operate

The Board has fully reviewed the strategy for the business in 2021.

Our vision is to be the leading provider to the resilient and growing affordable housing market in the UK. A provider that operates with a strong sense of social conscience, tackling issues that matter to people and communities.

Against this vision, we have four strategic priorities:

To be recognised as the most trusted large private provider working with the public sector

To have the highest levels of customer service in the affordable housing sector where we operate

To embrace innovation that drives positive change such as digital and carbon reduction

To maintain and grow a resilient business with long-term partnerships, a strong balance sheet and cash position, along with a committed, engaged workforce

What we achieved

- Secured work with a new Central Government department, being the Ministry of Justice
- Consulted across Scotland and launched a charter as to how we will operate ethically in this country. Similar work will follow with other nations

2022 priorities

- Continue to achieve bid win rates ahead of historical norms
- Launch our new ESG plan with clear roadmaps towards goal achievement
- Continue to operate to the highest ethical standards

How we measure success

- Extending services with existing clients
- Retaining contracts at sustainable pricing
- Winning work with new clients who share our values
- Being seen as a trusted, responsible and ethical provider to Central Government

Risks

- Economic pressures on some clients will mean price will continue to drive decisions on some contracts

Link to KPIs

1 2 4 5 6 10

What we achieved

- Through the Covid period, we maintained our already high service scores
- Recognised for the quality of our service and customer engagement, through several national awards
- Our new Independent Customer Scrutiny Board has published a report on our performance
- We have faced some challenges with Covid related work backlogs and high levels of asylum seekers

2022 priorities

- Manage the challenges associated with high demands both from maintenance and from the asylum system

How we measure success

- Service user and client feedback

Risks

- Rising customer expectation requiring ever more individual responses
- Shortages in some areas of the labour market and some delays in materials availability

Link to KPIs

1 2 3 4 10

To embrace innovation that drives positive change such as digital and carbon reduction

What we achieved

- The establishment of carbon reduction capability in house to assist clients
- The continued improvements to core systems, which enable our customers to interact in real time with us and to report and track their work requests

2022 priorities

- Establish Mears as leaders in carbon reduction in Social Housing
- Expand our sustainable housing solutions that address homelessness, an ageing population and challenges to the health and social care system

How we measure success

- Levels of new work won

Risks

- There remains some uncertainty as to how fast Central Government funding will flow through to enable housing landlords to meet their carbon reduction targets

Link to KPIs

1 2 3 7 9

To maintain and grow a resilient business with long-term partnerships, a strong balance sheet and cash position, along with a committed, engaged workforce

What we achieved

- Continued to reduce debt
- Secured long-term contracts with both existing and new clients
- Retained our position in the Sunday Times Top 25 Best Big Companies list
- Provided a wide range of tools to assist with mental health and wellbeing

2022 priorities

- Continue to improve margins
- Maintain our Sunday Times Best Companies position
- Continue to increase the diversity of our workforce at all levels
- Maintain focus on employee engagement and helping tackle the challenges of wellbeing and mental health

How we measure success

- Staff retention level
- Benchmarking v other organisations
- Margin improvements
- A happier, healthier and more engaged workforce based on Best Companies survey results and mental health and wellbeing working group policies

Risks

- Inflationary pressures in some areas
- The importance of diversity and inclusion has never been clearer

Link to KPIs

1 2 3 4 5 6 7 8 9 10

Key performance indicators

Non-financial

1 CUSTOMER SATISFACTION In order for customers to recommend us, we must deliver excellent service. The Group completed over 1.5 million repairs in 2021 and we subsequently post inspect around 10% of works orders and encourage tenants to provide feedback so we can deliver further service improvements.	RESULTS FROM THE YEAR 86%	2021 TARGET 85% ⬆ Outperformance 2022 TARGET 86%
2 CUSTOMER COMPLAINTS Incidents resulting from poor service result in a complaint per thousand jobs. We are committed to dealing with all complaints on an individual basis.	RESULTS FROM THE YEAR 22%	2021 TARGET 22% ⬆ On-track 2022 TARGET 21%
3 EMPLOYEE TURNOVER Our employees are fundamental to meeting our strategic priorities. We recognise the importance in attracting and retaining skilled staff, and at a time when competition for skilled labour is high, it has never been more important. The staff churn figure is calculated as the total number of leavers during the year as a proportion of the average headcount.	RESULTS FROM THE YEAR 22%	2021 TARGET 26% ⬆ Outperformance 2022 TARGET 22%

Business development

4 NEW CONTRACT SUCCESS Contract success is measured by the total revenues secured as a proportion of the total value of tenders submitted. We typically tender around £1bn of new opportunities each year. The average contract length is around six years. In order to achieve our organic growth forecasts, it is important that we secure around one in three, by value.	RESULTS FROM THE YEAR 35%	2021 TARGET 33% ⬆ Outperformance 2022 TARGET 33%
5 ORDER BOOK Our order book provides us good visibility of those revenues secured for future periods. It is helpful that we have long-term contracts that allow us to plan with confidence, in the knowledge that we have significant revenues already contracted. It is also positive for all our stakeholders, providing stability to our supply chain, funders and, most importantly, for recruiting and motivating our workforce.	RESULTS FROM THE YEAR £2.4bn	2021 TARGET £2.4bn ⬆ Underperformance 2022 TARGET £2.1bn

Financial performance

<p>6</p> <p>REVENUE GROWTH (CONTINUING ACTIVITIES)</p> <p>Our key performance indicator (KPI) target relates to total revenue although it is important to also identify the split between organic growth and growth that has been delivered through acquisitions. We believe that organic growth gives a better indication of business performance, being an aggregation of success in new contract bidding and contract retention. The reduction expected in 2022 reflects an expectation that the elevated revenues enjoyed in 2021 will normalise.</p>	<p>RESULTS FROM THE YEAR</p> <p>+9%</p>	<p>2021 TARGET</p> <p>+2%</p> <p>⬆ Outperformance</p> <p>2022 TARGET</p> <p>-5%</p>
<p>7</p> <p>ADJUSTED OPERATING MARGIN (CONTINUING ACTIVITIES)</p> <p>Operating margin is the KPI used to measure and understand the profitability of our activities. The operating profit measure is taken before exceptional costs and the amortisation of acquisition intangibles. The measure is stated on a pre-IFRS 16 basis, being the measure that is utilised within the business and understood by our investors and bankers.</p>	<p>RESULTS FROM THE YEAR</p> <p>+3.4%</p>	<p>2021 TARGET</p> <p>+3.7%</p> <p>⬇ Underperformance</p> <p>2022 TARGET</p> <p>+3.8%</p>
<p>8</p> <p>AVERAGE DAILY NET DEBT (EXCLUDING LEASE OBLIGATIONS)</p> <p>Good working capital management remains a cornerstone of the business. The Group's IT systems are designed to deal with the challenges of high volume and low value activities. The Group has made significant progress in this area over the last 2 years, and now looks to maintain a low level of debt or even a small net cash balance.</p>	<p>RESULTS FROM THE YEAR</p> <p>£nil</p>	<p>2021 TARGET</p> <p>£60m</p> <p>⬆ Outperformance</p> <p>2022 TARGET</p> <p>£nil debt</p>
<p>9</p> <p>GROWTH IN NORMALISED DILUTED EPS</p> <p>Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge.</p>	<p>RESULTS FROM THE YEAR</p> <p>18.23p</p>	<p>2021 TARGET</p> <p>18.0p</p> <p>⬆ Outperformance</p> <p>2022 TARGET</p> <p>19.5p</p>

Health and safety

<p>10</p> <p>ACCIDENT FREQUENCY RATE</p> <p>The health, safety and wellbeing of our employees is our primary consideration in the way we do business. Health, safety and environmental risks are fully embedded in the governance structures of the Group. Providing our employees with a safe working environment remains paramount. Our accident frequency rate (AFR) is calculated as the number of reportable incidents (by both employees, service users and third parties) divided by the number of hours worked, multiplied by 100,000.</p>	<p>RESULTS FROM THE YEAR</p> <p>0.19</p>	<p>2021 TARGET</p> <p>0.24</p> <p>⬆ Outperformance</p> <p>2022 TARGET</p> <p>0.22</p>
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Listening to our stakeholders

Stakeholder engagement is central to our strategy.

We are focused on delivering positive outcomes for all our stakeholders

Clients

HOW WE ENGAGE

Our clients are from Central and Local Government and Housing Associations. Our model has always been based on establishing long-term partnerships that address the significant housing challenges and solutions to help our clients. Transparency and responsibility are at the heart of our approach, and we focus on solutions that establish sustainable solutions, rather than quick fixes.

STAKEHOLDER EXPECTATIONS

Our clients expect a trusted partner that can contribute to wider sector and strategic thinking as well as deliver innovative operational solutions that improve service and lower long-term cost. Partners now look beyond the contract and rightly demand good governance, a responsible financial position and high levels of social responsibility to be at the heart of what we do.

RELEVANCE TO BUSINESS MODEL AND STRATEGY

We operate as a trusted long-term partner to the public sector. As partners we have to demonstrate that our values complement their own. We are not like many other outsource organisations, in that both the focused nature of our services and the cultural fit with our clients continue to position us to win major new contracts, such as with the Ministry of Justice, and to retain long-standing contracts in the way that we do. We also try to lead the sector in good practice, as demonstrated by our thorough independent scrutiny arrangements which take the best of public sector scrutiny.

KEY ISSUES

Clients want us to demonstrate a strong set of financial, cultural and community-led values. We demonstrate an ethical and transparent approach and bring the best of private sector innovation in areas such as technology and access to institutional finance. We do this whilst maintaining the spirit of public service delivery whilst putting customers at the heart of what we do.

OUTCOMES

Our commitment to putting our customers first was demonstrated by our winning the TPAS award for best contractor engagement with tenants in 2021.

Tenants and customers

HOW WE ENGAGE

Our 'Your Voice' programme engages tenants via our independent and resident-led Scrutiny Board, our customer forums and our online customer network.

We have strengthened our tenant engagement to ensure that we go above and beyond requirements suggested in the Government White Paper. At a local level we have a system to engage customers as soon as they interact with Mears, should they wish to do so. This enables us to create a network of our customers via feedback and online forums which can feed into our Scrutiny Board to create a genuinely resident designed service.

HOW WE ENGAGE OUR BOARD

The Your Voice Independent Scrutiny Board reports directly into our PLC Board to ensure that its findings are reported at the highest level of our organisation.

STAKEHOLDER EXPECTATIONS

Our tenants and service users expect to be part of developing solutions rather than to be simply a recipient. Expectations from tenants are rightly rising and they should be seen not merely as service users but as consumers who have the right to levels of service. The greater requirements for complaint handling and reporting emerging from the Government White Paper are something we have already gone above and beyond. Mears welcomes any further regulation from Government in this area over 2022.

RELEVANCE TO BUSINESS MODEL AND STRATEGY

As an organisation with a clear objective to be the leader in terms of customer service, wherever we operate, this cannot be done without good engagement. Our outstanding customer service performance is a testament to our success.

KEY ISSUES

Increased regulation is coming in 2022 and we have spent the last year preparing to go above and beyond. Our customer forum has hosted the Housing Ombudsman to test whether the Mears approach is working and to ensure that we are leading the sector rather than responding to future legislation.

OUTCOMES

- Created the Your Voice scrutiny approach with customers involved at every level
- Provided a direct line from the Your Voice board to the PLC Board – our resident board members can speak to our Non-Executive and Executive Board members directly
- Engaged with the Housing Ombudsman to ensure our processes are already in place before legislation is passed
- Innovated with our repairs platform MCM Live, which gives tenants more information about when their repair is due and enables them to change the time/date without having to call us

Communities

HOW WE ENGAGE

All of our branches develop their own local specific social value plans which demonstrate where we will add value to the community, often over and above any contract commitments. Our social value activity target is £2,500 per employee. Examples include supporting communities to develop green spaces, to provide access to the internet for asylum seekers so they do not suffer from social isolation and to help develop the skills of whole communities through careers advice and support, training and ultimately through job creation.

HOW WE ENGAGE OUR BOARD

An Executive board member sits on our independent Social and Diversity Impact Board which is led by independent experts and helps us to drive our social value resources to achieve meaningful community outcomes. The independent board reports directly into the PLC Board.

STAKEHOLDER EXPECTATIONS

Stakeholders expect, given their long-term commitment, that we contribute positively to the communities in which they live. They want us to help local people into work, to upskill people and to work with them to address local issues where we can. This is our continuing contribution to the Government's Levelling Up agenda, and something we have committed to for many years.

RELEVANCE TO BUSINESS MODEL AND STRATEGY

Being a socially responsible organisation with a firm commitment to supporting communities is essential to being a valued partner to our clients. Establishing strong community links also helps us attract the right people into our workforce and to establish links with other community-based organisations, which can contribute to our service offer.

KEY ISSUES

Cost of living crisis in the communities we serve, including fuel stress. Opportunities to address our sector's skills gap as a large employer.

Government has begun to release tranches of funding for the net zero carbon challenge and have allocated funding for retrofitting, for which Mears is already a successful applicant.

OUTCOMES

- Providing free learning provision to our colleagues, clients and communities we work in.
- Ensuring we have the right local skills in place through our apprenticeship programmes.
- Focusing on playing our part to tackle fuel stress and poverty, and doing our bit for the nation's Net Zero targets

Colleagues

HOW WE ENGAGE

We are proud to be on the list of the Sunday Times 25 Best Big Companies to work for, and on the Social Mobility Index of the top 75 employers in the UK for our commitment to social mobility. We have a national Workforce Group that is responsible for setting the approach to staff engagement and each local branch has a People plan, which sets out what it will do in each year. We have an Employee Director who sits on the Mears Group Board, which also helps ensure that the views of the workforce are listened to and actioned.

Our Say What You see survey is aligned with the Sunday Times Best Companies portal, providing independent and anonymous feedback.

We communicate with our colleagues with the aim to ensure that every single employee has a right to understand how our company is performing. We do this through regular briefings from our Executive Board and through two-way communication.

STAKEHOLDER EXPECTATIONS

Throughout 2021 we have developed our employee offer to introduce an increase in pay and holiday entitlement for those who earn the least. Our regular surveying shows that our colleagues want transparent and regular communication from the business about how we stand financially and an honesty in our approach to any business changes.

Our staff want to work for an organisation that values them and the communities in which they live. They want an organisation that treats people fairly and gives them the opportunity for personal development.

RELEVANCE TO BUSINESS MODEL AND STRATEGY

Our workforce engagement is built around the Mears 'Red Thread' model, which works to establish the type and culture of workforce that we know will lead to both customer and financial success.

KEY ISSUES

Security in the workplace during a time of financial fluctuation. A focus on mental health, wellbeing, and encouraging hard to reach groups into our workforce. Creating a more diverse workforce.

A constant focus on communicating better and performance management.

OUTCOMES

- We have worked with independent experts, through our Social and Diversity Impact Board and colleague engagement to look at where our sector needs to improve in recruiting, promoting and retaining colleagues from backgrounds who suffer from discrimination. This has formed our new proactive policies to which we will be held account.
- We have placed a primary focus on performance management to ensure that our workforce is appraised and able to develop in the best way for each individual.

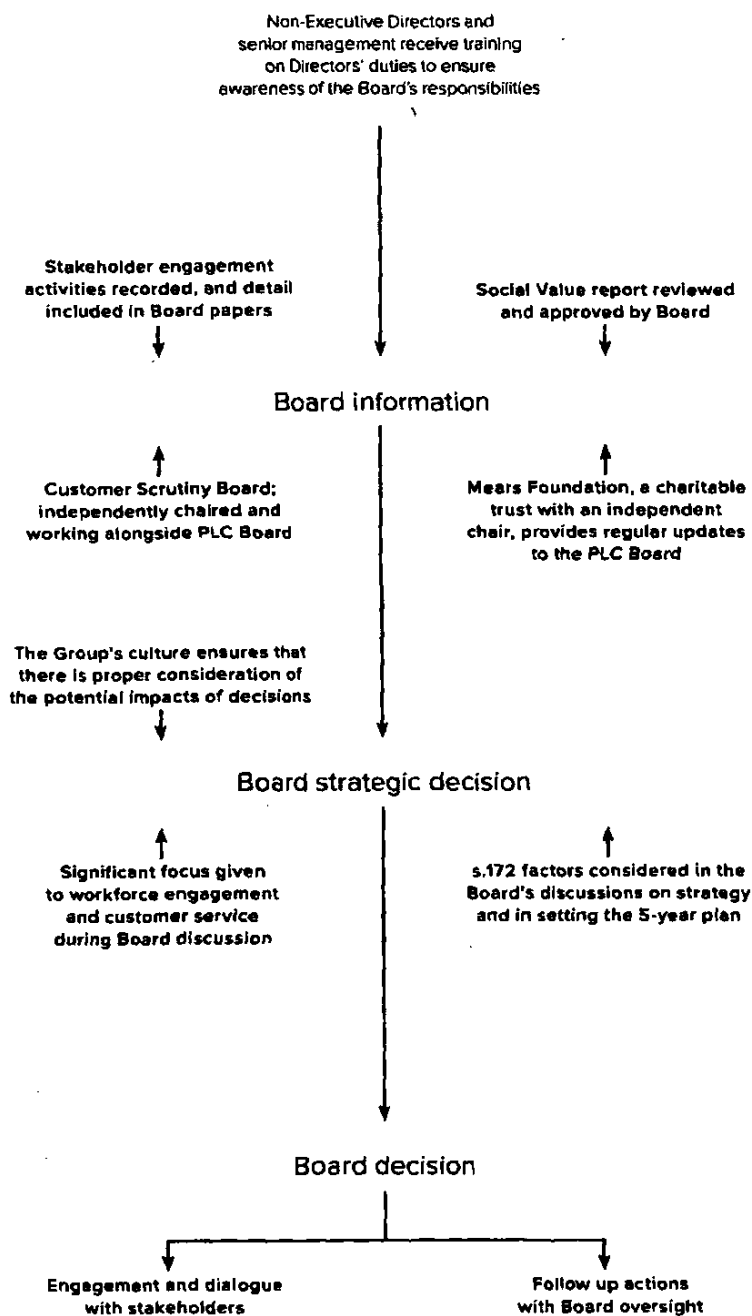
Section 172 statement

Our duty

Statement by the Directors in performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006

The Board of Directors of Mears Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole in the decisions taken during the year ended 31 December 2021.

The Board recognises a wide range of stakeholder interests and seeks to create a culture whereby decisions are made with consideration to the wider impact upon the organisation as well as financial performance and strategic objectives. The Company's Directors recognise their legal duties under Section 172(1) of the Companies Act 2006, to act in the way that is most likely to promote the success of the Company for the benefit of its members as a whole whilst also having regard for the interests of employees, the success of their relationships with suppliers and customers, the impact of our operations on the community and the environment, whilst maintaining a reputation for high standards of business conduct.



Section 172 factor

The likely consequences of any decision on the long term

The interests of the Group's employees

The success of our relationships with suppliers and customers

The impact of our operations on the community and the environment

Maintaining high standards of business conduct

Acting for the benefit of our members

Annual Report disclosures

- Company purpose and vision page 02
- Our value creation model pages 22 and 23
- Performance review page 26
- Performance review page 26
- Listening to our stakeholders pages 28 and 29
- Diversity and inclusion page 38
- Social Mobility page 04
- Responsible payment practices page 40
- Modern slavery page 40
- Sustainability pages 33 to 37
- Non-financial information statement page 45
- TCFD pages 42 to 45
- ESG pages 33 to 45
- Anti-bribery and corruption page 41
- Whistleblowing page 41
- Modern slavery page 40
- Risk management pages 46 to 49
- Internal controls pages 76 to 81
- Listening to our stakeholders pages 28 and 29
- Shareholder engagement pages 71 and 72
- Annual General Meeting page 72, 98 and 169

Section 172 statement in action

Promoting the success of the Company

Stakeholder engagement is central to our strategy. Our key stakeholder groups are detailed on pages 28 and 29. The Board is mindful that it is not always possible to provide a positive outcome for all stakeholders and the Board sometimes has to make decisions based on competing priorities of stakeholders.

The differing interests of stakeholders are considered in the business decisions we make as a company, at all levels, and are reinforced by our Board setting the tone right from the top. All of the Board's significant decisions are subject to an s.172 evaluation to identify the likely consequences of any decision in the long term and the impact of our decision on our stakeholders.

Outcomes and impacts for our workforce, clients and communities

The Mears 5-year plan addresses the most important social and business questions of our generation. We aim to create a more diverse, socially responsible, safe and green environment in which to serve our clients' needs and for our own workforce to benefit from. Through the Board's decisions, we have created a plan which embeds Mears as a great place to work, with the right focus on skills and communities. It has also led to the direct award of three energy contracts with our clients to decarbonise homes thanks to the investment in our sustainability team.

Outcomes and impacts for our workforce, clients and communities

Through daily direction and dialogue with our workforce and clients, Mears was able to weather the pandemic by supporting emergency works to homes which people were not able to leave. We were able to continually update financial and wellbeing support for our workforce and to build on our health and safety expertise through our Partners in Safety Programme. This enabled us to continue to repair the homes of our most vulnerable service users whilst assuring them and our employees of their safety.

Stakeholder groups

S Service Users
E Employees
I Investors
C1 Community
D Debt Funders
C2 Customers
G Government

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other s.172 considerations, have been considered in its decision making are set out below:

	Board considerations	Stakeholder group
1 Approval of 5-year plan. The vision underpinning the plan is to be the leading provider to the resilient and growing affordable housing market in the UK. A provider that operates with a strong sense of social conscience, tackling issues that matter to people and communities.	— The plan will deliver growth in profit and value for shareholders	I
	— The plan commits to invest in our workforce, improving the quality and capability of staff.	E
	— The plan looks for the Group to be more diverse at every level of the organisation.	E
	— The plan aspires to be recognised as the most socially responsible business working with the public sector, maintaining the highest standards of governance, customer and client engagement, and workforce safety.	C1, E, S
	— The plan committed to being leaders in carbon reduction within Social Housing, whilst focusing on developing a stronger climate change response with our ambition to be carbon neutral by 2030.	C1, E
	— The plan commits to invest further in digital platforms, embracing new technologies that can enhance operational performance, both internally to Mears and in the home environment.	C2, S, E
2 Covid-19 crisis management. As the Covid-19 pandemic unfolded, the Board increased its interactions to maintain continual dialogue on the potential impact to colleagues, clients, service users and shareholders.	— Daily communications throughout lockdown.	E
	— Decision taken to furlough colleagues; however, top-up mechanism introduced to ensure lowest paid staff were not financially disadvantaged.	I, D, E
	— Rapid provision of additional mobile technology to enable people to work from home.	E
	— Topping up salaries of staff required to self-isolate and hardship fund for staff in financial difficulty.	E
	— Putting health and safety first at all times, including agreeing with clients to focus on emergency and essential works only.	E, C, S
	— Rapid response to PPE shortage, enabling Mears to secure stocks when many others did not.	E, C
	— Voluntary repayment of furlough received in 2021.	G
	— Cancellation of the final dividend for 2019 and subsequently reinstating the interim dividend for 2021.	C, D

“Our ambition is to become the most socially responsible business in the housing sector by 2025.”

David Miles
Chief Executive Officer

ESG COMMITMENT – PUTTING OUR CLIENTS FIRST

Through our approach, we will put our clients first, working in partnership to achieve our combined ESG ambitions.

To achieve this we will focus on:

- **Healthy Planet** – our transition to net zero, by decarbonising homes, reducing emissions across the Mears Group and making a positive contribution to our planet
- **Improving Lives** – making a positive difference by delivering great service safely, giving something back and treating everyone fairly and equally, specific to their needs
- **Good Governance** – running our business in the most ethical and transparent way, operating robust governance processes covering: ethics, risk, IT, procurement and partnership working

By everyone working together and delivering our ESG ambitions, we will maintain strong business credentials and demonstrate our commitment to always doing the right thing. Successful delivery means, by 2025, we will have:

- enhanced our ESG reputation and articulated a clear story to the City, our investors, clients, customers and partners;
- attracted new investors to our business;
- retained all agreed ESG related accreditations;
- championed external themes that demonstrate our values;
- established ourselves as a Thought Leader – staying ahead of, and being involved in, future policy and regulation changes;
- established Mears Foundation as the cornerstone of our community investment work;
- grown diversity, across our business, especially in senior positions;
- demonstrated commitment and internal leadership to ESG;

- supported work winning and retention;
- developed strong partnership working with supply chain;
- enhanced our employer brand story and colleague loyalty; and
- become leaders in reducing carbon and fuel poverty in social housing.

With the above in mind, this document sets out our plans to develop our ESG Approach. We want to become a trusted friend to our clients and help them realise their ESG ambitions, as well as build trust with all our stakeholders.

Our approach prioritises where we can have the greatest impact and supports a culture that fully integrates sustainability and purpose beyond profit.

Together we can raise standards across the sector, to the benefit of every resident.

DIVERSITY

Women on the Board

6 Male
3 Female

Women in senior leadership roles

36 Male
9 Female

Employees by gender

3,917 Male
1,587 Female

(2020: 2 female, 9 male)

(2020: 7 female, 31 male)

(2020: 1,633 female, 3,971 male)

ESG continued

SOLID FOUNDATIONS TO SUPPORT OUR 2025 AMBITION

Our culture and values centre around our ambition to be the most socially responsible business in the housing sector by 2025.

We value:

- our customers and communities, putting their needs at the heart of everything we do;
- teamwork, supporting each other, sharing ideas and never excluding others;
- personal responsibility, setting consistently high standards for our work and holding ourselves accountable for achieving them; and
- innovation, being inventive in our approach and empowering people to take reasonable action without fear of recrimination

ESG RESPONSIBILITIES

The Board leads and provides strategic direction to the Group and carries ultimate responsibility for management of the Group's activities, ESG and financial performance.

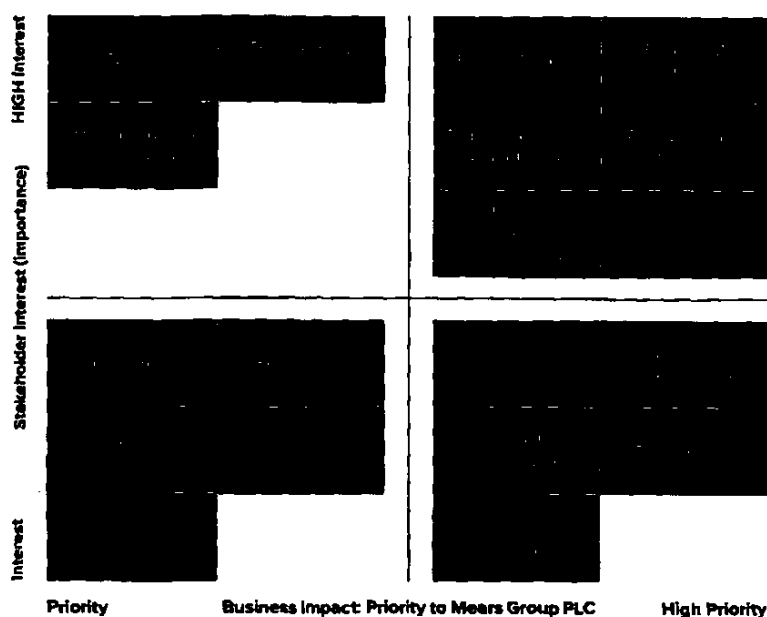
The Board acknowledges accountability to shareholders, clients, employees and customers, for proper conduct of the business, effective assessment of risk and the long-term success of the Group, having regard to the interests of all stakeholders.

“The Mears Board places our responsibilities to society at the heart of our business. Through robust governance and identifying risks, we will ensure that our company is ready to fully commit to the measures set out in our ESG Approach.”

Andrew Smith
Chief Financial Officer

OUR MATERIALITY REVIEW

- Through an online survey, we consulted with 32 of our internal stakeholders to identify the matters that are important to them and asked them to rank a number of specific ESG and sustainability topics on a relative basis. We also assessed these topics on the incremental impact that they can have on our business
- While all items shown are important, some have greater urgency, in terms of focus, to our business than others
- We will use the results (opposite) to help inform our approach and development plans
- NB – the key materiality topics used were sourced from relevant ESG frameworks and sector insights
- In 2022 we will widen our consultation to external stakeholders, led by our independent ESG Board



UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS

The UN has identified 17 Sustainable Development Goals (SDGs) which aim to achieve a better and more sustainable future for all.

Mears has identified the 10 following goals and fully aligned them to our own 2025 Strategy and ESG Approach. The goals we have identified are those which we believe are highly relevant to our business and the housing sector, in which we operate.

3. Good health and wellbeing: Ensure healthy lives and promote wellbeing for all at all ages

8. Decent work and economic growth: Promote sustainable economic growth, full and productive employment, and decent work for all

9. Industry, innovation, and infrastructure: Develop, upgrade, and retrofit infrastructure to make them sustainable, with increased resource efficiency and cleaner technologies and processes

10. Reduced inequalities: Reduce inequality by supporting the marginalised and disadvantaged

11. Sustainable cities and communities: Provide access to safe, adequate, and affordable basic services, energy, housing, transportation and more

12. Responsible consumption and production: Ensure sustainable management and efficient use of natural resources

13. Climate action: Take urgent action to combat climate change and its impacts

15. Life on land: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss

16. Peace, justice and strong institutions: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions

17. Partnerships: Partner with Governments, businesses, academia, and communities to mobilise action for sustainable development

Our Approach will see the Group report progress against the chosen SDGs and we will continually monitor the UN's goals to ensure that we are always acting on those most relevant to our business. For more information on the UN SDGs, please find out more here: <https://sdgs.un.org/goals>

Introducing our plans

HEALTHY PLANET

Link to SDGs: **9 11 12 13 15**

We will achieve net zero carbon emissions on Scope 1 and 2 by 2030 across our operations

IMPROVING LIVES

Link to SDGs: **3 8 10**

We will improve lives by contributing at least £5k, per employee, of social value each year

GOOD GOVERNANCE

Link to SDGs: **12 16 17**

We will enhance our strategy for sustainable procurement by 2023 and evolve our approach to maintain our high standards

Healthy Planet

Our aim is to become a carbon neutral organisation, whilst helping clients create safe and sustainable places that will have long-lasting benefits for their communities.

HEALTHY PLANET IN 2021

96.63%

waste diversion from landfill

Zero

pollution incidents

Zero

environmental legislation breaches

3

Social Housing Decarbonisation projects secured with our clients

Reducing our carbon emissions

Our goals

- Achieve net zero carbon emissions on Scope 1 and 2 by 2030 across our operations
- Achieve net zero carbon emissions on Scope 3 by 2045 across our supply chain

Our plan

- Create a net zero carbon transition plan using science-based targets
- Continue disclosing our emissions, and publicly report on progress against our targets
- Transition to electric vehicle fleet by 2030
- Continue partnership and support supply chain to achieve net zero carbon
- Support our clients in meeting Government commitments
- Create an internal plan for reducing carbon across our contracts, creating awareness and understanding with all colleagues

Decarbonising homes

Our goal

- By 2025 we will aim to be a sector-leading provider of carbon reduction solutions in the social housing sector

Our plan

- Achieve and maintain all relevant accreditations to demonstrate competency and compliance
- Help our clients measure their carbon emissions and retrofit solutions to deliver carbon savings.
- Embed a resident first approach to the decarbonisation of homes (Data > Define > Design > Deliver > Declare)
- Use asset data to help access the limited financial resources currently available AND leverage funding as it becomes available
- Transition our workforce as a whole to ensure understanding and capability

Minimising waste

Our goal

- Achieve a Zero Waste Index score of 1.5 degrees Celsius by 2030, from 2021 baseline of 2.53%

Our plan

- Increase colleague awareness and introduce measures to reduce waste across all sites
- Reduce carbon through the protection of natural resources by reviewing our waste processes
- Avoid waste by improving the reuse of 'waste materials'
- Partner with charities to reuse and recycle furniture and white goods, increasing the percentage recycled yearly
- Monitor and adopt new technologies as they become available
- Work in partnership with our National Waste partner to embed improvements to achieve Zero Waste Index score

Preventing pollution

Our goal

- Continually evolve our approach to maintain zero pollution incidents and zero environmental legislation breaches

Our plan

- Maintain ISO 14001 (Environmental Management System) certification
- Work with clients and communities to clear pollutants from the environments we work in i.e., litter, plastics, etc.
- Continue activity to raise environmental awareness within our workforce
- Maintain robust policies and procedures to ensure environmental compliance and adherence with legislation
- Monitor and adopt new technologies as they become available

Healthy Planet: Green space refurbishment in Thurrock

Mears, Thurrock Council and the Riverside Community Big Local have joined together with the community to take derelict and mistreated woodland and have created the newest green space for local people to enjoy.

Falconwood in Thurrock had sadly become a prime spot for fly tipping and vandalism, meaning that this was not a space the community could use in safety.

After being asked to help by the Council, Mears volunteered to participate in the project to bring this site back to life, working with the Riverside Community Big Local.

Having reviewed the site, we drew up a list of immediate tasks and asked volunteers for help. This included installing new metal security gates to the front and rear entrances to protect the wood against vandalism and also rebuilding vandalised brickwork piers.

The team was then able to remove overgrown shrubs and weeds to enable us to proceed and install permanent pathways so everyone can use the woodland. At the end of the clearing, we removed over 15 tonnes of waste, including washing machines and mattresses.

Susan Murray, Asset Investment & Delivery Manager from Thurrock Council, commented:

"This was a great project to participate in with our local residents and partnering contractor Mears. The work everyone achieved will be a great asset for everyone in the community to be able to enjoy."

Andy Blakey, Chairperson from Riverside Community Big Local, commented:

"Falconwood was one of the very first projects that residents identified for the Riverside Community Big Local – it's an area that has caused problems for many, many years.

"For far too long it has been a waste ground, overgrown and prone to fly tipping. We really want to transform it into an attractive and inviting space that is a real asset for the local community.

"Everyone at the Riverside Community Big Local is immensely grateful to Mears for partnering with us to help make our ambition for Falconwood a reality.

"The help and support that Gary Luscombe and his colleagues from Mears have given has been amazing and – although there is still a long way to go – they have helped make the transformation of Falconwood a reality."

Gary Luscombe, General Manager of Mears, said:

"When Thurrock asked us to pitch in and help, we said yes immediately. I think we've all been reminded over the last year of the importance of green space and having places where we can all appreciate nature. Sadly, Falconwood was not in good shape.

When we put out the call for help, we had so many members of the community volunteer that we actually had to turn people away. It really is a fantastic example of how, when called upon, the people of Thurrock truly come together for the benefit of everyone.

What's next?

Now the woodland has been restored, Riverside Community Big Local has ambitious plans for the rest of the year. Having asked residents what they would like to see next, we are working with them on the next stage of the refurbishment.

Gary Luscombe added:

"Without the volunteers and donations, we could not have achieved what we have. It's been a real pleasure to work with the Council and the Riverside Community Big Local project. Thank you to all the volunteers who helped – this really is a space for the community."

ESG continued

Improving Lives

From a solid baseline, our aim is to create an environment that is 'fair for all', which enables customers, colleagues and communities to thrive by improved: social impact, health, safety and wellbeing, employee value proposition and fairness and inclusion.

IMPROVING LIVES IN 2021

Social value:

- circa 1,500 social value projects
- £29.4m social value impact
- Over £2,800 Impact per employee

Mears Foundation:

- £60k grant donations to support local community projects.
- For more information about the Mears Foundation please visit:
<https://www.themearsfoundation.org.uk/>

Health & safety:

- Accident frequency rate: 0.19

Fairness & Inclusion

- 92% of colleagues shared EDI data
- 100% of managers trained in EDI
- Gender pay gap of 22%
- Employee turnover of 22%

Promoting fairness & inclusion

Our goals

- Continually evolve a Board-driven strategy that ensures fairness and inclusion for all colleagues

By 2025 we will aim to achieve:

- 36% of women in leadership positions (grade 5 +)
- 12% Group representation of black, Asian and other ethnicities
- Gender pay gap of 19%
- Colleagues consider us a leader

Our plan

- Maximising current recruitment processes to ensure they are bias free and encourage job opportunities for all
- Publish first ethnicity gap report, with 98% of colleagues sharing EDI data
- Achieve leading Gold standard fairness & inclusion accreditation
- Insight-led approach to ensuring our workforce reflects our local communities
- To eradicate under-representation and pay disparity in all job roles
- All colleagues across the business to receive fairness & inclusion training
- Achieve Disability Confident Employer status
- D&I targets to be embedded in managers' performance and reward schemes
- D&I 'consolidation' training for managers – periodic (every 3 years)
- Contractual requirement for suppliers to provide evidence of how they are addressing D&I

Attracting & retaining talent

Our goals

- Continually evolve a cohesive strategy for attracting and retaining the best talent; enabling our colleagues to thrive

By 2025 we will aim to achieve:

- Employer of choice recognition
- 90% of all apprentices secure work at Mears or another organisation, on completion of their apprenticeship
- Employee turnover of 18%

Our plan

- Develop a competitive Employee Value Proposition, including standard and flexible benefits
- Deliver an enhanced approach to talent management
- Promote internally and externally the Mears Brand and Employee Value Proposition
- Year on year growth, in percentage, of overall recruitment from under-represented groups
- Implement Voice of Colleague forum, chaired by Employee Director, to enable even bigger employee voice
- Maintain approach to ensuring all employees are paid the real Living Wage or above
- Maintain governance to ensure no inappropriate Zero Hours contracts
- Promote Mears' flexible working offer linked to wellbeing to support attraction and retention

Improving health & safety

Our goals

- Continually evolve our approach to maintain our high standards for creating a safe working environment for everyone:
- Accident frequency rate of below 0.25.
- Win the RoSPA Industry Sector Award, which recognises best H&S performance in the sector, by 2030

Our plan

- Maintain all ISO accreditations
- Retain RoSPA Gold Award
- Maintain a team of professionally qualified Safety, Health and Environment Managers to support the business.
- Maintain robust policies and procedures to ensure health and safety compliance
- Conduct regular audits and inspections across the business to monitor compliance
- Monitor and invest in new technologies as they become available

Boosting health & wellbeing

Our goal

- Continually evolve a Board-driven wellbeing strategy, the importance of which is regularly communicated to the workforce, that ensures the health and wellbeing of our colleagues

Our plan

- Mental Health First Aider in 100% of contracts and departments
- Tailored and enhanced Employee Assistance Programme (EAP)
- Access for all employee to voluntary health services and programmes
- Enhance support for vulnerable colleagues
- Enhance flexible benefits package and contractual terms to support access to opportunities
- Maintain focus on employee engagement and help tackle the challenges of wellbeing and mental health

Raising social value

Our goals

- Continually evolve our approach to ensure that, by 2025;:
 - All contracts must have a yearly social value plan contributing at least £5k, per employee, of social value
 - We will grow Mears Foundation grant giving to over £200k per annum

Our plan

- Develop Social Return on Investment reporting to focus more on qualitative outcomes and personal impact
- Build on engagement with supply chain
- Year on year increase in use of volunteering hours
- Lobbying Government for a more transparent and consistent measure of social value

Improving Lives: Mears Group adds to its team using DWP's SWAP scheme

Mears Group, the UK's leading housing solutions provider, has recently engaged with the Department of Work and Pensions' (DWP) SWAP scheme to connect two jobseekers with permanent employment in its Milton Keynes call handling facility.

The DWP's SWAP – Sector-based Work Academy Programme – scheme connects people trying to enter the job market with opportunities in local businesses. SWAPs are an opportunity for jobseekers (claiming Universal Credit, Jobseeker's Allowance or Employment and Support Allowance) to improve job prospects, learn new skills and get experience of working in particular industries such as care, construction, or warehouse work.

In Milton Keynes, The MK Council Neighbourhood Employment Project Manager approached Mears' customer success manager, Claire Foden, to collaborate on a SWAP initiative. Recognising that attracting new talent to the housing solutions sector is an ongoing challenge, Claire was keen to drive the initiative forward, support Mears' commitment to social responsibility and secure employment for vacant roles within Mears Group.

At the end of the process, which included a two-week DWP SWAP training programme followed by interviews, Mears offered roles to two individuals who have been employed as call handlers for the past four months.

The benefits to Mears and the employees are numerous; both individuals have become trusted and valuable members of the call handling team, while gaining valuable skills and experience that will set them up for the future.

One of them commented on how the opportunity has positively impacted him: "Since joining Mears I have been able to settle into a routine, which is great for my condition. I have been identified as someone who can progress at Mears and am looking forward to this. Customer service is really important to me – it's been amazing so far." Another commented: "It is nice to be back in work after two years out of work. I am lucky to have a supportive manager and great colleagues at Mears."

Minister for Employment Mims Davies MP said: "It's great to hear about people getting into work and progressing at Mears, with the support of our Sector-based Work Academy Programme. What's great about SWAPs is that this training is connected to live vacancies, offering people the best chance at landing that all important job."

"Our Plan for Jobs, including the SWAPs scheme, is supporting people across the country on their way to work in exciting new sectors, from housing to hospitality, by giving them the skills, experience and opportunities they need."

Managing Director of Mears and MK resident Peter Baldwin said: "I am very proud of our new colleagues – they have already become much valued members of our team here in Milton Keynes and I look forward to seeing them develop. Initiatives like this should be used by all companies – as shown in this case, we can make a real difference to people's lives within a supportive environment."

Claire Foden of Mears added: "We are delighted that the SWAP scheme has worked so well for Mears and has resulted in them becoming valued members of our team. We will continue to engage with SWAP and look forward to bringing more people into the team across the UK."

ESG continued

Protecting human rights

- Our goal**
- Maintain our approach to ensure we have no human rights breaches or issues

- Our plan**
- Continue to conduct business and deliver services in a way that respects and considers human rights
 - All suppliers fully compliant with Group policy by 2024
 - Embed our standards and compliance on modern slavery, human trafficking and child/forced labour
 - Regularly monitor labour and payroll
 - Deliver a package of initiatives that drive awareness with employees
 - Gain greater understanding of the supply chain practices and procedures of our key suppliers

Sustainable procurement

- Our goal**
- Define our strategy for sustainable procurement by 2023 and thereafter deliver and evolve our approach to maintain our high standards

- Our plan**
- All suppliers signed up to our Supplier Commitments, which are measured and monitored annually
 - All core suppliers have successful environmental audit results by 2025
 - All timber products sourced from certified forests by 2030
 - 50% of all sourced products are from sustainable sources by 2025
 - Maintain responsible approach to social responsible goods
 - Ensure our procurement activity is outcome-focused with well-defined deliverables
 - Continue to work with externally accredited organisations on attributing value to sustainable procurement
 - Our top 10 Suppliers engaged in collaborative ESG plan

Good Governance

Through robust governance and identifying risks and opportunities, the Mears Board works to the highest level of transparency and good governance. Our aim is to take this approach throughout our business to ensure that ethical behaviour, transparency and openness form the heart of our culture at every level.

- GOOD GOVERNANCE IN 2021:**
- Strong balance sheet, with good cash conversion and low debt
 - Long-term low risk contract portfolio for essential services
 - Zero human rights breaches
 - Over 1,000 residents are part of our online engagement network
 - Award winning Customer Society Board
 - Newly reformed ESG Advisory Board

Information security and governance

- Our goal**
- Continually evolve a robust strategy to ensure we deliver to the highest standard, have no security breaches and are fully GDPR compliant

- Our plan**
- Embed a consistent process to identify and assess privacy risks — 100%
 - Complete across all business areas
 - All information security incidents are investigated and areas of improvement are identified and actioned
 - Deliver a package of initiatives that ensure awareness and understanding across all colleagues
 - Maintain an Information Security Management System that is certified to ISO 27001
 - Obtain and maintain industry certifications
 - Identify and manage cyber risks
 - Deliver secure information systems to the Group

Partnerships

- Our goal**
- We will continue to

- Work closely with our clients and supply chain and increase partnership income
- Work closely with investors and lenders
- Hold ourselves to account through scrutiny

- Our plan**
- Provide secure investment and funding
 - Continue with Your Voice Customer Society Board — independent framework for customer engagement
 - Continue with ESG Advisory Board — independent advisers that constructively challenge
 - Consider ESG factors across all assets in which we invest by 2025
 - Partner with Governments, businesses, academia and communities to ensure best practice and mobilise action for sustainable development
 - Positively influence policy and current practice (local and National Government) through our Thought Leadership programme
 - continue to lead the way

Risk, ethics & governance

Our goal

- Maintain a robust strategy and governance framework to ensure we are fully compliant, manage risk and are regarded as a responsible business

Our plan

- Ensure year on year compliance with anti-corruption governance
- Continue zero tolerance to anti-competitive behaviour
- Year on year compliance and good practice on financial reporting and tax obligations
- Review and align our targets to TCFD and UN SDGs
- Promote Executive Board and senior management responsibilities for governance and risk approach
- Continue independent audit and risk assessment annually with transparent action and reporting
- Provide a confidential whistleblowing channel to encourage colleagues to speak out
- Opt into open carbon reporting
- Continue with Mears Workforce Group, as governance to main Board, leading on all workforce practice and engagement
- Continue disciplined approach to bidding and capital allocation to maintain strong balance sheet

“Through good governance we know that we can reduce risks and create value by leading from the front to create a business truly based on ethical and transparent business practices.”

Alan Long
Executive Director

Good Governance: Holding Mears to account

In 2021 our Independent Scrutiny Board published its first annual report, which highlighted the Company's performance, including recommendations for continuing service improvements.

The resident-led board forms one part of our resident engagement model, which has the right to question any part of the Mears business, to scrutinise how we deliver services to the housing sector and make recommendations aimed at improving customer experience. The Your Voice Scrutiny Board reports directly to the PLC Board and has the power to publish independent public reports about Mears.

We also recognised that there may be some issues which impact on customers' lives which are outside of Mears' direct control and the Scrutiny Board will consider how it can influence wider improvements working with local councils, Housing Associations and Government. Your Voice is structured as follows:

Mears Customer Scrutiny Board –

An independently chaired panel of customer representatives working alongside the PLC Board and providing oversight, challenge and support to Mears. It will be supported and its independence assured by the Centre for Public Scrutiny.

Mears Customer Champions Forum –

Made up of Mears' branch-based customer engagement (or equivalent) leads plus other key stakeholders such as client Scrutiny Board chairs, resident association leads, and community activists. This forum will create a link between the Scrutiny Board and the local involvement groups and scrutiny structures.

Mears Online Customer Network –

A virtual network of residents from around the country, who opt into providing feedback on Mears services, provide insight into what's important and what's not, offer opinions and suggestions, and validate and endorse our thinking/new initiatives.

You can read the Board's 2021 report here:

Mears Scrutiny Board – Annual Report
2020-2021 | Mears Group PLC

Task Force on Climate-related Financial Disclosures

Mears is committed to adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), providing our stakeholders with decision-useful information on climate related risks and opportunities that are relevant to our business. We are continuing to evolve our climate risk disclosures in line with the TCFD guidelines. During 2021, the management team continued to focus on the implementation of TCFD. The Group has not completed scenario planning, and in this area the Group is not compliant with the TCFD recommendations. As part of our risk planning in 2022/23, we will complete scenario planning to enable our business to mitigate climate related risks.

Mears is not new to ESG. In fact, ESG has always been at the heart of what we do. We structure our ESG Approach through our three priorities:

see pages 35 to 41

- **Healthy Planet:** Reducing emissions and making a positive contribution to our planet
- **Improving Lives:** Making a positive difference by delivering great service, giving something back and treating everyone fairly and equitably, specific to their needs
- **Good Governance:** Running our business in the most ethical and transparent way

Each of these is driven by an understanding that a company of our size can make an impact on the communities we work in and on the wider world. We set our standards extremely high and have a robust set of governance structures in place, including independent scrutiny.

Mears will also play a crucial role in helping to retrofit and improve the national housing stock. Using our internal experts, we are already developing plans with our clients to achieve Net Zero in emissions from housing. We see this as a major part of our future as a business.

Our ultimate goal is to be recognised as the most socially responsible business working in the public sector.

Governance

Disclose the organisation's governance around climate related issues and opportunities.

Our ESG Approach can be viewed in full on pages 33 to 41 and outlines our plans to reduce emissions – this being one of our three strategic priorities for ESG alongside Improving Lives and creating opportunities and Good Governance.

As part of our strategy in 2021, we appointed a new sustainability team to provide a vision and plan for us both internally and as a contractor to the public sector.

The Board is focused on ensuring that Mears lives by its values. The Board is accountable for the long-term success of the Group, setting a framework of effective controls which enables risks, including climate related risks and opportunities, to be assessed and managed. Responsibility for ESG is embedded into our corporate governance and owned by the Board, receiving inputs from the Compliance Committee and Group Sustainability Team.

Our executive management leads and provides strategic direction to the Group, and carries ultimate responsibility for management of the Group's activities, ESG and financial performance.

Wider management functions throughout the organisation also have climate related roles and responsibilities. For example, our Health and Safety function supports the delivery of our environmental strategy, with particular focus on waste management and recycling. We will continue to embed climate related roles and responsibilities throughout our functions and operations during 2022.

Our strategy will see us:

- achieve net zero carbon emissions by 2030 across our operations;
- achieve net zero carbon emissions by 2045 across our value chain;
- embed a net zero carbon culture based on personal responsibility; and
- move to an electric vehicle fleet by 2030.

We are currently concluding our Carbon Plan, which is due for completion during the first half of 2022. This will include additional interim milestones as we progress to net zero carbon emissions by 2030.

We are proud to have achieved ISO 14001 (Environmental Management System) certification and this will form a key indicator for the Board to review.

Strategy

Disclose the actual and potential impacts of climate related risks and opportunities on the organisation's business, strategy and financial planning where such information is material.

Climate change presents Mears with both risks and opportunities.

RISKS

As a large manager of housing stock, the Company will need to demonstrate a leading role in ensuring our stock is fit for Net Zero. As a repairs and maintenance provider, we will need to move our vehicle fleet to electric by 2030. However this commitment is dependent upon the infrastructure in the UK being available to allow our operatives to charge their electric vehicles without impacting upon productivity.

OPPORTUNITIES

As part of our 2025 Strategic Plan, the Board has directed that we will work to become leaders in carbon reduction within social housing and within our organisation. The strategy planning for 2025 means that we are already in a position to financially plan for an electric vehicle fleet, to mitigate the effects of climate change on our business and to enhance our offer on Net Zero to enable us to benefit from the opportunities of Net Zero.

The benefits of Net Zero are clear to Mears. The retrofitting of social housing will become a major growth area for Mears. Our expertise in this area makes us an integral part of the green economy. We have already secured our first three energy efficiency projects as detailed within the Chief Executive Officer's review.

A further benefit will be to show investors with an emphasis on ESG and the green economy that Mears is an attractive investment, and our expertise will present a competitive advantage when bidding for contracts.

In considering our climate risks and opportunities, we have considered short-term risks between 0 and 2 years, medium-term risks from 2–5 years and long-term risks being over 5 years. The Board would expect to increase these time horizons as the Group builds on the recommendations of the TCFD and completes the scenario planning work. At this time, a period that is significantly greater than 5 years is considered too long, given the inherent uncertainties involved.

See page 36

Task Force on Climate-related Financial Disclosures continued

SHORT-TERM RISKS AND OPPORTUNITIES (0-2 YEARS)

Risks

- Failure to financially plan for upskilling workforce in low carbon technology
- Failure to access all available funding

MEDIUM-TERM RISKS AND OPPORTUNITIES (2-5 YEARS)

Risks

- Risk that suppliers will not be able to adapt in timeframe set
- Failure to analyse all contracts for business procurement. These will all need to be stress tested to ensure that they help us to achieve our Net Zero goal
- Failure to begin upgrades to housing stock we own and manage

Opportunities

- Help to upskill our supply chains to reach our Net Zero goals
- Become the preferred supplier for Net Zero in social housing stock nationwide
- Access to Government funding to decarbonise housing stock (see financial planning below)

LONG-TERM RISKS AND OPPORTUNITIES (5 YEARS AND ABOVE)

Risks

- Transition to electric vehicle fleet will depend on charging infrastructure
- Scope 3 is dependent on suppliers
- The UK skills shortage could affect our plans
- Our increasing housing footprint reduces our ability to meet our goals
- Changing sources of supply, e.g., for forestry products that may be impacted by climate change
- Energy and IT supply risk, where bad weather causes widespread downtimes
- Additional maintenance pressures as a result of more extreme weather conditions
- Need for greater flood protection measures for homes as risk areas spread

Opportunities

- We become the UK's leading end-to-end carbon reduction experts with capability to analyse existing stock, access funding, implement new technologies and measure impact
- We support the UK skills base by supporting our supply chains to adapt to new skills, technologies and regulation
- Need for protection of and greater support for biodiversity will enhance our social value offer by greening communities

- Combatting climate change will present us with opportunities to grow our maintenance business
- With increasing migration we can harness the new skills to fill the current gap

FINANCIAL PLANNING

Our 2025 Strategic Plan sets out our ambition to become leaders in carbon reduction. Financial planning is tied to our strategy and as such we have already incorporated this and will continue to do so to meet our goal of Net Zero for our business by 2030. Appointing a carbon reduction team is an example of our investment.

To become leaders in this area, we need to ensure that we are able to access the significant investment coming in through Social Housing Decarbonisation funds, the Warm Homes Front and the new ECO4.

We already have an emerging pipeline of opportunity, although further Government funding announcements will influence how fast this opportunity will develop. We know that £800m will be released under the English Social Housing Decarbonisation fund in April 2022, with a further £800m mentioned for April 2023 (there are similar pots in the devolved nations). In each case, this will be for work being carried out over a 3-year period. We also know there is £150m in the Warm Homes Front for off gas properties and April will see ECO4 launched with a potential £1bn fund for housing of all types.

CARBON PRICING

As part of the scenario analysis, we will further consider the impact of future carbon pricing. Carbon taxes have to date remained relatively low but are expected to increase in the future in line with Government commitments. We consider the most significant financial impact is where the cost of carbon taxes and levies, both those incurred directly by Mears and where indirect carbon taxes are passed to Mears through its supply chain, cannot be passed onto customers.

RESILIENCE

We link our work to the Group's strategic priorities and principal risks. As part of our risk planning in 2022/23, we will complete scenario planning to enable our business to mitigate climate related risks. This will include planning to ensure that we mitigate against risks that the Group does not maximise opportunities presented by ESG related changes in its business environment.

See pages: 46 to 54

Risk Management

Disclose how the organisation identifies, assesses and manages climate-related risks.

The Group Sustainability Team identifies strategic climate change risks and opportunities facing Mears through the regular review of issues and trends. Active collaboration with external experts, and representation at conferences and events help to ensure up-to-date knowledge. Identified risks and opportunities are shared with the Board and included within the strategic risk register.

As detailed in the Risk management section on page 46, Mears has a structured risk management framework operated at a business unit, function and Group level. The senior management team reviews and identifies the key risks; climate related risks are identified and considered as part of that process. Climate related risks are not considered in isolation, and the process is integrated into the Group's overall risk management process.

The Board has carried out a robust assessment of the principal risks, including climate related risks, facing the Group, including those that threaten the business model, strategy and future performance. Risks are prioritised based on the likelihood of occurrence and the severity of the impact on the Group. This severity can be measured using various criteria such as financial, customer service, growth, regulatory compliance and reputational criteria. Therefore, Mears measures more than simply the financial impact of the risk. These scores are used to escalate risks and to drive the mitigation plans.

Climate change represents both risk and opportunity for the Group. There is a risk that Mears does not identify and manage the risks associated with changes in environmental legislation relating to housing, transportation, and corporate reporting requirements. There is also a risk that the Group does not maximise the opportunities presented by energy efficiency in the affordable housing sector.

See pages 46 to 54

Climate risks are assessed as part of our integrated risk management framework as detailed on pages 46-54

Task Force on Climate-related Financial Disclosures continued

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

Mears will create a net zero carbon transition plan, with science-based targets. We will publish data in our Annual Report and on our ESG website, which will publicly show our emissions, and progress against our targets. We will develop our year on year targets for reducing Scope 1 and 2 as part of our transition plan over 2022.

Specific targets include:

- transition to electric vehicle fleet by 2030;
- work in partnership and support supply chain to achieve net zero carbon;
- 100% carbon awareness training for colleagues by 2023;
- invest in carbon offsetting to balance residual emissions by 2030; and
- achieve net zero carbon emission by 2045 across our value chain.

We have set a small number of climate related metrics and targets in our Group strategy, and included them within our wider ESG plan, notably:

- greenhouse gas (GHG) emissions, absolute Scope 1 and 2 (as detailed opposite);
- GHG emission intensity (as detailed opposite); and
- waste diverted from landfill (as detailed on page 36).

We recognise the need to review our climate targets in 2022 and 2023, and further performance measures will be considered in due course.

The Group's carbon emissions data for the year is detailed opposite.

See pages: 35 to 37

GHG EMISSIONS

The Group's carbon emissions data for the year is provided below.

The data set out in these tables represents emissions and energy use for which Mears Group PLC is responsible and is incorporated by reference in the Directors' Report on page 99. To calculate our Group emissions, we have used the main requirements of the GHG Protocol Corporate Standard.

These figures have been generated from independently provided reports of carbon emissions or energy usage from a variety of sources and, where necessary, energy usage has been converted into carbon emissions using the UK Government GHG Conversion Factors for Company Reporting 2021.

This year, we have also calculated our Scope 2 emissions using the market-based methodology to recognise the purchasing of low carbon energy.

Scope	Units	2021	2020
Scope 1 – UK	Tonnes CO ₂ e	36,397	34,370
Scope 2 – UK location-based	Tonnes CO ₂ e	6,449	7,376
Scope 2 – UK market-based	Tonnes CO ₂ e	5,817	n/a

Scope 1 and 2	Units	2021	2020
Intensity tonnes CO ₂ e/£m revenue		48.78	49.63
Energy consumption	MWh	198,363	189,074

Our reporting follows the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, applying the 'Financial Control' approach (organisational boundary).

Our policy is to restate carbon and energy figures in consideration of changes in methodologies, improvements in the accuracy, or discovery of errors in previous years' data. No restatement has been made this year.

Our gross carbon emissions have been classified in the following way:

Scope 1 – Direct emissions from: vehicle use (owned and leased); heating fuels used in buildings.
Scope 2 – Indirect emissions from: electricity used in our buildings. We report location-based emissions (taking into account the UK grid average).
Scope 3 – Indirect emissions from business travel by air and taxi; hotel stays; water supply; and waste recycling and disposal.
Out of Scope – Indirect emissions from: biofuel usage from all divisions in line with DEFRA reporting guidelines.

During 2021, Mears has taken active measures to improve its energy efficiency, including:

- Utilising technology to minimise journey time between all operational visits
- Expanding use of video technology to reduce the number of journeys travelled by over 75%
- Sourcing energy from renewable resources
- Working with our supply chain to reduce packaging and waste on a continual basis
- Employing a Sustainability manager to complete a roadmap through to 2030 and beyond

Non-financial Information Statement

Board requirements	Policies and standards which govern our approach	Additional information and risk management
Stakeholders (customers, suppliers, etc.)	<ul style="list-style-type: none"> — Responsible Business Charter — Data Protection — Responses to Social Housing White Paper, Procurement Green Paper and the Decent Homes Review — Scottish Business Pledge — ISO 44001 – collaboration in contract management — Monitoring right first time, customer complaints, customer satisfaction 	<ul style="list-style-type: none"> — Board activities – page 70 — s.172 statement – pages 30 to 32 — Critical market factors that influence performance – page 46 — Awards and accreditations – pages 04 and 05 — Market drivers – pages 20 and 21 — Business model – pages 22 and 23 — Customer satisfaction – page 26 — Stakeholder engagement – pages 28 to 29 and 71 and 72
Environmental matters	<ul style="list-style-type: none"> — ESG Approach — FTSE4Good membership — ISO 14001 (Environmental Management System) certification 	<ul style="list-style-type: none"> — ESG reporting website — ESG Approach – pages 33 to 41 — TCFD statement – pages 42 to 44 — Carbon emissions statement – page 44 — Environment and waste recycling – page 36
Employees	<ul style="list-style-type: none"> — Whistleblowing policy — Family Friendly policy — Safeguarding — Equality, Diversity and Inclusion — Approach to Labour Standards compliance — Launch of a socially responsible business plan to attract and retain staff and go further on our diversity and inclusion plans — 2025 Strategy — Health and Safety — Red Thread Approach — RoSPA Order of Distinction 	<ul style="list-style-type: none"> — Improving Lives – pages 29 and 38 to 39 — Gender Pay Gap Report – page 38 — Governance report – page 71 — Remuneration report – pages 82 to 97 — Awards and accreditations – pages 04 and 05 — Health & Safety – pages 38 and 39
Human rights	<ul style="list-style-type: none"> — Modern slavery and human trafficking — Preventing engagement of child labour — Whistleblowing policy — Family Friendly policy 	<ul style="list-style-type: none"> — Modern Slavery Act – page 40 — ESG Governance – page 40
Anti-corruption and bribery	<ul style="list-style-type: none"> — Anti-Bribery & Corruption — Independent research into ethical procurement sponsored by Mears — Responsible Business Charter 	<ul style="list-style-type: none"> — Governance – page 71 — Report of the Audit and Compliance Committees – pages 76 to 81
Social matters	<ul style="list-style-type: none"> — ESG Approach — Social Value UK Certificate Level 2 — FTSE4Good Index — Mears Scrutiny Board — ESG Board — Social Mobility Index 	<ul style="list-style-type: none"> — ESG Approach – pages 33 to 41 — Awards and accreditations – pages 04 and 05 — Governance – page 71 — Stakeholder engagement – pages 28 to 29 and 71 and 72
Description of principal risks and impact of business activity		<ul style="list-style-type: none"> — Risk management – pages 46 to 49 — Principal risks and uncertainties – pages 50 to 54 — Business model – pages 22 and 23
Description of business model		<ul style="list-style-type: none"> — Business model – page 22 and 23
Non-financial KPIs		<ul style="list-style-type: none"> — Strategic Report – page 26 — Corporate governance – page 64 — Report of the Audit and Compliance Committees – pages 76 to 81

Risk management

Mears' strategic objectives can only be achieved by taking an appropriate level of risk in accordance with our risk appetite. Effective management of risks and opportunities is essential to the delivery of the Group's strategic objectives, whilst protecting our employees and other key stakeholders.

Risk management framework

Governance

Board

- Sets the tone on risk management culture
- Maintains sound and effective risk management and internal control systems
- Defines risk appetite
- Is responsible for principal risk identification and ongoing monitoring of the Company's risk exposure to ensure that material matters are managed in alignment with strategic objectives

Audit Committee (Non-Executive)

- Reviews the effectiveness of the risk management process
- Approves risk management policies and guidelines

Internal Audit

- Defines and monitors the risk management process and mitigation tools and actions
- Plans and executes assurance activities to ensure that there are policies and procedures in place to support the effectiveness of the Group's internal control system

3rd line of defence

- Prepares regular risk and internal control reports for approval by the Audit and Risk Committee and maintains the Risk Assurance Map
- Performs risk analysis on growth projects, detailing the specific conditions and risks faced by a new project

Compliance Committee (Executive)

2nd line of defence

- Develops and oversees implementation of risk management strategies and makes recommendations to the Audit Committee and senior management
- Supports the Audit and Risk Committee in monitoring sustainability risks
- Supports the Audit and Risk Committee in evaluating the Group's risk profile and internal controls implemented by management
- The Chair of the Compliance Committee presents to the Board twice a year, to provide a detailed update on the activities of the Committee

Business Unit and Central Functions

1st line of defence

- Risk awareness embedded in day-to-day operations
- Risk identification and assessment performed across business operations on an everyday basis
- Implementation of risk mitigation programmes and operational monitoring of internal controls

Risk governance and oversight

BOARD OF DIRECTORS

The Board has overall responsibility for determining the nature and extent of risk it is willing to accept within the agreed strategy and ensuring that risks are managed effectively across the Group. Risk is a regular agenda item at Board meetings and is closely aligned to strategy review. The Board also reviews reports on the effectiveness of the systems and processes of risk management and internal control.

THE AUDIT COMMITTEE

The Audit Committee monitors the Group's key risks identified by the risk assessment processes and reports its findings to the Board. It also has delegated responsibility for reviewing in detail the effectiveness of the Group's system of internal control policies and procedures for the identification, assessment and reporting of risk.

INTERNAL AUDIT FUNCTION

Our internal audit plan is devised by understanding the strategy, objectives and risk profile of the Group and considering the other forms of management and independent assurance before agreeing what internal audit work is required. This enables us to ensure that our internal audit resources target the key areas and it also enables us to be efficient by not duplicating other assurance activities.

The Group has engaged KPMG as an outsourced provider of internal audit services. KPMG assists the internal Group risk function to set the internal audit plan. This is a dynamic programme set on a 3-year time horizon and ensures certain risks and themes are prioritised and appropriate resources and skills applied to those areas.

COMPLIANCE COMMITTEE

The Audit Committee has a very active sub-committee, being the Compliance Committee. This reflects the significant focus that the Group gives to dealing with health, safety and environmental risks. The extent to which the full integration of health, safety and environmental risks is now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee, who include the Group's Chief Executive Officer, Health and Safety Director and internal Health and Safety legal adviser.

BUSINESS UNIT AND FUNCTIONAL RISK OWNERS

Mears has a structured risk management framework operated at a business unit, function and Group level. The senior management team reviews and identifies the key risks which may impact upon the achievement of the Group's strategic goals and will consider how these risks are developing with changes in the operations, markets and the regulatory environment.

The nature of the risk is reviewed, including the possible triggering events and the aggregated impacts, before setting appropriate mitigation strategies directed at the causes and consequences of each risk. The risk is assessed in relation to the likelihood of occurrence and the potential impact of the risk upon the business, and assessed against a matrix scoring system which is then used to escalate risks within the Group as appropriate. The senior management team has responsibility for managing the Group's key risks.

The Group has a functional risk register and there is a good understanding of the risks that could impact the Group, and their severity. The Group has a positive risk culture, with a clear tone-at-the-top being set by the senior management team. The control environment is underpinned by a detailed scheme of delegated responsibilities that defines processes and procedures for the approval process in respect of decision making. This ensures that decisions within the organisation are made by the appropriate level of management.

Three lines of defence – assurance providers

Mears operates a 'three lines of defence' assurance model.

Our first line of defence, our operational management, have a responsibility to manage day-to-day risk in their own areas guided by Group policies, procedures and control frameworks.

Our second line of defence includes our central support functions, which develop and maintain the risk management framework and engage with management to identify, agree and update risk information on a regular basis to review the effectiveness of the mitigating actions and controls.

Our outsourced provider of internal audit services provides our third line of defence, providing independent assurance on internal controls and risk management processes. Further external assurance is provided by our statutory auditor, in respect of the financial statements, and other external specialists as required.

Risk management continued

Risk management process

RISK MANAGEMENT PROCESS

The responsibility for risk identification, analysis, evaluation and mitigation rests with the senior management team. This is also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies.

Identified risks are documented in risk registers showing: the risks that have been identified; characteristics of the risks; consequences of the risks; the basis for determining the mitigation strategy; and what reviews and monitoring are necessary. The person(s) accountable for assessing and monitoring each risk is noted.

We continue to drive improvements in our risk management process. We also review our business model, core markets and business processes to ensure that we have properly identified all risks. As part of this review,

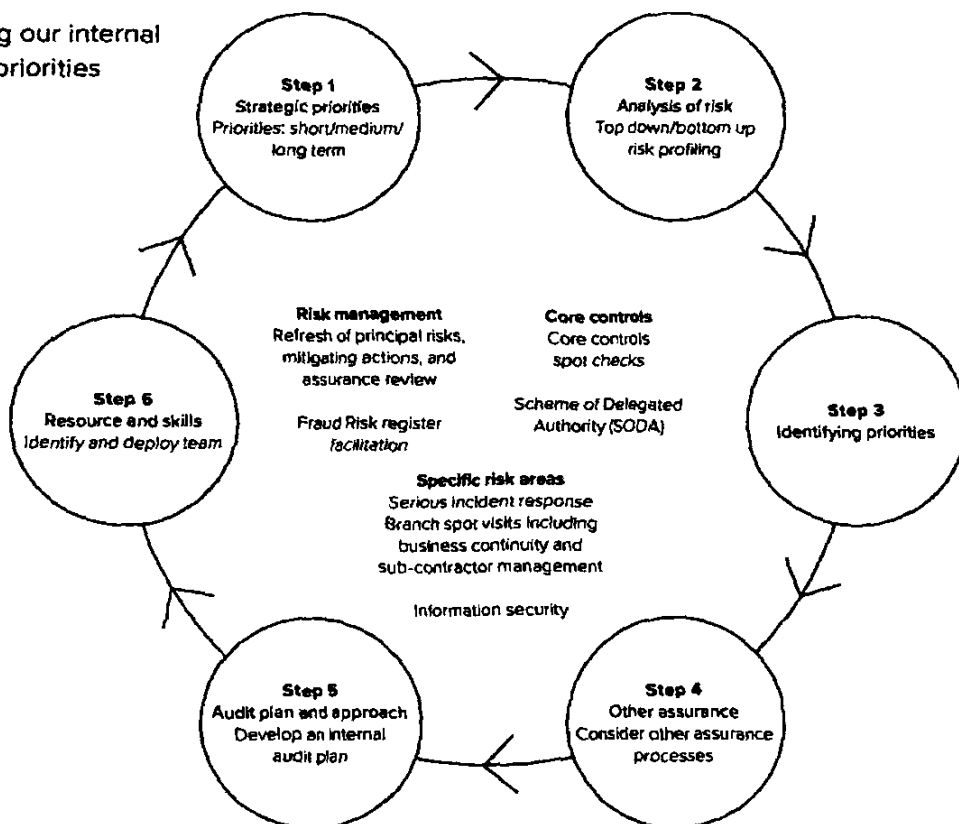
Climate related risks are considered in both the Group and Operational risk registers, but their severity is not considered to be significant. We continually review our mitigating actions to ensure that they are sufficient to minimise our residual risk. Key financial and non-financial risks identified by the business from the risk assessment processes are collated and reviewed by the Audit Committee and are regularly reviewed to monitor the status and progression of mitigation plans; the key risks are reported to the Board on a regular basis.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has carried out a robust assessment of the principal risks facing the Group, including those that threaten the business model, strategy, future performance, solvency and liquidity. Risks have been identified as 'principal' based on the likelihood of occurrence and the severity of the impact on the Group.

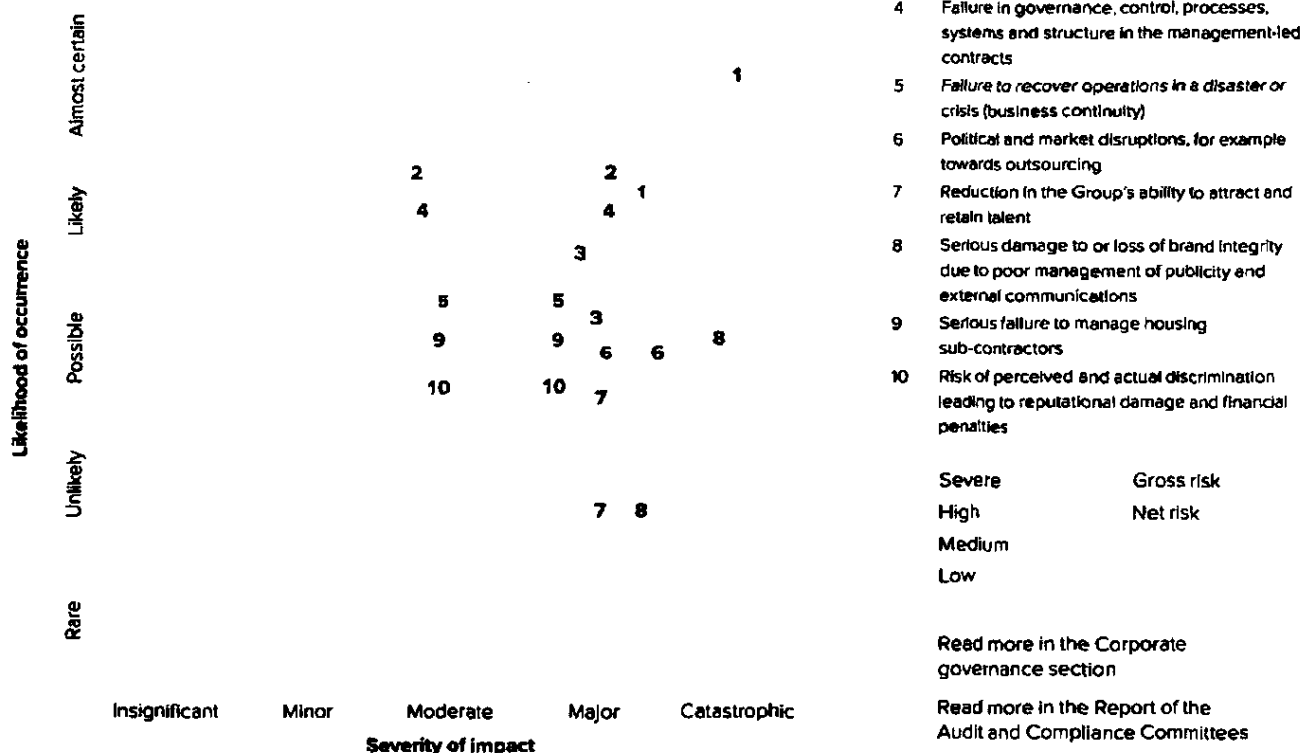
The Group's principal risks are identified on the pages that follow, together with how we mitigate those risks. Each principal risk is considered in the context of how it relates to the achievement of the Group's strategic objectives. The risk discussion includes assessment of gross risk and net risk. Gross risk reflects the exposure and risk landscape before considering the mitigations in place, with net risk being the residual risk after mitigations. The movement in gross risk from the prior year for each principal risk has been assessed and is presented on the pages that follow. Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk.

Setting our internal audit priorities



Principal Risk Heat Map: year end

The Group's risk register rates risks on a matrix scoring system based on their likelihood and impact, i.e. potential severity. This severity can be measured using life and limb, financial, customer service, growth, regulatory compliance and reputational criteria. Therefore, Mears measures more than simply the financial impact of the risk. These scores are used to escalate risks and to drive the mitigation plans.



EMERGING RISKS

In addition to known risks, we identify and analyse emerging risks and the need for mitigation as part of our existing risk management processes. Emerging risks are events that present uncertainty. They may potentially impact us in the longer term but there is currently insufficient information to understand and assess the likely scale or impact, or for the senior management team to set out an appropriate risk response. In some cases, emerging risks are superseded by others, or cease to be relevant, as the environment in which we operate changes and evolves.

The Board has considered the following areas and their risk to the Company:

Covid-19 aftershocks	<p>The risk that the Group fails to successfully recover from the short-term impact of Covid-19. Areas of concern are increased health and safety risks to the Group's staff and its service users, adapting to remote working, and mental health and wellbeing.</p> <p>Covid-19 has long-term implications for the Group that could result in financial losses and limitations on future growth. Possible scenarios include a reduction in Government spending, increased taxation, and potential future claims from staff and service users in relation to the medical condition 'Long Covid'.</p>
ESG	ESG presents risks and opportunities for the Group. There is a risk that Mears does not identify and manage the risks associated with changes in environmental legislation relating to housing, transportation and corporate reporting requirements. There is also a risk that the Group does not maximise opportunities presented by ESG related changes in its business environment.
Legislative changes	Changes to building and fire safety legislation that result in higher cost to comply with requirements and increased scrutiny from regulators.

Read more
in the Corporate governance section and in the Report of the Audit and Compliance Committees

Principal risks and uncertainties

Strategic priorities





To be recognised as the most trusted large private provider working with the public sector

To have the highest levels of customer service in the affordable housing sector where we operate




To embrace innovation that drives positive change such as digital and carbon reduction

To maintain and grow a resilient business with long-term partnerships, a strong balance sheet and cash position, along with a committed, engaged workforce

Risk Level

-  Severe
-  High
-  Medium
-  Low

Change in year

-  Increase in risk exposure
-  Reduction in risk exposure
-  No change in risk exposure

Damage to Reputation

RISK 1 Failure to successfully deliver the Asylum Seekers Contract. Given the nature of the contract, the failure to manage the reputational impact of an incident or operational or commercial issues remains a key risk.



Strategic outcome

KPIs associated with risk

- Works orders completed on time % (monthly)
- Right first time % (monthly)
- Customer satisfaction (monthly)
- Complaints (monthly)

Mitigations

- Business As Usual risk register is maintained for the asylum contract which is reported to Home Office on a monthly basis and acts as a basis for questioning to Mears
- Mobilisation, transition and delivery planning led by senior team and close attention from Group Executive
- Weekly Teams call including Chief Executive Officer and Chief Financial Officer to ensure all senior team members are aligned
- Various projects around IT system set up, GDPR, HR related and training




Damage to Reputation

RISK 2 Major breach of information or data security resulting in negative publicity leading to loss of confidence in the sector or financial penalties.



- Number of privacy complaints
- Response time to data subject requests

- Information Security team in place. Meetings are attended by Information Security Group (ISG) and information asset owners on a monthly basis. The asset owners are held responsible for their respective departments' actions
- Penetration testing is undertaken by an external specialist company
- Third party review and support for training in terms of GDPR requirements
- On some of the Group's most sensitive contracts, the client conducts audits that review physical access, security of hard copies of files and IT system security
- Compliance with ISO 27001

Damage to Reputation	Damage to Reputation and Financial Viability	Damage to Reputation
RISK 3 Failure to manage the impact of a health and safety incident leads to reputational damage and high financial penalties.	RISK 4 Failure in governance, control, processes, systems, and structure in the Registered Provider of Social Housing key risk.	RISK 5 Failure to recover operations in a disaster or crisis (business continuity).
		
Strategic outcome		
KPIs associated with risk		
<ul style="list-style-type: none"> — Accident frequency rates — Customer complaints — Excellent service rating 	<ul style="list-style-type: none"> — Properties with valid gas, electrical and Legionella test certificate (100% target) — Properties with up-to-date asbestos survey and fire risk assessment (100% target) — Tenant satisfaction (monthly) — Customer complaints 	<ul style="list-style-type: none"> — The amount of time since each plan was updated
Mitigations		
<ul style="list-style-type: none"> — The Group's Health and Safety function provides a second line of defence and carries out regular branch audits — Monthly branch inspection of performance against KPIs with business improvement records issued to managers and action completions are being tracked — Accidents are reported within 24 hours. Investigations are performed for every case and recommendations are provided where applicable — Safety, Health, Environment and Quality report submitted to Compliance Committee covering key areas (safety, health, environmental, waste, quality, compliance, and trend analysis on accident statistics) 	<ul style="list-style-type: none"> — Registered Providers have own Board structure which includes five Non-Executive Directors and an Independent Chair. Sub-Committee (Assurance and Operations) meetings are held which focus on key contract details — The RPs have been subject to audit by the Regulator of Social Housing — Regular Committee meetings are held on key areas: performance updates, customer service performance, compliance (gas, fire, electrical and asbestos risk assessments, and complaints update) 	<ul style="list-style-type: none"> — A crisis management policy is in place — Business continuity plan is in place for each branch

Principal risks and uncertainties continued

KEY

Strategic priorities

To be recognised as the most trusted large private provider working with the public sector

To have the highest levels of customer service in the affordable housing sector where we operate

To embrace innovation that drives positive change such as digital and carbon reduction

To maintain and grow a resilient business with long-term partnerships, a strong balance sheet and cash position, along with a committed, engaged workforce

Risk level

- Severe
- High
- ⊖ Medium
- ⊕ Low

Change in year

- ⬆ Increase in risk exposure
- ⬇ Reduction in risk exposure
- ⊞ No change in risk exposure

Damage to Financial Viability

Ability to Resource

RISK 6 Political and market disruptions, for example towards outsourcing.

RISK 7 Reduction in the Group's ability to attract and retain talent.



Strategic outcome

KPIs associated with risk

- % of surveyed clients and politicians who regard Mears as highly responsible (annual)
- % of overall media coverage that is positive (monthly)

- Staff turnover (monthly)
- Social value per employee (annual)
- Self-delivery % (monthly)
- % of apprentices completing their course and obtaining work (annual)
- Great Place to Work score (annual)
- % of the grade 5+ workforce who are women (annual)

Mitigations

- There is regular Board level monitoring of the political climate
- Regular one-to-one meetings between CEO and Members of Parliament to improve mutual understanding
- The business is diversified to become a registered provider of social housing
- Close working relationships are developed with Local Government organisations

- A Workforce Strategy Group consisting of senior employees is in operation, to address key matters associated with the remit of data analysis action planning and implementation monitoring
- Rigorous process ensures that all annual appraisals above grade 5 (mid-management) are reviewed by senior management team
- Mears Learning is an internal training department used to implement Learning and Development strategy
- There is an Executive backed culture of retaining and developing the Group's talent

Damage to Reputation and Financial Viability

Damage to Reputation

Damage to Reputation

RISK
8

Serious damage to or loss of brand integrity due to poor management of publicity and external communications.


RISK
9

Serious failure to manage housing sub-contractors.


RISK
10

Risk of perceived and actual discrimination leading to reputational damage and financial penalties.



Strategic outcome

KPIs associated with risk

- % of surveyed clients and politicians who regard Mears as highly responsible (annual)
- % of overall media coverage that is positive (monthly)
- Customer satisfaction (monthly)
- Complaints (monthly)

Mitigations

- Engagement of external public relations advisory
- All staff are required to follow the social media policy
- There is a dedicated Group Head of Communications
- Whistleblowing policy and procedures in place (for some potential adverse publicity events)
- Staff are given clear directions as to how to deal with a press enquiry

- Self-delivery % (monthly)
- Works orders completed on time % (monthly)
- Right first time % (monthly)
- Customer satisfaction (monthly)
- Complaints (monthly)

- A critical control point (CCP) has been developed which partly focuses on Branch compliance with the Group's sub-contractor processes
- Prior to sub-contractor engagement; rigorous interview process covering health and safety and insurance
- Mears Contract Management (MCM) holds key sub-contractor information and documentation
- Payment controls
- Post inspection checks and monthly performance reviews of accident statistics)

- % of apprentices completing their course and obtaining work (annual)
- % of the grade 5+ workforce who are women (annual)

- Social Value Board with external Board members
- Workforce Strategy Group, consisting of senior employees, addresses key matters associated with the remit of data analysis, action planning and implementation monitoring
- Investment in single HR database (Workday) which allows for improved analysis.
- Gender pay gap is considered as part of the people plan
- Remuneration Committee provides governance at executive level
- Tradeswomen into maintenance and social mobility initiatives in operation

Principal risks and uncertainties continued

‘Smartphone’ initiative for Rotherham’s asylum seekers

The global engineering company ASESSEAL has partnered with the Meas Foundation to help asylum seekers temporarily housed in Rotherham to communicate with their families and support groups.

The two organisations funded the purchase of more than 500 smartphones in an initiative that recognises the social and emotional needs for connectivity of a group that has in most cases experienced extreme hardship during its journey to the UK.

At any one time, around 600 people, including individuals and family groups, are in hotels or other temporary accommodation in Rotherham while their asylum claims are processed. The asylum seekers come from various part of the world, including a number from conflict regions such as Afghanistan, Syria and Ukraine.

Accommodation, food and basic clothing are supplied by the Home Office.

Meas is a provider of housing to asylum seekers in Yorkshire. The Meas Foundation is a not for profit charitable foundation which supports the communities where Meas works.

ASESSEAL MD Chris Rea said the company heard about the asylum seekers and wanted to help ensure that, whatever the outcome of their case to remain in the UK, they retained positive memories of Rotherham and its people.

‘These are displaced people and families with the same needs for emotional support and connectivity that we all have. It’s a helped-up world and smartphones give them access to information and emotional family and social support’, he added.

The charity and the Rotherham headquartered engineering company are jointly ‘backing the initiative to buy a stock of entry level but fully functional smartphones that are capable of internet connection and support video calling.

This is in addition to the support provided by the UK Government to those who arrive in the UK seeking asylum on a variety of grounds.

Headier Tyne, General Manager of the Meas Foundation, said: ‘We are proud to be partnering with ASESSEAL to provide a way to communicate for asylum seekers. When people arrive in the UK, often fleeing persecution, being in a new community must seem daunting. We hope that by providing a link for them to be able to speak to relatives and to find out about their new local area, this will help them to settle into life in the UK.

Financial review

This section provides further key information in respect of the financial performance and financial position of the Group to the extent not already covered in detail within the Chief Executive Officer's review.

ALTERNATIVE PERFORMANCE MEASURES (APM)

The Strategic Report includes both statutory and adjusted performance measures, the latter of which are considered to be useful to stakeholders in projecting a basis for measuring the underlying performance of the business and exclude items which could distort the understanding of performance in the year and between periods, and when comparing the financial outputs to those of our peers. The APMs have been set considering the requirements and views of the Group's investors and debt funders among other stakeholders. The APMs and KPIs are aligned to the Group's strategy and also form the basis of the performance measures for remuneration.

These APMs should not be considered to be a substitute for or superior to IFRS measures, and the Board has endeavoured to report both statutory and alternative measures with equal prominence throughout the Strategic Report and financial statements.

The APMs used by the Group are detailed below with an explanation as to why management considers the APM to be useful in helping users to have a better understanding as to the Group's underlying performance. A reconciliation is also provided to map each non-IFRS measure to its IFRS equivalent.

The Group defines normalised results as excluding the amortisation of acquisition intangibles and before other normalisation adjustments which management believes are infrequent in nature and are considered not to be part of underlying trading. The normalised results are further adjusted to reflect a 19% corporation tax charge. The Directors believe this aids consistency when comparing to historical results and provides less incentive for the Group to participate in schemes where the primary intention is to reduce the tax charge.

A reconciliation between the statutory profit measures and the normalised result for both 2021 and 2020 is detailed below.

In addition, the Group also provides an APM which reports results before the impact of lease accounting under IFRS 16. Management has provided this alternative measure at the request of a number of shareholders and market analysts to allow those stakeholders to properly assess the results of the Group over-time. In particular, the Directors use the pre-IFRS 16 measure to generate the Group's headline operating margin; whilst this generates a lower operating margin, it reflects how the underlying contracts have been tendered and is also more aligned to cash generation. In addition, the Group's banking covenants utilise adjusted profit measurements which are reported before IFRS 16 and stakeholders require better visibility of the Group's adjusted profit for that purpose.

Continuing activities¹

	Note	2021 £'000	2020 £'000
Profit/(loss) before tax	Statutory	16,333	(15,218)
Amortisation of acquired intangibles	Note 13	7,654	9,526
Non-underlying items	See below	1,627	2,279
Profit/loss before non-underlying items, amortisation of acquired intangible and tax	APM	25,614	(3,413)
Removal of IFRS 16 profit impact	See below	2,876	1,118
Finance costs (non-IFRS 16)	Note 5	1,148	2,875
Operating profit pre-IFRS 16 before non-underlying items and amortisation of acquired intangibles	APM	29,638	580
Amortisation of software intangibles	Note 13	2,123	2,211
Depreciation and loss on disposal (non-IFRS 16) ³	Note 14	5,884	5,677
EBITDA pre-IFRS 16 and before non-underlying items	APM	37,644	8,468
IFRS 16 profit impact	See below	(2,876)	(1,118)
Finance costs (IFRS 16)	Note 5	6,921	7,123
Depreciation and loss on disposal (IFRS 16) ²	Note 15	43,386	42,242
EBITDA post-IFRS 16 before non-underlying items and amortisation of acquired intangibles	APM	85,075	56,715
Amortisation of software intangibles	Note 13	(2,123)	(2,211)
Depreciation and loss on disposal (IFRS 16) ²	Note 15	(43,386)	(42,242)
Depreciation and loss on disposal (non-IFRS 16) ³	Note 14	(5,884)	(5,677)
Operating profit post IFRS 16 and before non-underlying items	APM	33,683	6,585

1. Operating profit/(loss) and EBITDA measures include share of profits of associates.

2. Includes profit on disposal of £27,000 (2020: £268,000).

3. Includes loss/(profit) on disposal of £268,000 (2020: (£3,000)).

Financial review continued

The profit impact in respect of IFRS 16 is detailed below:

	2021 £'000	2020 £'000
Charge to income statement on a post-IFRS 16 basis	(50,307)	(49,365)
Charge to income statement on a pre-IFRS 16 basis	(47,431)	(48,247)
Profit impact from the adoption of IFRS 16	(2,876)	(1,118)

Non underlying items

Non-underlying items are items which are considered outside normal operations. They are material to the results of the Group through either their size or nature. These items have been disclosed separately in the adjusted result above to provide a better understanding as to the underlying performance of the Group.

	2021 £'000	2020 £'000
Repayment or waiver of furlough entitlement	1,627	–
Impairment of assets in the course of construction	–	1,500
Restructure costs	–	779
	1,627	2,279

The Directors elected to voluntarily repay to HMRC amounts previously received of £1.1m and, in addition, to not submit a claim for a further amount of £0.5m accruing during 2021 under the Coronavirus Job Retention Scheme ('furlough'). During the first lockdown, the furlough scheme was essential in safeguarding the financial stability of the Group and protecting employment. However, the Directors believe that the strong recovery of the business in 2021, augmented by the disposal of Terraquest, means that to continue to claim furlough is no longer necessary and is not within the spirit of the legislation. A number of Mears' clients looked to the Group to continue to utilise the furlough scheme, and much of that cost reduction passed to those clients as part of the open book reconciliation, leaving Mears Group PLC to subsidise this voluntary repayment.

The Directors believe that the repayment of furlough should be disclosed within non-underlying items; this voluntary repayment is not a trading item and by its nature is unique and non-recurring. The size of this item is considered material and the Directors believe it would distort the readers' understanding of the financial results of the Group.

All furlough received during 2020 was recognised within the income statement in normal trading, matched against the associated cost, and no repayment is intended in respect of that earlier period.

In the prior period, the Group incurred restructuring costs of £0.8m, which were disclosed as non-underlying and excluded from the adjusted operating profit to the extent they arose from initiatives which were significant in scope and impact but would not form part of recurring operational activities in the future. In addition, during that same period, the Group recognised a £1.5m impairment on an asset in the course of construction being the difference between the total cost (including an estimate of the costs to complete) and the fair value of the asset. The impairment charge applied against this asset was considered exceptional given its size and due to it relating to an activity which is not part of the continuing activities of the Group.

Earnings per share (EPS)

For the purposes of assessing the Group's compliance with its banking covenants, the Group utilises an adjusted measure based on EBITDA before the impact of IFRS 16 and before non-underlying items which are termed as 'exceptional items' within the Group's bank facility agreement.

A reconciliation between the statutory measure for profit (loss) for the year attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	2021 p	2020 p	2021 p	2020 p	2021 p	2020 p
Earnings per share	11.50	(10.66)	0.99	50.87	12.49	40.21
Effect of amortisation of acquisition intangibles	6.77	8.62	–	–	6.77	8.62
Effect of full tax charge adjustment	(1.21)	(1.92)	(0.32)	(9.67)	(1.53)	(11.60)
Effect of non-underlying items	1.17	1.67	–	(38.73)	1.17	(37.06)
Normalised earnings per share	18.23	(2.29)	0.67	2.46	18.90	0.17

	Continuing		Discontinued		Continuing and discontinued	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Profit/(loss) attributable to shareholders	12,996	(11,781)	1,122	56,242	14,118	44,461
Amortisation of acquisition intangibles	7,654	9,525	-	-	7,655	9,525
Full tax adjustment	(1,365)	(2,125)	(361)	(10,696)	(1,726)	(12,821)
Exceptional Costs	1,318	1,846	-	(42,823)	1,318	(40,977)
Normalised earnings	20,603	(2,535)	761	2,723	21,365	188

Net cash/(debt)

The Group excludes the financial impact of IFRS 16 from its adjusted net debt measure. This adjusted net debt measure has been introduced to align the net borrowing definition to the Group's banking covenants, which are required to be stated before the impact of IFRS 16. The Group utilises leases as part of its day-to-day business providing around 10,000 residential properties to vulnerable service users and key workers. A significant proportion of these leases have break provisions and the lease terms are aligned to the Group's customer contracts to mitigate risk. The Group does not recognise these lease obligations as traditional debt instruments given the Group's ability to break these leases and in so doing cancel the associated lease obligation. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	Note	2021 £'000	2020 £'000
Cash and cash equivalents		54,632	96,220
Amortisation of acquired intangibles		-	(39,353)
Adjusted net cash/(debt)	APM	54,632	56,867
Lease liabilities (current)	Note 20	(41,600)	(42,888)
Lease liabilities (non-current)	Note 20	(175,290)	(166,183)
Total	Statutory	(162,258)	(152,204)
Less: lease obligations (IFRS 16)	above	216,890	209,071
Adjusted net cash/(debt)		54,632	56,867

Amortisation of acquisition intangibles			
		2021 £'000	2020 £'000
Amortisation charge		7,654	9,525

A charge for amortisation of acquisition intangibles arose in the year of £7.7m (2020: £9.5m). This charge predominantly relates to the MPS acquisition in 2018, resulting in intangible assets being identified associate with to the order book and customer relationships. This MPS Intangible has now been fully written off. The Directors estimate that, in the absence of further acquisitions, the amortisation charge moving forwards will be circa £0.3m per annum. As detailed above, the Group adjusts for this charge within the Group's alternative profit measure. This amortisation charge is very material in size and can vary significantly based upon the Directors' assessment of useful economic life. The Group's shareholders and market analysts typically add back this item in their analysis and the Group's alternative performance measure is aligned to that. Management believes that reporting profit figures that excludes this item can help the reader to better understand the underlying performance of the business, without any distortion as a result of this charge.

DISCONTINUED ACTIVITIES

As detailed within last year's Annual Report, in December 2020, the Group completed a disposal of its entire share capital in its Planning Solutions business ("Terraquest") for a headline enterprise value of £72m. The consideration payable to the Company pursuant to the terms of the Disposal Agreement was structured as follows:

- £56.9m payable in cash at Completion
- The issue by the Buyer to the Company of Consideration Loan Notes with an aggregate nominal value of £3.16m, accruing an interest rate of 10% per annum payable on redemption
- The issue by the Buyer to the Company of £0.06m of Ordinary Shares in the Buyer, representing 6.16% of the entire issued share capital
- A maximum amount of £10m of deferred consideration payable in cash conditional upon the Terraquest Group achieving an aggregate EBITDA of £9.5m in the financial year ended on 31 December 2021. A minimum consideration of £5m was guaranteed.

The Directors are pleased that the Terraquest business, under new ownership, has performed well. The Directors have been notified by the buyer (Apse Capital) that the acquired business delivered an EBITDA of circa £8.5m in 2021, being the earn-out period. The legal agreement allows Mears time to review the basis of this result and a mechanism for resolution if there is any disagreement. Based on the draft assessment of the Terraquest result for 2022, deferred consideration has been fair valued at £6.5m, being an increase of £1.1m. This additional profit has been recognised within discontinued activities. The deferred consideration is payable in April 2022.

Linked to the Terraquest disposal:

- The carrying value of the loan notes increased to £3.48m (2020: £3.15m), reflecting the accrued interest. The loan note issuer has not given any indication as to the timing of any redemption. The loan notes have a longstop date of 2028.
- The minority investment held in the buyer continues to be carried at £0.06m within investments. The business performance has not changed materially from original forecasts, and the Directors believe that the fair value of this investment is unchanged.

TAXATION

Mears does not engage in artificial tax planning arrangements but takes advantage of available tax reliefs. The tax position in any transaction is aligned with the commercial reality and any tax planning is consistent with the spirit as well as the letter of tax law. Mears has a low appetite for risk and when making decisions regarding tax, reputational and commercial risks are considered. Given the Group's activities are largely involved in servicing public sector clients, the risk of reputational damage flowing from a tax compliance failure is higher than in other sectors. This leads the Group to take a risk averse approach if there is an element of uncertainty regarding a particular treatment.

The Group 'normalises' its headline EPS measure to reflect a full tax charge, in so doing, the Board has removed from its primary performance measure any potentially positive impact that could be achieved through reducing the Group's corporation tax charge.

Taxes paid

Further detail in respect of the taxes paid during 2021 are detailed below:

For the year ended 31 December 2021		For the year ended 31 December 2020	
	£m		£m
Corporation tax	3.8	0.0	3.8
VAT and IPT	0.6	96.1	96.7
Construction industry tax	0.0	13.6	13.6
Income taxes	0.0	23.4	23.4
National insurance	13.4	16.4	29.8
Total	17.6	149.7	167.4

BALANCE SHEET

Overall, the Group reported an increase in net assets from £156.1m to £201.0m driven by the trading profit generated in the year, and an increase in the pension surplus. The key balance sheet categories are reported below together with a brief footnote to provide further explanation:

	2021	2020
Goodwill, acquisition intangibles and investments	126,996	135,044
Property, plant and equipment	20,712	23,600
Right of use asset	204,949	200,041
Inventories	22,869	31,258
Trade receivables	141,774	139,884
Trade payables	(184,047)	(221,373)
Adjusted net cash	54,632	56,867
Lease obligations	(216,890)	(209,077)
Net pension	33,631	(7,880)
Taxation	(4,522)	3,678
Receivables relating to disposal of Terraquest	10,007	8,591
Other payables	(8,274)	(4,588)
Net assets	201,038	156,051

1. Comprising (i) goodwill of £118.9m (2020: £118.9m) generated from previous acquisitions; the carrying value is tested at least annually for impairment; (ii) software development costs of £4.0m (2020: £4.9m) relating to in-house developments to our key operational IT platforms; this is being written off over the estimated useful economic life, typically around 5 years; (iii) acquisition intangibles of £2.6m (2020: £10.3m) relating to customer relationships identified and valued on acquisitions and being amortised over the estimated useful economic life of 20 years; (iv) investments of £0.7m (2020: £1.0m), this includes an intangible over which the Group has significant influence but which it does not control. This is categorised as an associate. It is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise; the carrying value reflects the cost of each investment together with the Group's share of the profit generated by that entity since acquisition.

2. Property, plant and equipment (PP&E) is stated at historical cost of £57.3m (2020: £64.6m) less accumulated depreciation of £36.6m (2020: £41.0m), giving a net carrying value of £20.7m (2020: £23.6m). Mears historically has a track record of delivering organic growth in the core Housing activities with a low requirement for capital expenditure. When the Group secures a new contract, the Group will typically open an office in that locality delivering services to this single client; whilst Mears will typically lease the site office, improvements are often required to ensure that the property is set up to deliver the required services, and IT infrastructure and equipment is also required, and all this spend is typically capitalised.
3. Leasing properties for rental to tenants is a core business activity for Mears. As a result, Mears currently holds around 10,000 residential property leases and a further 3,500 office property and vehicle leases. Broadly speaking, a lease should be accounted for under IFRS 16 only if Mears has the right to direct its use, which, through its decision making rights, can affect the economic benefit derived from that asset. Around one-half of the Group's residential leases meet the criteria for recognition on the balance sheet. Those that do not meet the criteria are typically due to them being short term in nature, often driven by the existence of a two-way break clause (a practical expedient offered under IFRS 16 allows those leases with a term of less than 12 months to be expensed). IFRS 16 focuses upon a 'right of use asset', and to complete the book-keeping, recognises a corresponding lease obligation. The lease obligation is not entirely consistent with the historical definition of a liability; accordingly, the lease obligation is not a typical debt instrument as Mears can terminate a significant proportion of its leases giving 30 days notice, with no more than an insignificant penalty.
4. Working capital balances include trade receivables, trade payables and inventories; further explanation is provided within the working capital management section that follows.
5. The Group participates in two principal Group pension schemes (2020: two) together with a further 21 (2020: 20) individual defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS).
 - Pension assets of £37.7m (2020: £7.1m) which relate to the two Group pension schemes. The significant increase in the surplus is driven by the increase in the discount rate assumption, which reduces the carrying value of the pension obligations. Positively, the focus of the pension trustees is to reach a position in the medium term where both these schemes become self-sufficient.
 - Pension obligations of £17.0m (2020: £45.7m) which predominantly relate to the Group's LGPS pension arrangements. The significant reduction in this obligation is driven by increasing discount rates. Whilst pensions typically have long-term time horizons, the risks carried by the Group associated with the LGPS obligations match the time horizon of the underlying contract which, whilst not removing all risks, does reduce the period over which a deficit can arise.
 - The exposure to the Group in respect of its LGPS obligations is reduced where the Group enjoys back-to-back indemnities with its Local Authority and Housing Association clients. These indemnities are classed as Guarantee assets, absorbing £13.0m of pension obligations (2020: £30.7m). Therefore, in respect of its LGPS pension schemes, the net exposure is £4.0m (2020: £15.0m) being the pension obligation less the Guarantee asset. In addition, a number of LGPS schemes are reporting surpluses amounting to £37.7m (2020: £11.1m) which the Directors believe would not be prudent to recognise as assets, but which do provide additional headroom against future deficit. The pension disclosure is split on the face of the balance sheet between non-current assets and non-current liabilities. In addition, the pension guarantee assets are reported separately from their associated liabilities. Where LGPS arrangements are reporting surpluses, these are not recognised as assets.
6. Receivables relate to the disposal of Terraquest and comprise deferred consideration of £6.5m and loan notes of £3.5m as detailed within the discontinued activities section above.
7. Other payables include provisions relating to the Group's insurance risks and a small number of onerous contractual provisions which arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received.

Financial review continued

CASH FLOW AND WORKING CAPITAL MANAGEMENT

The Group has delivered excellent operating cash flows over recent years with strong underlying EBITDA to operating cash conversion. As highlighted in last year's report, and notwithstanding the strong underlying performance in the prior year, the Group did benefit from a number of Covid-19 related cash inflows which would unwind during 2021; notably the VAT deferral which increased the operating cash flows in 2020 by circa £16m and which was subsequently settled and is reported as an outflow in 2021. Given the unique circumstances brought by the pandemic, the Directors believe that taking a combined result for the 2 year period provides stakeholders a better measure for assessing the underlying cash performance of the business. The EBITDA to operating cash conversion for this 2 year period, as detailed below, was 118%.

Mears has always fostered a strong 'cash culture', whereby the Group's front-line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until the monies are banked. This culture has underpinned strong cash performance over many years. The reported cash conversion has been enhanced further as the working capital absorbed within the Group's Development activities, which have been in run-off phase for the past 2 years, has started to be released. The working capital absorbed in the Development activities reduced to around £12m at 31 December 2021 (2020: circa £29m), a reduction by circa £17m over the last 2 years.

	2021 £'000	2020 £'000	2021+2020 £'000
(Loss)/profit before tax	16,333	(15,218)	1,115
Net finance costs	8,069	9,998	18,066
Amortisation of acquisition intangibles	7,654	9,525	17,180
Depreciation and amortisation	51,392	51,630	103,022
EBITDA	83,448	55,935	139,383
Other adjustments	(1,213)	1,608	395
Change in inventories	12,944	4,787	17,731
Change in operating receivables	(2,244)	18,475	16,231
Change in operating payables	(32,573)	22,418	(10,155)
Operating cash flow	60,362	103,223	163,585
EBITDA to operating cash conversion	72%	185%	117%

The Group reported an adjusted net cash position at the year end of £54.6m (2020: £56.9m). The small reduction predominantly reflects the unwind of the VAT deferral, which cancelled out the free cash flow generated in the period. Whilst it is pleasing to report a strong cash position within the year end balance sheet, of much greater significance is the performance over the 365-day period. Positively, the strong year end performance is also mirrored in the average daily adjusted net cash for the year at £0.4m (2020: adjusted net debt £97.3m).

	2021 £'000	2020 £'000
Average daily adjusted net cash/(debt)	400	(97,300)
Adjusted net cash/(debt) at 31 December	54,632	56,867

The average month end trade receivable and trade payable balance split by Housing category reflects strong working capital management during the period and is detailed below:

	2021			2020		
	Receivables £m	Payables £m	Net working capital £m	Receivables £m	Payables £m	Net working capital £m
Maintenance-led	142.0	(129.5)	12.5	138.5	(125.7)	12.8
Management-led	17.9	(31.8)	(13.8)	32.4	(25.5)	6.9
Development	21.6	(3.8)	17.8	31.0	(6.0)	25.0
	181.5	(165.1)	16.5	201.9	(157.2)	44.7

The core activities of Maintenance and Management have historically absorbed a relatively low level of working capital when compared to the size of the business and the profit generated. This low working capital intensity remains the case and is reflected in the average month end balances detailed above. The working capital absorbed within Management-led activities benefited from payments received on account averaging around £15.0m over the year; however, even if excluding this temporary benefit, the adjusted measure would reflect strong performance.

The Development portfolio had a strong sell-through in the period totalling £25.6m of revenues. The working capital absorbed within the Development activity has seen a reduction reflecting excellent progress in unlocking the cash that has been absorbed in this legacy part of the business. The working capital balance absorbed in Development as at 31 December 2021 was circa £12.0m. Management continues to expect to complete the remaining unwind of the working capital absorbed in this area over the course of the next 12 months.

Banking and financial covenants

The Group has a simple approach to its debt funding arrangements, holding a single revolving credit facility (RCF) which provides a total commitment, but allows the Group to draw down monies as required, mirroring an overdraft facility. Following the significant reduction in debt levels, the Directors completed a refinancing, reducing the total commitment to £70m.

The Board is grateful for the tremendous support that has been provided to the Group by its banking partners; Barclays and HSBC have provided support to the Group for many years and made additional funds available at a time of extreme uncertainty, as the UK entered the first national lockdown. It is pleasing to refinance at levels which are considerably lower, whilst retaining significant headroom. The refinance also saw Citi Bank enter the banking arrangement, and the Mears team looks forward to extending this new relationship.

The financial covenants included within the RCF, which are tested twice-yearly on 30 June and 31 December, are detailed below:

Covenant	Formulae	Covenant ratio
Leverage	Consolidated net borrowing divided by Adjusted consolidated EBITDA*	3.00x
Interest cover	Adjusted consolidated EBITDA* divided by Consolidated net finance charges**	3.50x

* Adjusted EBITDA on a rolling 12-month basis, pre-IFRS 16, and stated before non-underlying items and share-based payments.

** Net finance charges comprise all commission, fees and other finance charges payable in respect of financial indebtedness. This excludes income/costs relating to Group pension arrangements.

The margin applied to draw-downs under the RCF increases is determined by the Group's leverage ratio at each quarter end, as detailed below. This margin is payable in addition to the Sterling Overnight Index Average (SONIA) being the Bank of England risk-free rate for Sterling markets. Given the strong cash performance in 2021, the Board's expectation would be for the margin to stay at the bottom end of the ratchet throughout 2022.

Leverage ratio	Margin % p.a.
Greater than or equal to 2.50x	2.75
Less than 2.50x	2.50
Less than 2.00x	2.25
Less than 1.50x	2.00
Less than 1.00x	1.75

Andrew Smith

Chief Financial Officer

31 March 2022

Financial viability review

This viability review is being completed following a period of almost 2 years that has seen the unprecedented event of a worldwide pandemic. The Covid-19 outbreak brought significant short-term challenges. The Group adapted quickly to deliver services in a secure and safe environment to protect both our employees and service users. Whilst the Group adapted quickly to find the new ways of working, the alternative methods of working reduced productivity and brought incremental costs such as PPE. However, the Board takes significant comfort from the fact that during this period, where the Group was required to react to an event that was more severe than any scenario that was previously considered, the Group delivered services safely, maintained high levels of customer satisfaction and improved employee engagement, whilst from a financial perspective delivered both a profit and improved liquidity. Whilst this viability review looks to the future, the recent performance of the business in the most challenging of circumstances provides the Board additional confidence as to the resilience of the Group.

In accordance with clause 2.2 of The UK Corporate Governance Code 2014, the Directors are required to assess the viability of the Group over a 5-year period. A period of 5 years has been chosen as it reflects the average contract length, being a blend of an average contract length of 5 years excluding extension options. Whilst the Group holds contracts which extend beyond this time horizon, a period of greater than 5 years was considered too long, given the inherent uncertainties involved.

The Board considered its key risks. The principal risks are set out on pages 50 to 54 and are those which are considered to threaten the Group's future performance, solvency and liquidity. Risks are identified as 'principal' based on the likelihood of occurrence and the severity of the impact on the Group.

A financial model has been built on a contract-by-contract basis for the next 12 months and extended for the following 4 years. The 5-year plan considers cash flows as well as financial covenants. The forecast for 2022 is based upon revenues generated from existing customer relationships, and a business that is generating contract margins that are in line with recent run-rates. The forecast for 2022 assumes a modest level of new customer revenues secured from the current bid pipeline, but with no further growth anticipated beyond this first year.

The base case model forecasts a result for 2026, being year 5 of the model, with revenues and profit before tax (PBT) of £741.2m and £29.3m respectively, and an average net cash at the end of that period of £66.6m. The financial model excludes the Group securing work with new customers beyond the first 12 months and reflects some revenue reduction from existing clients, where it is expected that there will be no further opportunity upon expiry of the current contract. The base case model could be considered to be conservative.

Sensitivity analysis was undertaken to stress test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. A downside case was prepared by management to illustrate the impact of adverse changes in key variables of the base case forecast and projections. The downside case is intended to illustrate a reasonable worst-case scenario which could affect solvency or liquidity in 'severe but plausible' scenarios.

The Directors have considered five scenarios:

- A prolonged impact of Covid-19 upon Maintenance-led activities
- Significant deterioration in Group's bidding success on contract re-bids
- A performance failure on a major contract
- Significant deterioration in working capital management
- A combination of all of the above scenarios

The following sensitivities have been applied to each downside case:

SCENARIO 1. COVID-19 IMPACT UPON MAINTENANCE-LED ACTIVITIES

The Covid-19 reasonable worst-case assumptions assume a fourth UK national lockdown in the 3-month period between October and December 2022, with trading in line with that experienced between April and June 2020, but without the benefit of the UK Government's Coronavirus Job Retention Scheme or other similar measures. Following this decline, this scenario assumes that this period is followed by a phased recovery in trading, as the restrictions are gradually relaxed. Notably:

Q4-22: A 45% reduction in Maintenance-led revenue compared to the base case, reflecting a further UK lockdown of equal severity to that experienced in Q2 2020.

Q1-23: An 18% reduction in Maintenance revenue, mirroring levels reported in Q3 2020, reflecting customers' desire to deliver some high priority services but equally to defer any spending which could in the short term be considered discretionary.

Q2-23: A 5% reduction in revenue in April and May 2023 with a return to the base case in June 2023.

Key financial output, Scenario 1

— A reduction in revenue, PBT and net cash in 2022 to £769.3m (base case: £823.0m), £17.1m (base case: £28.0m) and £25.7m (base case: £27.5m) respectively. The size of the revenue and profit shortfall reduces in 2023, reflecting the easing of trading restrictions.

SCENARIO 2. SIGNIFICANT DETERIORATION IN GROUP'S BIDDING SUCCESS ON CONTRACT RE-BIDS

This downside scenario assumes a negative outcome in respect of Housing Maintenance contract renewals. Given the average contract length of circa 5 years, several key contracts will come up for renewal over the viability review period. The Group has a good track record of securing work on re-bid. However, for the purposes of this viability review, management has assumed a significant deterioration in the Group's performance in this area, possibly following a significant event which has impacted negatively on the Group's reputation in the sector. The Group has modelled a downside scenario where it fails to re-secure any material contracts that come up for re-bid during the period 2022 to 2025. The impact upon revenue of this assumption is detailed below:

Contract	Annual value £m	Expiry date
Contract A	£16m	2022
Contract B	£12m	2022
Contract C	£42m	2023
Contract D	£11m	2023
Contract E	£20m	2023
Contract F	£24m	2024
Contract G	£12m	2024
Contract H	£42m	2024
Total annual value in 2025	£179m	

Key financial output, Scenario 2

— Revenue reducing from £823.0m in 2022 to £555.9m in 2026, together with an associated reduction in PBT from £28.0m in 2022 to £17.3m in 2026.

SCENARIO 3. PERFORMANCE FAILURE OF A MAJOR CONTRACT

The Directors have modelled a performance failure in 2023 resulting in higher costs of delivery with no recovery from the customer. In order to illustrate a worst-case scenario, the Directors have considered a performance failure on the Asylum contract, being the Group's largest single contract, which is expected to account for around 15% of Group revenues. This failure is assumed to be driven by a shortage of residential housing units, resulting in a significant increase in occupants being placed in hotel accommodation for an extended period. This sensitivity assumes that this performance failure begins in April 2023 with 1,000 service users being accommodated in hotels over a period of 12 months.

Key financial output, Scenario 3

- A reduction in PBT in 2023 to £21.4m (base case of £30.2m). The net cash balance at 31 December 2023 also reflects this profit reduction, reducing to £33.2m (base case £40.2m).

SCENARIO 4. SIGNIFICANT DETERIORATION IN WORKING CAPITAL MANAGEMENT

This scenario assumes a significant deterioration in the cash collection measurements, being an increase in the time period between the completion of works and the receipt of cash from the Group's clients (which follows a process where works are valued and invoiced by the Group before being approved and settled by clients). The Group has made significant investment in its operational systems which are key to ensuring that the work delivered is identified and invoiced correctly. The Group has an excellent track record in managing the working capital absorbed. This scenario modelled a permanent deterioration in respect of the maintenance contract asset collection period, increasing from 60 to 70 days. Whilst a scenario where the Group experiences a permanent deterioration in working capital is considered particularly pessimistic, such a scenario is helpful to the Directors to further stress test the viability review when taking a combination of downside scenarios.

Key financial output, Scenario 4

- A reduction in the net cash balance at each financial year end, reducing to £47.9m in 2026 (base case £66.6m).

SCENARIO 5. A COMBINATION OF ALL SCENARIOS 1 TO 4.

The Directors modelled the impact from the occurrence of all downside scenarios occurring concurrently. The key financial outputs from this combination are detailed below:

Scenario 5	2022	2023	2024	2025	2026
Revenue £m	769.3	632.5	572.5	555.9	555.9
PBT £m	17.1	12.3	15.2	17.3	17.3
Net cash/(debt) £m	13.5	(2.6)	(5.9)	(10.0)	(14.9)

No mitigating actions were included within any scenario, which was considered conservative but not entirely realistic. Mitigating actions available to management include a reduction in discretionary capital expenditure, dividend policy and robust working capital management around covenant test dates. In addition, upsides that are available to the base case include generating an improved margin at a local contract level over and above the current run-rate and securing new contract awards.

In addition to the five scenarios, the Board tested the sensitivity of the business to increasing the severity of the assumptions detailed in each case, to measure the trigger points at which the viability of the Group, in the absence of further mitigations, could be impacted.

- Scenario 1 indicates that in the event of a national lockdown of similar severity to that experienced in Q2 2020, and in the absence of any Government relief such as the Coronavirus Job Retention Scheme, each trading month reports a profit reduction of circa £3.5m. Whilst the Group would continue to retain strong liquidity, the Group's interest cover covenant is breached in the event that the Group's pre-IFRS 16 EBITDA is negative.
- Scenario 2 assumes that all revenue is lost on re-bid and in isolation this would not impact on the viability of the business. Were the Group to see existing contracts terminated before their time, this could impact upon covenants and funding levels, and could inevitably impact upon viability.
- Scenario 3 assumes a contract failure for a period of 12 months, reducing Group profits by £1.0m per month over that period. In the event that a contract failure of a similar severity extended over a longer period, the Directors do not believe such an event would impact upon the viability of the Group in isolation but could impact upon solvency and liquidity to the extent that this more negative outcome combined with other negative events.
- Scenario 4 shows a change in net cash/(debt) by circa £18m for a change of 10 days in the contract asset collection period. Given the significant headroom within the existing banking facilities, it is not considered plausible that the

collection period could deteriorate to such an extent as to result in exceeding the available banking facilities.

The viability review also considered the increasing risk that fines can be levied upon companies for non-compliance in areas such as health and safety and data protection. Fines are discretionary based on the nature, gravity and culpability of the company but fines are applied based upon a percentage of Group revenue. In a low margin business such as Mears, any single fine could have a significant and proportionate impact upon retained profits. Whilst such an event could be damaging, it would not be expected to ultimately impact on the long-term viability of the Group. Both health and safety and IT and data feature high on the Group's risk register, and we continually review our mitigating actions to ensure that we minimise our residual risk.

The Group's existing debt facilities run to December 2025. The future viability review extends beyond this date and therefore assumes that there will be enough appetite from our existing or new funders to provide the required level of funding on similar terms. The Group reported an average daily net cash balance of £0.5m in 2021. The future viability review indicates net cash at the point of renewal in respect of Scenario 1 to 4. Only in the case of Scenario 5 is a net debt position of £5.9m forecast at the point of renewal.

The Directors recognise that there is naturally uncertainty within any forecast and this uncertainty increases as the projections cover a 5-year period. The conclusion attached to the viability review was that there was a reasonable expectation that the Group will continue in operation and would be able to continue to meet liabilities as they fall due over the 5-year period of business planning.

This Strategic Report was approved by the Board on 31 March 2022

D Miles
Chief Executive Officer
david.miles@mearsgroup.co.uk

Our corporate governance compliance statement

This section of the Annual Report sets out how the Company is governed. It provides biographical and service details about the Board of Directors and discusses the composition of the Board, how that has been developed and the Board evaluation process entered into in 2021. It discusses how the Board assures itself as to Company performance and sets out the key areas which were subject to significant Board review and discussion in 2021. Finally, it sets out how the Board communicated with shareholders and key stakeholders.

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Chairman's introduction

The Board continues to develop its activities and processes so as to provide effective oversight and valuable input to the sustainable development of the business.

On behalf of the Board, I am pleased to introduce the corporate governance report for 2021. The overall purpose of this report is to brief stakeholders on how the Board undertakes its responsibilities for the leadership of the Company and for the promotion of its long-term sustainable success. During 2021, the Board considers that it was compliant with the principles of good governance set out in the UK Corporate Governance Code 2018 (the 'Code').

PEOPLE AND CULTURE

Mears has a strong and distinctive corporate culture. The Mears 'Red Thread' underpins how our workforce undertakes its daily tasks, with its emphasis on working hard, being a role model, taking responsibility and initiative, and focusing on excellent customer service – a desire not just to do each job well but to make a positive difference to customers and communities. The wellbeing of our workforce and our customers, alongside the creation of commercial value for stakeholders and shareholders, are key ingredients to the Company's long-term sustainable success.

The promotion of this culture is an important element of the debates that take place at each Board meeting and informs the strategic decisions which the Board takes. At each meeting, the Board receives reports on key workforce developments, monthly health and safety and compliance statistics and up-to-date feedback from customers, both complaints and commendations. In 2021, each meeting also received data on Covid infections and disruption to the business caused by the pandemic. Twice a year, the Board receives a more detailed report on key trends in the regulatory and compliance landscape. Similarly, the Board receives an in-depth report of key human resources developments twice a year, including an analysis of the annual Voice of

the colleague staff survey, data as to workforce diversity and developments in staff training and development schemes. Each Board meeting also has a discussion facilitated by a report from the Employee Director on current issues of importance to the workforce. In these different ways, the Board maintains constant oversight of the development of the Mears culture.

STRATEGY

During the course of 2021, the Board spent significant time examining how Mears should best develop once it had completed its exit from activities which it had decided not to continue and reduced its indebtedness to acceptable levels. This exercise, undertaken with the help of external advisers, is discussed further in my letter at the front of this Annual Report. The conclusion was that Mears should remain as a specialist provider of housing services, largely to the public sector. Areas for future growth will be developing homelessness solutions for our key Local Authority customers, executing on the very large programme of insulation work and other heating related changes to the UK's social housing portfolio needed to satisfy Government targets for carbon reduction and selectively developing a capability to provide services to private sector customers on a sustainably profitable basis.

BOARD EVALUATION

During 2021, the Board undertook a rigorous external evaluation of its performance, supported by Independent Audit Limited (IAL). I am grateful for the objective, candid and supportive manner in which the IAL team approached its task. IAL's report identified areas of good practice and made a number of suggestions for improvement. This is discussed further in the Report of the Nominations Committee. The Board will follow up on this review in 2022.

BOARD DEVELOPMENT

During the course of 2021, the Board undertook an exercise to identify and appoint a new Non-Executive Director. This process is discussed in more detail in the Report of the Nominations Committee. The result was the appointment of Angela Lockwood to the Board with effect from 1 January 2022.

ESG

The Board continues to take a close interest in the development of the Company agenda for improvements in its environmental performance, the creation of social value and the promotion of good governance.

During 2021 and into 2022, the management team has been working on a detailed plan to give effect to the Company's ambition to deliver operations which are net zero in carbon emissions terms by 2030 (see ESG section on pages 33 to 41).

Our commitment to social value was reinforced by the development of the Mears Customer Scrutiny Board, whose Chairman reports twice-yearly to the Mears Board about its activities. These involve the detailed scrutiny of selected operational activities throughout the Mears Group with a view to producing recommendations for change designed to create incremental improvements in the quality of service which Mears delivers to its customers.

We continued to strengthen our governance over the year, with rigorous planning of Board agendas to ensure that all important aspects of the business are examined at Board level at least once a year, if not more often. We have strengthened the contribution of the Employee Director at Board meetings and thereby ensured that current workforce issues can be a point of discussion at each meeting.

SHAREHOLDER RELATIONS

The Company, primarily through the management team but also at Chairman level, maintains a close dialogue with its major shareholders. Each Board meeting receives a report on investor relations issues, with a discussion on changes and trends, and there is a discussion about anything of importance that has emerged. It is important that all Board members understand the main reasons why major shareholders are supporters of the Group and what their key issues are so as to ensure that the voice of the owners is also brought into boardroom discussions and decision making.

AGM

For the first time in three years, it appears that it will prove practicable to hold this year's AGM in person. Accordingly, I look forward to meeting in person any shareholders who wish to come to the meeting.

K Murphy
Chairman
31 March 2022

Board of Directors

Kieran Murphy Chairman	David J Miles Chief Executive Officer	Andrew C M Smith Chief Financial Officer	Alan Long Executive Director	Angela Lockwood Non-Executive Director
Age 63	Age 56	Age 49	Age 59	Age 59
Tenure 3 years	Tenure 25 years (15 years on the Board)	Tenure 22 years (15 years on the Board)	Tenure 16 years (11 years on the Board)	Tenure 3 months
Skills and experience Kieran is a very experienced Non-Executive Director and Chairman. He spent much of his executive career working in finance. At Kleinwort Benson, he built a market-leading corporate finance advisory business in the building and construction sector and became a member of the bank's Investment Bank Management Committee. More recently, at Gleacher Shaddock, Kieran extended his advisory work into the business services sector.	Skills and experience David joined Mears in May 1996 and, prior to his appointment to the Board in January 2007, was Managing Director of the Mears Social Housing division. Before joining Mears, David held a senior position with the MITIE Group. His background is in electrical engineering.	Skills and experience Andrew joined Mears in 1999 and, prior to his appointment to the Board, was Chief Financial Officer covering the Group's subsidiaries. Andrew qualified as a Chartered Accountant in 1994 and worked in professional practice prior to joining Mears.	Skills and experience Alan joined Mears in 2005 and, prior to his appointment to the Board in August 2009, was Managing Director of the Group's Care division, having previously held the position of Group Sales and Marketing Director. Prior to joining Mears, Alan held senior roles at Britannia Building Society, Mars and Smith & Nephew.	Skills and experience Angela has extensive experience gained from a career in housing spanning nearly 30 years. Starting her career at Sunderland Council, Angela then worked for Home Housing and subsequently joined Endeavour Housing Association, firstly as Housing Director and then Managing Director. She joined North Star in 2009, holding the position of CEO. Angela holds an MBA and is a Fellow of the Chartered Institute of Housing.
Principal external appointments Allaxis S.A., University of London	Principal external appointments None	Principal external appointments None	Principal external appointments None	Principal external appointments CEO of North Star Housing, Joseph Rowntree Housing Trust, National Housing Federation Board, Institute of Customer Service

Claire Gibbard Employee Non-Executive Director	Christopher Loughlin Non-Executive Director, Senior Independent Director, Remuneration Committee Chair	Dame Julia Unwin Independent Non-Executive Director	Jim Clarke Independent Non-Executive Director and Audit Committee Chair	Ben Westran Company Secretary
Age 34	Age 69	Age 65	Age 62	Age 45
Tenure 1 year	Tenure 2 years	Tenure 6 years	Tenure 2 years	Tenure 18 years (7 years as Company Secretary)
Skills and experience Claire joined the Group in 2018, following the acquisition of Mille's maintenance business. Prior to this, Claire worked for a Local Authority as well as previously working at Mears for 7 years in various roles. Claire is currently working as a Customer Insight Manager in the Group's Marketing team and has worked across a wide range of branches and central support.	Skills and experience Chris is a very experienced CEO. His last executive role, prior to his retirement in 2020, was Chief Executive Officer of Pennon Group plc, the listed company which owned South West Water and the waste business Viridor. He was previously CEO of South West Water and before that held roles at Lloyds Register, British Nuclear Fuels Plc and Magnox.	Skills and experience Julia is former Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust. She has significant experience in the housing and care sectors, having been a member of the Housing Corporation Board for 10 years and Chair of the Refugee Council. She was appointed Dame Commander of the Order of the British Empire in January 2020 for service to civil society.	Skills and experience Jim is a very experienced company Chief Financial Officer. He qualified as a Chartered Accountant in 1984. He has spent much of his career in senior finance roles in consumer facing industries, having been Chief Financial Officer at David Lloyd Leisure, JD Wetherspoon and Countrywide.	Skills and experience Ben is a Chartered Accountant and, prior to his appointment as company Secretary, was Group Financial Controller and Director of a number of the Group's subsidiaries. Ben joined the Group in 2004, having previously worked in professional practice.
Principal external appointments None	Principal external appointments British Water, Water UK, Retail	Principal external appointments Yorkshire Water, York St John University Smart Data Foundry (University of Edinburgh)	Principal external appointments None	Principal external appointments None

Roles and responsibilities

Role	Responsibilities include:
Chairman Kieran Murphy	<ul style="list-style-type: none"> — Promoting a culture of challenge, debate, openness, support and mutual respect — Leadership of the Board, setting its agenda and ensuring effective information flow and time management — Ensuring that Directors contribute effectively and allocate sufficient time to the Company to do so — Ensuring that the Board listens to the views of shareholders, the workforce, customers and other stakeholders — Ensuring that the Board both monitors and demonstrates culture, values and behaviours of the Group — Ensuring that the Board determines the nature and extent of risk and reward in strategy execution — Ensuring effective Board evaluation
Senior Independent Director Chris Loughlin	<ul style="list-style-type: none"> — Leading the annual performance evaluation of the Chairman — Providing a sounding board for the Chairman — Available to shareholders as a channel for them to raise Board level issues
Independent Non-Executive Directors Jim Clarke Chris Loughlin Dame Julia Unwin Angela Lockwood	<ul style="list-style-type: none"> — Promoting the highest standards of integrity, probity and corporate governance throughout the Group — Constructively challenging decisions proposed by the Executive Directors — Ensuring stakeholder views are debated and considered — Assisting in developing proposals on strategy — Contributing to the performance evaluation of the Chairman — Briefing the Board on decisions made and key issues from each Committee Chair
Employee Director Claire Gibbard	<ul style="list-style-type: none"> — Promoting the highest standards of integrity and probity — Assisting in developing proposals on strategy — Assisting the Board to receive full, open and honest insight and views from its workforce on how strategic initiatives are being implemented — Helping to provide the wider workforce with a better understanding of how the Board operates
Chief Executive Officer David Miles	<ul style="list-style-type: none"> — Managing the day-to-day running of the business in line with the strategy and objectives set by the Board — Ensuring the Board is supplied with sufficient and appropriate information on a timely basis — Leading the business within the scope set by the Board — Developing strategy and setting objectives to meet the Group strategy approved by the Board — Managing the Group's operations to ensure they meet the risk appetite set by the Board
Chief Financial Officer Andrew Smith	<ul style="list-style-type: none"> — Supporting the Chief Executive Officer in developing strategy and meeting objectives — Bringing a commercial and financial perspective to the Board — Leading the finance function and establishing strong control processes — Managing the treasury activities in accordance with the credit risk appetite set by the Board — Supporting the Chief Executive Officer with investor relations — Leading the development of talent within the finance function
Executive Director Alan Long	<ul style="list-style-type: none"> — Supporting the Chief Executive Officer in developing strategy and meeting objectives — Supporting the Chief Executive Officer in managing external communications and investor relations — Setting the Group social value policies and procedures — Leading the operational leadership and development function of the Group

Corporate governance framework

BOARD ATTENDANCE

During the course of the year, there were 11 scheduled and 4 unscheduled Board meetings, 8 Audit and Risk Committee meetings, 6 Remuneration Committee meetings and 4 Nominations Committee meetings, with full attendance.

INDEPENDENCE AND CONFLICTS OF INTEREST

The Board reviews the independence of its Non-Executive Directors as part of the annual evaluation process. The Nominations Committee also considers this as part of its ongoing review of the Board composition. The Board considered all Non-Executive Directors to be independent.

The Board operates a policy to identify and manage situations declared by Directors in which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company. No Director conflict situation currently exists or existed at any time during the year.

INDEMNIFICATIONS OF DIRECTORS

In accordance with our Articles of Association and to the extent permitted by the laws of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. However, our indemnity does not cover Directors or officers in the event of being proven of acting dishonestly or fraudulently.

BOARD AND COMMITTEE GOVERNANCE

The Board is the principal decision making body of the Company. Certain matters, for example relating to strategy, financial structure, communications and policy approvals, are matters reserved for the Board to decide. Authority for other specific matters is formally delegated by the Board to three Board Committees – Audit, Remuneration and Nominations – and to executive management.

During the course of 2021, following an independent appraisal of the effectiveness of the Board, an exercise was undertaken to review and update the documents which set out the role of the Board, the Chairman and the CEO/executive management and to review the matters reserved for Board approval. The full text of these documents can be found on the Group website.

A summary of the roles of each element of our corporate governance regime is set out opposite.

THE BOARD

The key purpose of the Board is collectively to lead the Company and to promote its long-term sustainable success, so generating value for shareholders and other stakeholders, and contributing to wider society. The principal responsibility of the Chairman is to lead the Board and to ensure its effective operation.

The Board's key functions are:

- a) leadership: establishing Company purpose and values, strategy, financial structure, adequacy of human and financial resources, and workforce policies;
- b) oversight: of corporate practice and behaviour, financial controls, implementation of workforce policies, risk and management performance, and succession;
- c) relationships: understanding views of shareholders, other stakeholders and the workforce, and the means to influence those views; and
- d) decision making: to take effective decisions on those matters reserved to it, ensuring it has the appropriate mix of skills and experience and the information, time and resources to do so.

The matters reserved for decision by the Board are:

- a) strategy and management: approval of the strategic plan and annual budget, any changes in the scope of activities and review of performance against plans;
- b) financial structure, capital allocation, dividend policy and listing;
- c) approval of financial and other major communications and resolutions for general meetings;
- d) approval of major contracts;
- e) changes to the composition of the Board and its committees and appointment of the external auditor;
- f) remuneration and other corporate policies; and
- g) risk appetite and review of strategic risk.

The Board's activities in 2021 are set out on page 70. The composition of the Board and the evaluation process undertaken during the year is set out on page 73. The Chairman's review of 2021 is set out on pages 06 to 08 of this Annual Report.

The Audit Committee

The key purpose of the Audit Committee is to assist the Board in its function of oversight of risk, financial controls and reporting. The Committee:

- a) oversees the development of the Company's strategic risk register and makes an assessment of the effectiveness of the Company's risk management;

- b) assesses the Company's financial systems of control, accounting policies and key judgements, and compliance with regulatory requirements;
- c) oversees the work of both the internal and external auditors; and
- d) reviews the Company's policies on fraud, bribery, whistleblowing, etc.

A report of the Audit Committee's activities in 2021 is set out on pages 76 to 81.

The Remuneration Committee

The Committee's key function is to determine the Remuneration Policy for executive management and oversee the appropriateness and effectiveness of Group-wide remuneration policies. It:

- a) determines the remuneration of Executive Directors and the Chairman;
- b) reviews and decides on awards under all share incentive schemes;
- c) reviews the application of pay and pension policies across the Company; and
- d) reviews Group-wide human resources strategy.

The report of the business of the Remuneration Committee in 2021 is set out on pages 82 to 97.

The Nominations Committee

The Committee reviews the composition, structure and size of the Board and oversees the process of recruitment to the Board. It also reviews executive management succession plans. A report on its activities in 2021 is set out on pages 74 and 75.

The Chief Executive and executive management generally

The CEO has responsibility for the day-to-day operations of the Group and authority for all decisions which are not reserved to the Board or its Committees. The key role of the CEO is to:

- a) ensure that the resources of the Company are effectively directed to the execution of the agreed strategy, that key performance metrics are in place and that progress against those metrics is measured and reported to the Board;
- b) lead, inspire and support Company employees, through developing a high performing management team and effective Company-wide communication;
- c) lead the Company's relationships with shareholders, customers, suppliers, other stakeholders and the wider community; and
- d) ensure that adequate processes are in place to manage risk.

The CEO's report is set out on pages 10 to 15 of this Annual Report.

Key Board activities

ACTIVITIES OF THE BOARD IN 2021

The Board met a total of 15 times in 2021, of which 11 were planned meetings and four were shorter ad hoc discussions convened during the year to discuss particular topics. As in 2020, proceedings of the Board were significantly affected by the Covid pandemic and it did not prove possible to meet collectively in person on a regular basis until after the summer. All of the meetings were attended by all of the Directors.

While all Board members agree that the quality of Board discussion is typically better when we meet in person, the Board has noted that it has proved perfectly practicable to take effective decisions while being required to work remotely. Accordingly, the Board resolved at the start of 2022 to have some meetings

together and some remotely, taking into account the recommendations of the external review of Board effectiveness.

The Board agenda is set by the Chairman with support from the Company Secretary. Early in 2021, a plan was produced and approved by the Board which set out the proposed particular discussion areas for each meeting. Inevitably, the plan evolved and changed during the year.

At every planned Board meeting, each of the Executive Directors and the Employee Director provides a report and/or a verbal summary in relation to the activities for which they have responsibility. In addition, the Board receives verbal updates from the chairs of each of the three Board committees on activity which has

occurred since the last Board meeting. Finally, the Board receives a verbal report on any site visits undertaken by the Chairman or other Non-Executive Directors since the last Board meeting. In this way, the Board is assured that at each meeting it is provided with an up-to-date understanding of strategic and sector related developments, operational issues and successes, major contract performance, customer feedback, health and safety performance, financial matters, investor relations, workforce issues, successes and awards, progress on new business wins, communications, marketing and influencing.

The table below sets out the other substantive matters with which the Board dealt during 2021:

Strategy and performance	Finance and risk	People	Statutory and governance
<ul style="list-style-type: none"> Development of a 5-year Group strategy and focused discussion on issues and opportunities related to the requirement for carbon reduction, on opportunities in the private rented sector and on future KPI measures Deep dives into the operations of the housing maintenance business, the housing with care portfolio and the asylum contracts In-depth review of the IT function and key related issues Review of the report of the Mears Customer Scrutiny Board Review of the proposed Scottish business charter 	<ul style="list-style-type: none"> Review of the strategic risk register, following recommendations from internal audit and the Audit Committee Review and approval of the Company's insurance programme, reflecting Group risk appetite Review of a valuation of the Group prepared by the Company's advisers and of stock market perspectives Approval of a debt refinancing package Approval of the annual budget for 2022 	<ul style="list-style-type: none"> Deep dive reviews of health and safety issues and performance Review of workforce survey data and trends Review of the ESG Strategy (see ESG section on pages 33 to 45) Review of pay and the Gender Pay report, following discussion at Remuneration Committee Deep dive on key workforce policies and issues Review of senior management succession following discussion at Nominations Committee Approved the appointment of a new Non-Executive director with effect from 1 January 2022, following a process run by the Nominations Committee 	<ul style="list-style-type: none"> Approval of the Company's Annual Report, AGM documents and resolutions, preliminary and interim financial statements and ad hoc trading statements Approval of certain Group policies including in relation to going concern and viability assessment, tax and modern slavery Approval of the dividend policy and of proposed dividend payments Review of the independent report on Board governance practice Approval of updated documents setting out those matters reserved for the Board, Remuneration Committee terms of reference and the roles of the Board, Chairman and CEO

Stakeholder engagement

BOARD ENGAGEMENT WITH KEY STAKEHOLDERS

Within the Strategic Report, we detail how we engage with our key stakeholders, and explain how each stakeholder group impacts upon our business model and our ability to deliver against our strategic priorities. The Board recognises that engagement with key stakeholder groups strengthens our relationships and is an ongoing part of the operational management of the Group. This includes employee surveys, assessments of customer satisfaction and ongoing conversations with regulators and non-governmental organisations. The Board receives regular updates from senior management on insights and feedback from stakeholders, which allows the Board to understand and consider the perspectives of key stakeholders in decision making.

The table below sets out the different stakeholders with whom we engage and how the Board monitors these important relationships.

Description	How the Board is kept informed	Read more
Clients	<ul style="list-style-type: none"> Executive team has daily contact with key clients Regular discussion of key issues at each Board meeting Access to external press and news flow 	Page 28
Tenants and customers	<ul style="list-style-type: none"> Monthly customer performance statistics, including satisfaction, complaints and compliments Executive Director attendance at tenant panel meetings Customer Scrutiny Board 	Page 28
Communities	<ul style="list-style-type: none"> Monthly social value measures Social Value Annual Report 	Page 29
Colleagues	<ul style="list-style-type: none"> Close monitoring of staff surveys Monthly People KPIs Employee Director 	Page 29
Suppliers	<ul style="list-style-type: none"> Engagement with supply chain 	Page 22
Shareholders and debt funders	<ul style="list-style-type: none"> Investor roadshows and investor briefings Shareholder feedback gathered bi-annually Analyst research notes Regular dialogue with shareholders and funding banks Engagement with supply chain 	Page 72

The Company is committed to maintaining good communication with investors.

Stakeholder engagement continued

INVESTOR MEETINGS

Investor meetings are predominantly attended by the Group CEO, CFO and Head of Investor Relations, although other senior Executives may attend. There is an active programme of communication with existing and potential shareholders, with 'City Days' scheduled on a monthly basis (outside of closed periods) which provides any shareholder an opportunity for a meeting with management. There is increased dialogue following the publication of final and interim results, which is facilitated through a series of formal presentations, and management allocates a full week at those times to ensure all shareholders can be accommodated. The Chairman is also available for discussions with shareholders as and when they so wish and a number of such discussions took place during the year.

The Chair regularly engages with major shareholders to canvass their views on governance and performance against strategy. Committee Chairs will engage with shareholders where a particular matter relates to their area of responsibility.

ANNUAL GENERAL MEETING

Shareholder participation at each AGM is usually encouraged. Given the restrictions caused by the Covid-19 pandemic, special measures meant that no shareholders were able to attend the 2021 AGM in these unique circumstances. Full details of the 2022 AGM will be set out in the Notice of Meeting. In normal circumstances, all shareholders are invited to attend the Company's AGM, at which point they have the opportunity to meet the Board and raise questions. Shareholders who are unable to attend are invited to email questions in advance to company.secretary@mearsgroup.co.uk

ANNUAL REPORT AND OTHER COMMUNICATIONS

The Board maintains regular contact through the provision of the Annual Report, regular Interim Reports and regular trading updates. This information can be found on the Group's website (www.mearsgroup.co.uk).

CORPORATE WEBSITE

The Group website has a dedicated investor section which provides an overview of Mears, whilst also providing access to historic Annual Reports and shareholder presentations. The Group regularly receives and responds to questions raised by small private shareholders through the investor enquiry portal within the Group's website.

The Group also has regular dialogue with its banking partners. The Group refinanced its debt facilities in December 2021, putting in place a £70m unsecured revolving credit facility. The Directors were pleased to extend the close relationship with Barclays and HSBC, which have both been banking partners to the Group for over 20 years. The Directors were also delighted to include Citi Bank in the new arrangement and look forward to building on that partnership in the future.

2021 investor relations programme:

JANUARY

- Shareholder calls available on request

FEBRUARY

- Non-holder investor (virtual) roadshow
- Chairman's (virtual) roadshow with top shareholders

MARCH

- Pre-close trading update followed by calls with major shareholders

APRIL

- Close period

MAY

- Preliminary results for FY2020 released followed by full investor (virtual) roadshow

JUNE

- AGM and trading update followed by calls with major shareholders

JULY

- Close period

AUGUST

- Interim results for H1 FY2021 released followed by full (virtual) investor roadshow

SEPTEMBER

- ESG consultations with major shareholders

OCTOBER

- Ad hoc non-holder (virtual) investor meetings

NOVEMBER

- Trading update followed by calls with major shareholders

DECEMBER

- Management (virtual) Q&A session with existing and prospective investors

	Holding at March 2022	Holding at April 2021
Shareholders holding over 2% of issued share capital	% IC	% IC
Shareholder Value Management	10.3%	9.8%
Artemis Investment Management	10.2%	11.3%
Fidelity Management & Research	9.9%	10.0%
Premier Miton	8.2%	—
Majedie Asset Management	7.8%	8.2%
Heronbridge Investment Management	6.5%	5.0%
Columbia Threadneedle Investments	5.3%	5.1%
LOYS	5.1%	5.1%
Huntington Partners	4.3%	3.3%
Dimensional Fund Advisors	4.3%	4.1%
PrimeStone Capital	—	12.3%

Board composition, development and evaluation

1. COMPOSITION AND DEVELOPMENT

It is critical to the success of the Board that it has the optimal mix of skills, knowledge, experience and diversity to produce an informed debate and a high quality of decision making. Directors offer themselves for re-election annually. The Board considers that each of the Non-Executive Directors applies their time and experience so as to make an effective contribution to the deliberations of the Board.

a) Independence

In accordance with the Code, the Chairman was independent at the time of his appointment in January 2019. The other three Non-Executive Directors (Julia Unwin, Chris Loughlin and Jim Clarke) are all considered to be independent for the purposes of the Code. The three Executive Directors and the Employee Director (by virtue of her employment in an executive role within the Group) are not considered to be independent.

At the start of 2021, both Roy Irwin and Geraint Davies served as Directors of the Company and both were considered to be independent. Both stood down from their positions at the Annual General Meeting in June.

The Company considers that it has been in compliance with the Code requirements as to independence throughout 2021.

b) Tenure

All Directors are subject to annual re-election by shareholders at the Annual General Meeting. The length of service of each Director as at the end of 2021 is set out in their biographies on pages 66 and 67.

c) Skills and experience

The Nominations Committee regularly assesses the skills and experience mix of the Non-Executive Directors. More information on this process in 2021 is set out in the Report of the Nominations Committee.

The Board requires a range of views, skills and experience in order to ensure that it can effectively challenge management's ideas and delivery but also contribute positively to Company strategy and corporate development more generally. The balance of those skills and capabilities is kept under review to ensure that the Board can supply effective leadership and that, in particular, it has both extensive commercial private sector experience and a good understanding of the dynamics and processes which drive the behaviour of its client base.

Set out below is a self-assessment of the skills mix of the six Non-Executive Directors:

Skills and experience mix of the Non-Executive Directors	
Customer knowledge	4
Service sector experience	5
Finance	4
Human resources	4
Strategy	5
Investor relations	4
Senior executive leadership	3
Risk management	4
Business development	4
Operations	3

This assessment underpinned the decision making behind the recruitment of a new Non-Executive Director in the second half of 2021, a process discussed in the Nominations Committee report on pages 74 and 75.

d) Diversity

As at the end of 2021, the Board had eight Directors, two of whom were female. Of the Non-Executive Directors (including the Chairman), three were male and one female. There are currently no Directors from an ethnic minority background. The diversity mix was a factor in the approach taken to the recruitment of a new Non-Executive Director in 2021, which is discussed further in the Nominations Committee report on pages 74 and 75.

To consolidate the Board's focus on diversity and inclusion, a seminar was held in spring 2021, coordinated by Jane Farrell of EW Group, which examined a number of aspects relevant to the oversight of a large commercial business such as Mears.

Mears will work to secure balanced boards to broaden the range of perspectives and expertise, and ultimately benefit the services and clients we seek to support.

We will follow the principles set out in the FTSE Women Leaders review, which aims to increase opportunities for women at the top of Britain's largest companies.

e) Induction

In view of the intended appointment of a new Non-Executive Director, the Chairman and the Company Secretary reviewed and updated the Company's induction programme. This now provides for a comprehensive series of meetings with each of the Directors and senior managers in the Group, access to the key Board and Committee papers prepared and discussed over the last 12 months, plus a programme of visits to some of the Group's key operating locations.

f) Commitment

The Directors, Executive and Non-Executive, are required to devote as much time as is reasonably required to discharge their duties effectively and the Board is satisfied that the Directors do so. This is illustrated by the fact that in 2021 all of the Directors were in attendance at all Board meetings, whether planned or ad hoc. Similar levels of attendance were in evidence at meetings of the Board sub-committees, each of which are now attended by all Non-Executive Directors. Directors wishing to take up additional external appointments require the permission of the Board, acting through the Chairman.

g) Processes

All Directors have access to the Company Secretary, who is responsible for ensuring compliance with law and regulation and that Directors are kept abreast of changes in relevant corporate legislation. Directors, collectively or individually, have access through the Company Secretary to appropriate external professional advice should that be needed.

The Board operates a policy to identify and manage situations declared by any Director in which they or their connected parties have, or may have, an actual or potential conflict of interest with the business of the Company. No such situation currently exists or existed in 2021.

In accordance with the Articles of Association, and to the extent permitted by law, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. The indemnity does not cover Directors or officers in the event of their behaving fraudulently or dishonestly.

2. EVALUATION

During the course of 2021, an independent evaluation of the effectiveness of the Board and its committees was undertaken by Independent Audit Limited. A description of this process and the outcomes is set out in full in the Report of the Nominations Committee.

Report of the Nominations Committee

This report sets out the key matters which were addressed by the Committee in 2021.

Meeting attendance

C Loughlin	5/6
K Murphy	6/6
J Unwin	6/6
G Davies	6/6
J Clarke	2/2
R Irwin	4/4

K Murphy
Chairman

As foreshadowed in last year's report, one of the main tasks for the Committee in 2021 was the selection of a new Non-Executive Director, consequent to the retirements of Geraint Davies and Roy Unwin.

To commence this process, the Committee reviewed the mix of skills and experience at Non-Executive Director level, taking into account Geraint and Roy's departure. In discussion, the Committee concluded that we required an individual with an excellent understanding of the dynamics and operations of the organisations which are the key constituents of Mears' current customer base. The ideal candidate would demonstrate effective leadership at Board level, having held one or more leading executive positions in a Local Authority, operational Government department or Housing Association. The key requirement would be an ability to bring that knowledge of Mears' customer base to make an effective contribution to strategic debate, with a clear understanding of the drivers of customer behaviour and how that could be matched with Mears' desire for growth and value. It was also important that the successful candidate be aware of and empathetic to Mears' corporate culture.

The Committee was also conscious of the need to continue to broaden the diversity of backgrounds around the boardroom table and this was explicitly reflected in the choice of recruitment consultant made for the assignment and in the brief given to that adviser.

The Committee interviewed five candidates for the role, chosen from a longer list of possible appointees, and selected Angela Lockwood. Angela is Chief Executive Officer at North Star Housing, a successful medium sized Housing Association based in Stockton on Tees which won Investors in People UK 2021 Platinum Employer of the Year for smaller organisations. Angela has extensive experience gained from a career in housing spanning nearly 30 years. Starting her career at Sunderland Council,

Angela worked for Home Housing and subsequently joined Endeavour Housing Association, firstly as Housing Director and then Managing Director. She joined North Star in 2009. Angela holds an MBA, is a Fellow of the Chartered Institute of Housing, a Board member of the Joseph Rowntree Housing Trust, a member of the National Housing Federation Board and a Vice President of the Institute of Customer Service. Angela joined the Mears Board with effect from 1 January 2022 and has begun an extensive induction programme with a series of meetings and visits to Group operations.

The other major task for the Committee in 2021 was to undertake an independent evaluation of the effectiveness of the Board and its committees, in accordance with the Code. This review was postponed from 2020.

Independent Audit Limited was appointed in May 2021 to undertake such a review. IAL has no other connection with the Company and this is the first time it has evaluated the Mears Board. IAL undertook a comprehensive review covering all aspects of Board and Committee effectiveness. The reviewers attended Board and Committee meetings in person and virtually during the summer, reviewed a full cycle of Board information and held one-to-one discussions with all of the Directors, a range of other senior executives and the external auditor. IAL reported to the Board in September 2021, attending an in-person meeting. All Directors had an opportunity to discuss the findings, ask the reviewers questions and consider the direction of future Board development.

The review concluded that the Board had undergone considerable change in the last two years, with the Chair having extensively changed both the composition of the non-executive team and the planning of Board agendas. Much had been improved over that period and there was the potential for further improvement.

Strengths of the Board

Stable and long-standing executive team with effective operational control of the business

More effective scrutiny, with oversight of and input to strategic and financial issues

Strong focus on customers, workforce issues, health and safety, compliance and corporate culture

Good range of relevant and complementary experience among the Non-Executive Directors

Skilled chairing and good quality debate and challenge on a range of major topics

The Employee Director provides a valuable employee perspective and helps reinforce the workforce voice

Areas for Board development

The review highlighted a number of areas for the Board to focus on in 2022.

Key areas for development

A stronger focus on effective communication with more time spent together if possible

Clearer documentation of the role of the Board, its committees, the Chairman and the CEO to facilitate collective working

Clearer plan for executive succession combined with further consideration of the roles of the most senior managers below Board level

Maintain focus on strategy and on the use of KPIs and risk analysis and assessment

Clarification of the role and contribution of the Employee Director

Action taken/ to be taken

Holding more Board meetings in person, moving Committee meetings to different days, regular Non-Executive group discussions before Board meetings and, over time, more visits by Non-Executives to operations

Reviewing and agreeing documents setting out the respective roles of the Board, committees, Chairman and CEO. These documents can be viewed on the website

Substantive discussions held about executive reorganisation, the recruitment of a new senior commercial director and continuing discussion on senior executive succession

The Board will review the 5-year plan in spring 2022, examine the Group's carbon reduction plan and continue its discussion of KPI reporting

Ensuring that each Board meeting has an agenda item for the Employee Director to report on her activities and key issues

More work needs to be done and the Board intends to undertake an internal self-evaluation during 2022.

In addition to its assessment of the Board, IAL also provided input to the review of the Chairman conducted by the Senior Independent Director.

The terms and conditions of each of the Non-Executive Directors are available for inspection at the AGM and can be made available to shareholders on request to the Company Secretary.

K Murphy

Chairman, Nominations Committee

31 March 2022

Report of the Audit and Compliance Committees

This report sets out the key matters which were addressed by the Committee in 2020.

Meeting attendance

J Clarke	8/8
C Loughlin	8/8
J Urwin	4/4
G Davies	4/4

J Clarke
Audit Committee
Chairman

This report sets out how the Committee has fulfilled its responsibilities during the year and in relation to financial reporting matters, the significant issues that were considered and how they were addressed.

In my first year as Chairman of the Audit Committee, I am pleased to present the summary of the work of the Committee over the last 12 months.

As detailed in last year's report, the Committee appointed Ernst & Young LLP (EY) as the new external auditor and the first year of the new audit engagement went well, but was made more challenging by the restrictions placed on office working through the pandemic. The Committee is pleased with the progress of EY in its second year, with much of the learning and knowledge accumulated in the first year allowing a more focused audit approach, with continued leverage of data-analytics tools to deliver an efficient process.

The Committee has reviewed the significant financial reporting matters and judgements identified by the management team and EY through the audit process, and the approach to addressing these is detailed on pages 78 and 79 of this report.

The 2021 financial year was relatively straightforward when compared to the previous two years, which had encountered a number of disposals (Domiciliary Care and Terraquest), steps taken to exit the Development activities, significant new accounting standards (IFRS 16 'Leases') and the unique challenges encountered at the start of the pandemic. By contrast, 2021 was a period of stability and strengthening; the areas within the financial statements requiring significant estimates and judgement are not new to the management team or any of the Committee members.

The continuation of the pandemic ensured that the fight against Covid-19 and the necessity to keep our people and customers safe remained one of the primary concerns of the Compliance Committee throughout 2021. The ever-changing environment meant there were challenges across our entire range of operations, most notably in asylum support and care services, whilst the Group's decision to take a very cautious approach to the relaxation of control measures linked to the return to 'business as usual' meant we were able to quickly respond to the threat posed by the Omicron variant.

The ever-increasing importance of data security is a key strategic consideration for the Group and in this regard, the Compliance Committee's role has recently been widened to encompass greater scrutiny of this essential area moving forward into 2022, to enhance the level of information available to the main Board.

In relation to risk management and internal controls, the Board and Audit Committee are mindful of the importance of continuing to improve both control and output in this area. The work carried out during 2021 is detailed within this report. The co-sourcing between the Internal Mears team and KPMG has delivered a high quality output and excellent value, allowing KPMG to bring in specialists on an ad hoc basis rather than adding full-time employment for what are mainly 'task and finish' projects. The overall lead for our internal audit work continues to sit with KPMG.

Our regular programme of meetings and discussions, supported by our interactions with the Company's management, and external and internal auditors, and the quality of the reports and information provided to us, enable the Committee members to effectively discharge their duties and responsibilities.

HOW THE AUDIT COMMITTEE OPERATES

The Committee provides independent review and monitoring of the risk management and control procedures within the Group. Each Committee member is independent and has broad commercial experience. Jim Clarke is a Chartered Accountant and has significant recent and relevant financial experience, most recently at Countrywide as Group CFO. Chris Loughlin has held a number of CEO and COO roles within large, quoted entities and brings broader, more operationally focused commercial expertise. The final Committee member, Julia Unwin, has held senior roles within housing and care sectors which bring industry specific expertise, whilst also currently engaged by the Financial Reporting Council.

During the year, the Committee held eight meetings. These meetings were also attended by the Group Chief Executive Officer, the Chief Financial Officer, and the Group Chairman. The Internal and external auditors were invited to all meetings. The Company Secretary acts as secretary to the Committee.

The Audit Committee Chairman meets with the external auditor and lead internal auditor regularly throughout the year.

COMPLIANCE COMMITTEE

In addition, the Audit Committee has a very active sub-committee, being the Compliance Committee. This reflects the significant focus that the Group gives to dealing with health, safety, and environmental risks. The Compliance Committee is a sub-committee of the Audit Committee and is chaired by Jason Burt, the Group Director of Health, Safety and Compliance, a former specialist health and safety lawyer. He has an extensive and detailed working knowledge of the issues which can adversely impact the efficiency of health, safety and compliance governance systems and cause and drive regulatory prosecutions and employers' and public liability claims. The extent to which the full integration of health, safety and environmental risks is now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee, who include the Group's Chief Executive Officer, Health and Safety Director and Internal Health and Safety legal adviser. Others are called upon to attend as required.

The Committee's terms of reference are available on the Company's website and on request from the Company Secretary.

Main activities of the Committee during the year

Internal audit

- Reviewed and monitored progress against 2021 Internal audit plan
- Reviewed the quality and effectiveness of the outsourced arrangement
- Reviewed the internal audit plan for 2022

Risk management

- Received reports from the Chair of the Compliance Committee
- Reviewed and approved the Group's risk register
- Reviewed and validated the effectiveness of the Group's system of internal controls
- Monitored fraud reporting and incidents of whistleblowing
- Oversight and monitoring of the Group's compliance with the Bribery Act

Financial performance

- Reviewed the basis of preparation of the financial statements as a going concern and the long-term viability review
- Reviewed and discussed reports from the CFO on the financial statements and considered the significant accounting judgements or where there is estimation uncertainty
- Considered reports from the external auditor in respect of the suitability of the accounting policies and the integrity of the financial reporting
- Reviewed the 2021 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be fair, balanced, and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy

External auditor

- Agreed the audit fee for the year ended 31 December 2021
- Reviewed the proposed audit plan for the 2021 statutory audit
- Reviewed recommendations arising from the 2020 statutory audit

Report of the Audit and Compliance Committees continued

We considered the aspects of the financial statements that required significant accounting judgements or where there is estimation uncertainty. These are explained in greater detail within the notes to the financial statements. The Audit Committee received detailed reports from the CFO and the external auditor on these areas and other matters which they believed should be drawn to the attention of the Committee.

The Committee discussed the range of possible treatments both with management and with the external auditor, confirming that the judgements made by management were robust and supportable. For all the significant issues detailed below, it was concluded that the treatment adopted was the most appropriate.

Significant issue	Read more as to how this key issue was addressed in the financial statements
Lease accounting	<p>The Committee challenged management in respect of the processes and controls that were in place throughout the year to ensure the completeness of the right of use asset and lease obligations. The Committee recognised this to be a high risk area given the high number of new leases being inceptioned and the complexities of IFRS 16.</p> <p>The Committee has reviewed the assumptions and key judgements provided by management, including the additional detail provided, resulting from the extensive review and reassessment of the process in respect of lease identification.</p> <p>The Committee recognises that lease accounting is very significant to Mears and is a key area for stakeholders to fully understand.</p> <p>The completeness of the lease obligation is identified as a key audit area and EY has provided further detail as to how this matter was addressed during its audit work on page 105.</p>
Determination of the amount of the Group's retirement benefit obligations	<p>At 31 December 2021, the Group reported a net retirement benefit surplus of £20.7m, being the difference between the fair value of the scheme assets less the present value of the benefits expected to be paid to members of the schemes. This assessment requires an assumption to be made in respect of mortality rates and future inflation rates which will result in an increase in future benefits received by members. This also requires an appropriate discount rate to calculate the present value of these future obligations for the future payments. Where the Group has a contractual right to recover the costs of making good any deficit pension scheme, the fair value of that asset has been recognised and disclosed.</p> <p>The Committee reviewed the key assumptions proposed by management, notably assumptions in respect of discount rate, RPI, CPI and future salary increases, which are detailed in note 28 to the consolidated financial statements.</p> <p>Given the technical nature of this area, the Committee placed reliance upon the work of AoN, which is engaged to support management in setting assumptions and consolidating information prepared by the respective scheme actuaries in respect of each of the defined benefit pension schemes. The accounting for defined benefit pension schemes is also identified as a key audit area and EY provides further detail as to how this matter was addressed during its audit work on page 106.</p>

Significant issue	Read more as to how this key issue was addressed in the financial statements
<p>Assessing whether the Group has the power to control in respect of a beneficial interest in 49% of the shares in a company, Haydon Mechanical and Electrical LLC</p>	<p>The Committee reviewed and considered the key judgements by management. In assessing whether the Group has the practical ability to have power over the investee, the Directors have considered several operational, legal and regulatory barriers which prevent Mears from exercising its rights. These barriers included the absence of suitable individuals willing to provide an executive management service and restrictions placed upon the trade licence.</p> <p>The Directors have therefore taken the judgement that Mears does not have the practical ability to direct the activities of Haydon LLC and as such does not meet the criteria for control.</p> <p>The judgement of the Directors was supported by external legal advice which confirmed the significant restrictions preventing the Group from exercising its rights.</p> <p>The committee took comfort from the additional work carried out by EY, and that they independently reached the same conclusion to that reached by the Executive Directors and Committee.</p>
<p>Goodwill impairment</p>	<p>The key assumptions, and a discussion of how they are established, as well as the sensitivity analysis are described in note 12 to the consolidated financial statements.</p>
<p>Revenue Recognition</p>	<p>The Audit Committee addressed this area of judgement in the following ways:</p> <ul style="list-style-type: none"> — The Committee reviewed the key judgements report prepared by management, which provided a detailed explanation in respect of the valuation of unbilled works and the recognition of revenues. — The Committee took comfort from the contract management system which is central in generating the valuation of works (both billed and unbilled) and the integrated process that follows to ensure an accurate cut-off so that revenue is appropriately matched to cost. EY carried out substantive testing of the amounts recoverable on contracts, adopting a blend of risk-based and random sampling approaches to testing, and provided detailed feedback to the Committee in this area.

An investor, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls an investee. An investor controls an investee if and only if the investor has power over the investee. In assessing whether it has power, an investor considers only substantive rights relating to an investee. For a right to be substantive, the holder must have the practical ability to exercise that right.

The Group holds a beneficial interest in 49% of the shares in a company, Haydon Mechanical and Electrical LLC ('Haydon LLC'), registered in the UAE. Whilst the Group took active steps to dispose of Haydon LLC in 2016, certain completion conditions associated with the sales transaction have not been met, and the beneficial interest in Haydon LLC has as such been retained by the Group. EY has identified this as a significant control deficiency.

Haydon LLC ceased trading during 2017 and reports a net liability position. The carrying value of the Group's investment in this associate has previously been reduced to £nil, and the Directors do not believe that the Group has incurred any legal or constructive obligations on behalf of this associate.

At 31 December 2021, the Group reported goodwill with a carrying value of £119m. For the purposes of assessing impairment, management identified two separately identifiable cash flows which are termed as cash-generating units (CGUs). The two CGUs identified are the continuing Care activities (referred to as 'Housing with Care') and the Group's other Housing activities. Determining whether goodwill is impaired requires an estimate of the value in use of each of the CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the CGU using the current one-year budget, extrapolated for five years to December 2026, requiring a medium-term growth assumption and a general terminal growth rate, and an assessment of an appropriate discount rate to calculate present values. The Committee took comfort from the fact that there was significant headroom when reviewing any impairment in the prior year.

Revenue is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts. It is based on the transfer of control of goods and services to customers. The accounting policy within note 2 to the consolidated financial statements sets out the principal types of contracts and how the revenue is recognised in accordance with IFRS 15.

Determining future contract profitability requires estimates of future revenues, costs to complete, stage of completion of certain contracts and the recovery of work in progress, mobilisation costs and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract. In making these assessments, there is a degree of inherent uncertainty. The Group utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

Report of the Audit and Compliance Committees continued

COMPLIANCE COMMITTEE ACTIVITIES

The primary focus of the Compliance Committee during 2021 was directed towards the following areas:

- Monitoring and review of the Group's policies in relation to health, safety and environmental (HSE) matters.
- Review of HSE risks and risk assessments on the Group risk register and mitigation actions and controls related thereto, including sub-contractor controls and related procurement.
- Providing an operational focal point and report for KPMG, the Group's independent internal auditor.
- Considering any other significant HSE matters, including emerging risks and unforeseen risks as they arose.
- Providing greater scrutiny on data security and enhancing the level of information available to the main Board.

The continuation of the pandemic ensured that the fight against Covid-19 and the necessity to keep our people and customers safe remained one of the primary concerns of the Compliance Committee throughout 2021. The ever-changing environment meant there were challenges across our entire range of operations, most notably in asylum support and care services, whilst the Group's decision to take a very cautious approach to the relaxation of control measures linked to the return to 'business as usual' meant we were able to quickly respond to the threat posed by the Omicron variant. In all, the Group performed exceptionally well during these challenging times.

The Asylum Accommodation and Support Contract was also a key area of focus as its operational challenges were impacted by the unprecedented increase in the number of asylum seekers entering the country, necessitating further reliance on hotel-based accommodation. The Compliance Committee provided support and guidance to the relevant teams, linked to the procurement, maintenance and day-to-day running of the same and implemented enhanced governance protocols to ensure compliance with the Group's internal procedures and wider regulatory obligations.

The Compliance Committee also worked closely with the team mobilising the Ministry of Justice CAS2 contract, to ensure robust governance policies and procedures were embedded into the contract delivery. In this regard, the Group's knowledge, expertise, and experience derived from managing the Asylum Accommodation and Support Contract was exceptionally beneficial and was a key element in the very successful deployment of services during the latter part of the year.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for establishing the Group's overall risk appetite and ensuring that the Group has in place an adequate system of internal controls. However, in accordance with the requirements of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall systems of internal controls and risk management has been delegated to the Committee.

The Committee also provides the Board with the assurance that the risk management and internal controls systems, including strategic, financial, operational, and compliance controls, are sufficiently robust to mitigate the principal and emerging risks that may impact the Company.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. It includes all controls including financial, operational and compliance controls and risk management procedures. These include health and safety, people, legal compliance, quality assurance, insurance, and security, and reputational, social, ethical, and environmental risks.

The Group's principal risk report captures and assesses the principal risks facing the Group. This forms part of the Group's framework for determining risk and risk appetite. This document is updated regularly and is considered at both Committee and Board level throughout the year. Further details are included within the Strategic Report on pages 46 to 54.

The internal audit function carries out work across the Group, providing independent assurance, advice, and insight to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. In December 2021, the Audit and Risk Committee agreed the FY21 audit plan to be undertaken by the internal audit team. The audit plan coverage is based on risk, strategic priorities, and consideration of the strength of the control environment. The internal audit function prepares audit reports and recommendations following each audit, and appropriate measures are then taken to ensure that all recommendations are implemented. Significant issues, if any, are raised at once. There were no such issues in 2021.

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. The Committee is pleased with the additional support provided by KPMG.

The Board has adopted a scheme of delegated authority, with defined financial and other authorisation limits and setting procedures for approving capital and investment expenditure. The Board also approves detailed annual budgets. It subsequently reviews performance against targets set forth in these plans and budgets.

Throughout the year, the Group's principal risks have been regularly reviewed by management to provide assurance on the robustness, integrity, and effectiveness of the systems in place, including those that could threaten its business model, operations, future performance, solvency, and liquidity.

The Board also seeks to ensure that a sound system of internal controls, based on the Group's policies, standards, and procedures, is in place in all material associate and joint arrangement entities. Our systems of internal controls and risk management are designed to identify, mitigate, and manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material financial misstatement or fraud.

The system of internal controls encompasses the culture, behaviours, organisation design, policies, standards, procedures, and systems that, taken together, facilitate its effective and efficient operation. These internal controls are based on the 'three lines of defence' principles as detailed on pages 46 and 47 of the Strategic Report.

The Company's risk-based internal audit programme for 2021 was considered and approved by the Committee in December 2020. This programme was developed further during the year to consider the Company's principal risks and to identify where they primarily occur in the business; through discussions with the Committee and senior management, by recognising changes within the Group and the external environment; and with consideration to prior audit coverage. In approving the 2021 audit programme, the Committee considered the coverage of the principal risks by the proposed audits. It was agreed that primary focus for 2021 should be on the following areas:

RISK MANAGEMENT

- Refresh of principal risks, mitigating actions, and assurance review
- Fraud Risk register facilitation

CORE CONTROLS

- Core controls spot checks
- Scheme of Delegated Authority

SPECIFIC RISK AREAS

- Management of key contracts
- People management and HR processes
- Legal and compliance framework
- Branch spot visits including business continuity and sub-contractor management
- IT systems, controls, and security

There has been good sponsorship of internal audit from the senior management team and it is pleasing to observe the positive tone at the top in terms of openness to discussion of issues, agreement of action plans and a commitment to doing the right thing.

From the core controls work completed to date, no high priority gaps were identified; however, in a few areas there is a need to ensure that processes are being followed and for control activity to be formally documented and evidenced. This is also important within the wider regulatory context where there are emerging requirements for public interest entities to have a documented control framework and in due course an articulated Audit & Assurance Policy.

There is a culture across the Group of active monitoring by executive and senior management. Our focus this year was on management's oversight of branches. Internal audits were carried out on two key contracts and a further three branch audits were completed, and the themes identified during those audits will be developed further.

The 2022 programme was considered and approved by the Committee in December 2021 and performance against this plan will be reported in next year's Annual Report.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of the consolidated financial statements which are produced by the Group finance function, which is responsible for the review and compilation of reports and financial results from each of the

operating subsidiaries in accordance with the Group reporting procedures. The consolidated financial statements are supported by detailed working papers. The Audit Committee is responsible for overseeing and monitoring these processes, which are designed to ensure that the Company complies with relevant regulatory reporting and filing requirements.

As at the end of the period covered by this report, the Audit Committee, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of disclosure controls and procedures designed to ensure that information required to be disclosed in financial reports is recorded, processed, summarised, and reported within specified time periods.

We have conducted an annual review of the effectiveness of our risk management system and internal control systems in accordance with the UK Corporate Governance Code. Part of this review involves regular review of our financial, operational and compliance controls, following which we report back to the Board on our work and findings as described above. This allowed us to provide positive assurance to the Board to assist it in making the statements that our risk management and internal control systems are effective, as required by the UK Corporate Governance Code.

EXTERNAL AUDITOR

The external auditor engagement was re-tendered in 2020, at which point EY was appointed, replacing Grant Thornton UK LLP, which had been appointed since 1996.

The Senior Statutory Auditor, Paul Mapleston, is required to rotate after a maximum of five years, the year ending December 2024, being his last possible financial year.

The Committee expects that the next tender date will be no later than 2030 in accordance with the current regulation that requires a tender every 10 years.

Annually, the Committee reviews the external auditor's audit plan and reviews and assesses information provided by it confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

The Committee also reviews the auditor's effectiveness, which involves assessment of the auditor by the Committee and key Executives; and confirmation that the auditor meets minimum standards of qualification, independence, expertise, effectiveness, and communication. These assessments are carried out prior to the Committee recommending to the Board that the external auditor be proposed for reappointment at the Company's AGM.

EXTERNAL AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Company has adopted a strict policy of prohibiting the external auditor from carrying out non-audit services, to safeguard audit objectivity and independence. The Committee is responsible for approval of all non-audit services provided by EY; however, this is in exceptional circumstances only. In such an exceptional event, the Audit Committee would approve such work only where the Company would be disadvantaged by engaging an alternative provider, for instance where EY possesses a detailed knowledge of the structure of the business or an understanding of the markets within which the Group operates. No non-audit services were provided by EY during 2021.

J Clarke
Audit and Compliance
Committee Chairman
jim.clarke@mearsgroup.co.uk

31 March 2022

Report of the Remuneration Committee

This report sets out the key matters which were addressed by the Committee in 2021.

Meeting attendance

C Loughlin	5/5
J Unwin	5/5
J Clarke	5/5
R Irwin	2/5
K Murphy	5/5

C Loughlin
Remuneration
Committee Chairman

Dear shareholders

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021.

This report is made up of three parts:

- This Annual Statement, where I set out details of the key decisions of the Remuneration Committee and the business context within which they were taken.
- An abridged version of the Director's Remuneration Policy, which was approved by shareholders in June 2020.
- The Annual Report on Remuneration, which sets out details of (i) remuneration earned by Directors and the link between Company performance and pay in the year ended 31 December 2021 and (ii) how we intend to implement the Directors' Remuneration Policy in 2022.

There will be an advisory shareholder vote on the Annual Statement and the Annual Report on Remuneration at the 2022 AGM. Shareholders approved the current Directors' Remuneration Policy at the 2020 AGM and this is intended to apply for a three-year period up to the 2023 AGM.

Business context

2021 was a very strong year for the Group. We entered the year in a lockdown which restricted our activities, but by the half year, much of the business had returned to almost normal operations and contractual conditions. Activity continued to build throughout the second half of the year and this resulted in higher work volumes and a more active bidding process.

As mentioned in the Chairman's letter earlier in this Annual Report, our resilience in performance is down to three main factors. Our staff have been exemplary during the year, a continuation from 2020. They have demonstrated extraordinary dedication and a clear focus on service and delivering for our customers. Our strength of customer relationships has led to effective cooperative working between client and provider. Finally, our IT platform has been integral to delivering our high quality, responsive service.

This is reflected in our financial results, with revenue increasing by 9% to £878m, which is very close to pre-pandemic revenue in 2019. Adjusted PBT increased to £25.6m and we ended the year with a net cash balance of £54.6m. Underlying cash conversion of over 100% in the last two years has, along with strategic disposals, transformed the Group's financial position and created the current position of balance sheet strength which Mears is determined to retain into the future. In 2021 we reinstated the dividend and the Board has proposed a final dividend of 5.50 pence per share, bringing the total dividend for the year to 8.0 pence per share.

For the third successive year we have secured our place in the Sunday Times Best Companies list of top 25 large companies to work for in the UK, with our 2021 score higher than the previous two years. Our staff and therefore our employee proposition is very important to us and during the year, following feedback from employees, we have implemented the following initiatives:

- Improved holiday and sick pay for front line operatives.
- Building the workforce of tomorrow, through investing in apprentices, supporting the Kickstart programme and creating new entry level roles to drive social mobility.
- Introducing flexible benefits and enabling a better balance between home and office working.
- Providing excellent communication and support around Covid and maintaining the highest standards of internal communication more broadly.
- Increasing investment in staff, through bespoke training such as our Emerge development programme, for staff looking to progress to senior management positions.
- We remain one of the very few Listed Companies with an Employee Director on the Main Board.
- Externally appointed Social and Diversity Impact Board and accredited by the Housing Diversity Network, including growing the number of women in management positions and reducing the gender pay gap. We will publish our first 'ethnicity gap' report by the end of 2022.

- Providing comprehensive mental health and wellbeing support, especially given the difficult situations many of our staff face on a day-to-day basis.

INCENTIVE OUTCOMES FOR 2021

Annual bonus

As set out in the business context section above, the Group continued to make good progress against its key strategic objectives, focusing on core housing activities and reducing indebtedness.

The 2021 annual bonus was based 40% on Group profit before tax, 30% on average daily net debt and 30% on strategic objectives relating to customers, employees and the generation of social value. These targets were set early in the year and were not adjusted at any point thereafter. The achievements against the targets were as follows:

- **Profit before tax (40%)**
- The Group delivered adjusted profit before tax on all activities of £26.5m, which was within the target range of £23.1m to £28.1m. This is assessed on all activities comprising a PBT of £25.6m on continuing activities, additional fair value of £1.1m from the sale of Terraquest, and a sundry loss of £0.2m in respect of the discontinued Care activities
- **Average daily net debt (30%)**
- The Group reported a small daily net cash balance, meaning the threshold and stretch target of £64.4m and £43.9m of average daily net debt respectively was achieved
- **Employee engagement, customer satisfaction and social value generated (30%)**
- Our employee engagement criterion was measured by reference to inclusion within The Sunday Times best companies to work for, which was achieved
- The customer satisfaction criterion was assessed differently this year as a result of the pandemic impacting upon our interaction with the client. Mears has adopted alternative methods of working since the onset of covid-19, with the primary focus being on ensuring the safety of our employees, customers, and service-users. Ultimately, the accident frequency rate which includes all measures with regard our working practices and provisions of delivering essential services throughout the pandemic, it is the most relevant measure of success in 2021. The Group is delighted to report an AFR of 0.19 (ahead of target of 0.24).
- The social value generated was in excess of £3,000 per employee, which was above the maximum stretch target of £2,794 which required 20% growth on the prior year

Overall, the strong performance over the year resulted in a formulaic bonus outcome of 88% of the maximum. 67% of the bonus will be paid in cash, with the balance deferred in shares for three years.

The Remuneration Committee believes this outcome is appropriate and fully reflects the strong financial and operating performance of the Group during the year. As a reminder, prior to 2021, the Remuneration Committee had applied significant negative discretion on the formulaic bonus outcomes for financial years 2018, 2019 and 2020. Such discretion was not deemed necessary in respect of 2021 performance.

LTIP outcome

There were no long-term incentive plan (LTIP) awards capable of vesting for performance ending in 2021. The first awards to be granted during the year under the LTIP adopted as part of the Directors' Remuneration Policy approved at the 2020 AGM were made in June 2021 and these will vest in June 2024.

Update on 2020 annual bonus

As set out in last year's report, the annual bonus for 2020 was scaled back to reflect a number of factors. The resulting bonus outcome was 46.6% of salary. In accordance with the agreed Policy, one third of the bonus was deferred in shares and the remainder, which should have been paid in cash shortly after the 2020 year end, was withheld by the Company. The Committee determined that this withheld cash amount would be released at an appropriate time in 2021, taking into account business recovery and the impact on our shareholders. Following the recovery of the business, the cash element was released to the Executive Directors in October 2021.

Mears-wide pay review

At a time when unemployment is low and where competition for resources labour is high, it has never been more important for Mears to continue its commitment to being a great place to work for our staff. Mears is committed to fine tuning our employee brand proposition, emphasising more clearly the benefits of working for Mears. We will continue our progressive approach of enhancing packages to enhance retention.

Given the significant cost of living increases pressures being encountered by our staff, we were very focussed on directing as much of the increase to the lowest paid. The outcome of the 2022 pay review was a 4% increase applied to the first £40,000 of basic pay for all our employees (except where certain employees pay is linked to national or local agreements). The weighted average increase in base salaries across the group has been calculated as circa 3.4%, including the mandatory requirement to apply Statutory Living Wage increases which predominantly relates to our Housing with Care activities.

APPLYING THE POLICY IN 2022

Base salaries

The Committee has agreed that the Executive team will have a £1,600 increase, being in line with the workforce, from 1 April 2022 who were awarded a 4% pay increase, but capped at £1,600. The Committee intends to review base salary positioning later in the year, with any proposed increases disclosed in next year's report and applying from 1 April 2023.

Annual bonus 2022

Following on from the above, the Committee has considered both the measures and targets for 2022. We have decided that all measures should remain the same for 2022 as was the case in 2021. Similarly, the Committee has decided that the same weightings applied to each performance target will remain the same as the previous year, being profit before tax (40%), average daily net cash/(debt) (30%), customer satisfaction (10%), employee engagement (10%) and the generation of social value (10%). The specific targets for each of these measures have also been set to reflect the achievements in 2021. The actual targets for 2022 and performance outcomes will be reported in next year's report in 2023.

LTIP 2022

The second awards under the LTIP adopted as part of the Directors' Remuneration Policy approved at the 2020 AGM will be made in 2022 at a level of 100% of salary to each of the Executive Directors. The LTIP consists of two measures, being EPS growth and total shareholder return (TSR) measured relative to the FTSE SmallCap (excluding investment trusts, financial services and natural resource companies). The Committee will consider return on capital employed (ROCE) performance in assessing the outcome for the EPS component and the Committee has the ability to reduce the vesting outcome if performance is inconsistent with the performance of the business or individual during the three-year performance period.

Pension

Pension contributions for the current Executive Directors for 2021 will be 15% of salary. This contribution level will reduce from 15% of salary to a level aligned with the workforce by 1 January 2023. The contribution level for any new Executive Director hires will be aligned with the workforce immediately on joining.

Conclusion

The last two years have been challenging for many businesses. The Group has performed well in the unforeseen circumstances and has made strong progress in delivering against its strategic priorities. The protection of our staff, of our customers, and our shareholders and other stakeholders, while re-shaping the business, have been our priorities.

I believe the Committee has put its mind to the matter of Executive Pay matters in a serious and thorough way and has been faithful to the Policy that we consulted with our shareholders on in preparation for its adoption this time last year.

I am happy to receive feedback from the Company's shareholders. Please get in touch with me direct, or via the Company Secretary, Ben Westran.

C Loughlin

Remuneration Committee Chairman
31 March 2022

Report of the Remuneration Committee continued

REMUNERATION FRAMEWORK – AT A GLANCE

The following section sets out our remuneration framework, a summary of how our Policy was applied in 2021 in the context of our business performance, and from page 95 details of how the Committee intends to implement the Policy in 2022.

STRATEGIC ALIGNMENT OF REMUNERATION

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance related, and the performance conditions applying to incentive arrangements should support the delivery of the Company's strategy. The following table sets out how the annual bonus scheme and LTIP reflect the Group's strategic priorities:

Our strategy

Deepening
our client
relationships

Increasing quality
leadership

Growing and
improving
our business

Developing
our people

Continue
to innovate

How we have measured progress against these objectives

- Exceptional health and safety performance, with the Group being awarded its 19th consecutive RoSPA Gold Award and retaining its place on RoSPA's Order of Merit.
- Improvement in Group operating profit margins
- Continue to unwind the Group's Housing Development activities with a positive impact to net debt
- Top 25 Sunday Times 'Best Companies'

How are our strategic objectives linked to our incentive plan

Annual bonus (capped at 100% of salary; 67% paid in cash, 33% deferred shares)

Adjusted
operating profit
(40%)

Average
daily net debt
(30%)

Customer
satisfaction
(10%)

Employee
engagement
(10%)

Social value
(10%)

LTIP (capped at 100% of salary with 3-year performance targets)

Total shareholder
return

Earnings per
share

TAKING ACCOUNT OF THE UK CORPORATE GOVERNANCE CODE

In implementing our Policy during the course of 2021 and in planning for its implementation in 2022, we have been careful to take full account of the provisions of the Code and it will continue to be a key touchstone for the Committee. In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the Code, we believe the following are worthy of particular note:

- **Clarity** – the Policy is well understood by our Directors and has been clearly articulated to shareholders and proxy voting agencies.
- **Simplicity** – the remuneration structure is simple and transparent and we have purposefully avoided any complex structures which have the potential to deliver unintended outcomes.
- **Risk** – our Policy and approach to target setting seek to discourage any inappropriate risk-taking. A balanced scorecard of financial and non-financial objectives applies to the annual bonus scheme and the targets are appropriately stretching, to mitigate the risk of inappropriate actions being taken. Malus and claw back provisions apply.
- **Predictability** – executives' incentive arrangements are subject to individual participation caps. An indication of the range of values in packages is provided in the reward scenario charts on page 88. Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
- **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance.
- **Alignment to culture** – pay and policies cascade down the organisation and are fully aligned to Mears' culture.

DIRECTORS' REMUNERATION POLICY – A SUMMARY

The Directors' Remuneration Policy was approved by shareholders at the 2020 Annual General Meeting and is intended to apply for a period of three years including the 2021 financial year. An abridged version of the Policy which sets out the key aspects is set out below (to include updated charts illustrating the application of Remuneration Policy in 2021) and the full original Policy can be found in the 2019 Annual Report and on the Company website.

REMUNERATION POLICY TABLE

The table below sets out the key elements of the Policy for Executive Directors:

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Base salary The purpose of the base salary is to: <ul style="list-style-type: none"> — help recruit and retain individuals of the necessary calibre to execute the business strategy; — reflect the individual's experience, role and contribution within the Group; and — ensure fair reward for 'doing the job'. 	<p>Salaries will be eligible for increases during the three-year period that the Remuneration Policy operates. The Committee reviews base salaries annually with any change typically effective from 1 April.</p> <p>The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate. When determining base salaries and whether to increase levels the Committee will take the following into consideration:</p> <ul style="list-style-type: none"> — the performance of the individual Executive Director; — the individual Executive Director's experience and responsibilities; — the impact on fixed costs of any increase; — pay and conditions throughout the Group; and — the economic environment. <p>When setting the salary levels for the Executive Directors, in addition to the factors summarised above, salary levels paid by companies of a similar size and complexity to Mears are taken into account.</p>	<p>The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take into account relevant market movements.</p>	Not applicable.

Report of the Remuneration Committee continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Pension To provide a framework to save for retirement that is appropriately competitive.	The Company may contribute directly into an occupational pension scheme (an Executive Director's personal pension) or pay a salary supplement in lieu of pension. If appropriate, a salary sacrifice arrangement can apply. Only the base salary is pensionable.	The current Executive Directors receive a contribution of up to 15% of salary. Any new Executive Director appointments to the Board after 1 January 2020 will receive a pension contribution (in percentage of salary terms) in line with the prevailing contribution for the majority of the Mears workforce. 2020 will receive a pension contribution (in percentage of salary terms) in line with the prevailing contribution for the majority of the Mears workforce.	Not applicable.
Annual bonus To reward and incentivise the achievement of annual targets linked to the delivery of the Company's strategic priorities for the year.	<p>Bonus measures and targets are reviewed annually and any payout is determined by the Committee after the end of the financial year, based on performance against targets set for the one-year financial period.</p> <p>Up to 67% of any bonus that becomes payable is paid in cash with the remainder deferred into shares for three years.</p> <p>Deferred bonus share awards typically vest subject to continued employment.</p> <p>Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends which would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis.</p> <p>In the event that there was (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions that was based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events; malus and/or clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award.</p>	Maximum bonus potential is capped at 100% of salary for Executive Directors.	<p>Bonus performance measures are set annually and will be predominantly based on challenging financial targets set in line with the Group's strategic priorities and tailored to each individual role as appropriate; for example, targets relating to adjusted earnings. For a minority of the bonus, strategic or operational objectives may operate.</p> <p>The Committee has the discretion to vary the performance measures used from year to year depending on the strategic priorities at the start of each year. Details of the performance measures for the relevant financial year will be provided in the Annual Report on Remuneration and actual targets will be disclosed retrospectively.</p> <p>For financial targets, and where practicable in respect of operational or strategic targets, bonus starts to accrue once the threshold target is met (up to 20% payable) rising on a graduated scale to 100% for stretch performance.</p> <p>The Committee may adjust bonus outcomes, based on the application of the bonus formula set at the start of the relevant year, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the year. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual Report on Remuneration.</p>

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Benefits To provide benefits that are valued by the recipient and are appropriately competitive.	The Executive Directors may receive benefits including a Company-provided car or an allowance in lieu, life assurance and private medical insurance. Other additional benefits may be provided where appropriate. Benefits in kind are not pensionable.	Benefit values vary year on year depending on premiums and the maximum potential value is the cost of these provisions.	Not applicable.
Long-term incentive plan Its purpose is to incentivise and reward the delivery of strategic priorities and sustained performance over the longer term. To provide greater alignment with shareholders' interests.	<p>The LTIP provides for awards of free shares (i.e. either conditional shares or nil or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. It is anticipated that the first award under this scheme for current Directors will be made in 2021.</p> <p>Vested awards are subject to a two-year post-vesting holding period. In exceptional circumstances such as due to regulatory or legal reasons, vested awards may also be settled in cash.</p> <p>Dividend equivalent payments may be made on vested LTIP awards and may assume the reinvestment of dividends, on a cumulative basis.</p> <p>In the event that there was (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events, malus and/or clawback provisions may apply for three years from an award becoming eligible to vest.</p>	<p>In any financial year, performance shares with a face value of up to 100% of salary (or 150% of salary on an exceptional basis, such as in recruitment cases) may be granted to an Executive Director.</p> <p>The actual grant level will take into account the share price performance of the Group and the number of awards made in previous years.</p> <p>The actual grant level will take into account the share price performance of the Group and the number of awards made in previous years.</p>	<p>The Committee may set such performance conditions on LTIP awards as it considers appropriate reflecting the medium-term priorities of the Group. The choice of measures and their weightings will be determined prior to each grant.</p> <p>Up to 25% of awards will vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels.</p> <p>The Committee may adjust LTIP vesting outcomes, based on the result of testing the performance condition, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the three-year performance period. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual Report on Remuneration.</p>
All-employee share plans Encourages employees to own shares in order to increase alignment over the longer term.	<p>All employees are eligible to participate in the Company's Share Incentive Plan (SIP) and share save plan (Save As You Earn).</p> <p>Under the terms of the share save plan, all employees can apply for three or five-year options to acquire the Company's shares priced at a discount of up to 20%.</p> <p>Under the terms of the SIP, the Company can choose to offer free shares, partnership shares, matching shares (up to two for one on any partnership shares purchased) and/or dividend shares.</p> <p>In addition, the Company operates a discretionary unapproved share plan and a Company Share Option Plan (CSOP). No awards to Executive Directors are proposed under these plans.</p>	<p>Under the SIP, share save plan and CSOP, the maximum amount is equal to the HMRC limits set from time to time.</p>	Not applicable.

Report of the Remuneration Committee continued

ILLUSTRATIONS OF APPLICATION OF REMUNERATION POLICY

The Company's Remuneration Policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The composition and total value of the Executive Directors' remuneration packages for minimum, on-target and maximum performance scenarios, along with a maximum performance scenario with a share price growth assumption included, are set out in the graph below.

ASSUMPTIONS:

- Minimum performance includes only fixed pay (base salary for 2022, the value of 2021 benefits as per the single figure of remuneration table and a 15% salary pension contribution).
- On-target performance includes fixed pay and assumes an annual bonus payout of 50% of maximum and 25% vesting of a 100% of salary grant of LTIP awards.
- Maximum performance includes fixed pay and assumes full bonus and 100% LTIP vesting.
- Maximum performance with share price growth as per maximum but with 50% share price growth assumed on LTIP awards.

CHAIR AND NON-EXECUTIVE DIRECTOR FEES

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors, other than the Chair, whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the Policy for the Chair and Non-Executive Directors.

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
To provide compensation that attracts individuals with appropriate knowledge and experience.	<p>Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors. The fees paid to the Chair and the fees of the other Non-Executive Directors aim to be competitive with other listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity.</p> <p>Non-Executive Directors receive a base fee and additional responsibility fees for undertaking the role of Senior Independent Director or for membership and/or chairmanship of certain Committees.</p> <p>In exceptional circumstances, if there is a temporary yet material increase in the time commitment for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload involved.</p> <p>The Chair receives a single fee and does not receive any additional fees for membership and/or chairmanship of Committees.</p> <p>Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred through undertaking their duties and/or Company business.</p>	<p>Any increase in Non-Executive Director base fees or additional responsibility fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities. The Company will pay reasonable expenses incurred by Non-Executive Directors.</p> <p>Current fee levels are set out in the Statement of Implementation on page 95.</p>	<p>Non-Executive Director fees are not performance related. Non-Executive Directors do not receive any variable remuneration element.</p>

Report of the Remuneration Committee continued

ANNUAL REPORT ON REMUNERATION

This section of the Directors' Remuneration Report contains details of how the Company's Directors' Remuneration Policy was implemented during the financial year ended 31 December 2021 and how it will be implemented for the following year.

SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED) EXECUTIVE DIRECTORS

The remuneration of Executive Directors showing the breakdown between elements and comparative figures is set out below. Figures provided have been calculated in accordance with the regulations.

Executive Director (£'000)	Year	Salary ¹	Taxable benefits ¹	Pension ²	Fixed pay and benefits sub-total	Annual bonus ³	Long-term incentives	Variable pay sub-total	Total remuneration
D J Miles	2021	400	25	60	485	353	–	353	838
	2020	393	26	59	477	123	–	123	600
A C M Smith	2021	267	11	40	318	235	–	235	553
	2020	262	9	39	310	82	–	82	392
A Long	2021	218	11	33	262	193	–	193	455
	2020	214	15	32	261	67	–	67	328

1 Benefits included a Company-provided car or an allowance in lieu, life assurance and private medical insurance.

2 Executive Directors received a cash allowance in lieu of pension.

3 Full details of the annual bonus outcomes are set out in the section below.

ADDITIONAL DETAILS IN RESPECT OF SINGLE TOTAL FIGURE OF REMUNERATION TABLE (AUDITED)

The performance measures and targets for the annual bonus for the year ended 31 December 2021 are detailed below.

The annual bonus measures chosen for 2021 were dependent upon achievement of a number of targets detailed below; 70% of the annual bonus was linked to financial measures with the remaining 30% based on strategic objectives relating to customer satisfaction, employee engagement and monetary social value generated. The actual performance achieved in respect of the annual bonus for 2021 is also summarised below against each target.

Measure	Weighting (% of salary)	Threshold (% of maximum payable)	Maximum (% of maximum payable)	Threshold target for 2021	Maximum for 2021	Actual performance for 2021	Bonus outcome (% of salary)
Adjusted Group operating profit ⁽ⁱ⁾	40%	20%	100%	£23.1m	£28.1m	£26.5m	30%
Average daily net debt ⁽ⁱⁱ⁾	30%	20%	100%	£64.4m	£43.9m	(£0.5m)	30%
Customer satisfaction ⁽ⁱⁱⁱ⁾	10%	20%	100%	n/a	n/a	Achieved, see below	10%
Employee engagement; Sunday Times, Best Big Companies score (January 2022) ^(iv)	10%	20%	100%	659.2	675	671	8%
Creation of social value ^(v)	10%	20%	100%	£2,540	£2,794	£2,800	10%

(i) Adjusted Group profit before tax is stated before the amortisation of acquisition intangibles and non-underlying items. It is assessed on all activities comprising a PBT of £25.6m on continuing activities, additional fair value of £1.1m from the sale of Terraquest during 2021, and a loss of £0.2m in respect of the discontinued Care activities.

(ii) Average daily net debt is derived from 365-day average bank statement balance. The outcome for the year was a positive cash average daily cash position.

(iii) The Customer satisfaction criterion was assessed differently this year as a result of the pandemic impacting upon our interaction with the client. Mears has adopted alternative methods of working since the onset of covid-19, with the primary focus being on ensuring the safety of our employees, customers, and service-users. Ultimately, the accident frequency rate which includes all measures with regard our working practices and provisions of delivering essential services throughout the pandemic, it is the most relevant measure of success in 2021. The Group reported an AFR of 0.19 (ahead of target of 0.24).

(iv) The employee engagement measure is set against the overall score awarded to the Group by the Sunday Times in the Best Companies awards.

(v) Social value is independently assessed utilising a social value measurement tool and is expressed as an amount generated per employee.

The annual bonus mechanism resulted in an aggregate bonus entitlement across the three Executive Directors of £767,000 which is included within the single total figure of remuneration. Two-thirds of this entitlement is paid in cash and one-third of the bonus entitlement will be deferred in shares for a period of three years.

NON-EXECUTIVE DIRECTORS' SINGLE FIGURE

The remuneration of Non-Executive Directors showing the breakdown between elements and comparative figures is shown below. Figures provided have been calculated in accordance with the regulations.

Chairman and Non-Executive Director (£'000)	Year	Salary/fees ¹	Taxable benefits	Pension	Fixed pay sub-total	Annual bonus	Long-term incentives	Variable pay sub-total	Total remuneration
K Murphy	2021	160	–	–	160	–	–	–	160
K Murphy	2020	147	–	–	147	–	–	–	147
J Urwin	2021	63	–	–	63	–	–	–	63
J Urwin	2020	55	–	–	55	–	–	–	55
J Clarke	2021	68	–	–	68	–	–	–	68
J Clarke	2020	52	–	–	52	–	–	–	52
C Loughlin	2021	70	–	–	70	–	–	–	70
C Loughlin	2020	56	–	–	56	–	–	–	56
C Gibbard ³	2021	56	–	–	56	–	–	–	56
C Gibbard ³	2020	23	–	–	23	–	–	–	23
G Davies ¹	2021	38	–	–	38	–	–	–	38
G Davies ¹	2020	69	–	–	69	–	–	–	69
J Burt ¹	2021	–	–	–	–	–	–	–	–
J Burt ¹	2020	18	–	–	18	–	–	–	18
A Hillerby ²	2021	–	–	–	–	–	–	–	–
A Hillerby ²	2020	1	–	–	1	–	–	–	1
R Irwin ¹	2021	43	–	–	43	–	–	–	43
R Irwin ¹	2020	78	–	–	78	–	–	–	78
C Gibbard ³	2021	56	–	–	56	–	–	–	56
C Gibbard ³	2020	23	–	–	23	–	–	–	23

Variances between the figures above and the approved fee rates relate to the part-year impact for changes in the Committee membership.

- 1 J Burt stepped down from the Board in March 2020.
- 2 A Hillerby stepped down from the Board in February 2020.
- 3 R Irwin and G Davies stepped down from the Board in June 2021.
- 4 To reflect the challenges the business encountered during the Covid-19 lockdown, the Non-Executive Directors elected to take a 20% reduction in fees between April and October 2020.

SHARE AWARDS MADE DURING THE YEAR

The following LTIP awards were granted on 10 June 2021:

Director	Face value as % of salary	Face value ¹	Number of shares	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
D J Miles	100%	£402,444	213,876	25%	100%	31 March 2023
A C M Smith	100%	£268,332	142,603	25%	100%	31 March 2023
A Long	100%	£219,544	116,675	25%	100%	31 March 2023

- 1 The face value of the awards is based on a share price of £188.2p, being the 3-day average share price directly prior to the grant of the award.

Report of the Remuneration Committee continued

The awards have been granted in the form of nominal cost options and will normally become exercisable on 10 June 2024. Awards may become exercisable subject to the achievement of relative TSR (50%) and EPS (50%) performance conditions

Description	Weighting	Calculation	Targets
Total shareholder return	50%	Relative TSR versus the constituents of the FTSE SmallCap (excluding investment trusts, financial services and natural resources companies) measured over a three-year performance period.	Threshold: Median (25% vests) Maximum: Upper Quartile (100% vests)
Earnings per share	50%	Adjusted EPS target relating to the 2023 financial year. None of this part of the award will vest if 2023 EPS is less than 20 pence; 25% shall vest for EPS of 20 pence, increasing to full vesting for 25 pence or higher. The Committee will consider ROCE performance over the performance period and may reduce the EPS vesting outcome if the Committee is not satisfied that the level of EPS vesting is justified on account of the Group's ROCE over the performance period.	Threshold: 20 pence (25% vests) Maximum: 25 pence (100% vests)

In addition, the Committee retains discretion to reduce the overall LTIP vesting level if it considers that the underlying business performance of the Company does not justify vesting (taking into consideration a range of factors, including, for example, ROCE performance). If the Committee is not satisfied that the formulaic vesting outcome is aligned with underlying Group performance then it may reduce (potentially to zero) the vesting outcome. Awards granted to Executive Directors are additionally subject to a two-year holding period following the vesting date.

Awards granted to Executive Directors are additionally subject to a two-year holding period following the vesting date.

The following deferred bonus share awards were granted during the year in respect of bonus earned for performance in the 2020 financial year:

Director	Date of grant	Number of deferred shares granted ¹	Vesting date
D J Miles	10 June 2021	32,245	10 June 2024
A C M Smith	10 June 2021	21,499	10 June 2024
A Long	10 June 2021	17,590	10 June 2024

¹ The face value of the awards is based on a share price of 188.2p, being the 3-day average share price directly prior to the grant of the award.

Awards were granted in the form of nominal cost options.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

Directors' share interests as at 31 December 2021 are set out below:

Director	Number of beneficially owned shares	Options vested but not exercised	Options subject to performance conditions	Unvested deferred bonus awards	Total interests held at year end	Shareholding guideline met?
D J Miles	336,769	–	213,875	32,245	582,890	173% of salary; guideline not met
A C M Smith	199,333	–	142,603	21,499	363,435	155% of salary; guideline not met
A Long	92,957	–	116,675	17,590	227,222	95% of salary; guideline not met

There were no changes to the holdings set out above from the period 31 December 2021 to date of sign off.

No Non-Executive Director holds an interest in shares.

The current Executive Directors each have a shareholding requirement of 400% of salary. As at 31 December 2021, based on beneficially owned shares and deferred bonus awards (on a net of tax basis), D J Miles, A C M Smith and A Long had shareholdings equal to 173%, 155% and 95% of their base salaries (based on a share price of £1.88).

SHAREHOLDER DILUTION

In accordance with the Investment Association's guidelines, the Company can issue a maximum of 10% of its issued share capital in a rolling 10-year period to employees under all its share plans. In addition, of this 10% the Company can issue 5% to satisfy awards under discretionary or Executive plans. The Company operates all its share plans within these guidelines.

PERFORMANCE GRAPH AND TABLE (UNAUDITED)

The graph below shows the Group's performance, measured by TSR, compared with the constituents of the FTSE All-Share Index and the FTSE All-Share Support Services Index over the past 10 years. The Company is a constituent of both indices and these peer groups are considered to provide relevant comparisons.

The table below shows the Chief Executive Officer's remuneration package over the past 10 years, together with incentive payout/vesting as compared to the maximum opportunity.

Year	Name	Single figure of total remuneration (£'000)	Bonus payout (as % maximum opportunity)	Long-term Incentive vesting (as % maximum opportunity)
2021	D J Miles	838	88%	-
2020	D J Miles	600	47%	-
2019	D J Miles	469	-	-
2018	D J Miles	455	-	-
2017	D J Miles	443	-	-
2016	D J Miles	436	-	-
2015	D J Miles	436	-	20%
2014	D J Miles	412	-	35%
2013	D J Miles	825	-	100%
2012	D J Miles	409	-	-
2011	D J Miles	384	-	-

Report of the Remuneration Committee continued

PERCENTAGE CHANGE IN REMUNERATION OF DIRECTORS COMPARED WITH OTHER EMPLOYEES (UNAUDITED)

The table below compares the percentage change in the remuneration of the Directors with that of the wider employee population for the last two years.

	Remuneration					
	Salary/fee		Benefits		Bonus/incentives	
	2021	2020	2021	2020	2021	2020
D J Miles	2.0%	2.0%	(4%)	~	187%	~
A C M Smith ¹	2.0%	2.0%	22%	~	187%	~
A Long	2.0%	2.0%	(27%)	~	187%	~
K Murphy	~	~	~	~	~	~
G Davies ¹	~	~	~	~	~	~
J Unwin	~	~	~	~	~	~
R Irwin ¹	~	~	~	~	~	~
C Loughlin	~	~	~	~	~	~
J Clarke	~	~	~	~	~	~
C Gibbard ²	2.0%	2.0%	~	~	~	~
All employees' salaries	2.0%	2.0%	~	~	~	~

- 1 G Davies, R Irwin stepped down from the Board in June 2021. Percentage change calculation includes part-year remuneration in 2021.
- 2 R Irwin stepped down from the Board on 1 June 2021. Percentage change calculation includes part-year remuneration in 2021.
- 3 Percentage change in Non-Executive Director fees is adjusted to exclude the voluntary election in 2020 to take a 20% reduction in fees between April and October 2020 to reflect the challenges faced by the business from Covid-19. The percentage change reflects any change in entitlement as compared to the actual remuneration received.

CEO TO EMPLOYEE PAY RATIO (UNAUDITED)

The table below sets out the ratio between the total pay of the CEO and the total pay of the employees at the 25th, 50th (median) and 75th percentiles of the workforce.

Year	Method	25th percentile	Median	75th percentile
2021	B	29.7	27.8	22.1
2020	B	23.1	21.1	19.1

The 25th, 50th and 75th percentile ranked individuals have been identified using the gender pay gap survey data for 2020, i.e. as allowed for under method B of the UK reporting requirements. This was deemed to be the most reasonable and practical approach to identifying the relevant individuals for the purposes of this disclosure. The day by reference to which the 25th, 50th and 75th percentile employees were determined was 22 March 2022. The CEO pay figure is the total remuneration figure as set out in the single figure table on page 90 and equivalent figures (on a full-time equivalent basis) have been calculated for the relevant 25th, 50th and 75th percentile employees. The Remuneration Committee is comfortable that the resulting calculations are representative of pay levels at the respective quartiles.

The total pay and benefits figures used to calculate the ratios for each of the 25th percentile, median and 75th percentile employees are £28,244, £30,146 and £37,870 respectively. The salary element for each of these figures are £27,616, £29,379 and £35,733 respectively.

RELATIVE IMPORTANCE OF SPEND ON PAY (UNAUDITED)

The table below sets out the relative importance of spend on pay in the financial year and previous financial year compared with other disbursements from profit.

	Disbursements from profit in financial year 2021	Disbursements from profit in previous financial year 2020	% change
Significant distributions	£'000	£'000	
Total Directors' pay	2,143	1,819	18%
Profit distributed by way of dividend*	8,675	~	~
Operating profit before non-underlying items (continuing activities)	33,686	6,585	511%

- * Profit distributed by way of dividend includes proposed final dividend of 5.50p per share.

Following the uncertainty surrounding Covid-19, the Board proposed that no dividend be paid in respect of the 2020 financial year. An interim dividend in respect of 2021 of 2.50p was paid to shareholders and the Directors recommend a final dividend of 5.50p per share.

DETAILS OF SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Director	Date of contract/letter of appointment	Notice period by Company or Director
Executive		
D J Miles	June 2008	Twelve months
A C M Smith	June 2008	Twelve months
A Long	August 2009	Twelve months
Chairman/Non-Executive		
K Murphy	January 2019	Six months
G Davies	October 2015	Six months
J Urwin	January 2016	Six months
R Irwin	February 2017	Six months
J Clarke	July 2019	Six months
C Loughlin	September 2019	Six months
C Gibbard	September 2020	Three months

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE (AUDITED)

There were no payments for loss of office or to past Directors during the year.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE 2022 FINANCIAL YEAR

Executive Directors

Base salary

The salary entitlements for the forthcoming year (which effective from 1 April of each year, and for the following 12-months) are set out below:

Executive Director	2022 £	2021 £	% change
D J Miles	404,044	402,444	0.4%
A C M Smith	269,932	268,332	0.6%
A Long	221,144	219,544	0.7%

The salary increase for 2022 is effective from 1 April 2022 and matches the general workforce increase of 4% applied on 1 April 2022, but capped at an increase of £1,600 for any single individual.

Pension

Details of pension contributions for the year ended 31 December 2021 are set out below:

Executive Director	Pension
D J Miles	15%
A C M Smith	15%
A Long	15%

The current Executive Directors' pension contribution rates will be reduced to the majority workforce rate of circa 6% of base salary from 1 January 2023. New Directors appointed to the Board will have a contribution no higher than the workforce rate on joining.

Annual bonus 2022

The maximum bonus potential will be 100% of salary and will be dependent upon the following performance measures:

- Profit before tax (40%)
- Net debt (30%)
- Strategic objectives (30%) relating to customer satisfaction (10%), employee engagement (10%) and monetary social value generated (10%)

These strategic objectives, which will be built around the Group's strategy for customer success and supported by our independently chaired Customer Scrutiny Board, reflect the Group's commitment to serving our clients and customers; to further developing our social value offer to add value in the communities we serve; and to securing high levels of positive employee engagement through net promoter scores and validation by external accreditation.

In addition, health and safety will apply as a discretionary underpin and, before any bonus becomes payable, the Committee will consider health and safety performance over the year and will have the power to reduce the bonus outcome if standards are below expectations.

Any bonus payable will be delivered in a mix of cash (67%) and deferred share awards (33%) which will vest after three years from grant.

Report of the Remuneration Committee continued

LTIP for 2022

The second LTIP award under the new plan adopted as part of the Directors' Remuneration Policy at the 2020 AGM will be made in 2022. It is intended that awards will be made at 100% of salary to each of the Executive Directors. The measures and targets will be as follows:

Description	Weighting	Calculation	Targets
Total shareholder return	50%	Relative TSR target against the constituents of the FTSE SmallCap (excluding investment trusts, financial services and natural resources companies) measured over a three-year performance period.	Threshold: Median (25% vests) Maximum: Upper Quartile (100% vests)
Earnings per share	50%	Adjusted EPS target relating to the 2024 financial year i.e. the third year of the three-year performance period. The Committee will consider ROCE performance over the performance period and may reduce the EPS vesting outcome if the Committee is not satisfied that the level of EPS vesting is justified on account of the Group's ROCE over the performance period.	Threshold: 21 pence (25% vests) Maximum: 24 pence (100% vests)

The Remuneration Committee believes the use of TSR and EPS provides an appropriate balance between focusing on share price recovery and delivering financial returns.

Vesting will be on a pro-rata basis between the threshold and maximum vesting figures. In addition, the Committee retains discretion to reduce the overall LTIP vesting level if it considers that the underlying business performance of the Company does not justify vesting (taking into consideration a range of factors, including, for example, ROCE performance). If the Committee is not satisfied that the formulaic vesting outcome is aligned with underlying Group performance then it may reduce (potentially to zero) the vesting outcome.

Any shares which vest from this award will be subject to a two-year post-vesting holding period.

Non-Executive Directors

The following table sets out the fee rates for the Non-Executive Directors (which effective from 1 April of each year, and for the following 12-months):

	2022	2021	% change
Chairman fee	161,600	160,000	1%
Base fee	51,600	50,000	3.2%
Committee Chairman fee	15,000	15,000	–
Committee membership fee	5,000	5,000	–

The salary increase for 2022 is effective from 1 April 2022 and matches the general workforce increase of 4% applied on 1 April 2022, but capped at an increase of £1,600 for any single individual.

ROLE OF THE COMMITTEE AND ACTIVITIES

The Committee determines the total individual remuneration packages of each Executive Director of the Group and certain other senior employees (and any exit terms) and recommends to the Board the framework and broad policies of the Group in relation to Senior Executive remuneration. The Committee determines the targets for all of the Group's performance related remuneration and exercises the Board's powers in relation to all of the Group's share and incentive plans. The terms of reference of the Committee are available on the Company's website.

There is a formal and transparent procedure for developing policy on Executive remuneration and for determining the remuneration of individual Directors.

The Remuneration Committee is responsible for:

- determining and agreeing with the Board the broad Remuneration Policy for:
 - the Chairman, the Executive Directors and senior management; and
 - the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options; and
- approving the service agreements of each Executive Director, including termination arrangements.

No Director is involved in determining his/her own remuneration.

During the year the Committee addressed the following main topics:

- Undertook a comprehensive review of Executive Directors' remuneration which culminated in the preparation of a revised Remuneration Policy which was put to shareholders for approval at the 2020 AGM.
- Reviewed the pension contributions of the Executive Directors to align the contributions to the workforce level by 1 January 2023.
- Sought the views of our major shareholders and the main voting agencies as part of a comprehensive investor consultation exercise to inform the design process for the revised Policy which was approved at the 2021 AGM.
- Reviewed guidance from investor bodies and institutional shareholders.
- Assessed whether our remuneration framework is appropriately aligned with our culture and values, and motivates our leaders to achieve the Group's strategic objectives.
- Reviewed and approved the remuneration packages for our current Executive Directors.
- Finalised the annual bonus payments for the 2020 financial year to the Executive Directors (which included the exercise of negative discretion to reduce the formulaic outcome from 86% of maximum to 46% and the annual bonus plan for the 2021 financial year.

COMPOSITION OF THE REMUNERATION COMMITTEE

The members of the Committee during the year were Chris Loughlin (Chair), Julia Unwin, Jim Clarke and Kieran Murphy. Roy Irwin stepped down from the Board and the Committee in June 2021.

SUPPORT TO THE REMUNERATION COMMITTEE

By invitation of the Committee, meetings are also attended by the Company Secretary (who acts as secretary to the Committee) and the HR Director, who are consulted on matters discussed by the Committee, unless those matters relate to their own remuneration. The Committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers. During the year, the Committee was assisted in its work by FIT Remuneration Consultants LLP. FIT was appointed in 2019 following a tender process and has provided advice in 2021 in relation to general remuneration matters and the review of the Remuneration Policy. Fees paid to FIT in relation to advice to the Committee in 2021 were £44,398 (excluding VAT). FIT did not provide any other services to the Company. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it received from FIT is objective and independent.

STATEMENT OF VOTING AT GENERAL MEETING

The table below shows the voting outcome in respect of the remuneration related resolutions at the 2021 AGM.

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Remuneration Policy	70,850,552	77%	21,665,055	23%	1,788,687

The significant vote against the Annual Report on Remuneration at the 2021 AGM was primarily as a result of the dissatisfaction with the performance of the Company – at that time – of a small number of significant shareholders. The Remuneration Committee engaged in extensive consultation with shareholders over the application of the Remuneration Policy during the year and refined the application of that Policy in line with the feedback received. The Committee also engaged with shareholders ahead of the AGM and endeavoured to explain the context around its application of the Policy. Given the range of views which were expressed by shareholders, it was not practicable to reflect them all in designing the terms to apply the Policy. The Committee recognises the need to continue to engage with shareholders over the coming year and will do so, in addition to continuing to monitor evolving views and market practice.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of a range of outsourced services to the public and private sectors. The principal activity of the Company is to act as a holding company.

BUSINESS REVIEW

The Company is required to set out a fair review of the business of the Group during the reporting period. The information that fulfils this requirement can be found in the Strategic Report, Chief Executive Officer's review and Financial review. The results of the Group can be found within the consolidated income statement. Information required to be disclosed in respect of emissions and future developments is included within the Strategic Report.

DIVIDEND

No dividend has been declared in respect of 2020. Following the impact on the business from the Covid-19 pandemic, the Board took steps to protect its liquidity and is grateful for the strong support of the majority of shareholders for the actions taken by the Directors during this period of uncertainty.

An interim dividend in respect of 2021 of 2.50p was paid to shareholders in October 2021. The Directors recommend a final dividend of 5.50p per share for payment in June 2022. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2021.

CORPORATE GOVERNANCE

Details of the Group's corporate governance are set out on pages 64 to 97.

KEY PERFORMANCE INDICATORS

We focus on a range of key indicators to assess our performance. Our performance indicators are both financial and non-financial and ensure that the Group targets its resources around its customers, employees, operations and finance. Collectively they form an integral part of the way that we manage the business to deliver our strategic goals. Our primary performance indicators are detailed on pages 26 and 27.

DIRECTORS

The present membership of the Board is set out with the biographical detail on pages 66 and 67.

Roy Irwin and Geraint Davies did not offer themselves for re-election at the 2021 AGM and ceased to be Directors in June 2022.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM in June 2022. Any person appointed by the Directors must retire at the next AGM but will be eligible for re-election at that meeting.

The beneficial interests of the Directors in the shares of the Company at 31 December 2021 are detailed within the Remuneration Report on page 92.

The process governing the appointment and replacement of Directors is detailed within the Report of the Nominations Committee.

AMENDMENT TO ARTICLES OF ASSOCIATION

The Company's Articles of Association can be amended only by a special resolution of the members, requiring a majority of not less than 75% of such members voting in person or by proxy.

SHARE CAPITAL AUTHORISATIONS

The 2021 AGM held in June 2021 authorised:

- the Directors to allot shares within defined limits. The Companies Act 2006 requires directors to seek this authority and, following changes to Financial Services Authority (FSA) rules and Institutional guidelines, the authority was limited to one third of the issued share capital, a total of £369,606 plus an additional one third of issued share capital of £369,606 that can only be used for a rights issue or similar fundraising;
- the Directors to issue shares for cash on a non-pre-emptive basis. This authority was limited to 5% of the issued share capital of £55,440 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- the convening of general meetings (other than an AGM) on 14 days' notice. Section 307A of the Companies Act 2006 provides that listed companies must hold general meetings (other than annual general meetings) on 21 days' notice unless the members of that company pass a special resolution agreeing to a shorter notice period which cannot be any less than 14 clear days. It is therefore necessary for the Company to pass this resolution allowing the Company to continue to hold general meetings (other than annual general meetings) on not less than 14 clear days' notice.

Further details of these authorisations are available in the notes to the 2021 Notice of AGM. Shareholders are also referred to the 2022 Notice of AGM, which contains similar provisions in respect of the Company's equity share capital.

AGM

The 2022 AGM will be held on 17 May 2022. A formal Notice of Meeting and Form of Proxy will be issued in advance. The ordinary business to be conducted will include the reappointment of all Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk is an accepted part of doing business. The Group's financial risk management is based on sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail within the Corporate Governance Statement. The key risks and mitigating factors are set out on pages 50 to 54. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 23 to the financial statements.

CONTRACTS OF SIGNIFICANCE

The Group is party to significant contracts. The Directors do not consider that any one of those contracts is essential in its own right to the continuation of the Group's activities. As detailed within the Strategic Report on pages 62 and 63, the Directors completed a long-term assessment of the Group's financial viability and the loss of a number of key contracts was modelled as one possible downside scenario but the Group remained viable in such an event.

PAYMENT POLICY

The Company acts purely as a holding company and as such is non-trading. Accordingly, no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 33 days (2020: 59 days) of average supplies for the year.

CAPITAL STRUCTURE

The Group is financed through both equity share capital and debt. Details of changes to the Company's share capital are given in note 25 to the financial statements. The Company has a single class of shares – ordinary 1p shares – with no right to any fixed income and with each share carrying the right to one vote at the general meetings of the Company.

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution but such dividend cannot exceed the amount recommended by the Board.

SUBSTANTIAL SHAREHOLDINGS

As at 9 March 2022 the Company has been notified of, or is aware of, the shareholders holding 2% or more of the issued share capital of the Company. These shareholders are detailed on page 72.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

GHG EMISSIONS

The Group's carbon emissions data for the year is provided within the Task Force on Climate-related Financial Disclosures on pages 42 to 44.

EMPLOYEE INFORMATION AND CONSULTATION

The Group has received recognition under the 'Investors in People' award. The Group continues to involve its staff in the future development of the business. Information is provided to employees through a daily news email, a quarterly newsletter posted out to all staff, the Group website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

CREST

CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

GOING CONCERN

The Directors consider that, as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to at least 30 June 2023. When making this assessment, management considers whether the Group will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants applicable to those facilities, which will be measured at 30 June 2022, 31 December 2022 and 30 June 2023. At 31 December 2021, the Group had £70m of committed borrowing facilities, maturing in December 2025; however, no amount was drawn on the facility. The principal borrowing facilities are subject to covenants, as detailed within the Financial review section of the Strategic Report. The Strategic Report also details the principal risks and uncertainties and how the Group manages its risks. The Group has modelled its cash flow outlook for the period to 30 June 2023 and the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and that financial covenants will be met throughout the period, including the covenant tests at 30 June 2022 and 31 December 2022.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to £nil. The Directors have modelled a number of downside scenarios, which are covered in more detail in the Financial viability review section on pages 62 and 63. After making these assessments, the Directors consider any scenario or combination of scenarios that could cause the business to be no longer a going concern to be implausible. The Directors have a reasonable expectation that the Company and its subsidiaries 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.

AUDITOR

Ernst & Young LLP offers itself for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

By order of the Board

B Westran

Company Secretary

ben.westran@mearsgroup.co.uk

31 March 2022

Statement of Directors' responsibilities

The Directors are required to prepare the financial statements for the Company and the Group at the end of each financial year in accordance with all applicable laws and regulations. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether the consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS) and in conformity with the Companies Act 2006;
- state for the Company financial statements whether United Kingdom Accounting Standards and applicable law, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company to enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the consolidated financial statements, IFRSs. The Directors are also responsible for the system of internal control, for safeguarding the assets of the Group and the Company, and taking reasonable steps to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The Directors confirm that:

- so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board confirms that to the best of its knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

On behalf of the Board

A C M Smith
Chief Financial Officer
andrew.smith@mearsgroup.co.uk

31 March 2022

Financial statements

Independent auditor's report to the members of Mears Group PLC

OPINION

In our opinion:

- Mears Group PLC's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mears Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise:

Group	Parent company
Consolidated statement of profit or loss for the year then ended	Balance sheet as at 31 December 2021
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated balance sheet as at 31 December 2021	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement for the year then ended	
Consolidated statement of changes in equity for the year then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- testing the clerical accuracy of the model used to prepare the group's going concern assessment.
- assessing the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy. We evaluated the key assumptions underpinning the group's forecasts by proposing alternatives, reflecting the uncertainties arising from Covid-19 and the recent events in Ukraine, and challenging management's position.
- considering whether the group's forecasts in the going concern assessment were consistent with other forecasts used by the group in its accounting estimates, including goodwill impairment.
- challenging, based on our own independent analysis, whether the severe downside cases prepared by management could lead either to a loss of liquidity or a covenant breach and whether these scenarios were plausible. Our assessment included consideration of the impact and likelihood of management's scenarios as follows, including a combination of them:
 - the loss of significant customer contracts
 - future Covid-19 restrictions and the likelihood of government support in this respect
 - a performance failure on a major contract
- considering the mitigating actions that management could undertake in a severe but plausible downside scenario and challenging their feasibility.

Independent auditor's report to the members of Mears Group PLC continued

- Considering, independently, a "reverse stress-test" scenario that would lead to either a loss of liquidity or a covenant breach and concluding that such a scenario would be implausible based on evidence obtained and our understanding of the business. Our reverse stress-test scenario utilised management's scenarios and additionally incorporated that there would be no Government support in the forecast lockdown between October and December 2022.
- We also confirmed the cash position at 31 December 2021 by agreeing to confirmations received directly from the bank, as well as availability of debt facilities and considered their underlying terms, including covenants, by examination of executed documentation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 30 June 2023.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Audit scope	<ul style="list-style-type: none"> — We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 8 components. — The components where we performed full or specific audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Key audit matters	<ul style="list-style-type: none"> — Management override via topside adjustments posted to accruals and provisions through the financial statement close process and consolidation process — Appropriateness of lease accounting under IFRS 16 — Valuation of the Group and parent's defined benefit pension obligation and valuation of hard to value scheme assets — Appropriateness of revenue recognition including contract accounting, contract assets, and contract accruals — Intended disposal of Haydon Mechanical & Electrical LLC ("Haydon UAE")
Materiality	<ul style="list-style-type: none"> — Overall Group materiality of £1.1m which represents 5% of normalised profit before tax from continuing operations. We used professional judgment to determine materiality given the impact of Covid-19 on the group's relevant materiality measures.

AN OVERVIEW OF THE SCOPE OF THE PARENT COMPANY AND GROUP AUDITS

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 15 reporting components of the Group, we selected 10 components covering entities within the UK and 1 component based in the Channel Islands, which represent all the business units within the Group.

Of the 11 Group components selected, we performed an audit of the complete financial information of 3 components ("full scope components") which were selected based on their size or risk characteristics. For 8 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2020: 100%) of the Group's profit before tax, 100% (2020: 99%) of the Group's Revenue and 100% (2020: 91%) of the Group's Total assets. For the current year, the full scope components contributed 79% (2020: 56%) of the Group's profit before tax, 79% (2020: 88%) of the Group's Revenue and 82% (2020: 87%) of the Group's Total assets. The specific scope component contributed 21% (2020: 49%) of the Group's profit before tax, 20% (2020: 11%) of the Group's Revenue and 18% (2020: 4%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 4 components that together represent less than 1% of the Group's profit before tax, none are individually greater than 1% of the Group's profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit team.

Changes from the prior year

The total coverage from full and specific scope components was at similar levels to the prior year.

	2021	2020
Full scope	3	7
Specific scope	8	5
Remaining components	4	8
Total components	15	20

The reduction in components compared to the prior year (which included 1 in full scope, 3 in specific scope and 1 in remaining components) reflects 3 entities disposed of in 2020 and a rationalisation of components. The changes in the current year reflect 3 full scope entities in 2020 moving to specific scope in 2021, and 3 remaining components in 2020 moving to specific scope in 2021. This ensured that in assessing the risk of material misstatement we had adequate quantitative coverage of significant accounts in the Group Financial Statements.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

CLIMATE CHANGE

There has been increasing interest from stakeholders as to how climate change will impact Mears Group Plc. The Group has determined that the most significant future impacts from climate change on its operations will be from the need to move to an electric vehicle fleet for repairs and maintenance work, and the need for "retrofitting" of social housing to be compliant with climate-related measures (eg replacement of gas boilers). These are explained on pages 42-44 in the required Task Force for Climate related Financial Disclosures and on page 49 in the risk management section, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the Basis of Preparation note on page 117 of the accounts, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. Our audit effort in considering climate change was focused on ensuring that the effects of any material climate risks disclosed on pages 42 and 43 have been appropriately reflected in asset values where values are determined through modelling future cash flows and in the timing and nature of liabilities recognised. The Directors have assessed that there were no material impacts of climate change in determining asset and liability valuations and the timing of future cash flows to be incorporated into these accounts. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, the Group is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Mears Group PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Management override via topside adjustments posted to accruals and provisions through the FS close process and consolidation process</p> <p><i>Refer to the Accounting policies in Note 1 of the Consolidated Financial Statements (page 117)</i></p> <p>There is a level of complexity within the business which necessitates high volumes of manual journal entries, and top-side adjustments in preparing the consolidated financial statements. This increases the risk that management will post an erroneous journal that will materially affect the financial statements.</p> <p>There are also a number of provisions and accruals at year end that are based on management estimation.</p>	<p>We performed audit procedures over this risk area centrally, covering both full and specific scope components.</p> <p>We walked through the financial statement close and consolidation processes to assess the design and implementation of key controls.</p> <p>We independently verified the results and balances of the consolidated entities by agreeing the results and balances included in the consolidation directly to the audited results and balances for all full and specific scope components.</p> <p>We obtained an understanding of all material year-end financial statement close and consolidation journal entries posted and specifically tested a sample of the journals to supporting evidence.</p> <p>We have further tested journal entries throughout the audit process using our data analytics general ledger analyser tools to identify and investigate unusual items having considered criteria that we believed indicated a higher likelihood of material misstatement.</p> <p>We identified 3 journal source types that in our judgement may be more susceptible to management override. We assessed that size was an important factor in relation to the risk of management override and therefore tested all journals in these source types over £110,000 affecting accruals and provisions in the month of December 2021 as we assessed that there was greater risk of management override close to the year-end date.</p> <p>We also tested the same journal source types to the same threshold in January 2022 to understand if there were any unusual amendments which should have been reflected in the 2021 financial statements.</p> <p>We understood the nature and appropriateness of material round sum amounts in accruals and provisions at the year-end. We ensured we understood the reason for significant movements in provisions and accruals from the prior year and challenged management where there had been no movement. Our work included corroborating the year-end accruals and provisions to supporting information, looking back at prior year to assess management's ability to estimate and challenging the most significant assumptions.</p> <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team.</p>	<p>We conclude that based on the audit procedures performed, manual journal entries, top-side consolidation adjustments, judgemental provisions and accruals are appropriate.</p> <p>Our procedures did not identify any instances of management override of controls although we did identify that there is a need to improve internal review and approval processes.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Appropriateness of lease accounting under IFRS 16 (right of use assets Group 2021 £204.9m Group 2020 £200.0m, lease liabilities Group 2021 £216.9m, Group 2020 £209.1m, right of use assets Parent 2021 £21.4m Parent 2020 £19.1m, lease liabilities Parent 2021 £21.7m, Parent 2020 £18.9m)</p>	<p>We performed audit procedures over this risk area which covered 100% of the risk amount.</p>	<p>Based on our audit procedures performed we conclude the key estimates and judgments underpinning the IFRS 16 right of use assets and lease liabilities are appropriate and the disclosures within notes 15 and 20 are in accordance with the requirements of IFRS 16, Leases.</p>
<p><i>Refer to the Audit Committee Report (page 78); Accounting policies (page 134); and Note 15 and Note 20 of the Consolidated Financial Statements (pages 134 and 141 respectively)</i></p>	<p>Our procedures included:</p>	
<p>The accounting of IFRS 16 is complex and requires a number of estimates and judgements. The most significant estimate is the discount rate (Incremental Borrowing Rate, 'IBR') to apply to each lease. Key judgements are made when assessing whether leasing arrangements fall within the scope of IFRS 16 and in determining the appropriate lease term at the inception of the lease where leased assets are subject to extension or termination options. Further, the group has a high volume of leases, some of which are complex in nature, and the group uses a combination of manual bespoke excel modelling templates and an off the shelf software package to derive the ROU asset and lease liability values for the ROU asset categories.</p>	<p>Assessing management's process: We gained an understanding through a walkthrough of the process and controls management have in place over the completeness of IFRS 16.</p>	
	<p>Key estimate: We have assessed the appropriateness of the IBR by reviewing management's methodology. With the support of our Corporate Treasury specialists we reperformed the calculations and challenged their validity by comparing to observable market rates.</p>	
	<p>Key judgments: We challenged the key judgements and assumptions used by management in relation to assessing whether leasing arrangements fall within the scope of IFRS 16 and in determining the appropriate lease term at the inception of the lease where leased assets are subject to extension or termination options, by inquiring of management, inspecting Audit Committee and Board minutes, and selecting a sample of leases, inspecting the arrangement terms and reaching an independent opinion on the IFRS 16 accounting treatment.</p>	
	<p>Tests of detail: We assessed the completeness of the population of leases by selecting a sample of lease payments made during the year, and post year end, through to 31 January 2022, from the appropriate income statement general ledger codes (which includes all lease payments made during the year prior to the reversal of ROU assets), obtaining and inspecting a copy of the underlying lease contract and independently assessing whether management's lease identification basis is aligned with IFRS 16, by tracing the asset through to the correct ROU model/ensuring not included within any ROU models. Further, we obtained and inspected third party statements from the vehicle lessors and third party returns from those where the lease completion pathway sits outside of the immediate Mears function, and ensured that these reconciled to the underlying IFRS 16 lease data. We considered whether any reconciling difference may indicate a completeness issue.</p>	
<p>Due to the significant financial statement impact of IFRS 16, the high level of estimation and judgement required in determining the appropriate accounting treatment, and the manual modelling of the impact on some lease categories, we therefore identified IFRS 16 as a significant risk.</p>	<p>For a sample of leases, we assessed the measurement/valuation of the underlying lease data by checking the key inputs used in the models to original contract or other supporting data and recalculating the right of use asset and corresponding lease liability.</p>	
	<p>We interrogated the integrity and mechanical accuracy of the bespoke excel modelling templates used to derive the IFRS 16 journals for vehicles, residential property used directly in the business and some of the residential property sub-leased to customers, through the application of our EY AI Spreadsheet analyser which highlights, amongst other things, complex sheets, hardcoded items, inconsistencies in the logical design, unexpected formula changes, and by searching the models for potential duplicate assets.</p>	
	<p>During the year management transitioned the office leases and leases for some of the residential property sub-leased to customers from their bespoke manual excel models to an off the shelf lease accounting software package. We assessed the completeness and accuracy of the transition by reconciling the 2021 total opening position for each lease category to the 2020 total closing position and selecting a sample of leases and agreeing the key inputs from the underlying lease agreement to the lease accounting software package. The integrity and mechanical accuracy of the software package used to derive the IFRS 16 journals for office and MHM fixed leases was validated by independently calculating the cash flows for a sample of leases and comparing the output to the output from the software package.</p>	
	<p>We considered the adequacy of IFRS16 disclosures, including sensitivity of the lease liabilities to the key assumptions.</p>	
	<p>All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our valuation specialists.</p>	

Independent auditor's report to the members of Mears Group PLC continued

Risk

Valuation of the Group and parent's defined benefit pension obligation (Group 2021: net surplus £20.2m, 2020: net deficit £38.5m Parent 2021: net surplus £1.8m, 2020: net deficit £2.8m) and valuation of hard to value scheme assets (Group 2021: £419.3m, 2020: £421.3m, Parent 2021: £19.7m, 2020: £18.6m)

Refer to the Audit Committee Report (page 78), Accounting policies (page 150) and Note 28 of the Consolidated Financial Statements (page 150).

The Group operates a number of defined benefit pension schemes ('Group schemes') and is an admitted body of other defined benefit pension schemes ('LGPS').

Subjective valuation using complex actuarial assumptions:

A gross defined benefit pension liability of £434.9m was held at 31 December 2021 (2020: £501.4m) in respect of all defined benefit pension schemes. Small changes in the assumptions and estimates used to value the Group's and Parent's pension obligation (before deducting scheme assets) would have a significant effect on the carrying value of those pension obligations.

The effect of these matters is that, as part of our risk assessment, we determined that the Group's and Parent Company's pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 28) disclose the estimation uncertainty identified by the Group and company.

Valuation of defined benefit pension assets:

The fair value of the defined pension scheme assets in aggregate as at 31 December 2021 was £492.9m (2020: £473.9m). Judgement is applied in valuing the more complex level 2 and 3 Group schemes' assets, while the LGPS assets are estimated by rolling forward the published asset position from the previous year using market index returns over the period.

Our response to the risk

We performed audit procedures over this risk area centrally, which covered 100% of the risk amount.

Our procedures included:

We have understood management's process and methodology for calculating the pension liability for each scheme, including discussions with management's external actuaries, walkthrough of the processes, understanding the key inputs and the design and implementation of key controls. We performed a fully substantive audit approach rather than testing the operating effectiveness of key controls.

We have assessed the independence, objectivity and competence of the Group's external actuaries, which included understanding the scope of services being provided and considering the appropriateness of the qualifications of the external actuary.

With the support of our pension actuarial specialists, we assessed and challenged the appropriateness of the assumptions adopted by the Directors by comparing them to the expectations of our pension actuarial specialists which they had derived from broader market data.

We tested a sample of the membership data used by the actuaries to the Group's records. We directly confirmed the existence and valuation of pension scheme assets with asset managers and custodians for Group Schemes and analysed the movements on assets for LGPS. With the support of our valuation and actuarial specialists we independently challenged the valuation of hard to value scheme assets by performing detailed testing on a sample of level 2 and level 3 Group scheme's assets and the LGPS assets. We identified market indices that most accurately reflect the expected performance of the fund (based on the underlying investment/asset portfolio of the fund) for 2021. Using the suitable/relevant market index, we set an expectation of the performance of the fund in order to determine the expected value of the fund as at 31 December 2021. We then compared the expected value of the fund as at 31 December 2021 to the value as at 31 December 2021 as per the investment manager to determine whether this met our expectations.

We considered the adequacy of IAS 19 disclosures, including sensitivity of the obligation to the key assumptions.

All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our actuarial and valuation specialists.

Key observations communicated to the Audit Committee

The two Group Schemes and the LGPS all have different scheme liability durations. However, the financial assumptions have been set consistently across the Group Schemes and LGPS based on a weighted average duration of all Schemes. The salary increase assumption which is linked to RPI is optimistic. There is sufficient scope within the other assumptions which fall within a central range or have been assessed and set on an appropriate basis to offset this. As such, we conclude that overall management's actuarial assumptions are within an acceptable range.

We have noted below, for the assumptions that are assessed against a specific range, our ranges compared to management's assessment:

Discount rate: 1.70%-2.00% (Mears rate: 2.00%)

RPI inflation: 3.00%-3.70% (Mears rate: 3.00%)

We conclude that group scheme assets were under-valued based on external confirmations received. Management made adjustments to increase the group scheme asset values by £0.62m to reflect this. Our testing did not identify any other material misstatements.

We are satisfied with the adequacy of disclosure within the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Appropriateness of revenue recognition including contract accounting, contract assets and contract liabilities (Group revenue 2020: €373.4m, Group revenue 2020: €305.3m)</p>	<p>We performed audit procedures over this risk area which covered 100% of the risk amount.</p> <p>We performed walkthroughs of the revenue recognition process for all material revenue streams to assess the design and implementation of key controls.</p> <p>We used data analysis tools on 100% of revenue transactions in the year to test the correlation between revenue, trade debtors and cash receipts to verify the occurrence of revenue. We performed test of details on non-correlating entities by obtaining underlying supporting evidence and explanations for this correlation difference for a sample of revenue transactions to ensure that revenue had been appropriately recognised.</p> <p>We obtained the schedule of contract assets and selected a sample of contracts using the lower range of our testing threshold to include an element of unpredictability. We investigated the recoverability of contract assets balances by reference to post balance sheet cash collection, or obtaining the evidence from the work certified by the customer or Group's internal or independent quantity surveyor.</p> <p>For revenue recognised but not certified by the customer or Group's internal or independent quantity surveyor, we limited the reason for non-certification and challenged the recognition of contract assets and related revenue.</p> <p>We challenged the estimated contract cost to complete including obtaining evidence to support our independent conclusions where relevant (eg verifying the work orders issued to sub-contractors and challenging the estimation basis of overheads).</p> <p>We held meetings with the in-house legal counsel and reviewed the board meeting minutes to identify and assess the impact of any ongoing disputes in relation to the recoverability of the contract assets balances and challenged the management on the recoverability of such contract assets where they had been recognised.</p> <p>For a sample of contracts, where the forecasted margin is negative, we challenged management on the appropriateness of their directors' contracts provision.</p> <p>For a sample of customers, we obtained direct confirmations to verify their contract trade terms with Meats.</p> <p>We have obtained the schedule of contract liabilities and performed a recalculation of income recognised during the year and deferred at the year end, obtained supporting evidence for a sample of transactions and ensured that the revenue is recognised in accordance with IFRS 15.</p> <p>We selected a sample of revenue transactions recorded before and after year end to verify that the revenue had been recorded in the appropriate period.</p> <p>We selected a sample of credit notes issued after year-end and obtained documentation to verify that revenue adjustments at year end had been recorded appropriately.</p> <p>We assessed the adequacy of Group's disclosures in accordance with the requirements of IFRS 15.</p> <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team.</p>	<p>Key observations communicated to the Audit Committee:</p> <p>For the year to 31 December 2021, we conclude that based on the audit procedures performed, revenue transactions have been recognised appropriately. Our procedures did not identify instances of inappropriate management override in the recognition of revenue across the Group.</p> <p>We are satisfied with the adequacy of disclosure with the financial statements.</p>

Independent auditor's report to the members of Mears Group PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Intended disposal of Haydon Mechanical & Electrical LLC ("Haydon UAE")</p> <p><i>Refer to the Audit Committee report (page 79) and the Accounting policies basis of preparation (page 119)</i></p> <p>The 2016 annual report and accounts reflected Mears' intended disposal (during 2016) of 48% of its beneficial interest in the shares of Haydon Mechanical & Electrical Contracts LLC ("Haydon UAE") leaving Mears with a 1% interest. The legal owner of the shares is Haydon UK Limited ("Haydon UK"). It was brought to our attention in late 2021 that the transfer of shares from Haydon UK (and Mears' beneficial interest) to the intended acquirer did not complete as intended, due to a failure to complete all aspects of the required filing processes in the UAE, and therefore Mears has retained its full 49% beneficial interest in the shares of Haydon UAE.</p> <p>As a result of the failed share transfer, Mears continues to hold the right to control Haydon UAE (by virtue of its beneficial interest in the shares and powers set under the Memorandum of Association). We have therefore considered what the appropriate accounting is and whether any prior year adjustments result.</p>	<p>We performed audit procedures over this risk area which covered consideration of the key judgements relating to Mears' substantive right, and practical ability to control Haydon UAE and whether any liability should be recognised by Mears Group Plc in respect of claims lodged against the Haydon UAE entity.</p> <p>We have obtained and inspected relevant third party documentation and confirmed details to the company's analysis.</p> <p>We have challenged management's conclusions relating to their ability to control the Haydon UAE entity in the current and prior years and whether there is any further liability to be recognised or disclosed.</p> <p>With the support of EY Law Dubai, we have independently challenged management's judgements relating to the existence of operational, legal and regulatory barriers to exercising their right to control Haydon UAE.</p> <p>We have also independently considered, with advice from EY Law Dubai, the likelihood of any further liability arising on Mears from the Haydon UAE entity.</p> <p>We have confirmed all other disposals in the last 10 years have taken place as intended by checking current ownership details to independent third party information.</p> <p>We considered the adequacy of disclosure in the basis of preparation note in the accounts and considered whether any further disclosures in the accounts were required.</p> <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our EY Law specialists.</p>	<p>We conclude that whilst Mears has the right to control Haydon UAE, there are barriers preventing control and therefore the entity has not been consolidated. We have also concluded that Mears' exposure to any further liability is remote.</p> <p>We are satisfied that all other disposals made by Mears in the last 10 years have taken place as intended.</p> <p>As referred to in the Audit Committee Report (page 79) the failure to complete all necessary requirements for the disposal transaction to be effective highlighted a significant control deficiency.</p> <p>We are satisfied with the adequacy of disclosure within the financial statements.</p>

In the prior year, our auditor's report included key audit matters in relation to a) disposal accounting including recognition of profit on disposal and contingent consideration and b) first year audit transition including assessment of opening balances. In the current year, these weren't considered key audit matters since there were no disposals and this was the second year of our audit.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Materiality provides a basis for determining the nature and extent of our audit procedures. We determined materiality for the Group to be £1.1 million (2020: £1.1 million), which is 5% (2020: 4.75%) of normalised profit before tax from continuing operations. Materiality in 2021 was based on our judgement of normalised earnings of the Group from continuing operations. To form the basis of this assessment we have considered the average profit before tax from continuing operations for financial years 2018, 2019, 2021 and the forecast profit before tax for financial year 2022. Financial year 2020 was excluded due to the significant impact of Covid-19 on profit before tax from continuing operations.

We determined materiality for the Parent Company to be £1.1 million (2020: £1.1 million), which is 1% (2020: 1%) of net assets.

During the course of our audit, we reassessed initial materiality and adjusted our final materiality to reflect the final profit before tax for 2021.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £550,000 (2020: £550,000). We have set performance materiality at this percentage due to differences identified relating to both the current year and prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £55,000 to £412,500.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £55,000 (2020: £55,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report set out on pages 1 to 100, including the Strategic Report, set out on pages 1 to 63, Corporate Governance, set out on pages 64 to 100, and Shareholder information, set out on pages 168 to 169, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Independent auditor's report to the members of Mears Group PLC continued

CORPORATE GOVERNANCE STATEMENT

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 99;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 62 to 63;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 99;
- Directors' statement on fair, balanced and understandable set out on page 77;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 46 to 53;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 77; and;
- The section describing the work of the audit committee set out on pages 76 to 81.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 100, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS101 and the Companies Act 2006, the Financial Reporting Council (FRC) and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how Mears Group PLC is complying with those frameworks by reading internal policies and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Chair of the Audit Committee, the group's legal counsel and internal audit of any known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the programs and controls that the group has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud, how senior management monitor those programs and controls, evaluating conditions in the context of incentive and/or pressure to commit fraud, considering the opportunity to commit fraud and the potential rationalisation of the fraudulent act.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of senior management, including the Group Finance Director, Company Secretary and Chair of the Audit Committee. As well as attendance and enquiry at meetings, our procedures involved a review of minutes of board meetings, internal audit reports, and other committee minutes to identify any non-compliance with laws and regulations. We planned our audit procedures to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation. Further detail of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following the recommendation from the audit committee we were appointed by the Board of Directors of Mears Group PLC on 9 September 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. This appointment was approved by the shareholders at the annual general meeting on 29 June 2021. The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 December 2020 to 31 December 2021.
- The audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Mapleston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

31 March 2022

Ernst & Young LLP

Ernst & Young LLP (Jun 17, 2022 13:59 GMT+1)

Financial statements Consolidated statement of profit or loss For the year ended 31 December 2021

	2021	2020
Continuing operations	£'000	£'000
Sales revenue	878,420	805,817
Cost of sales	(687,933)	(649,530)
Gross profit	190,487	156,287
Administrative expenses	(156,940)	(162,563)
Operating profit/(loss)	23,547	(6,276)
Share of profits of associates	855	1,056
Finance income	835	293
Finance costs	(8,904)	(10,297)
Profit/(loss) for the year before tax	16,333	(15,218)
Tax (expense)/credit	(3,192)	3,207
Profit/(loss) for the year from continuing operations	13,141	(12,011)
Discontinued operations		
Profit from discontinued operations	940	56,933
Tax credit/(charge) on discontinued operations	182	(12)
Profit for the year after tax from discontinued operations	1,122	56,812
Profit for the year from continuing and discontinued operations	14,263	44,801
Attributable to:		
Owners of Mears Group PLC	14,119	44,519
Non-controlling interest	144	282
Profit for the year	14,263	44,801
Earnings per share – from continuing operations	11.72p	(10.66)p
Basic	11	11
Diluted	11.50p	(10.66)p
Earnings per share – from continuing and discontinued operations	12.73p	40.21p
Basic	12	11
Diluted	12.43p	40.21p

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Profit for the year		14,263	44,801
Other comprehensive income:			
Which will be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Cash flow hedges:			
— gains/(losses) arising in the year	23	1,023	(1,139)
— reclassification to the Consolidated Statement of Profit or Loss	23	(85)	354
(Decrease)/increase in deferred tax asset in respect of cash flow hedges	24	(178)	149
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Actuarial gain/(loss) on defined benefit pension scheme	28	59,721	(19,114)
Pension guarantee asset movements in respect of actuarial (gain)/loss	28	(19,018)	10,024
(Decrease)/increase in deferred tax in respect of defined benefit pension schemes	24	(8,809)	1,727
Other comprehensive income for the year		32,654	(7,999)
Total comprehensive income for the year		46,917	36,802
Attributable to:			
Owners of Mears Group PLC		46,773	36,520
Non-controlling interest		144	282
Total comprehensive income for the year		46,917	36,802
Total comprehensive income for the year attributable to owners of Mears Group PLC arises from:			
Continuing operations		45,651	(19,721)
Discontinued operations		1,122	56,241
Total comprehensive income for the year attributable to owners of Mears Group PLC		46,773	36,520

The accompanying accounting policies and notes form an integral part of these financial statements.

Financial statements

Consolidated balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current			
Goodwill	12	118,873	118,873
Intangible assets	13	6,610	15,205
Property, plant and equipment	14	20,712	23,600
Right of use assets	15	204,949	200,041
Investments	16	713	966
Loan notes	23	3,476	3,160
Contingent consideration	23	–	5,431
Pension and other employee benefits	28	37,651	7,068
Pension guarantee assets	28	12,975	30,705
Deferred tax asset	24	–	3,320
		405,959	408,369
Current			
Inventories	17	22,869	31,258
Trade and other receivables	18	148,305	139,884
Current tax assets		2,154	358
Cash and cash equivalents	23	54,632	96,220
		227,960	267,720
Total assets		633,919	676,089
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	25	1,109	1,109
Share premium account		82,265	82,225
Share-based payment reserve		1,313	1,312
Hedging reserve	23	–	(760)
Merger reserve		7,971	7,971
Retained earnings		107,578	63,536
Total equity attributable to the shareholders of Mears Group PLC		200,236	155,393
Non-controlling interest		802	658
Total equity		201,038	156,051
Liabilities			
Non-current			
Long-term borrowing and overdrafts	23	–	39,353
Pension and other employee benefits	28	16,995	45,653
Deferred tax liabilities	24	6,676	–
Interest rate swaps	23	–	462
Lease liabilities	20	176,290	166,183
Non-current provisions	22	3,800	3,667
		202,761	255,318
Current			
Trade and other payables	19	184,047	221,029
Interest rate swaps	23	–	459
Lease liabilities	20	41,600	42,888
Provisions	21	4,473	344
Current liabilities		230,120	264,720
Total liabilities		432,881	520,038
Total equity and liabilities		633,919	676,089

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 31 March 2021.

D J Miles
Director
Company number: 03232863

A C M Smith
Director

d j miles
d j miles (Jun 19, 2022 13:34 GMT+1)

andrew smith
andrew smith (Jun 19, 2022 21:11 GMT+1)

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Result for the year before tax		16,333	(15,218)
Adjustments	26	65,902	72,761
Change in inventories		12,944	4,787
Change in trade and other receivables		(2,244)	18,475
Change in trade, other payables and provisions		(32,573)	22,418
Cash inflow from operating activities of continuing operations before taxation		60,362	103,223
Taxes paid		(3,752)	41
Net cash inflow from operating activities of continuing operations		56,610	103,264
Net cash inflow from operating activities of discontinued operations	9	59	2,527
Net cash inflow from operating activities		56,669	105,791
Investing activities			
Additions to property, plant and equipment		(7,587)	(5,065)
Additions to other intangible assets		(1,182)	(1,717)
Proceeds from disposals of property, plant and equipment		46	17
Cash inflow in respect of property for resale		—	4,618
Loans repaid by related parties	31	500	10
Distributions from associates	16	1,108	—
Interest received		413	86
Net cash outflow from investing activities of continuing operations		(6,702)	(2,051)
Net cash inflow from investing activities of discontinued operations		500	54,612
Net cash (outflow)/inflow from investing activities		(6,202)	52,561
Financing activities			
Proceeds from share issue		40	4
Net cash movement in revolving credit facility		(40,000)	(84,694)
Discharge of lease liabilities		(40,258)	(39,958)
Interest paid		(8,844)	(10,056)
Dividends paid – Mears Group shareholders		(2,773)	—
Net cash outflow from financing activities of continuing operations		(91,835)	(134,704)
Net cash outflow from financing activities of discontinued operations	9	(220)	(489)
Net cash outflow from financing activities		(92,055)	(135,193)
Cash and cash equivalents, beginning of year		96,220	73,061
Net (decrease)/increase in cash and cash equivalents		(41,588)	23,159
Cash and cash equivalents, end of year		54,632	96,220
The Group considers its revolving credit facility to be an integral part of its cash management:			
— Cash and cash equivalents		54,632	96,220
— Revolving credit facility		—	(39,353)
Cash and cash equivalents, including revolving credit facility		54,632	56,867

The accompanying accounting policies and notes form an integral part of these financial statements.

Financial statements

Consolidated statement of changes in equity For the year ended 31 December 2021

	Attributable to equity shareholders of the Company							
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2020	1,105	82,224	2,421	(124)	12,956	19,840	(85)	118,337
Net result for the year	-	-	-	-	-	44,519	282	44,801
Other comprehensive income	-	-	-	(636)	-	(7,363)	-	(7,999)
Total comprehensive income for the year	-	-	-	(636)	-	37,156	282	(36,802)
Deferred tax on share-based payments	-	-	-	-	-	10	-	10
Issue of shares	4	1	-	-	-	-	-	5
Share options – value of employee services	-	-	1,029	-	-	-	-	1,029
Share options – exercised or lapsed	-	-	(2,138)	-	-	2,138	-	-
Non-controlling interest eliminated on disposal of subsidiary	-	-	-	-	-	-	(132)	(132)
Transactions with non-controlling interests	-	-	-	-	-	(593)	593	-
Transfer of realised profits	-	-	-	-	(4,985)	4,985	-	-
At 1 January 2021	1,109	82,225	1,312	(760)	7,971	63,536	658	156,051
Net result for the year	-	-	-	-	-	14,119	144	14,263
Other comprehensive income	-	-	-	760	-	31,894	-	32,654
Total comprehensive income for the year	-	-	-	760	-	46,013	144	46,917
Deferred tax on share-based payments	-	-	-	-	-	228	-	228
Issue of shares	-	40	-	-	-	-	-	40
Share options – value of employee services	-	-	575	-	-	-	-	575
Share options – exercised or lapsed	-	-	(574)	-	-	574	-	-
Dividends	-	-	-	-	-	(2,773)	-	(2,773)
At 31 December 2021	1,109	82,265	1,313	-	7,971	107,578	802	201,038

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements – Group

For the year ended 31 December 2021

1. ACCOUNTING POLICIES

Accounting policies are detailed in their respective notes, where relevant. Policies that are not specific to a particular note are detailed below.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted international accounting standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of contingent consideration, derivative financial instruments and share-based payments. They are presented in Sterling and all values are rounded to the nearest thousand (£'000).

The accounting policies remain unchanged from the previous year except for the modification of a number of standards with effect from 1 January 2021. The adoption of these amendments had no material effect on the Group's financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amounts, actual results may ultimately differ from those estimates. The most significant estimates made by management in these financial statements are set out in the accounting policies to which they relate.

Government and societal responses to climate change are still developing and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. There were no material impacts of climate change in determining asset and liability valuations and the timing of future cash flows to be incorporated into these financial statements.

Mears Group PLC is incorporated and domiciled in England and Wales (registration number 03232863). Its registered office and principal place of business is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH. Mears Group PLC's shares are listed on the Main Market of the London Stock Exchange.

Basis of consolidation

The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2021. Entities for which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is achieved where the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

All significant intercompany transactions and balances between Group enterprises, including unrealised profits arising from intra-group transactions, are eliminated on consolidation; no profit is taken on sales between Group companies.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement. Associates are entities over which the Group does not have control, but has significant influence. Investments in joint ventures and associates are accounted for using the equity method of accounting. Under this method, the Group's share of post-acquisition profits or losses is recognised in the Consolidated Statement of Profit or Loss; the cost of the investment in a given joint venture or associate, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included in investments within the Consolidated Balance Sheet.

Going concern

The Directors consider that, as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to at least 30 June 2023. When making this assessment, management considers whether the Group will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants applicable to those facilities, which will be measured at 30 June 2022, 31 December 2022 and 30 June 2023. At 31 December 2021, the Group had £70m of committed borrowing facilities, maturing in December 2025; however, no amount was drawn on the facility. The principal borrowing facilities are subject to covenants, as detailed within the Financial review section of the Strategic Report. The Strategic Report also details the principal risks and uncertainties and how the Group manages its risks. The Group has modelled its cash flow outlook for the period to 30 June 2023 and the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and that financial covenants will be met throughout the period, including the covenant tests at 30 June 2022 and 31 December 2022.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to £nil. The Directors have modelled a number of downside scenarios, which are covered in more detail in the Financial viability review section on pages 62 and 63. After making these assessments, the Directors consider any scenario or combination of scenarios that could cause the business to be no longer a going concern to be implausible. The Directors have a reasonable expectation that the Company and its subsidiaries 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.

Notes to the financial statements – Group continued

For the year ended 31 December 2021

1. ACCOUNTING POLICIES CONTINUED

Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Where applicable, the consideration for an acquisition includes any assets or liabilities arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information obtained up to one year from the acquisition date about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IFRS 9 in the Consolidated Statement of Profit or Loss.

For transactions with non-controlling parties that do not result in a change of control, the difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognised in equity.

Any business combinations prior to 1 January 2010 were accounted for in accordance with the standards in place at the time, which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Fair value

The Group measures certain assets and liabilities at fair value on a recurring basis, including its interest rate swaps, contingent consideration and assets in the Group's defined benefit pension schemes.

Trade and other receivables, trade and other payables and other loans are initially measured at fair value and are subsequently held at amortised cost. Other assets are measured at fair value when they are assessed for impairment or on classification as held for sale.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses valuation techniques that maximise the use of relevant observable inputs using the following valuation hierarchy, ordered from highest to lowest priority:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in level 1 that are observable either directly or indirectly.

Level 3 – Unobservable inputs, typically derived from the Group's own information with any necessary adjustments to eliminate factors specific to the Group.

For assets and liabilities measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by assessing the lowest level input that is significant to the most recent measurement.

Details of the particular valuation techniques used by the Group are provided in the relevant notes for each type of asset or liability measured at fair value.

Use of judgements and estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, key estimates and judgements have been made by management concerning whether an entity should be consolidated, provisions necessary for certain liabilities, estimates used in forecasts used to assess future profitability, the discount rates used and other judgements when recognising right of use assets for lease accounting, the timing of revenue recognition, the recoverability of contract assets and work in progress, actuarial estimates in respect of defined benefit pension schemes, the fair value of contingent consideration in respect of disposed entities and other similar evaluations. Actual amounts could differ from those estimates. Further details of key estimates and judgements are provided in the appropriate notes, with the exception of the consolidation judgement described below.

The impact of Covid-19 has been considered when making the estimates and judgements above. The global and local effects of the pandemic have primarily affected the discount rates used for lease accounting as well as the assumptions of discount rate and inflation rate used in calculating the Group's liabilities in respect of defined benefit pension schemes.

Consolidation judgement

An investor, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls an investee. An investor controls an investee if and only if the investor has power over the investee. In assessing whether it has power, an investor considers only substantive rights relating to an investee. For a right to be substantive, the holder must have the practical ability to exercise that right.

The Group holds a beneficial interest in 49% of the shares in a company, Haydon Mechanical and Electrical LLC ('Haydon LLC'), registered in the UAE. In assessing whether the Group has power over the investee, the Directors have considered several operational barriers which prevent Mears from exercising its rights. These barriers included the absence of suitable individuals willing to provide an executive management service and restrictions placed upon the trade licence. The Directors have therefore taken the judgement that Mears does not have the practical ability to direct the activities of Haydon LLC and as such does not meet the criteria for control. The results of the entity are therefore not consolidated within the financial statements.

Haydon LLC ceased trading during 2017 and reports a net liability position. The carrying value of the Group's investment in this associate has previously been reduced to £nil, and the Directors do not believe that the Group has incurred any legal or constructive obligations on behalf of this associate.

New standards and interpretations not yet applied

A number of standards have been modified with effect for accounting periods commencing on or after 1 January 2022. These include IAS 37 – 'Cost of Fulfilling a Contract', IAS 16 – 'Proceeds Before Intended Use' and other existing standards arising from the Annual Improvements to IFRSs 2018 – 2020 cycle. None of these amendments are expected to have a material effect on the Group's financial statements.

2. REVENUE

Accounting policy

Revenue is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts. It is based on the transfer of control of goods and services to customers. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

Repair and maintenance contracts

For contracts in this category, the customer raises orders on demand, for example to carry out responsive repairs. Revenue is derived from a mixture of lump-sum periodic payments and task-based payments depending on the terms of the individual contract.

Where a lump-sum payment is in place it may cover the administrative element of the contract or may cover the majority of the tasks undertaken within that contract with exclusions to this being charged in addition to the lump-sum charge. For the works covered by the lump-sum payment, the performance obligation is being available to deliver the goods and services in the scope of the contract, not the performance of the individual works orders themselves. Revenue is recognised on a straight-line basis as performance obligations are being met over time.

For works orders not covered by a lump-sum payment, each works order represents a distinct performance obligation and, as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. Each works order can be broken down into one or more distinct tasks which are either complete or not complete. The stage of completion of the works order is assessed by looking at which tasks are complete. The transaction price for partly completed works orders is recognised as cost plus expected margin. The transaction price for completed works orders is the invoice value, which is typically determined by a pricing schedule referred to as a Schedule of Rates that provides a transaction price for each particular task.

Some contracts may include an element of variable revenue based on certain KPIs. These are recognised either at a point in time or over time, depending on the nature of the KPI and the contractual agreement in which it is contained. Where there is uncertainty in the measurement of variable consideration, at both the start of the contract and subsequently, management will consider the facts and circumstances of the contract in determining either the most likely amount of variable consideration when the outcome is binary, or the expected value based on a range of possible considerations. Included within this assessment will be the extent to which there is a high probability that a significant reversal in variable consideration revenues will not occur once the uncertainty is subsequently resolved. This assessment will include consideration of the following factors: the total amount of the variable consideration; the proportion of consideration susceptible to judgements of customers or third parties, for example KPIs; the length of time expected before resolution of the uncertainty; and the Group's previous experience of similar contracts.

Notes to the financial statements – Group continued

For the year ended 31 December 2021

2. REVENUE CONTINUED

Property income

Where the Group is acting as principal, lessor operating lease revenue is recognised in revenue on a straight-line basis over the tenancy.

Where the Group is providing a management service, Mears recognises revenue as an agent (the net management fee) on a straight-line basis. Where significant initial costs are required to make good the housing to perform Housing Management activities, the costs directly attributable to the initial upgrade will be recognised as costs incurred to fulfil a contract and held within current assets, to the extent that it is determined that costs are recoverable.

Where the Group is providing an accommodation and support service, revenue is recognised at a point in time for each night that the accommodation is occupied.

Some contracts may include an element of variable revenue based on certain KPIs. This is recognised on the same basis as above.

Where the Group enters into arrangements with customers for the provision of housing, an assessment is made as to whether this income is recognised under IFRS 15 or IFRS 16. The contract between the Group and the customer is deemed to contain a lease where the contract conveys the right to control an identified asset for a period of time in exchange for consideration. In this instance, the rental income is recognised on a straight-line basis over the life of the lease. All such sub-leased residential property leases are classified as operating leases. Revenue in respect of sub-leased residential property is disclosed separately.

Care services

The standalone selling prices for providing care are overtly stated in the contract, and the method of application of the rate of charge is on a unit of time basis, usually expressed as a rate per visit. Revenue will be recognised in respect of this single performance obligation, by reference to the chargeable rate and time for completed care visits in the period.

From time to time, care contracts with customers include a fixed fee per period for performing a consistent scope of care services. For these contract types, the revenue recognition is consistent with lump-sum payments included in repair and maintenance contracts, as described above.

Mobilisation

Across all revenue types, where a contract includes a mobilisation element, consideration is initially given to whether the mobilisation element contains any discrete performance obligations. If this is the case, an element of the total contract price is allocated to those performance obligations and recognised either at a point in time or over time, depending on the nature of the performance obligation. Mobilisation income is included in the revenue category to which the contract relates.

Where amounts are received for mobilisation elements that are not performance obligations, these amounts are allocated to the performance obligations in the contract to which they relate.

No revenue was recognised during 2021 in respect of mobilisation performance obligations.

Contracting projects

For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. Mears is continuously satisfying this single performance obligation as cost is incurred, determining progress against the performance obligation on an input basis. The customer controls the site or output as the work is being performed on it and therefore revenue is recognised over time where there is an enforceable right to payment for works completed to date and the work completed does not create an asset with an alternative use to the Group. An assessment is made of costs incurred to date and the costs required to complete the project. If a project is not deemed to be profitable, the unavoidable costs of fulfilling the contract are provided for immediately. This category also includes construction contracts where an end customer has not yet been identified and the revenue is recognised at the point of sale of the property, rather than over time.

Other

From time to time, the Group receives revenue that does not fall within any of the categories above but is not individually significant enough to require a specific policy. In these cases, the revenue is considered separately and recognised in accordance with IFRS 15.

Key sources of estimation uncertainty

Contract recoverability

Determining future contract profitability requires estimates of future revenues and costs to complete. In making these assessments there is a degree of inherent uncertainty. The Group utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

Critical judgements in applying the Group's accounting policies

Revenue recognition

The estimation techniques used for revenue and profit recognition in respect of contracting and variable consideration contracts require judgements to be made about the stage of completion of certain contracts and the recovery of work in progress, mobilisation costs and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2021 £'000	2020 £'000
Revenue from contracts with customers		
Repairs and maintenance	481,647	449,974
Contracting	101,589	103,643
Property income	240,641	199,718
Care services	19,448	19,825
Other	295	109
	843,628	773,269
Lease income	34,792	32,548
	878,420	805,817

All of the above categories fall exclusively within the Housing segment.

A total of £13.2m of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2020: £2.1m).

Repairs and maintenance and care service revenue is typically invoiced between one and 30 days from completion of the performance obligation. Contracting revenue is typically invoiced based on the stage of completion of the overall contract. Property income is typically invoiced monthly in advance. Payment terms for revenue invoiced are typically 30 to 60 days from the date of invoice.

A maturity analysis of future minimum lessor income as at 31 December is shown in the table below:

	2021 £'000	2020 £'000
Less than 1 year	7,535	7,963
Between 1 and 2 years	2,365	2,938
Between 2 and 3 years	2,060	2,385
Between 3 and 4 years	1,750	2,087
Between 4 and 5 years	1,544	1,683
Over 5 years	812	2,296
	16,066	19,352

3. SEGMENT REPORTING

Accounting policy

Segment information is presented in respect of the Group's operating segments based on the format that the Group reports to its chief operating decision maker.

The Group considers that the chief operating decision maker comprises the Executive Directors of the business.

The Group had one continuing operating segment during the year:

- Housing – following the disposal of the Group's domiciliary care operations, all services provided by the Group fall within this segment. This includes housing repairs and maintenance services, a full housing management service and Care services directly related to housing provision.

All of the Group's activities are carried out within the United Kingdom and the Group's principal reporting to its chief operating decision maker is not segmented by geography. As such, the results for the Group as a whole represent the results for the single segment.

Financial statements

Notes to the financial statements – Group continued For the year ended 31 December 2021

3. SEGMENT REPORTING CONTINUED

All revenue and all non-current assets arise within the United Kingdom. All of the revenue reported is external to the Group. The Group's largest single customer relationship is in respect of the Asylum Accommodation and Support Contract with the Home Office. At the time that this contract was won, the Group expected to report annual revenues of around £720m, which would, under normal conditions, amount to around 15% of Group revenues. The AAASC contract has experienced several volumes as a result of a backlog linked to the challenges of Covid-19. As a result, this customer relationship accounted for over 20% of Group revenues in 2021 and this elevated position has continued into 2022. In the longer term, this contract is expected to reduce back down to a normal level. No other customer comprises more than 10% of reported revenue.

4. OPERATING COSTS

Operating costs, relating to continuing activities, include the following:

	2021	2020
Share-based payments	£700	£700
Depreciation	575	932
Implementation of fixed assets	49,028	47,688
Amortisation of intangible intangibles	-	1,500
Amortisation of other intangibles	7,084	8,575
Lost on disposal of property, plant and equipment	2,229	2,237
	273	231

Fees payable for audit and non-audit services during the year were as follows:

	2021	2020
In respect of continuing activities:	£700	£700
Fees payable to the auditor for the audit of the Group's financial statements	860	130
Other fees payable to the auditor in respect of:	600	485
-- auditing of accounts of subsidiary undertakings pursuant to legislation	273	-
-- addition of fees in respect of the 2020 audit	-	70
Fees payable to the auditor in respect of discontinued activities	-	-
Total auditor's remuneration	1,433	685

5. FINANCE INCOME AND FINANCE COSTS

Interest change on overdrafts and loans	2021	2020
Interest change on hedged items	£700	£700
Interest on lease obligations	(1,408)	12,663
Other interest	6149	6784
Finance costs on bank loans, overdrafts and leases	(6,850)	(7,234)
Interest change on defined benefit pension obligation	10	(19)
Interest income resulting from short-term bank deposits	1220	1321
Interest income resulting from defined benefit pension assets	1	6
Income from settlement of hedge instruments	100	234
Other interest income	285	-
Finance income	307	32
Net finance charge	(6,543)	(6,902)
Gains and losses on hedged items recognised in other comprehensive income	4023	(1339)
Gain/loss arising in the year	(859)	334
Reclassification to the Consolidated Statement of Profit or Loss	189	334
Changes in market value of interest rate swaps	339	(783)

6. EMPLOYEES

Staff costs during the year were as follows:

	2021 £'000	2020 £'000
Wages and salaries	166,304	161,128
Social security costs	16,425	17,380
Other pension costs	8,552	9,454
	191,281	187,962

Wages and salaries are presented net of Coronavirus Job Retention Scheme of £nil (2020: £15.7m).

The average number of employees of the Group during the year was:

	2021	2020
Site workers	2,873	3,474
Carers	664	703
Office and management	1,860	2,150
	5,397	6,327

7. SHARE-BASED EMPLOYEE REMUNERATION

Accounting policy

All share-based payment arrangements are recognised in the consolidated financial statements in accordance with IFRS 2.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value (excluding the effect of non-market-based vesting conditions) of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Monte Carlo option pricing model (2020: Black-Scholes) and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period. For Save As You Earn (SAYE) plans, employees are required to contribute towards the plan. This non-vesting condition is taken into account in calculating the fair value of the option at the grant date.

All share-based remuneration is ultimately recognised as an expense in the Consolidated Statement of Profit or Loss. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital, with any excess being recorded as share premium.

As at 31 December 2021 the Group maintained four (2020: four) active share-based payment schemes for employee remuneration.

Details of the share options outstanding and movement during the year are as follows:

	2021		2020	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Operating segments				
Outstanding at 1 January	5,292	131	3,325	217
Granted	544	1	4,004	93
Forfeited or lapsed	(965)	177	(1,647)	240
Exercised	(44)	92	(390)	7
Outstanding at 31 December	4,827	110	5,292	131

The weighted average share price at the date of exercise for share options exercised during the period was 195p. At 31 December 2021, 0.5m options had vested and were still exercisable at prices between 1p and 429p. These options had a weighted average exercise price of 284p and a weighted average remaining contractual life of 6.7 years.

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7. SHARE-BASED EMPLOYEE REMUNERATION CONTINUED

The fair values of options granted were determined using the Monte Carlo option pricing model (2020: Black-Scholes). Significant inputs into the calculation include the market price at the date of grant, the exercise price and share price volatility. Furthermore, the calculation incorporates an estimate of the future dividend yield and the risk-free interest rate. The share price volatility was determined from the daily log normal distributions of the Company share price over a period commensurate with the expected life as calculated back from the date of grant. The risk-free interest rate utilised the zero-coupon bond yield derived from UK Government bonds as at the date of calculation for a life commensurate with the expected life. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions.

There were 0.54m options granted during the year and 0.97m options that lapsed during the year. The market price at 31 December 2021 was 189p and the range during 2021 was 148p to 224p.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

The Group recognised the following expenses related to share-based payments:

	2021 £'000	2020 £'000
Giving rise to share-based payment reserve:		
— SAYE	295	682
— CSOP	133	347
— LTIP	94	—
— DSBP	53	—
	575	1,029

The Group is currently running four active schemes, detailed below:

Share save plan (Save As You Earn)

Options are available to all employees. Options are granted for a period of three years. Options are exercisable at a price based on the quoted market price of the Company's shares at the time of invitation, discounted by up to 20%. Options are forfeited if the employee leaves Mears Group before the options vest, which impacts on the number of options expected to vest. If an employee stops saving but continues in employment, this is treated as a cancellation, which results in an acceleration of the share-based payment charge.

Company Share Option Plan

The Company operates a discretionary unapproved share plan and a Company Share Option Plan. Options are exercisable at a price below market value at the date of grant and often at nominal value. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves Mears Group before the options vest. No awards to Executive Directors are proposed under these plans.

Long-term incentive plan

The LTIP provides for awards of free shares (i.e. either conditional shares or nil or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. The first award under this scheme was made during 2021. Options are granted under this scheme to key senior management subject to performance conditions as detailed on page 92 of the Remuneration Report.

Deferred share bonus plan (DSBP)

The deferred share bonus plan relates to Annual Bonus payments where typically 33% are deferred into shares and vest subject to continued employment. Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends that would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis. Clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award.

8. TAX EXPENSE

Accounting policy

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the accounting periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the Consolidated Statement of Profit or Loss, any related tax generated is recognised as a component of tax expense in the Consolidated Statement of Profit or Loss. Where an item is recognised directly to equity or presented within the Consolidated Statement of Comprehensive Income, any related tax generated is treated similarly.

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated using the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to either the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited. Deferred tax relating to items charged or credited directly to equity is also credited or charged to equity.

Tax recognised in the Consolidated Statement of Profit or Loss:

	2021 £'000	2020 £'000
United Kingdom corporation tax	2,407	(785)
Adjustment in respect of previous periods	(450)	674
Total current tax charge/(credit) recognised in Consolidated Statement of Profit or Loss	1,957	(111)
Deferred taxation charge:		
— on defined benefit pension obligations	154	(167)
— on share-based payments	—	101
— on capital allowances	806	(26)
— on amortisation of acquisition intangibles	(1,372)	(1,553)
— on short-term temporary timing differences	(45)	144
— on corporate tax losses	1,003	(324)
— other timing differences	(50)	43
— statutory rate changes	742	—
Adjustment in respect of previous periods	(3)	(1,314)
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	1,235	(3,096)
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss on continuing operations	3,192	(3,207)
Total tax (credit)/charge recognised in Consolidated Statement of Profit or Loss on discontinued operations	(182)	121
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss	3,010	(3,086)

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8. TAX EXPENSE CONTINUED

The charge for the year can be reconciled to the result for the year as follows:

	2021 £'000	2020 £'000
Profit/(loss) for the year on continuing operations before tax	16,333	(15,218)
Profit for the year on discontinued operations before tax	940	56,933
Result for the year before tax	17,273	41,715
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 19.0% (2020: 19.0%)	3,282	7,926
Effect of:		
— expenses not deductible for tax purposes	321	142
— fixed asset impairment	—	285
— net proceeds of disposals of subsidiaries not subject to tax	(209)	(9,760)
— income not subject to tax	—	(248)
— tax impact of employee share schemes	102	201
— tax losses not previously recognised in deferred tax	(593)	(35)
— impact of statutory rate changes	742	—
— adjustment in respect of prior periods	(635)	(1,597)
Actual tax charge/(credit)	3,010	(3,086)

Deferred tax is recognised on both temporary differences between the treatment of items for tax and accounting purposes. Deferred tax on the amortisation of acquisition intangibles is a temporary difference and arises because no tax relief is due on this kind of amortisation.

Tax losses generated in previous years which are expected to be utilised against future profits are recognised as a deferred tax asset and a subsequent charge arises as those losses are utilised. No deferred tax asset is recognised in respect of losses of £25.5m (2020: £29.0m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the future.

Deferred tax is also recognised on short-term temporary timing differences, primarily relating to provisions. These differences are expected to reverse in the following year and arise because tax relief is only available when the costs are incurred.

Capital allowances represent tax relief on the acquisition of property, plant and equipment and are spread over several years at rates set by legislation. These differ from depreciation, which is an estimate of the use of an item of property, plant and equipment over its useful life. Deferred tax is recognised on the difference between the remaining value of such an asset for tax purposes and its carrying value in the accounts.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end, to the extent those balances are expected to impact on current tax after 1 April 2023.

The following tax has been charged to other comprehensive income or equity during the year:

	2021 £'000	2020 £'000
Deferred tax charge/(credit) recognised in other comprehensive income		
— on defined benefit pension obligations	8,809	(1,727)
— on cash flow hedges	178	(149)
Total deferred tax charge/(credit) recognised in other comprehensive income	8,987	(1,876)
Deferred tax recognised directly in equity		
Deferred tax credit:		
— on share-based payments	(228)	(10)
Total deferred tax recognised in equity	(228)	(10)
Total tax		
Total current tax	1,775	10
Total deferred tax	9,994	(4,982)

9. DISCONTINUED ACTIVITIES

During 2020, the Group completed the disposal of its Domiciliary Care business and disposed of its Planning Solutions business.

A small amount of income and expenditure were incurred in respect of the Domiciliary Care business during 2021, primarily for transitional services as a result of the separation of the disposed business from the continuing business. These transactions are recognised in discontinued operations.

In addition, the consideration for the disposal of the Planning Solutions business included a contingent element to be received in April 2022. The fair value of this contingent consideration has been reassessed at 31 December 2021 and the resultant profit has been recognised in discontinued operations.

The results of the operations which have been included in the consolidated financial statements are as follows:

	2021 £'000	2020 £'000
Revenue and profits		
Sales revenue	57	35,388
Cost of sales	(53)	(20,787)
Administrative expenses	(161)	(11,738)
Profit on disposal	-	54,074
Increase in fair value of contingent consideration	1,100	-
Finance costs	(3)	(4)
Profit for the year before tax on discontinued operations	940	56,933
Tax on discontinued operations	182	(12)
Profit for the year after tax on discontinued operations	1,122	56,812

The results of all disposed businesses prior to their disposal are presented within discontinued cash flows in the Consolidated Cash Flow Statement.

The results of the operations which have been included in the Consolidated Cash Flow Statement are as follows:

	2021 £'000	2020 £'000
Operating activities		
Result for the year before tax	940	56,933
Net finance costs	3	4
Share-based payments	-	36
Depreciation and amortisation	-	1,004
Net profit on disposal of investments	-	(58,993)
Fair value movement	(1,100)	-
Change in operating receivables	-	586
Change in operating payables	34	2,962
Net cash (outflow)/inflow from operating activities before taxation	(123)	2,532
Taxes paid	182	(5)
Net cash inflow from operating activities	59	2,527
Investing activities		
Additions to property, plant and equipment	-	(305)
Additions to other intangible assets	-	(3,141)
Proceeds from disposal of subsidiaries	500	63,676
Net cash disposed of with subsidiaries	-	(5,618)
Net cash inflow from investing activities	500	54,612
Financing activities		
Discharge of lease liabilities	(217)	(485)
Interest paid	(3)	(4)
Net cash outflow from financing activities	(220)	(489)
Net increase in cash and cash equivalents	339	56,650

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10. DIVIDENDS

Accounting policy

Dividend distributions payable to equity shareholders are included in 'Current financial liabilities' when the dividends are approved in a general meeting prior to the balance sheet date.

The following dividends were paid on ordinary shares in the year:

	2021 £'000	2020 £'000
Final 2020 dividend of 0p (2020: final 2019 dividend of 0p) per share	–	–
Interim 2021 dividend of 2.5p (2020: interim 2020 dividend of 0p) per share	2,773	–
	2,773	–

No dividend was declared in respect of 2020. An interim dividend in respect of 2021 of 2.50p was paid to shareholders in October 2021. The Directors recommend a final dividend of 5.50p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2021.

11. EARNINGS PER SHARE

	Continuing		Discontinued		Continuing and discontinued	
	2021	2020	2021	2020	2021	2020
	p	p	p	p	p	p
Earnings per share	11.72	(10.66)	1.01	50.87	12.73	40.21
Diluted earnings per share	11.50	(10.66)	0.99	50.87	12.49	40.21

The calculation of EPS is based on a weighted average of ordinary shares in issue during the year. The diluted EPS is based on a weighted average of ordinary shares calculated in accordance with IAS 33 'Earnings per Share', which assumes that all dilutive options will be exercised. IAS 33 defines dilutive options as those whose exercise would decrease earnings per share or increase loss per share from continuing operations.

	2021 Million	2020 Million
Weighted average number of shares in issue:	110.93	110.56
– Dilutive effect of share options	2.13	–
Weighted average number of shares for calculating diluted earnings per share	113.06	110.56

As the Group made a loss from continuing operations during 2020, there were no dilutive options during that period. The number of antidilutive potential shares not included in the above table for 2020 was 0.39 million.

12. GOODWILL

Accounting policy

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off directly to reserves under UK GAAP is not recycled to the Consolidated Statement of Profit or Loss on calculating a gain or loss on disposal.

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows: CGUs. As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill or CGUs that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually.

All other individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Consolidated Statement of Profit or Loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2020	114,954	8,250	123,204
Reclassification	4,208	(4,208)	-
Disposal of subsidiary	(4,331)	-	(4,331)
At 1 January 2021 and 31 December 2021	114,831	4,042	118,873
Accumulated impairment losses			
At 1 January 2020, at 1 January 2021 and at 31 December 2021	-	-	-
Carrying amount			
At 31 December 2021	114,831	4,042	118,873
At 31 December 2020	114,831	4,042	118,873

Goodwill on consolidation arises on the excess of cost of acquisition over the fair value of the net assets acquired on purchase of a company.

Purchased goodwill arises on the excess of cost of acquisition over the fair value of the net assets acquired on the purchase of the trade and assets of a business by the Group.

Notes to the financial statements – Group continued

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12. GOODWILL CONTINUED

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there are any indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which management monitors that goodwill. Goodwill is carried at cost less accumulated impairment losses.

The carrying value of goodwill is allocated to the following CGUs:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Housing	95,742	4,042	99,784
Housing with Care	19,089	—	19,089
	114,831	4,042	118,873

Housing with Care is delivered through two standalone subsidiaries of the Group and includes those activities that include an element of personal care as part of the service to the end user. The cash flows in respect of these two subsidiaries are separately identifiable and hence this is a CGU in its own right. All other activities fall within the Housing CGU.

An asset is impaired if the carrying value exceeds the CGU's recoverable amount, which is based on value in use. At 31 December 2021 impairment reviews were performed by comparing the carrying value with the value in use for the CGUs to which goodwill has been allocated.

The value in use for each CGU is calculated from the Board-approved one-year budgeted cash flows and extrapolated cash flows for the next four years discounted at a post-tax discount rate of over a five-year period with a terminal value. The impairment reviews incorporated a terminal growth assumption, which is conservative when compared with the UK long-term growth rate and the underlying demographics, which will be positive for the Group's core markets.

The estimated growth rates are based on knowledge of the individual CGU's sector and market and represent management's base level expectations for future growth. Changes to revenue and direct costs are based on past experience and expectation of future changes within the markets of the CGUs. All CGUs have the same access to the Group's treasury function and borrowing arrangements to finance their operations.

Management considers that reasonably possible changes in these assumptions would not cause a CGU's carrying amount to exceed its recoverable amount.

The rates used were as follows:

	Post-tax discount rate	Pre-tax discount rate	Volume growth rate (years 1–5)	Terminal growth rate
Housing	9.00%	11.50%	2.00%	1.70%
Housing with Care	9.00%	11.45%	2.00%	1.70%

13. OTHER INTANGIBLE ASSETS

Accounting policy

In accordance with IFRS 3 (Revised) 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

Development costs incurred on software development are capitalised when all the following conditions are satisfied:

- Completion of the software module is technically feasible so that it will be available for use.
- The Group intends to complete the development of the module and use it.
- The software will be used in generating probable future economic benefits.
- There are adequate technical, financial and other resources to complete the development and to use the software.
- The expenditure attributable to the software during its development can be measured reliably.

Costs incurred making intellectual property available for use (including any associated borrowing costs) are capitalised when all of the following conditions are satisfied:

- Completion of the data set is technically feasible so that it will be available for use.
- The Group intends to complete the preparation of the data and use it.
- The data will be used in generating probable future economic benefits.
- There are adequate technical, financial and other resources to complete the data set and to use it.
- The expenditure attributable to the intellectual property during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software are continually monitored by management.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on software development.

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until the asset is available for use on completion of the project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

The identifiable intangible assets and associated periods of amortisation are as follows:

Order book	— over the period of the order book, typically three years
Client relationships	— over the period expected to benefit, typically five years
Supplier relationships	— over the period expected to benefit, typically two years
Development expenditure	— over four to five years, straight line
Software	— 25% p.a., reducing balance

The useful economic lives of intangible assets are reviewed annually and amended if appropriate.

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13. OTHER INTANGIBLE ASSETS CONTINUED

	Acquisition intangibles				Development expenditure £'000	Total Intangibles £'000
	Client relationships £'000	Order book £'000	Supplier relationships £'000	Total acquisition intangibles £'000		
Gross carrying amount						
At 1 January 2020	65,987	17,770	2,172	85,929	22,998	108,927
Additions	-	-	-	-	4,858	4,858
Disposal of subsidiaries	-	-	-	-	(7,896)	(7,896)
At 1 January 2021	65,987	17,770	2,172	85,929	19,960	105,889
Additions	-	-	-	-	1,182	1,182
At 31 December 2021	65,987	17,770	2,172	85,929	21,142	107,071
Accumulated amortisation						
At 1 January 2020	51,431	13,580	1,089	66,100	14,185	80,285
Amortisation charge for period	8,351	525	650	9,526	2,625	12,151
Disposal of subsidiaries	-	-	-	-	(1,752)	(1,752)
At 1 January 2021	59,782	14,105	1,739	75,626	15,058	90,684
Amortisation charge for period	3,556	3,665	433	7,654	2,123	9,777
At 31 December 2021	63,338	17,770	2,172	83,280	17,181	100,461
Carrying amount						
At 31 December 2021	2,649	-	-	2,649	3,961	6,610
At 31 December 2020	6,205	3,665	433	10,303	4,902	15,205

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's Housing job management system. Development expenditure is amortised over its useful economic life of 5.0 years. The weighted average remaining economic life of the asset is 3.1 years (2020: 3.1 years).

All amortisation is included within other administrative expenses.

14. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated to write down the cost less estimated residual value over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	- 2% p.a., straight line
Leasehold improvements	- over the period of the lease, straight line
Plant and machinery	- 25% p.a., reducing balance
Equipment	- 25% p.a., reducing balance
Fixtures and fittings	- 50% p.a., straight line
Motor vehicles	- 25% p.a., reducing balance

Residual values are reviewed annually and updated if appropriate. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the Consolidated Statement of Profit or Loss.

Identifying whether there are indicators of impairment in respect of property, plant and equipment involves some judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance at both a contract and business level, and any significant changes to the markets in which we operate. This is not considered to be a critical judgement or an area of significant uncertainty.

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
Gross carrying amount							
At 1 January 2020	822	22,497	2,933	47,440	1,008	4,726	79,426
Additions	–	2,969	28	846	–	1,113	4,956
Disposals	(6)	(6,080)	(151)	(10,755)	(24)	–	(17,016)
Reclassification	–	(104)	–	104	–	–	–
Disposal of subsidiaries	–	(241)	(761)	(2,005)	–	–	(3,007)
Transferred from disposal group	110	129	–	17	–	–	256
At 1 January 2021	926	19,170	2,049	35,647	984	5,839	64,615
Additions	101	5,225	9	2,051	–	216	7,602
Disposals	–	–	(500)	(8,343)	–	–	(8,843)
Transfer to inventories	–	–	–	–	–	(6,055)	(6,055)
At 31 December 2021	1,027	24,395	1,558	29,355	984	–	57,319
Depreciation							
At 1 January 2020	46	12,824	2,113	37,135	982	–	53,100
Provided in the year	28	2,226	214	3,205	7	–	5,680
Eliminated on disposals	(6)	(6,080)	(135)	(10,496)	(23)	–	(16,740)
Impairment	–	–	–	–	–	1,500	1,500
Reclassification	–	2	–	(2)	–	–	–
Disposal of subsidiaries	–	(102)	(641)	(1,808)	–	–	(2,551)
Transferred to disposal group	–	18	–	8	–	–	26
At 1 January 2021	68	8,888	1,551	28,042	966	1,500	41,015
Provided in the year	30	3,241	118	2,222	5	–	5,616
Eliminated on disposals	–	–	(426)	(8,098)	–	–	(8,524)
Transfer to inventories	–	–	–	–	–	(1,500)	(1,500)
At 31 December 2021	98	12,129	1,243	22,166	971	–	36,607
Carrying amount							
At 31 December 2021	929	12,266	315	7,189	13	–	20,712
At 31 December 2020	858	10,282	498	7,605	18	4,339	23,600

During the year, the property previously presented as an asset under construction was reclassified to inventories as it is now expected to be sold to a third party on completion, rather than used within the business.

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15. RIGHT OF USE ASSET

Accounting policy

Where an asset is subject to a lease, the Group recognises a right of use asset and a lease liability on the balance sheet. The right of use asset is measured at cost, which matches the initial measurement of the lease liability and any costs expected at the end of the lease, and then depreciated on a straight-line basis over the lease term.

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate. Lease payments include fixed payments, variable payments based on an index and payments arising from options reasonably certain to be exercised.

The Group has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right of use assets and lease liabilities are presented separately.

Critical judgements in applying the Group's accounting policies

The Group holds more than 15,000 leases across its portfolio of residential properties, offices and vehicles. Whilst the Group endeavours to standardise the form of leases, operational demands dictate that many leases have specific wording to address particular operational needs and also to manage the associated operational and financial risks. As such, each lease requires individual assessment and the Group is required to make key judgements which include:

- the identification of a lease;
- assessing the right to direct the use of the underlying asset;
- determining the lease term; and
- the assessment as to the level of future lease payments, including fixed and variable payments.

The most typical challenges encountered and which form the key judgements are:

- where the lease contains a one-way no-fault break in Mears' favour, the Group measures the obligation based on the Group's best estimate of its future intentions;
- where a unilateral break is in place, assessing whether the lease can be terminated with no more than an insignificant penalty;
- where the lessor has a right of substitution meaning that the lessor can swap one property for another without Mears' approval;
- where Mears does not in practice have the right to control the use of the asset and the key decision making rights are retained by the supplier;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under IFRS 16; and
- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which Mears only makes lease payments to the owner to the extent that the property is occupied and to the extent that rents are received from the tenant.

Key sources of estimation uncertainty

Additions and remeasurements to right of use assets in respect of lease agreements are equivalent to the present value (or change in present value) of the relevant lease obligation. Unless there is an interest rate implicit in the lease itself, the Group's Incremental Borrowing Rate (IBR) is used to calculate the present value of future lease payments. Estimation is required in deriving an appropriate IBR. The Directors believe that the best approximation for IBR is the currently applicable margin from the grid contained within the Group's RCF agreement, added to an appropriate base rate. For the current period, that base rate was LIBOR, as that was the base rate under the RCF agreement throughout the year. For 2022, the base rate will switch to SONIA as that is the base rate under the new RCF agreement, finalised in December 2021. This change is not expected to have a material impact on the calculation of IBR.

The above represents a change in estimation methodology for IBR from that used during the previous year. In 2020, the Group had a low level of headroom on its RCF and a reduced ability for additional borrowing. It was therefore not considered appropriate at that time to utilise the RCF rate. Instead, the Directors determined a synthetic credit rating and used this to select appropriate corporate bond yield curves at varying tenors to determine an appropriate IBR for leases entered into during the year.

The Directors believe that the methodology applied in 2021 is both a simplification of and an improvement to the method applied in the prior year. Given the significant reduction in the Group's leverage, the RCF would now be utilised to fund the underlying assets were the Directors to choose to purchase rather than lease. The RCF rates are real commercial rates of interest that the Group has access to and therefore represent more reliable information on which to base this estimate. The sensitivity of the lease liability to the assumptions used in these estimations is indicated in note 20.

Investment property

Included within right of use assets are certain properties classified as investment properties in accordance with IAS 40. These properties are held primarily in order to earn rentals. The Group has chosen to apply the cost model to all investment property and therefore measurement is in line with IFRS 16 as described in the Leased assets accounting policy.

Properties that generate rentals but are primarily held for the provision of social benefits are not considered to meet the definition of investment property.

	Assets that are sub-leased to customers		Assets that are used directly within the business			Total £'000
	Investment property £'000	Residential property £'000	Residential property £'000	Offices £'000	Motor vehicles £'000	
Gross carrying amount						
At 1 January 2020	27,052	115,592	42,352	11,961	32,109	229,066
Additions*	476	2,999	33,462	1,479	8,187	46,603
Disposals	-	(6,552)	(507)	(1,105)	(2,390)	(10,554)
Disposal of subsidiaries	-	-	-	(1,259)	-	(1,259)
At 1 January 2021	27,528	112,039	75,307	11,076	37,906	263,856
Additions*	417	5,824	29,646	1,262	12,895	50,044
Disposals	-	(4,674)	(1,487)	(910)	(19,761)	(26,832)
At 31 December 2021	27,945	113,189	103,466	11,428	31,040	287,068
Depreciation						
At 1 January 2020	1,509	11,874	3,460	3,282	10,557	30,682
Provided in the year	1,521	10,832	16,292	2,753	11,112	42,510
Eliminated on disposals	-	(5,555)	(140)	(1,063)	(2,215)	(8,973)
Disposal of subsidiaries	-	-	-	(404)	-	(404)
At 1 January 2021	3,030	17,151	19,612	4,568	19,454	63,815
Provided in the year	1,553	8,609	21,589	1,741	9,921	43,413
Eliminated on disposals	-	(4,140)	(795)	(910)	(19,264)	(25,109)
At 31 December 2021	4,583	21,620	40,406	5,399	10,111	82,119
Carrying amount						
At 31 December 2021	23,362	91,569	63,060	6,029	20,929	204,949
At 31 December 2020	24,498	94,888	55,695	6,508	18,452	200,041

* Additions includes both new underlying assets and remeasurement of the right of use asset for changes in the lease terms.

Investment property included above represents properties held by the Group primarily to earn rentals, rather than for use in the Group's other activities. The amount included in lease income in note 2 in respect of these properties is £1.7m (2020: £2.9m). Direct operating expenses arising from investment property that generated rental income during the period was £3.3m (2020: £3.4m). The carrying value of the right of use asset in respect of investment property is considered to be approximately equal to its fair value.

16. INVESTMENTS

Accounting policy

Investments include those over which the Group has significant influence but which it does not control. These are categorised as associates. It is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. The Group also holds investments in joint ventures where the Group and other parties have joint control over their activities.

The basis by which associates and joint ventures are consolidated in the Group financial statements is through the equity method, as outlined in the basis of consolidation.

In addition to associates and joint ventures, the Group holds investments in entities over which it does not exert significant influence. These are accounted for at fair value through profit or loss.

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16. INVESTMENTS CONTINUED

	Associates £'000	Other investments £'000	Total £'000
At 1 January 2020	536	–	536
Share of profit	1,056	–	1,056
Distributions received	(691)	–	(691)
Acquisition	–	65	65
At 1 January 2021	901	65	966
Share of profit	855	–	855
Distributions received	(1,108)	–	(1,108)
At 31 December 2021	648	65	713

On 9 December 2020, as part of the disposal of the Group's Planning Solutions business, the Group acquired 6.16% of the ordinary share capital of Mason Topco Limited, the new owner of the disposed business. This investment is presented in Other investments and is mandatorily held at fair value through profit or loss. There have been no changes in the fair value of the investment during the year (2020: none).

Associates

Set out below is the investment in an associate as at 31 December 2021, which in management's opinion is significant to the Group:

	Nature of relationship	Proportion held	Country of registration	Carrying value	
				2021 £'000	2020 £'000
Pyramid Plus South LLP	Associate	30%	England and Wales	648	901

Pyramid Plus South LLP is a repairs and maintenance service provider that is central to one of the Group's contracts.

During the year, the Group received distributions of £1.1m (2020: £0.7m) from Pyramid Plus South LLP. Summarised financial information for Pyramid Plus South LLP for the year is shown below:

	2021 £'000	2020 £'000
Revenue and profits		
Revenue	19,866	18,413
Expenses	(17,017)	(14,895)
Profit for the year	2,849	3,518
Other comprehensive income	–	–
Total comprehensive income	2,849	3,518
Share of profit at 30%	855	1,056
Net assets		
Non-current assets	–	–
Current assets	6,498	6,275
Current liabilities	(4,291)	(3,257)
Non-current liabilities	–	(4)
Total assets less total liabilities	2,207	3,014

Cash and cash equivalents of £1.9m (2020: £0.9m) were included in current assets above.

The subsidiary undertakings within the Group at 31 December 2021 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Dormant
Careforce Group Plc	100%	England and Wales	Dormant
Evolve Housing Limited	50%	England and Wales	Dormant
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Maintenance services
Mears Direct Limited	80%	England and Wales	Dormant
Mears Energy Limited	100%	England and Wales	Dormant
Mears Estates Limited	100%	England and Wales	Grounds maintenance
Mears Extra Care Limited	100%	England and Wales	Provision of care
Mears Facility Management Limited	100%	England and Wales	Dormant
Mears Home Improvement Limited	100%	England and Wales	Maintenance services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Homes Limited	100%	England and Wales	Dormant
Mears Housing Management Limited	100%	England and Wales	Housing management services
Mears Housing Management (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (London) Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 1 Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 3 Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 4 Limited	100%	England and Wales	Property acquisition
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services
Mears Learning Limited	90%	England and Wales	Dormant
Mears Limited	100%	England and Wales	Maintenance services
Mears Modular Homes Limited	100%	England and Wales	Dormant
Mears New Homes Limited	100%	England and Wales	House building
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland (Services) Limited	66.67%	Scotland	Dormant
Mears Scotland LLP	66.67%	Scotland	Maintenance services
Mears Social Housing Limited	100%	England and Wales	Dormant
Mears Supported Living Limited	100%	Scotland	Provision of care
Mears Wales Limited	100%	England and Wales	Dormant
MHM Property Services Limited	100%	England and Wales	Maintenance services
Morrison Facilities Services Limited	100%	Scotland	Maintenance services
MPM Housing Limited	100%	England and Wales	Dormant
MPS Housing Limited	100%	England and Wales	Maintenance services
O&T Developments Limited	100%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
Scion Group Limited	100%	England and Wales	Dormant
Scion Property Services Limited	100%	England and Wales	Dormant
Scion Technical Services Limited	100%	England and Wales	Maintenance services
Supporta Limited	100%	England and Wales	Dormant
Tando Homes Limited	100%	England and Wales	Housing management services
Tando Property Services Limited	100%	England and Wales	Housing management services

All subsidiary undertakings with the exception of Evolve Housing Limited prepare accounts to 31 December. Evolve Housing Limited prepares accounts to 30 June in line with its historical accounting reference date.

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16. INVESTMENTS CONTINUED

The Group includes the following three subsidiaries with non-controlling interests: Manchester Working Limited, Mears Learning Limited and Mears Scotland LLP. The table below sets out selected financial information in respect of those subsidiaries:

	2021 £'000	2020 £'000
Revenue and profits		
Revenue	54,447	46,586
Expenses and taxation	(54,539)	(47,685)
Profit for the year	(92)	(1,099)
Other comprehensive expense	–	–
Total comprehensive income	(92)	(1,099)
Profit/(loss) for the year allocated to non-controlling interests	144	(68)
Total comprehensive expense allocated to non-controlling interests	–	–
Net assets		
Non-current assets	178	305
Current assets	14,985	17,538
Current liabilities	(10,339)	(12,899)
Non-current liabilities	(1,393)	(1,421)
Total assets less total liabilities	3,431	3,523
Equity shareholders' funds	2,629	2,865
Non-controlling interests	802	658
Total equity	3,431	3,523

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2021, except MPM Housing Limited, which will take the same exemption for the 15-month period ended 31 December 2021:

	Registration number
3C Asset Management Limited	02859913
Let to Birmingham Limited	08757503
Mears Estates Limited	03720903
Mears Extra Care Limited	03689426
Mears Homecare Limited	02744787
Mears Home Improvement Limited	03716517
Mears Housing Management (Holdings) Limited	04726480
Mears Housing Portfolio (Holdings) Limited	10908305
Mears Housing Portfolio 4 Limited	10952906
Mears New Homes Limited	08780839
Mears Supported Living Limited	SC662805
MHM Property Services Limited	07448134
MPM Housing Limited	03528320
O&T Developments Limited	05692853
Scion Group Limited	03905442
Scion Technical Services Limited	03671450
Tando Homes Limited	09260353
Tando Property Services Limited	07405761

17. INVENTORIES

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost is the actual purchase price of materials.

Work in progress is included in inventories after deducting any foreseeable losses and payments on account not matched with revenue. Work in progress represents costs incurred on speculative construction projects where a customer has not yet been identified. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any sub-contracted work that has been incurred in bringing the inventories and work in progress to their present location and condition.

	2021 £'000	2020 £'000
Materials and consumables	1,650	3,558
Work in progress	21,219	27,700
	22,869	31,258

The Group consumed inventories totalling £167.3m during the year (2020: £163.3m). No items are being carried at fair value less costs to sell (2020: £nil).

18. TRADE AND OTHER RECEIVABLES

Accounting policy

Trade receivables represent amounts due from customers in respect of invoices raised. They are initially measured at their transaction price and subsequently remeasured at amortised cost.

Retention assets represent amounts held by customers for a period following payment of invoices, to cover any potential defects in the work. Retention assets are included in trade receivables and are therefore initially measured at their transaction price.

Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

Critical judgements and key sources of estimation uncertainty

The estimation techniques used for revenue in respect of contracting require judgements to be made about the stage of completion of certain contracts and the recovery of contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract. Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts.

	2021 £'000	2020 £'000
Current assets:		
Trade receivables	28,571	39,831
Contract assets	97,680	88,594
Contract fulfilment costs	1,242	1,408
Prepayments and accrued income	9,277	6,517
Contingent consideration	6,531	500
Other debtors	5,004	3,034
Total trade and other receivables	148,305	139,684

Included in trade receivables is £4.9m (2020: £4.7m) in respect of retention payments due in more than one year.

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income are subject to credit risk exposure.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customers are primarily a mix of Local and Central Government and Housing Associations where credit risk is minimal. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty.

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18. TRADE AND OTHER RECEIVABLES CONTINUED

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

The ageing analysis of trade receivables is as follows:

	2021			2020		
	Gross amount due £'000	Expected credit loss £'000	Carrying value £'000	Gross amount due £'000	Expected credit loss £'000	Carrying value £'000
Not past due	27,641	(1,110)	26,531	33,279	(722)	32,557
Less than three months past due	2,063	(429)	1,634	5,496	(479)	5,017
More than three months past due	5,873	(5,467)	406	9,221	(6,964)	2,257
Total trade receivables	35,577	(7,006)	28,571	47,996	(8,165)	39,831

For expected credit losses with large organisations, such as Government bodies or Housing Associations, expected credit losses are calculated on an individual basis, taking account of all the relevant factors applicable to the amount outstanding. The Group has no history of defaults with these types of customers, so expected credit losses relate to specific disputed balances.

For individual tenant customers, expected credit losses are calculated based on the Group's historical experience of default by applying a percentage based on the age of the customer's balance.

The movement in expected credit loss during the period is shown below:

	2021 £'000	2020 £'000
As at 1 January	8,165	7,722
Changes in amounts provided	196	2,958
Amounts utilised	(1,355)	(1,915)
As at 31 December	7,006	8,765

The movement in contract assets during the period is shown below:

	2021 £'000	2020 £'000
As at 1 January	88,594	110,263
Recognised on completion of performance obligations	643,626	773,269
Invoiced during the year	(834,542)	(794,938)
As at 31 December	97,680	88,594

Contingent consideration of £6.5m (2020: £0.5m) is consideration receivable in respect of the disposal of subsidiaries. The 2021 balance is in respect of the disposal of the Group's Planning Solutions business in December 2020. The 2020 balance was in respect of the disposal of the final element of the Group's Domiciliary Care business in September 2020. This balance was received in full during 2021.

Included in other debtors is an amount of £2.9m (2020: £nil) recoverable from the Group's fronting insurers. An equal and opposite amount is also included within other creditors.

19. TRADE AND OTHER PAYABLES

	2021 £'000	2020 £'000
Trade payables	69,555	114,711
Accruals	51,343	42,797
Social security and other taxes	29,724	34,983
Contract liabilities	27,843	25,330
Other creditors	5,582	3,208
	184,047	221,029

Due to the short duration of trade payables, management considers the carrying amounts recognised in the Consolidated Balance Sheet to be a reasonable approximation of their fair value.

The movement in contract liabilities during the period is shown below:

	2021 £'000	2020 £'000
As at 1 January	25,330	2,112
Revenue recognised in respect of contract liabilities	(13,197)	(2,112)
Payments received in advance of performance obligations being completed	15,710	25,330
As at 31 December	27,843	25,330

Contract liabilities relate to payments received from the customer on the contract, and/or amounts invoiced to the customer in advance of the Group performing its obligations on contracts where revenue is recognised either over time or at a point in time. These amounts are expected to be recognised within revenue within one year of the balance sheet date.

Included in other creditors is an amount of £2.9m (2020: £nil) payable to the Group's fronting insurers. An equal and opposite amount is also included within other debtors reflecting the subsequent reimbursement due to the Group's insurance captive.

20. LEASE LIABILITIES

Lease liabilities are separately presented on the face of the Consolidated Statement of Financial Position as shown below:

	2021 £'000	2020 £'000
Current	41,600	42,888
Non-current	175,290	166,183
	216,890	209,071

The Group had not committed to any leases which had not commenced at 31 December 2021. The majority of the Group's property leases contain variable lease payments that vary annually either by reference to an index, such as the Consumer Prices Index (CPI), or based on market conditions each year. The potential impact of this variation depends on future events and therefore cannot be quantified, but the Group would typically expect commensurate adjustments to income derived from these properties.

A smaller number of property leases contain termination or extension options. Management has assessed whether it is reasonably certain that the longer term will apply. In some cases, a portfolio of leases with similar lease terms is considered together and, where a rolling notice period is available to the Group, an average expected lease life may be applied.

The Group has elected not to recognise a lease liability for short-term leases and leases of low value. Payments made under such leases are expensed on a straight-line basis. Certain leases incorporate variable lease payments that are not included in the measurement of lease liabilities in accordance with IFRS 16. The expense relating to payments not included in the measurement of the lease liability is as follows:

	2021 £'000	2020 £'000
Short-term leases	46,780	45,846
Low value leases	879	839
Variable lease payments	1,550	2,737

The portfolio of short-term leases to which the Group is committed at the end of the reporting period is not dissimilar to the portfolio to which the above disclosure relates.

Other disclosures relating to lease liabilities are provided in the table below:

	Note	2021 £'000	2020 £'000
Depreciation of right of use assets during the year	16	43,413	42,510
Additions during the year	16	50,044	46,603
Carrying value at the year end	16	204,949	200,041
Interest on lease liabilities during the year – continuing activities	5	6,952	7,123
Total cash outflow in respect of leases during the year	26	47,399	47,470

The Group's lease liabilities are subject to changes in certain key assumptions in estimating the IBRs used to calculate the liabilities. The IBRs used during the year ranged from 2.11% to 3.54%. The impact of an increase in all IBRs applied during 2021 by 0.5% is a £0.6m reduction in the lease liability and a £0.1m reduction in profit before tax.

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21. PROVISIONS

A summary of the movement in provisions during the year is shown below:

	Onerous contract provisions £'000	Property provisions £'000	Legal provisions £'000	Total £'000
At 1 January 2021	344	–	–	344
Utilised during the year	(232)	–	–	(232)
Provided during the year	1,288	730	2,343	4,361
At 31 December 2021	1,400	730	2,343	4,473

The provision of £0.3m at 1 January 2021 was in respect of property costs related to the discontinued care business. The remaining £0.1m of this provision is expected to be utilised within one year.

At 31 December 2021, the Group identified a small number of maintenance contracts where the estimate of unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. These have been categorised as onerous contracts. In each case, the Group has triggered the contractual break clause and the respective contracts will conclude during the course of 2022; a provision of £1.3m has been made for the remaining lifetime losses on those contracts.

Property provisions have been recognised during the year in respect of the expected costs of reinstating several properties to their original condition. These are expected to be utilised within one year.

Legal provisions relate to sub-contractor and employee related legal claims which are also expected to be utilised within one year.

22. NON-CURRENT PROVISIONS

Accounting policy

The Group self-insures certain fleet and liability risks. A provision for claims incurred but not received is recognised in respect of these potential claims. The value of this provision is estimated based on past experience of claims.

	2021 £'000	2020 £'000
Non-current provisions	3,500	3,667

Non-current provisions represent self-insured claims incurred but not yet reported. £1.7m of the provision was utilised during the year and £1.8m of additional amounts were provided. The timing of the utilisation of the provision is uncertain as it depends upon the timing of insurance claims against the Group. However, the majority of the carrying value is expected to be utilised in more than one year and, as such, the provision is considered to be non-current.

23. FINANCIAL INSTRUMENTS

Accounting policy

The Group uses a limited number of financial instruments comprising cash and liquid resources, borrowings, interest rate swaps and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group seeks to finance its operations through a combination of retained earnings and borrowings and investing surplus cash on deposit. The Group uses financial instruments to manage the interest rate risks arising from its operations and sources of finance but has no interests in the trade of financial instruments.

Financial assets and liabilities are recognised in the Consolidated Balance Sheet when the Group becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

Financial assets

Investments in unlisted equities that do not convey control or significant influence over the underlying entity are recognised at fair value. They are subsequently remeasured at fair value with any changes being recognised in the Consolidated Statement of Profit or Loss.

Contingent consideration is held by the Group in order to collect the associated cash flows but until the amount is determined, these are not solely payments of principal and interest and therefore these assets are measured both initially and subsequently at fair value, with any changes being recognised in the Consolidated Statement of Profit or Loss.

Loan notes are held by the Group in order to collect the associated cash flows and not for trading. They are therefore initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Financial assets generated from goods or services transferred to customers are presented as either trade receivables or contract assets. All of the Group's trade receivables are short-term in nature, with payments typically due within 60 days of the works being performed. The Group's contracts with its customers therefore contain no significant financing component.

Mears recognises a loss allowance for expected credit losses on financial assets subsequently measured at amortised cost using the 'simplified approach'. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

Trade receivables and cash at bank and in hand are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Consolidated Statement of Profit or Loss.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances. The Group considers its revolving credit facility to be an integral part of its cash management.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

Financial liabilities

The Group's financial liabilities are overdrafts, trade and other payables and interest rate swaps. They are included in the Consolidated Balance Sheet line items 'Long-term borrowings and overdrafts', 'Trade and other payables', 'Interest rate swaps' and 'Other payables'.

All interest related charges are recognised as an expense in 'Finance costs' in the Consolidated Statement of Profit or Loss with the exception of those that are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance income and finance costs. Borrowing costs are recognised as an expense in the period in which they are incurred with the exception of those which are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Trade payables on normal terms are not interest bearing and are stated at their fair value on initial recognition and subsequently at amortised cost.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational and financing activities.

Derivative financial instruments are recognised initially and subsequently at fair value, with mark-to-market movements recognised in the Consolidated Statement of Profit or Loss except where cash flow hedge accounting is applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Hedge accounting for interest rate swaps

Where an interest rate swap is designated as a hedge of the variability in cash flows of an existing or highly probable forecast loan interest payment, the effective part of any valuation gain or loss on the swap instrument is recognised in other comprehensive income in the hedging reserve. The cumulative gain or loss is removed from equity and recognised in the Consolidated Statement of Profit or Loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Consolidated Statement of Profit or Loss immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the Consolidated Statement of Profit or Loss immediately.

Notes to the financial statements – Group continued

For the year ended 31 December 2021

23. FINANCIAL INSTRUMENTS CONTINUED

Categories of financial instruments

	2021 £'000	2020 £'000
Non-current assets		
Fair value (level 3)		
Investments – other investments	65	65
Contingent consideration	–	5,431
	65	5,496
Amortised cost		
Loan notes	3,476	3,160
Current assets		
Fair value (level 3)		
Contingent consideration	6,531	–
Amortised cost		
Trade receivables	28,571	39,831
Deferred consideration	–	500
Other debtors	5,004	3,034
Cash at bank and in hand	64,632	96,220
	88,207	139,585
Non-current liabilities		
Fair value (level 2)		
Interest rate swaps – effective	–	(479)
Interest rate swaps – ineffective	–	17
Interest rate swaps	–	(462)
Amortised cost		
Long-term borrowing and overdrafts	–	(39,353)
Lease liabilities	(175,290)	(166,183)
	(175,290)	(205,536)
Current liabilities		
Fair value (level 2)		
Interest rate swaps – effective	–	(484)
Interest rate swaps – ineffective	–	25
Interest rate swaps	–	(459)
Amortised cost		
Trade payables	(69,555)	(114,711)
Lease liabilities	(41,600)	(42,888)
Other creditors	(5,582)	(3,208)
	(116,737)	(160,807)
	(193,748)	(219,023)

The amount recognised as an allowance for expected credit losses on trade receivables during 2021 was £0.2m (2020: £3.0m).

The IFRS 13 hierarchy level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1, where instruments are quoted on an active market, through to level 3, where the assumptions used to arrive at fair value do not have comparable market data.

The fair values of interest rate swaps have been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates (level 2).

The amount of contingent consideration receivable is typically determined by future expected profits of the sold businesses. The fair value of contingent consideration has been calculated by management by reference to the draft income and expenditure of the disposed business during 2021 and the terms of the sale (level 3). Where appropriate, the fair value of contingent consideration is discounted at the Group's weighted average cost of capital. A £0.1m increase in the 2021 profits of the disposed business would increase the fair value of contingent consideration by £0.3m.

The increase in the fair value of contingent consideration of £1.10m (2020: £0.04m) during the year was recognised in the Consolidated Statement of Profit or Loss.

The fair values of investments in unlisted equity instruments are determined by reference to an assessment of the fair value of the entity to which they relate. This is typically based on a multiple of earnings of the underlying business.

There have been no transfers between levels during the year.

Fair value information

The fair value of the Group's financial assets and liabilities is as disclosed above and approximates to the book value.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk); credit risk; and liquidity risk. The main risks faced by the Group relate to the availability of funds to meet business needs and the risk of credit default by customers. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies and guidelines approved by the Board of Directors.

Borrowing facilities

The Group's borrowing facilities are drawn on as required to manage its cash needs. Banking facilities are reviewed regularly and extended and replaced in advance of their expiry.

During the year, the Group agreed a replacement borrowing facility of £70.0m with Barclays Bank PLC, HSBC Bank PLC and Citi, of which £nil was utilised at 31 December 2021.

The facilities comprise a committed four-year £60.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The entire amount of both elements was undrawn at 31 December 2021.

Details of the Group's banking covenants are provided on page 61.

Interest rate risk management

The Group finances its operations through a mixture of retained profits and bank borrowings from major banking institutions at floating rates of interest based on SONIA. During the year, the Group settled its outstanding interest rate swaps due to its reduction in borrowing requirements and consequential ineffectiveness of the hedging relationships.

The Group's policy is to accept a degree of interest rate risk, provided the effects of the various potential changes in rates remain within certain prescribed parameters.

Effective interest rates

The Group's overall average cost of debt was 2.3% during the year to 31 December 2021 (2020: 2.4%).

Cash flow hedging reserve

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

Movements during the year were:

	£'000
At 1 January 2020	(124)
Amounts transferred to the Consolidated Statement of Profit or Loss	354
Revaluations during the year	(1,139)
Deferred tax movement	149
At 1 January 2021	(760)
Amounts transferred to the Consolidated Statement of Profit or Loss	(85)
Revaluations during the year	1,023
Deferred tax movement	(178)
At 31 December 2021	-

Notes to the financial statements – Group continued

For the year ended 31 December 2021

23. FINANCIAL INSTRUMENTS CONTINUED

At 31 December 2021 the Group had minimal exposure to movements in interest rates as it had no drawn borrowings.

If the interest rates had been 0.5% higher and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2021 and reserves would have decreased, by £0.2m (2020: £0.6m).

Liquidity risk management

The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with the practice and limits set by the Group. These limits vary by location and take into account the liquidity and nature of the market in which the entity operates.

The quantum of committed borrowing facilities of the Group is regularly reviewed and is designed to exceed forecast peak gross debt levels. For short-term working capital purposes, the Group utilises bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

The table below shows the maturity profile of the Group's financial liabilities:

	Within 1 year £'000	1–2 years £'000	2–5 years £'000	Over 5 years £'000	Total £'000
2021					
Non-derivative financial liabilities					
Bank borrowings	–	–	–	–	–
Trade and other payables	75,137	–	–	–	75,137
Lease liabilities	42,302	30,769	63,899	123,394	260,364
Derivative financial liabilities					
Interest rate swaps – effective	–	–	–	–	–
2020					
Non-derivative financial liabilities					
Bank borrowings	–	39,353	–	–	39,353
Trade and other payables	117,919	3,667	–	–	121,586
Lease liabilities	55,237	33,777	54,774	121,603	265,391
Derivative financial liabilities					
Interest rate swaps – effective	459	246	216	–	921

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables, contract assets and work in progress.

Trade receivables are normally due within 30 to 60 days. Trade and other receivables included in the Consolidated Balance Sheet are stated net of an expected credit loss provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the expected credit loss provision when management considers that the debt is no longer recoverable.

Housing customers are typically Local and Central Government and Housing Associations. The nature of these customers means that credit risk is minimal. Other trade receivables contain no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

The Group continually monitors the position of major customers and incorporates this information into its credit risk controls. External credit ratings are obtained where appropriate.

Details of the ageing of trade receivables are shown in note 18.

Loan notes receivable

The loan notes included within non-current assets were received as part of the disposal of the Terraquest Group. They are repayable in December 2028 and accrue interest at 10% per annum.

Deferred and contingent consideration

The table below shows the movements in deferred consideration receivable:

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2020	4,618	–	4,618
Increase due to disposal of Domiciliary Care businesses	1,500	–	1,500
Fair value of contingent consideration on disposal of Planning Solutions business	–	5,395	5,395
Movement in fair value of contingent consideration	–	36	36
Received during the year	(5,618)	–	(5,618)
At 1 January 2021	500	5,431	5,931
Movement in fair value of contingent consideration	–	1,100	1,100
Received during the year	(500)	–	(500)
At 31 December 2021	–	6,531	6,531

The balance of contingent consideration is expected to be received in April 2022.

Capital management

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of net debt as disclosed below and equity as disclosed in the Consolidated Statement of Changes in Equity.

	2021 £'000	2020 £'000
The Group considers its revolving credit facility to be an integral part of its cash management:		
— Cash at bank and in hand	54,632	96,220
— Revolving credit facility	–	(39,353)
Cash and cash equivalents, including revolving credit facility	54,632	56,867

Notes to the financial statements – Group continued

For the year ended 31 December 2021

24. DEFERRED TAXATION

Deferred tax is calculated on temporary differences under the liability method.

Deferred tax relates to the following:

	Balance sheet		Consolidated statement of profit or loss		Other movements	
	At 31 December 2021 £'000	At 31 December 2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Pension schemes	(8,315)	1,497	(1,003)	167	(8,809)	1,726
Share-based payments	568	281	79	(100)	228	10
Cash-flow hedges	-	178	-	-	(178)	149
Tax losses	249	1,279	(1,030)	1,215	-	-
Provisions	149	76	73	(143)	-	-
Acquisition intangibles	(662)	(1,875)	1,213	1,553	-	-
Capital allowances	647	1,323	(676)	439	-	-
Leases	668	561	107	(32)	-	-
	(6,676)	3,320	(1,237)	3,099	(8,759)	1,885

Other movements are recognised in the Consolidated Statement of Comprehensive Income, except those in respect of share-based payments which are recognised in the Consolidated Statement of Changes in Equity.

In accordance with IFRS 2 'Share-based Payment', the Group has recognised an expense for the consumption of employee services received as consideration for share options granted. A tax deduction will not arise until the options are exercised. The tax deduction in future periods is dependent on the Company's share price at the date of exercise. The estimated future tax deduction is based on the options' intrinsic value at the balance sheet date.

The cumulative amount credited to the Consolidated Statement of Profit or Loss is limited to the tax effect of the associated cumulative share-based payment expense. The excess has been credited directly to equity. This is presented in the Consolidated Statement of Comprehensive Income.

In addition to those recognised, unused tax losses totalling £25.5m (2020: £29.0m) have not been recognised as management does not consider that it is probable that they will be recovered.

Intangible assets acquired as part of a business combination are capitalised at fair value at the date of the acquisition and amortised over their useful economic lives. The UK tax regime calculates tax using the individual financial statements of the members of the Group and not the consolidated accounts. Hence, the tax base of acquisition intangible assets arising on consolidation is £nil. Furthermore, no UK tax relief is available on the majority of acquisition intangibles within individual entities, so the tax base of these assets is also £nil. The estimated tax effect of this £nil tax base is accounted for as a deferred tax liability which is released over the period of amortisation of the associated acquisition intangible asset.

25. SHARE CAPITAL AND RESERVES

Classes of reserves

Share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Share-based payment reserve represents employee remuneration which is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

The merger reserve relates to the difference between the nominal value and total consideration in respect of acquisitions, where the Company was entitled to the merger relief offered by the Companies Act 2006.

Share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
At 1 January 110,881,897 (2020: 110,490,459) ordinary shares of 1p each	1,109	1,105
Issue of 44,613 (2020: 391,438) shares on exercise of share options	–	4
At 31 December 110,926,510 (2020: 110,881,897) ordinary shares of 1p each	1,109	1,109

During the year 44,613 (2020: 391,438) ordinary 1p shares were issued in respect of share options exercised.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The following non-operating cash flow adjustments have been made to the result for the year before tax:

	2021 £'000	2020 £'000
Depreciation	49,024	47,688
Impairment of fixed assets	–	1,500
Loss on disposal of assets	245	231
Amortisation	9,777	11,736
Share-based payments	575	993
IAS 19 pension movement	(933)	878
Share of profits of associates	(855)	(365)
Finance income	(835)	(86)
Finance cost	8,904	10,186
Total	65,902	72,761

Movements in financing liabilities during the year are as follows:

	Revolving credit facility £'000	Lease liabilities £'000	Total £'000
At 1 January 2020	124,047	205,175	329,222
Inception of new leases	–	46,603	46,603
Termination of leases	–	(1,611)	(1,611)
Interest	2,711	7,254	9,965
Arrangement fees expensed during the year	515	–	515
Disposal of subsidiaries	–	(880)	(880)
Cash outflows including in respect of interest	(87,920)	(47,470)	(135,390)
At 1 January 2021	39,353	209,071	248,424
Inception of new leases	–	50,044	50,044
Termination of leases	–	(1,750)	(1,750)
Interest	966	6,955	7,921
Arrangement fees expensed during the year	647	–	647
Cash outflows including in respect of interest	(40,966)	(47,430)	(88,396)
At 31 December 2021	–	215,890	215,890

27. DISPOSALS OF SUBSIDIARIES

No disposals of subsidiaries were made during 2021. During 2020, the Group disposed of its Scotland Domiciliary Care business in the form of Mears Care (Scotland) Limited and its Planning Solutions business in the form of Terraquest Solutions Limited and Portalplanquest Limited.

During 2021, the deferred consideration of £0.5m in respect of the sale of Mears Care (Scotland) Limited was received in full.

The contingent consideration in respect of the disposal of the Planning Solutions business is carried at fair value as a current debtor and is due to be received in April 2022. The fair value was estimated to be £6.3m as at 31 December 2021 (2020: £5.4m).

Notes to the financial statements – Group continued

For the year ended 31 December 2021

28. PENSIONS

Accounting policy

Retirement benefit obligations

The Group operates both defined benefit and defined contribution pension schemes as follows:

Defined contribution pensions

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

Defined benefit pensions

The Group contributes to defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. In accordance with IFRIC 14, the asset that is recognised is restricted to the amount by which the IAS 19 service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the Group has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that guarantee asset has been recognised and disclosed. Movements in the guarantee asset are taken to the Consolidated Statement of Profit or Loss and to the Consolidated Statement of Comprehensive Income to match the movement in pension assets and liabilities.

The Group recognises the pension liability and guarantee assets separately on the face of the Consolidated Balance Sheet.

Actuarial gains and losses are taken to the Consolidated Statement of Comprehensive Income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the Consolidated Statement of Profit or Loss, including the current service cost, any past service cost and the effect of curtailments or settlements. The net interest cost is also charged to the Consolidated Statement of Profit or Loss. The amount charged to the Consolidated Statement of Profit or Loss in respect of these plans is included within operating costs.

When the Group ceases its participation in a defined benefit pension scheme, the difference between the carrying value of the scheme as calculated on an IAS 19 basis and any deficit payment or surplus receipt due are recognised in the Consolidated Statement of Profit or Loss as a settlement.

The Group's contributions to the scheme are paid in accordance with the rules of the scheme and the recommendations of the scheme actuary.

Defined benefit assets

Scheme assets for LGPS have been estimated by rolling forward the published asset position from the previous year using market index returns over the period. This is considered to provide a good estimate of the fair value of the scheme assets and the values will be updated to actuals each time a triennial valuation takes place.

Defined benefit liabilities

A number of key estimates have been made, which are given below, and which are largely dependent on factors outside the control of the Group:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used are included in this note. Sensitivity analysis for these key estimates is included below.

Where the Group has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. Management has made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Group is not set so as to contribute to reducing the deficit in the scheme. Management, in conjunction with the scheme actuaries, has made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised.

Key sources of estimation uncertainty

The net position on defined benefit pension schemes is a key source of estimation uncertainty. Given the importance of this area and to ensure appropriate estimates are made based on the most relevant information available, management has continued to engage with third party advisers in assessing each of the underlying assumptions. The discount rate is derived from the return on corporate bond yields, and whilst this is largely observable, any change in discount rates in the future could have a material impact on the carrying value of the defined benefit obligation. Similarly, inflation rates and mortality assumptions impact the defined benefit obligation as they are used to model future salary increases and the duration of pension payments. Whilst current assumptions use projected future inflation rates and the most up to date information available on expected mortality, if these estimates change, the defined benefit obligation could also change materially in future periods.

Defined contribution schemes

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £4.0m (2020: £4.5m) to these schemes.

Defined benefit schemes

The Group participated in 23 (2020: 23) principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

These pension schemes are operated on behalf of Mears Limited, Morrison Facilities Services Limited and their subsidiary undertakings. The assets of the schemes are administered by trustees in funds independent from the assets of the Group.

The Group schemes are no longer open to new members and have no particular concentration of investments, so expose the Group only to typical risks associated with defined benefit pension schemes including the risk that investments underperform compared with movements in the scheme liabilities.

In certain cases, the Group will participate under Admitted Body status in the LGPS. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Group has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised as a separate pension guarantee asset. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

The disclosures in respect of the two (2020: two) Group defined benefit schemes and the 21 (2020: 21) other defined benefit schemes in this note have been aggregated. Details of movements in pension guarantee assets are presented in a separate table and the disclosures for 2019 have been re-presented in the same way in order to aid comparability.

Costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2021 by qualified independent actuaries using the projected unit funding method.

Notes to the financial statements – Group continued

For the year ended 31 December 2021

28. PENSIONS CONTINUED

The principal actuarial assumptions at the balance sheet date are as follows:

	2021	2020
Rate of increase of salaries – first year	3.00%	2.85%
Rate of increase of salaries – second year	3.00%	2.85%
Rate of increase of salaries – long term	3.00%	2.55%
Rate of increase for pensions in payment – based on CPI with a cap of 5%	2.90%	2.45%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	2.80%	2.80%
Rate of increase for pensions in payment – based on CPI with a cap of 3%	2.15%	2.10%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	2.35%	2.30%
Discount rate	2.00%	1.35%
Retail prices inflation	3.00%	2.85%
Consumer prices inflation	2.60%	2.45%
Life expectancy for a 65-year-old male*	21.5 years	21.8 years
Life expectancy for a 65-year-old female*	24.1 years	24.0 years

* This assumption is set on a scheme-by-scheme basis, taking into account the demographics of the relevant members. The figures disclosed are an average across all schemes.

The amounts recognised in the Consolidated Balance Sheet and major categories of plan assets are:

	2021	2020
Quoted assets		
Equities	139,695	180,791
Bonds	62,509	158,974
Property	5,076	34,182
Pooled investment vehicles		
Multi-asset funds	4,085	79,087
Alternative asset funds	226	10,066
Return seeking funds	333	2,368
Other assets		
Equities	14,133	14,133
Bonds	3,170	3,170
Property	4,275	2,310
Derivatives	1,979	2,284
Cash and other	4,470	10,864
Investment liabilities		
Derivatives	(10,646)	–
Group's estimated asset share	194,912	288,491
Present value of funded scheme liabilities	(159,261)	(320,186)
Funded status	37,651	(31,695)
Scheme surpluses not recognised as assets	–	(11,421)
Pension asset/(liability)	37,651	(42,837)
Pension guarantee assets	12,975	12,975
Total	£'000	£'000
Group schemes	139,695	180,791
Other schemes	62,509	158,974
Total	202,204	339,765

The amounts recognised in the Consolidated Statement of Profit or Loss are as follows:

	2021			2020		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	2,154	4,277	6,431	2,029	4,244	6,273
Settlement and curtailment	-	(687)	(687)	-	(22)	(22)
Administration costs	545	-	545	375	-	375
Total operating charge	2,699	3,590	6,289	2,404	4,222	6,626
Net interest	(69)	282	213	(206)	466	260
Effects of limitation of recognisable surplus related to net interest	-	152	152	-	56	56
Total charged to the result for the year	2,630	4,024	6,654	2,198	4,744	6,942

Cumulative actuarial gains and losses recognised in other comprehensive income (OCI) are as follows:

	2021			2020		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Return on plan assets in excess of that recorded in net interest	12,093	11,691	23,784	21,081	20,766	41,847
Actuarial gain arising from changes in demographic assumptions	292	1,001	1,293	1,693	8,364	10,057
Actuarial gain/(loss) arising from changes in financial assumptions	17,044	31,648	48,692	(25,060)	(62,337)	(87,397)
Actuarial gain/(loss) arising from liability experience	4,364	8,032	12,396	(350)	25,300	24,950
On scheme transfer	-	-	-	-	(157)	(157)
Effects of limitation of recognisable surplus related to OCI movements	-	(26,444)	(26,444)	-	(8,414)	(8,414)
Total gains and losses recognised in OCI	33,793	25,928	59,721	(2,636)	(16,478)	(19,114)

Changes in the present value of the defined benefit obligations are as follows:

	2021			2020		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	181,184	320,186	501,370	156,379	327,460	483,839
Current service cost	2,154	4,277	6,431	2,029	4,244	6,273
Interest on obligations	2,413	3,808	6,221	3,241	5,974	9,215
Plan participants' contributions	236	540	776	264	763	1,027
Benefits paid	(5,026)	(6,348)	(11,374)	(4,446)	(4,189)	(8,635)
Contract transfer	-	(2,212)	(2,212)	-	(42,595)	(42,595)
Settlements	-	(3,742)	(3,742)	-	(144)	(144)
Actuarial gain arising from changes in demographic assumptions	(292)	(1,001)	(1,293)	(1,693)	(8,364)	(10,057)
Actuarial (gain)/loss arising from changes in financial assumptions	(17,044)	(31,648)	(48,692)	25,060	62,337	87,397
Actuarial (gain)/loss arising from liability experience	(4,364)	(8,032)	(12,396)	350	(25,300)	(24,950)
Present value of obligations at 31 December	159,261	275,828	435,089	181,184	320,186	501,370

Notes to the financial statements – Group continued

For the year ended 31 December 2021

28. PENSIONS CONTINUED

Changes in the fair value of the plan assets are as follows:

	2021			2020		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	185,436	288,491	473,927	163,250	303,464	466,714
Expected return on plan assets	2,482	3,526	6,008	3,447	5,508	8,955
Employer's contributions	2,236	3,279	5,515	2,215	1,805	4,020
Plan participants' contributions	236	540	776	264	763	1,027
Benefits paid	(5,026)	(6,348)	(11,374)	(4,446)	(4,189)	(8,635)
Scheme administration costs	(545)	–	(545)	(375)	–	(375)
Contract transfer	–	(1,553)	(1,553)	–	(39,836)	(39,836)
Settlements	–	(3,055)	(3,055)	–	(122)	(122)
Return on plan assets above that recorded in net interest	12,093	11,691	23,784	21,081	21,098	42,179
Fair value of plan assets at 31 December	196,912	296,571	493,483	185,436	288,491	473,927

Changes in the fair value of guarantee assets are as follows:

	2021 £'000	2020 £'000
Fair value of guarantee assets at 1 January	30,705	23,810
Transferred in on scheme entry	5,710	–
Transferred out on scheme exit	(6,369)	(5,173)
Recognised in the Consolidated Statement of Profit or Loss		
Guarantee asset movement in respect of service cost	1,707	1,626
Guarantee asset movement in respect of net interest	240	418
Recognised in other comprehensive income		
Guarantee asset movement in respect of actuarial losses	(19,018)	10,024
Fair value of guarantee assets at 31 December	12,975	30,705

Funding arrangements are agreed for each of the Group's defined benefit pension schemes with their respective trustees. The employer's contributions expected to be paid during the financial year ending 31 December 2022 amount to £3.5m.

Each of the schemes manages risks through a variety of methods and strategies to limit downside in falls in equity markets, movement in inflation and movement in interest rates.

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below, prepared using the same methods and assumptions used above, shows how a reasonably possible increase or decrease in a particular assumption, in isolation, results in an increase or decrease in the present value of the defined benefit obligation as at 31 December 2021.

	Decrease £'000	Increase £'000
Rate of inflation – decrease/increase by 0.1%	(7,287)	7,296
Rate of increase in salaries – decrease/increase by 0.1%	(1,344)	1,344
Discount rate – decrease/increase by 0.1%	8,450	(8,441)
Life expectancy – decrease/increase by 1 year	(18,403)	18,402

29. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2021 or at 31 December 2020.

30. CONTINGENT LIABILITIES

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2021 these guarantees amounted to £15.7m (2020: £14.7m).

The Group had no other contingent liabilities at 31 December 2021 or at 31 December 2020.

31. RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has a related party relationship with its pension schemes, its subsidiaries and its Directors.

Pension schemes

Details of contributions to pension schemes are set out in note 28.

Subsidiaries

The Group has a central treasury arrangement in which all subsidiaries participate. Management does not consider it meaningful to set out details of transfers made in respect of this treasury arrangement between companies, nor does it consider it meaningful to set out details of interest or dividend payments made within the Group.

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group PLC.

Key management personnel held the following percentage of voting shares in Mears Group PLC:

	2021 %	2020 %
Directors	0.6	0.6

Key management personnel's compensation is as follows:

	2021 £'000	2020 £'000
Salaries including social security costs	1,659	2,063
Contributions to defined contribution pension schemes	134	131
Share-based payments	146	340
	1,939	2,534

Further details of Directors' remuneration are disclosed within the Remuneration Report.

Dividends totalling £0.02m (2020: £nil) were paid to Directors during the year.

Transactions with other related parties

At the beginning of the year the Group was owed £0.5m (2020: £0.5m) from YourMK LLP, an entity in which the Group is a 50% member. This loan was repaid in full during the period.

During the year the Group provided maintenance services to Pyramid Plus South LLP, an entity in which the Group is a 30% member, totalling £10.2m (2020: £7.9m). At 31 December 2021, £1.0m (2021: £0.9m) was due to the Group in respect of these transactions. Pyramid Plus South LLP also made recharges of certain staff costs to the Group totalling £0.2m (2020: £0.1m). There were no amounts outstanding at 31 December 2021 in respect of these recharges (2020: £nil).

Financial statements

Parent Company balance sheet As at 31 December 2021

	Note	2021 £'000	2020 (restated*) £'000
Non-current assets			
Intangible assets: goodwill		-	-
Right of use assets	6	21,417	19,146
Investments	7	139,398	139,398
Loan notes	11	3,476	3,160
Pension and other employee benefits	15	1,920	-
Deferred tax asset		-	713
		166,211	162,417
Current assets			
Debtors	8	45,933	37,612
Cash at bank and in hand		649	21,461
		46,582	59,073
Creditors: amounts falling due within one year	9	(71,216)	(30,194)
Net current (liabilities)/assets		(24,634)	28,879
Total assets less current liabilities		141,577	191,296
Creditors: amounts falling due after more than one year	10	(15,492)	(49,919)
Provisions for liabilities			
Pension liability	15	-	(2,816)
		126,085	138,561
Capital and reserves			
Called up share capital	12	1,109	1,109
Share premium account		82,265	82,225
Share-based payment reserve		1,313	1,312
Hedging reserve		-	(760)
Profit and loss account		41,398	54,675
Shareholders' funds		126,085	138,561

* Details of the reclassification in respect of 2020 are included in note 11.

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Group profit (2020: loss) for the year includes a loss of £15.2m (2020: profit of £30.9m) which is recognised within the financial statements of the Company.

The financial statements were approved by the Board of Directors on 31 March 2022.

D J Miles
Director
Company number: 03232863

A C M Smith
Director

d j miles
d j miles (Jun 19, 2022 13:34 GMT+1)

andrew smith
andrew smith (Jun 19, 2022 21:11 GMT+1)

The accompanying accounting policies and notes form an integral part of these financial statements.

Parent Company statement of changes in equity

For the year ended 31 December 2021

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020	1,105	82,224	2,421	(124)	22,874	108,500
Net result for the year	-	-	-	-	30,936	30,936
Other comprehensive expense	-	-	-	(636)	(1,273)	(1,909)
Total comprehensive expense for the year	-	-	-	(636)	29,663	29,027
Issue of shares	4	1	-	-	-	5
Share options – value of employee services	-	-	1,029	-	-	1,029
Share options – exercised, cancelled or lapsed	-	-	(2,138)	-	2,138	-
At 1 January 2021	1,109	82,225	1,312	(760)	54,675	138,561
Net result for the year	-	-	-	-	(15,229)	(15,229)
Other comprehensive expense	-	-	-	760	4,151	4,911
Total comprehensive (expense)/income for the year	-	-	-	760	(11,078)	(10,318)
Issue of shares	-	40	-	-	-	40
Share options – value of employee services	-	-	575	-	-	575
Share options – exercised, cancelled or lapsed	-	-	(574)	-	574	-
Dividends	-	-	-	-	(2,773)	(2,773)
At 31 December 2021	1,109	82,265	1,313	-	41,396	126,085

The accompanying accounting policies and notes form an integral part of these financial statements.

Financial statements

Notes to the financial statements – Company

For the year ended 31 December 2021

1. ACCOUNTING POLICIES

Accounting policies are detailed in their respective notes, where relevant. Policies that are not specific to a particular note are detailed below.

Statement of compliance

Mears Group PLC is a public limited company incorporated in England and Wales. Its registered office is 1390 Montpelier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 101 and the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling.

The financial statements have been prepared on a going concern basis. Further details of the considerations made by management when making this assessment are provided in note 1 of the notes to the Group financial statements.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 from disclosing its individual profit and loss account.

The Company has taken advantage of the reduced disclosures for subsidiaries and the ultimate parent provided for in FRS 101 and has therefore not provided a cash flow statement or certain disclosures in respect of share-based payments.

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

During the prior period, the Group benefitted from receipts from the UK Government under the Coronavirus Job Retention Scheme. In accordance with FRS 101, amounts received were presented as other income.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax and laws that have been enacted or substantively enacted by the balance sheet date.

Critical judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty are disclosed in the Group's accounting policies.

2. RESULT FOR THE FINANCIAL YEAR

This result for the year is stated after charging auditor's remuneration of £150,000 (2020: £130,000) relating to audit services.

3. DIRECTORS AND EMPLOYEES

Employee benefits expense:

	2021 £'000	2020 £'000
Wages and salaries	13,283	13,189
Social security costs	1,510	1,665
Other pension costs	512	412
	15,305	15,266

A Coronavirus Job Retention Scheme grant of £m (2020: £0.6m) was recognised as other income.

The average number of employees of the Company during the year was:

	2021 Number	2020 Number
Management	287	308

Remuneration in respect of Directors was as follows:

	2021 £'000	2020 £'000
Emoluments	1,427	1,821
Pension contributions to personal pension schemes	134	131
Gains on exercise of options	146	340
	1,707	2,292

During the year contributions were paid to personal pension schemes for three Directors (2020: three).

During the year no Directors (2020: three) exercised share options.

4. SHARE-BASED EMPLOYEE REMUNERATION

Accounting policy

All share-based payment arrangements that were granted after 7 November 2002 are recognised in the financial statements.

The Group operates equity-settled and cash-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair value. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Black Scholes option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period.

Share-based remuneration in respect of employees of the Company is ultimately recognised as an expense in the profit and loss account. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve; for cash-settled share-based payments the Company recognises a liability at the balance sheet date. The Company operates share-based remuneration plans for employees of subsidiaries using the Company's equity instruments. The fair value of the compensation given in respect of these share-based compensation plans less payments received from subsidiaries in respect of those share-based payments is recognised as a capital contribution.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs up to the nominal value of the shares issued, are allocated to share capital with any excess being recorded as share premium.

As at 31 December 2021 the Group maintained four share-based payment schemes for employee remuneration. The details of each scheme are included within note 7 to the consolidated financial statements.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

Financial statements

Notes to the financial statements – Company continued

For the year ended 31 December 2021

5. DIVIDENDS

The following dividends were paid on ordinary shares in the year:

	2021 £'000	2020 £'000
Final 2020 dividend of 0p (2020: final 2019 dividend of 0p) per share	-	-
Interim 2021 dividend of 2.5p (2020: interim 2020 dividend of 0p) per share	2,773	-
	2,773	-

No dividend was declared in respect of 2020. An interim dividend in respect of 2021 of 2.50p was paid to shareholders in October 2021. The Directors recommend a final dividend of 5.50p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2021.

6. RIGHT OF USE ASSETS

Accounting policy

Where an asset is subject to a lease, the Company recognises a right of use asset and a lease liability on the balance sheet. The right of use asset is measured at cost, which matches the initial measurement of the lease liability and any costs expected at the end of the lease, and then depreciated on a straight-line basis over the lease term.

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate. Lease payments include fixed payments, variable payments based on an index and payments arising from options reasonably certain to be exercised.

The Group has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right of use assets and lease liabilities are presented separately.

	Offices £'000	Motor vehicles £'000	Total £'000
Gross carrying amount			
At 1 January 2020	1,115	32,109	33,224
Additions*	12	8,187	8,199
Disposals	(18)	(2,390)	(2,408)
At 1 January 2021	1,109	37,906	39,015
Additions*	(10)	12,896	12,886
Disposals	(81)	(19,761)	(19,842)
At 31 December 2021	1,018	31,041	32,059
Depreciation			
At 1 January 2020	219	10,557	10,776
Provided in year	214	11,112	11,326
Eliminated on disposals	(18)	(2,215)	(2,233)
At 1 January 2021	415	19,454	19,869
Provided in the year	197	9,921	10,118
Eliminated on disposals	(81)	(19,264)	(19,345)
At 31 December 2021	531	10,111	10,642
Carrying amount			
At 31 December 2021	487	20,930	21,417
At 31 December 2020	694	18,452	19,146

* Additions includes both new underlying assets and remeasurement of the right of use asset for changes in the lease terms.

7. FIXED ASSET INVESTMENTS**Accounting policy**

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at deemed cost less impairment. Dividends on equity securities are recognised in income when receivable.

	Investment in subsidiary undertakings £'000
At 1 January 2020	39,583
Capitalisation of loans with subsidiaries	110,000
Disposal of subsidiary	(10,250)
Retention of holding in disposed subsidiary	65
At 1 January 2021 and 31 December 2021	139,398

Details of the subsidiary undertakings of the Company are shown in note 16 to the consolidated financial statements.

8. DEBTORS

	2021 £'000	2020 (restated) £'000
Amounts owed by Group undertakings	38,528	31,724
Other receivables	7,405	5,888
	45,933	37,612

Amounts owed by Group undertakings are repayable on demand. Expected credit losses are assessed on an individual basis, taking into account all the relevant factors in respect of the counterparty.

Details of the reclassification in respect of 2020 are included in note 11.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Trade creditors	12,855	15,478
Amounts owed to Group undertakings	49,455	4,123
Interest rate swaps	—	459
Accruals	1,727	751
Corporation tax	346	579
Lease obligations	6,720	8,768
Other payables	113	36
	71,216	30,194

10. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2021 £'000	2020 £'000
Bank borrowings	—	39,344
Lease obligations	15,012	10,113
Interest rate swaps	—	462
Deferred tax	480	—
	15,492	49,919

Notes to the financial statements – Company continued

For the year ended 31 December 2021

11. FINANCIAL INSTRUMENTS

Accounting policy

Financial assets and liabilities are recognised in the Consolidated Balance Sheet when the Company becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

Financial assets

Basic financial assets, including trade and other receivables, amounts due to Group companies and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled; (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party; or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party which has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Financial liabilities

Basic financial liabilities, including trade and other payables, and amounts payable to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Bank borrowings are non-basic financial liabilities and are initially recognised at fair value, being the present value of future payments discounted at a market rate of interest. Bank borrowings are remeasured at fair value.

Derivatives, including interest rate swaps, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Hedge accounting for interest rate swaps

The Company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the Consolidated Statement of Profit or Loss.

The gain or loss recognised in other comprehensive income is reclassified to the Consolidated Statement of Profit or Loss when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires or no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

The Company has the following financial instruments:

	2021 £'000	2020 (restated) £'000
Financial assets that are debt instruments measured at amortised cost:		
— Loan notes	3,476	3,160
— Amounts owed by Group undertakings	38,528	31,724
— Other receivables	7,405	9,048
Financial liabilities that are measured at fair value through other comprehensive income:		
— Interest rate swaps	-	(921)
Financial liabilities that are measured at amortised cost:		
— Bank borrowings	-	(39,344)
— Trade creditors	(12,855)	(15,478)
— Lease obligations	(21,732)	(18,881)
— Amounts owed to Group undertakings	(49,455)	(4,123)
— Other payables	(113)	(36)
	(34,746)	(34,851)

There have been no changes during the period or cumulatively in the fair value of bank borrowings attributable to changes in the credit risk of the instrument. The change attributable to changes in own credit risk is not material due to the short life of individual draw-downs within bank borrowings. The difference between the carrying amount and the amount expected to be paid at maturity is not material due to the short life of individual draw-downs within bank borrowings.

The Company paid a margin over and above LIBOR on bank borrowings. The margin is based on the ratio of Group consolidated net borrowings to Group consolidated adjusted EBITDA and could have varied between 1.35% and 2.2% during the year. In December 2021, the Company agreed a new borrowing facility based on SONIA; however, the facility had not yet been utilised at the year end.

During the year, the Company settled all outstanding interest rate swap instruments due to its reduced borrowing requirements.

During 2021, a hedging gain of £1.0m (2020 loss: £1.1m) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £0.1m of income (2020: £0.4m of expense) was reclassified from the hedge reserve to profit and loss.

The Company seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Management monitors rolling forecasts of the Group and Company's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. The quantum of committed borrowing facilities of the Group and Company is regularly reviewed and is designed to exceed forecast peak gross debt levels. For short-term working capital purposes, the Group and Company utilise bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

Loan notes

Loan notes are held as a result of the sale of the Company's holding in TerraQuest Solutions Limited during 2020. The notes are repayable on the earlier of the onward sale of that business or in 2028. They attract interest at 10% per annum, payable on settlement of the loan notes.

During 2021, these notes were reclassified from current to non-current assets, in line with their expected maturity. This reclassification is presented as a restatement in the Balance Sheet and has no other impact.

12. SHARE CAPITAL AND RESERVES

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
At 1 January 110,881,897 (2020: 110,490,459) ordinary shares of 1p each	1,109	1,105
Issue of 44,613 (2020: 391,438) shares on exercise of share options	-	4
At 31 December 110,926,510 (2020: 110,881,897) ordinary shares of 1p each	1,109	1,109

During the year 44,613 (2020: 391,438) ordinary 1p shares were issued in respect of share options exercised.

Notes to the financial statements – Company continued

For the year ended 31 December 2021

12. SHARE CAPITAL AND RESERVES CONTINUED

Classes of reserves

Share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Share-based payment reserve represents employee remuneration which is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

13. CAPITAL COMMITMENTS

The Company had no capital commitments at 31 December 2021 or at 31 December 2020.

14. CONTINGENT LIABILITIES

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have commenced. At 31 December 2021 these guarantees amounted to £15.7m (2020: £14.7m).

The Company is a participant in the Group's RCF agreement and, as such, has provided a full guarantee in respect of amounts drawn under this facility. The total facility is £70m (2020: £145m) of which none (2020: £40m) was drawn at the balance sheet date.

The Company had no other contingent liabilities at 31 December 2021 or at 31 December 2020.

15. PENSIONS

Accounting policy

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

Defined benefit pensions

The Company contributes to defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. The asset that is recognised is restricted to the amount by which the service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Actuarial gains and losses are taken to the Consolidated Statement of Comprehensive Income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the profit and loss account, including the current service cost, any past service cost and the effect of curtailments or settlements. The interest costs less the expected return on assets are also charged to the Consolidated Statement of Profit or Loss. The amount charged to the Consolidated Statement of Profit or Loss in respect of these plans is included within operating costs.

The Company's contributions to the schemes are paid in accordance with the rules of the schemes and the recommendations of the actuary.

Defined contribution schemes

The Company contributes to the personal pension schemes of certain employees.

Defined benefit scheme

The Company operates a defined benefit pension scheme for the benefit of certain employees of its subsidiary companies. The assets of the schemes are administered by trustees in a fund independent from the assets of the Company.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed and updated to 31 December 2021 by a qualified independent actuary using the projected unit funding method.

The principal actuarial assumptions at the balance sheet date are as follows:

	2021	2020
Rate of increase of salaries – first year	3.00%	2.85%
Rate of increase of salaries – second year	3.00%	2.85%
Rate of increase of salaries – long term	3.00%	2.85%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	2.90%	2.85%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	2.35%	2.35%
Discount rate	2.00%	1.35%
Retail prices inflation	3.00%	2.85%
Consumer prices inflation	2.60%	2.45%
Life expectancy for a 65-year-old male	21.0 years	21.1 years
Life expectancy for a 65-year-old female	23.9 years	24.0 years

The amounts recognised in the Parent Company Balance Sheet and major categories of plan assets as a percentage of total plan assets are:

	2021 £'000	2020 £'000
Quoted assets		
Bonds	3,378	3,865
Property	853	558
Other assets		
Multi-asset funds	16,272	15,364
Alternative asset funds	2,205	2,039
Return seeking funds	335	410
Derivatives	564	733
Cash and other	1,251	275
Investment liabilities		
Derivatives	(34)	(194)
Group's estimated asset share	24,824	23,050
Present value of funded scheme liabilities	(22,904)	(25,856)
Funded status	1,920	(2,816)
Related deferred tax (liability)/asset	(480)	535
Pension asset/(liability)	1,440	(2,281)

The amounts recognised in the profit and loss account are as follows:

	2021 £'000	2020 £'000
Current service cost	8	13
Administration costs	167	77
Total operating charge	175	90
Net interest	37	28
Total charged to the result for the year	212	118

Financial statements

Notes to the financial statements – Company continued

For the year ended 31 December 2021

15. PENSIONS CONTINUED

	2021 £'000	2020 £'000
Present value of obligations at 1 January	25,866	22,350
Current service cost	8	13
Interest on obligations	345	463
Plan participants' contributions	2	2
Benefits paid	(535)	(624)
Actuarial (gain)/loss arising from changes in demographic assumptions	(402)	216
Actuarial (gain)/loss arising from changes in financial assumptions	(2,420)	3,613
Actuarial loss/(gain) arising from liability experience	40	(167)
Present value of obligations at 31 December	22,904	25,866

Changes in the fair value of the plan assets are as follows:

	2021 £'000	2020 £'000
Fair value of plan assets at 1 January	23,050	20,972
Expected return on plan assets	308	435
Employer's contributions	231	252
Plan participants' contributions	2	2
Benefits paid	(535)	(624)
Administration costs	(167)	(77)
Return on plan assets above that recorded in net interest	1,935	2,090
Fair value of plan assets at 31 December	24,824	23,050

The movements in the net pension liability and the amount recognised in the Parent Company Balance Sheet are as follows:

	2021 £'000	2020 £'000
Deficit in schemes at 1 January	(2,816)	(1,378)
Current service cost	(8)	(13)
Administration costs	(167)	(77)
Contributions	231	252
Other finance cost	(37)	(28)
Actuarial gain/(loss) arising from changes in demographic assumptions	402	(216)
Actuarial gain/(loss) arising from changes in financial assumptions	2,420	(3,613)
Actuarial (loss)/gain arising from liability experience	(40)	167
Return on plan assets above that recorded in net interest	1,935	2,090
Deficit in schemes at 31 December	1,920	(2,816)

No employer's contributions are expected to be paid during the financial year ending 31 December 2022.

16. RELATED PARTY TRANSACTIONS**Identity of related parties**

The Group has a related party relationship with its pension schemes, its subsidiaries and its Directors.

Pension schemes

Details of contributions to pension schemes are set out in note 15.

Subsidiaries

The Group has a central treasury arrangement in which all subsidiaries participate. Management does not consider it meaningful to set out details of transfers made in respect of this treasury arrangement between companies, nor does it consider it meaningful to set out details of interest or dividend payments made within the Group.

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group P.L.C. Details of transactions are disclosed in note 31 to the consolidated financial statements.

Shareholder information

Five-year record (unaudited)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUING ACTIVITIES)

	2021 (continuing) £'000	2020 (continuing) £'000	2019 (continuing) £'000	2018 (continuing) £'000	2017 (all activities) £'000
Revenue by business segment					
Housing	878,420	805,817	881,457	771,861	766,121
Care	—	—	—	—	134,063
Continuing activities	878,420	805,817	881,457	771,861	900,184
Gross profit	180,487	156,287	206,109	184,928	223,702
Operating profit before acquisition intangible amortisation and exceptional costs	33,683	5,528	40,229	39,093	39,151
Exceptional items	(1,627)	(2,279)	(2,018)	(5,657)	—
Operating profit/(loss)	24,401	(6,276)	28,089	29,698	28,513
Profit/(loss) for the year before tax	16,333	(15,218)	20,253	27,377	26,484
Profit/(loss) before taxation before acquisition intangible amortisation and exceptional costs	25,615	(3,414)	32,393	36,772	37,122
Earnings per share					
Basic	11.72p	(10.66)p	15.72p	21.91p	20.28p
Diluted	11.50p	(10.66)p	15.64p	21.78p	20.10p
Normalised	18.23p	(2.29)p	23.74p	27.70p	28.05p
Dividends per share	8.0p	0.0p	3.65p	12.40p	12.00p

CONSOLIDATED BALANCE SHEET

	2021 (continuing) £'000	2020 (continuing) £'000	2019 (continuing) £'000	2018 (continuing) £'000	2017 (all activities) £'000
Non-current assets	405,958	408,369	409,151	304,549	264,567
Current assets	227,960	267,720	284,230	244,272	211,439
Current liabilities	(230,120)	(255,318)	(326,329)	(222,909)	(198,678)
Non-current liabilities	(202,761)	(264,720)	(248,715)	(115,632)	(67,738)
Total equity	201,038	156,051	118,337	210,280	209,590
Cash and cash equivalents, end of year	54,632	56,867	(50,986)	(65,904)	(25,789)

Shareholder and corporate information

Financial calendar
Annual General Meeting
17 May 2022

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Company registration number
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Company Secretary
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Internet
The Group operates a website, which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular, all of the Group's press releases and announcements can be found on the site.

Registrar
Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details.

Investor relations
Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the registered office.

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