

Registration number: SC120550



Morrison Facilities Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



Morrison Facilities Services Limited

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Morrison Facilities Services Limited

Company Information

Directors	B R Westran
	D J Miles
	C E Middlemass
	A C M Smith
Company secretary	B R Westran
Registered office	224 West George Street Glasgow G2 2PQ
Solicitors	BPE St James' House St James' Square Cheltenham Gloucestershire GL50 3PR
Bankers	Barclays Bank PLC Corporate Banking 4th Floor Bridgwater House Counterslip, Finzels Reach Bristol BS1 6BX
Auditors	Grant Thornton UK LLP Chartered Accountants 30 Finsbury Square London EC2A 1AG

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Fair review of the business

The Company has delivered turnover of £62,709,000 (2017: £69,422,000). The decrease of 9.7% partly reflects the gradual movement of contracts to Mears Limited, a fellow subsidiary, and partly the ongoing rationalisation of contracts. This is a trend that is set to continue over the next few years.

The Directors are satisfied with the progress made by the business. The Group has positioned itself to provide a broader service offering to a market where we are seeing an increasing blurring of the boundaries between social, affordable and private rented housing. We place particular emphasis upon ensuring that our wide spectrum of core skills is entwined within the single operating unit, which is important given the increasingly complex housing challenges being faced by our clients. The Company continues to benefit from its links with the Group. The Directors anticipate that the novation of existing contracts to Mears Limited will continue at a gradual rate and that the majority of new bids will also be through Mears Limited. Where appropriate, we will look to utilise our position on existing contracts to provide further appropriate services from the broader offering of the Group.

Key Performance Indicators (KPIs)

The following are the principal key performance indicators through which we monitor the business. The Group manages its operations on a divisional basis. For this reason, the Company's Directors do not believe further key performance indicators are necessary for an appropriate understanding of the performance and position of the business. The performance of the Group's divisions is discussed in the Group's annual report which does not form part of this report.

	Unit	2018	2017
Turnover decline	%	(9.70)	(4.00)
Operating margin	%	4.60	6.70

Turnover decline

Turnover represents the amounts due for goods and services provided during the year. The decline for 2018 of 9.7% (2017: 4%) represents the continued trend of business moving to Mears Limited, the Company's fellow subsidiary of Mears Group PLC.

Operating margin

Our operating margin of 4.6% (2017: 6.7%) reflects policies implemented by management to control overheads.

Risk management objectives and policies

The effective management of risks is a key feature to the continuing success of our Company. Our approach is to identify principal risks and robustly mitigate the impact of these risks through a Group-wide risk management process.

Macro economy

Our primary market is subject to government legislation and is dependent on the political environment, local or national, including public sector, policy and funding. Any changes in policy or legislation that reduces expenditure during the life of contracts could have a detrimental effect on the Company's business. Having an awareness of, and being responsive to, market developments by, for example, developing managed insourcing and Joint Venture products to give choice to clients, is essential to mitigate these risks.

Reputation

The ultimate success of Mears relies upon maintaining a positive reputation in the public and amongst all stakeholders. Negative actions, behaviour, service and results will damage the business reputation and will affect the future of our Company. This includes risk of negative publicity from actions of employees and suppliers. We are dependent on our strong management team and a skilled and motivated workforce, to deliver business objectives.

Strategic Report for the Year Ended 31 December 2018 (continued)

Liquidity

There is a noticeable increase in client and market focus on the financial strength of our trading due to a number of main peer contractors going into administration. Various stakeholders require reassurance that the Company has strong liquidity risk management including access to the Group's long term funding facility agreement and the generation of sufficient cash from trading.

Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility. Our bank funding facility was recently extended to service the Group's needs until November 2022.

Both short term and long term liquidity are monitored through the use of various tools including cashflow forecasts and proactive response to variances identified.

Business retention and new business

A strong bid pipeline and order book are essential to the success of the business. Risk management planning is needed to ensure new tenders are won and existing contracts are retained. Successful re-tendering requires a combination of competitive pricing and client confidence in quality proposals based on evidence of historical delivery.

Integrity, ethics, anti-bribery and corruption

There are inherent risks of bribery, fraud and corruption in some of the sectors we work in. It is important that we have an internal control framework and means of communication to be pro-active where any risks materialise.

Approved by the Board on 21 November 2019 and signed on its behalf by:



.....
B R Westran
Director

Directors' Report for the Year Ended 31 December 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Directors' of the company

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

B R Westran

D J Miles

C E Middlemass

A C M Smith

Principal activity

The principal activity of the company is the provision of a full housing management service, predominately to Local Authorities and other Registered Providers of Social Housing.

Risk management

Objectives and policies

The effective management of risk is a key feature to the continuing success of our Company. Our approach is to identify principal risks and robustly mitigate the impact of these risks through a Group-wide risk management process.

Risks

The Company is part of a group which has a single approach to managing risk. The Group-wide risk management process is set out in more detail in the Corporate Governance Statement of the Group financial statements. Details of specific risks faced by the Company are set out in the Strategic Report.

Employment of disabled persons

Applications for employment by disabled employees are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities.

In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue.

It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Employee involvement

The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Company.

This is achieved through consultations with employee representatives and a Company newsletter.

The Company has received recognition under the Investors in People scheme and continues to involve its staff in the future development of the business.

Creditor payment policy

It is the Company's policy to settle terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

Trade creditors at the year-end amounted to 81 days of average supplies for the year (2017: 69 days).

Directors' Report for the Year Ended 31 December 2018 (continued)

Going concern

Mears Group PLC, the parent company, has a centralised treasury arrangement and so shares banking arrangements with its subsidiaries.

After making enquiries, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future, and they have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements. In making their enquiries, the Directors considered a period of five years and the forecasts used therefore covered the same period. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

Grant Thornton UK LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continued in force under the Companies Act 2006.

Approved by the Board on 21 November 2019 and signed on its behalf by:



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B R Westran
Director

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 of the company and of the profit or loss of 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 and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are 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.

Independent Auditor's Report to the Members of Morrison Facilities Services Limited

Opinion

We have audited the financial statements of Morrison Facilities Services Limited (the 'Company') for the year ended 31 December 2018, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Morrison Facilities Services Limited (continued)

Opinions on other matters prescribed by 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors in preparation of the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

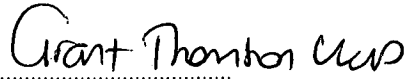
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Morrison Facilities Services Limited

**Independent Auditor's Report to the Members of Morrison Facilities
Services Limited (continued)**



Elizabeth Collins (Senior Statutory Auditor)
For and on behalf of Grant Thornton UK LLP, Statutory Auditor
London

21 November 2019

Morrison Facilities Services Limited

Profit and Loss Account for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	62,709	69,422
Cost of sales		<u>(45,843)</u>	<u>(47,718)</u>
Gross profit		16,866	21,704
Administrative expenses		(13,660)	(17,086)
Exceptional items	5	<u>(319)</u>	<u>-</u>
Operating profit	6	2,887	4,618
Income from participating interests		54	4
Other interest receivable and similar income	7	782	382
Interest payable and similar charges	8	<u>(457)</u>	<u>(537)</u>
Profit before tax		3,266	4,467
Tax on profit on ordinary activities	11	<u>(667)</u>	<u>(1,093)</u>
Profit for the year		<u><u>2,599</u></u>	<u><u>3,374</u></u>

The above results were derived from continuing operations.

Morrison Facilities Services Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Profit for the year		2,599	3,374
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations (net)	20	<u>(8,505)</u>	<u>9,697</u>
Total comprehensive income for the year		<u><u>(5,906)</u></u>	<u><u>13,071</u></u>

Morrison Facilities Services Limited

(Registration number: SC120550)

Balance Sheet as at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Fixed assets			
Intangible assets	14	309	412
Tangible assets	13	414	508
Investments	15	1	1
		<u>724</u>	<u>921</u>
Current assets			
Inventories	16	1,248	1,902
Debtors	17	14,329	25,238
Cash at bank and in hand		433	1,207
		<u>16,010</u>	<u>28,347</u>
Creditors: Amounts falling due within one year			
Trade and other payables	18	<u>(15,559)</u>	<u>(15,521)</u>
Net current assets		<u>451</u>	<u>12,826</u>
Total assets less current liabilities		1,175	13,747
Creditors: Amounts falling due after more than one year			
Amounts owed to group undertakings		(8,958)	(23,050)
Provisions for liabilities	12	<u>(3,089)</u>	<u>(5,025)</u>
Net liabilities excluding pension asset		<u>(10,872)</u>	<u>(14,328)</u>
Net pension asset	20	<u>16,258</u>	<u>26,445</u>
Net assets		<u>5,386</u>	<u>12,117</u>
Capital and reserves			
Called up share capital	25	10,000	10,000
Profit and loss account		<u>(4,614)</u>	<u>2,117</u>
Shareholders' funds		<u>5,386</u>	<u>12,117</u>

Approved by the Board on 21 November 2019 and signed on its behalf by:



.....
B R Westran
Director

The notes on pages 14 to 35 form an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 December 2018

	Note	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018		10,000	2,117	12,117
Change in accounting policy	24	-	(825)	(825)
At 1 January 2018 (As restated)		10,000	1,292	11,292
Profit for the year		-	2,599	2,599
Other comprehensive income		-	(8,505)	(8,505)
Total comprehensive income		-	(5,906)	(5,906)
At 31 December 2018		10,000	(4,614)	5,386

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	10,000	(10,954)	(954)
Profit for the year	-	3,374	3,374
Other comprehensive income	-	9,697	9,697
Total comprehensive income	-	13,071	13,071
At 31 December 2017	10,000	2,117	12,117

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is:

224 West George Street

Glasgow

G2 2PQ

These financial statements were authorised for issue by the Board on 21 November 2019.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

Basis of preparation

The Company has transitioned from FRS 102 to FRS 101 for all periods presented. In the transition to FRS 101, the Company has applied IFRS 1 First-time Adoption of International Financial Reporting Standards whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 24.

Going concern

Mears Group PLC, the parent company, has a centralised treasury arrangement and so shares banking arrangements with its subsidiaries.

After making enquiries, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future, and they have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements. In making their enquiries, the Directors considered a period of five years and the forecasts used therefore covered the same period. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) The requirements of IFRS 7 Financial Instruments: Disclosures;
- b) The requirements of IFRS 15 Revenue from Contracts with Customers;
- c) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- d) The requirements of IAS 1 Presentation of Financial Statements;
- e) The requirements of IAS 7 Statement of Cash Flows;
- f) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- g) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- h) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- i) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Exemption from preparing group accounts

The financial statements contain information about Morrison Facilities Services Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Mears Group PLC, a company incorporated in United Kingdom.

New standards, interpretations and amendments effective

The most significant changes in accounting policies from the previous year were the introduction of IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'. The accounting policies remain otherwise unchanged from the previous year.

The impact of these changes is disclosed in note 24.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Turnover

IFRS 15 'Revenue from Contracts with Customers' replaces the previous measurement standards IAS 18 'Revenue' and IAS 11 'Construction Contracts'. IFRS 15 has been applied using the modified retrospective approach on transition which results in an adjustment to the opening balance of equity at 1 January 2018 and no restatement of the prior period. The scope of the transitional adjustment is all contracts with customers which span the 1 January 2018 transition date. For the comparative period, the financial statements are reported under the aforementioned accounting standards, IAS 18 and IAS 11.

IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction assets. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

The contracts with customers in Housing have a wide variation of goods and services being provided to customers with differing performance obligations and levels of complexity. IFRS 15 does not apply to lease contracts within the scope of IAS 17 'Leases'. None of the Company's contracts are considered to have a significant financing component.

There are numerous contractual pricing mechanisms but one can broadly divide these into four types.

Schedule of rates ("SOR") contracts

These contracts are primarily for repairs and maintenance services. Each job is priced using a fixed pricing schedule, which allows each job to be identified and valued. This pricing schedule is referred to as the SOR which determines the transaction price. Each work order represents a performance obligation and as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. The stage of completion of the work order is assessed and an appropriate proportion of the expected transaction price recognised in revenue.

Lump sum contracts

Lump sum contracts may involve delivering a range of goods and services, typically repairs, maintenance and capital works; however, there is a single fixed lump sum payment per period which represents the transaction price. The obligation within a lump sum contract is deemed to be being available to deliver the goods and services in the scope of the contract, not the actual performance of the individual works orders themselves. Therefore revenue will be recognised on a straight-line basis as performance obligations are being met over time.

Contracting

For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. The Company 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 Company. 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 a point in time, rather than over time.

Variable consideration

The Company's revenue includes elements of variable consideration. 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 judgements of customers or third parties, the length of time expected before resolution of the uncertainty and the Company's previous experience of similar contracts.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Exceptional costs

Exceptional costs are disclosed on the face of the Profit and Loss Account where these are material and considered necessary to explain the underlying financial performance of the Company. They are either one off in nature or necessary elements of expenditure to derive future benefits for the Company which have not been capitalised in the Balance Sheet.

Costs of restructure are only considered to be exceptional where the restructure is transformational and the resultant cost is significant.

Tax

The tax expense for the period comprises deferred tax.

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 Profit and Loss Account, the 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.

Tangible assets

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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Profit and loss account during the financial period in which they are incurred.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold property improvements	over the period of the lease
Plant and machinery	25% per annum, reducing balance
Fixtures, fittings and equipment	25% per annum, reducing balance

Intangible assets

Software is stated at cost less amortisation.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Amortisation

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.

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Software	25% per annum, reducing balance

Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade debtors

Trade receivables represent amounts due from customers in respect of invoices. 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.

Inventories

Inventory is stated at the lower of cost and net realisable value. Cost is the actual purchase price of materials.

Work in progress

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 contracts that cannot be matched with contract work accounted for as revenue. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any subcontracted work that has been incurred in bringing the inventories and work in progress to their present location and condition.

Contract assets

Contract assets are included in trade and other receivables and represent revenue recognised in excess of the total of payments on account and amounts invoiced.

Reserves

Share capital is determined using the nominal value of shares that have been issued.

Profit and loss account includes all current and prior period retained profits and losses.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Leases

The economic ownership of a leased asset is transferred to the lessee if they bear substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable upfront at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable acquired assets. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

All other leases are treated as operating leases. Payment on operating lease agreements is recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Financial assets and liabilities

Financial assets and liabilities are recognised in the 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, loans and receivables

From 1 January 2018, the assets generated from goods or services transferred to customers are now presented as either receivables or contract assets, in accordance with IFRS 15. The assessment of impairment of receivables or contract assets from 1 January 2018 is in accordance with IFRS 9 'Financial Instruments'.

All cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their fair value, which is considered to be their transaction price (as defined in IFRS 15) and are subsequently remeasured at amortised cost.

Under IFRS 9, the Company will now recognise a loss allowance for expected credit losses (ECL) 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, contract assets 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 and contract assets 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 Profit and Loss Account.

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.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Financial Liabilities

The Company's financial liabilities are overdrafts, trade and other payables including accrued expenses, and amounts owed to Group companies.

All interest related charges are recognised as an expense in 'Interest payable and similar charges' in the Profit and Loss Account 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.

Contingent consideration is initially recognised at fair value and is subsequently measured at fair value through the Profit and Loss Account.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

The Company operates a defined contribution pension scheme for employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an independent entity. The Company 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 Company in an independently administered fund.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Defined benefit pension obligation

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 Company, 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.

Where the Company has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme (LGPS) but also has the right to recover the costs of making good any deficit from the Company's client, the fair value of that guarantee asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The right to recover costs is also limited to situations where the cap on employer contributions payable by the Company is not set so as to contribute to reducing the deficit in the scheme. Movements in the guarantee asset are taken to the Profit and Loss Account and to the Statement of Comprehensive Income to match the movement in pension assets and liabilities.

Actuarial gains and losses are taken to the 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 net interest cost is also charged to the Profit and Loss Account. The amount charged to the Profit and Loss Account in respect of these plans is included within operating costs.

The Company's contributions to the scheme are paid in accordance with the rules of the schemes and the recommendations of the scheme actuary.

3 Critical accounting judgements and key sources of estimation uncertainty

In the preparation of these financial statements, estimates and judgements have been made by management concerning the selection of useful lives of property, plant and equipment, provisions necessary for certain liabilities, when to recognise revenue on long-term contracts, actuarial judgements, discount rates used within impairment reviews and other similar evaluations. Actual amounts could differ from those estimates.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition

Previously IAS 18 'Revenue' and IAS 11 'Construction Contracts' allowed contracts with a variety of services to be combined in certain circumstances in determining the percentage of completion of those multi-service contracts. Under this standard, revenue was recorded to reflect the expected profit margin on the contract based on the overall stage of completion. Disaggregating these contracts to determine the satisfaction of performance obligations, as detailed above, significantly changes the timing of revenue recognition, as in many contracts, stage of completion is now assessed at the individual job level. The total transaction price of these contracts does not change under IFRS 15.

The Company's assessment of variable consideration revenue recognition under IFRS 15 is detailed above. The judgement applied under IFRS 15 more closely aligns timing of revenue recognition with cash inflows where the contractual mechanism contains uncertainty. Previously, the Company utilised expected value calculations in determining the variable consideration revenue to be recognised. The total amount of variable consideration will not change under IFRS 15.

Defined benefit pension scheme

A number of key estimates have been made, which are given below, which are largely dependent on factors outside the control of the Company:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used and sensitivity analysis are included in the pensions note.

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 actual scheme assets and the values will be updated to actuals each time a triennial valuation takes place.

Where the Company has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme but also has the right to recover the costs of making good any deficit from the Company'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 Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have 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 Company is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have 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. Movements in the guarantee asset are taken to profit and loss and to other comprehensive income to match the movement in pension assets and liabilities.

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 Company utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4 Turnover

The turnover and profit before tax are attributable to the one principal activity of the Company. All turnover is derived from within the United Kingdom.

The Company's revenue disaggregated by pattern of revenue recognition is as follows:

	2018 £ 000	2017 £ 000
Schedule of rates contracts	10,753	19,549
Contracting and variable consideration	32,338	29,936
Lump sum contracts	19,618	19,937
	<u>62,709</u>	<u>69,422</u>

Schedule of rates revenue is typically invoiced between one and 30 days from completion of the performance obligation. Contracting and variable consideration revenue is typically invoiced based on the stage of completion of the overall contract. Lump sum revenue is typically invoiced monthly in arrears. Payment terms for revenue invoiced is typically 30 to 60 days from the date of invoice.

5 Exceptional items

Exceptional items comprise £319,000 in respect of restructuring costs and largely comprise non-recurring staff costs.

6 Operating profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	138	149
Amortisation expense	103	138
Operating lease expense - property	432	464
Operating lease expense - plant and machinery	286	240
Operating lease expense - motor vehicles	<u>1,719</u>	<u>2,049</u>

7 Other interest receivable and similar income

	2018 £ 000	2017 £ 000
Other finance income	<u>782</u>	<u>382</u>

8 Interest payable and similar charges

	2018 £ 000	2017 £ 000
Interest paid to group undertakings	<u>457</u>	<u>537</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	16,766	18,756
Social security costs	1,532	1,793
Other pension costs	1,540	1,847
	<u>19,838</u>	<u>22,396</u>

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

	2018 No.	2017 No.
Administration and support	144	188
Other departments	525	547
	<u>669</u>	<u>735</u>

10 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	<u>38</u>	<u>37</u>

11 Income tax

Tax charged/(credited) in the profit and loss account

	2018 £ 000	2017 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	857	1,200
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>(190)</u>	<u>(107)</u>
Total deferred taxation	<u>667</u>	<u>1,093</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11 Income tax (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - the same as the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	3,266	4,467
Corporation tax at standard rate	621	860
Decrease in current tax from adjustment for prior periods	(190)	(107)
Increase from effect of capital allowances depreciation	169	243
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2	8
Tax decrease from utilisation of tax losses	(118)	(6)
Increase arising from group relief tax reconciliation	64	94
Increase from changes in pension fund prepayment	119	1
Total tax charge	667	1,093

12 Deferred tax

Deferred tax asset and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Pension scheme £ 000	Total £ 000
At 1 January 2017	1,000	2,172	(2,859)	313
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	(188)	(1,122)	109	(1,201)
- Adjustments in respect of prior periods	-	107	-	107
Deferred tax charge in other comprehensive income				
- Change in tax rate	-	-	(2,275)	(2,275)
At 1 January 2018	812	1,157	(5,025)	(3,056)
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	(123)	(480)	(59)	(662)
- Adjustments in respect of prior periods	-	190	-	190
Deferred tax charge in other comprehensive income				
- On origination and reversal of timing differences	-	-	1,995	1,995
At 31 December 2018	689	867	(3,089)	(1,533)

Deferred tax is calculated on temporary differences under the liability method.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Tangible assets

	Leasehold property improvements £ 000	Furniture, fittings and equipment £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	751	1,120	165	2,036
Additions	6	12	26	44
At 31 December 2018	757	1,132	191	2,080
Depreciation				
At 1 January 2018	692	759	77	1,528
Charge for the year	23	90	25	138
At 31 December 2018	715	849	102	1,666
Carrying amount				
At 31 December 2018	42	283	89	414
At 31 December 2017	59	361	88	508

14 Intangible assets

	Software £ 000
Cost or valuation	
At 1 January 2018	3,179
At 31 December 2018	3,179
Amortisation	
At 1 January 2018	2,767
Amortisation charge	103
At 31 December 2018	2,870
Carrying amount	
At 31 December 2018	309
At 31 December 2017	412

Software is computer software purchased from third parties for use in the business.

Amortisation of intangible assets is included within other operating charges.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Investments

Subsidiaries		£ 000
Cost or valuation		
At 1 January 2018		<u>1</u>
At 31 December 2018		<u>1</u>
Provision		
Carrying amount		
At 31 December 2018		<u>1</u>
At 31 December 2017		<u>1</u>

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held	
				2018	2017
Manchester Working Limited	Maintenance and repair services	1390 Montpellier Court Gloucester Business Park, Brockworth, Gloucester, GL3 4AH United Kingdom	Ordinary shares	80%	80%
Mears Scotland LLP	Maintenance and repair services	224 West George Street, Glasgow, United Kingdom, G2 2PQ United Kingdom	Ordinary shares	67%	67%

16 Inventories

	31 December 2018	31 December 2017
	£ 000	£ 000
Raw materials and consumables	1,248	1,465
Work in progress	-	437
	<u>1,248</u>	<u>1,902</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

17 Trade and other debtors

	31 December 2018 £ 000	31 December 2017 £ 000
Trade debtors	2,701	2,865
Debtors from related parties	3,629	12,935
Prepayments	75	50
Other debtors	721	800
Contract assets	5,647	6,619
Deferred tax assets	1,556	1,969
	<u>14,329</u>	<u>25,238</u>
Less non-current portion	<u>(5,185)</u>	<u>(14,904)</u>
	<u>9,144</u>	<u>10,334</u>

Details of non-current trade and other debtors

£3,629,000 (2017 -£12,935,000) of debtors from related parties is classified as non current.

£1,556,000 (2017 -£1,969,000) of deferred tax asset is classified as non current.

18 Trade and other creditors

	31 December 2018 £ 000	31 December 2017 £ 000
Trade creditors	10,144	9,147
Accrued expenses	2,929	3,457
Social security and other taxes	2,090	2,570
Other creditors	396	347
	<u>15,559</u>	<u>15,521</u>

19 Obligations under leases and hire purchase contracts

Operating leases

Operating lease payments represent rentals payable by the Company for certain of its office properties used for the purposes of its trade, the hire of vehicles and the hire of other equipment. These leases have durations ranging from three to 15 years. No arrangements have been entered into in respect of contingent rental payments.

The total future value of minimum lease payments is as follows:

	31 December 2018 £ 000	31 December 2017 £ 000
Within one year	1,522	2,194
In two to five years	1,890	3,050
In over five years	91	149
	<u>3,503</u>	<u>5,393</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

20 Pension and other schemes

Defined benefit schemes

The Company participates in a number of multi-employer defined benefit pension schemes for the benefit of certain employees within the Company. The assets of the schemes are administered by trustees in a fund independent from the assets for the Company.

When a new contract is taken on, generally the defined benefit schemes are fully funded. Once the Company has gained admitted body status for a scheme, it will recognise the deficits or surpluses. The amount of surplus recognised as an asset is limited to the amount that the Company can use to generate future economic benefits.

The Company participates in a multi-employer pension scheme arrangement where the Company's parent, Mears Group PLC, is the principal employer and where the Company is currently unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the Company has accounted for its contributions to the scheme as if it were a defined contribution scheme.

The following disclosures are aggregated results of the remaining defined benefit schemes.

The scheme was most recently valued on 31 December 2018. Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2018 by qualified independent actuary using the projected unit method.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	31 December 2018 £ 000	31 December 2017 £ 000
Fair value of scheme assets	265,033	337,943
Present value of scheme liabilities	(245,733)	(302,384)
	19,300	35,559
Other amounts not recognised in the statement of financial position	(3,042)	(9,114)
Defined benefit pension scheme surplus	16,258	26,445
Related deferred tax asset	(3,089)	(5,025)
Net pension asset	13,169	21,420

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

20 Pension and other schemes (continued)

Scheme assets

Changes in the fair value of the scheme assets are as follows:

	31 December 2018 £ 000	31 December 2017 £ 000
Fair value at start of year	337,943	331,188
Expected return	7,445	9,824
Return on plan assets above/(below) that recorded in net interest	(17,638)	-
Employer contributions	3,213	3,494
Contributions by scheme participants	819	967
Benefits paid	(6,694)	(7,376)
Administrative expenses paid	(121)	(154)
Contract transfer	(59,934)	-
Fair value at end of year	<u>265,033</u>	<u>337,943</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2018 £ 000	31 December 2017 £ 000
Equity	99,794	172,225
Bonds	112,586	105,559
Property	10,871	13,740
Other	<u>35,386</u>	<u>41,931</u>
Company's estimated asset share	258,637	333,455
Guarantees	<u>6,396</u>	<u>4,488</u>
Pension asset	<u>265,033</u>	<u>337,943</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

20 Pension and other schemes (continued)

Scheme liabilities

Changes in the present value of the defined benefit obligations are as follows:

	31 December 2018 £ 000	31 December 2017 £ 000
Present value at start of year	302,384	313,303
Current service cost	3,426	4,091
Past service cost	125	167
Interest cost	6,566	9,483
Actuarial loss	(3,390)	(18,251)
Contributions by scheme participants	819	967
Benefits paid	(6,694)	(7,376)
Contract transfer	(57,503)	-
Present value at end of year	<u>245,733</u>	<u>302,384</u>

Past service cost above includes a charge of £125,000 (2017: £nil) in respect of the Company's estimate of the impact of GMP equalisation, following the recent Lloyds Banking Group ruling.

Principal actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	31 December 2018 %	31 December 2017 %
Discount rate	2.95	2.70
Future salary increases - first two years	2.00	2.00
Future salary increases - long term	3.15	3.10
Future pension increases - capped at 5% based on RPI	3.05	3.05
Future pension increases - capped at 3% based on RPI	2.45	2.45
Future pension increases - capped at 5% based on CPI	2.20	2.25
Future pension increases - capped at 3% based on CPI	1.90	1.95
RPI inflationary growth	3.15	3.10
CPI inflationary growth	<u>2.15</u>	<u>2.20</u>

Post retirement mortality assumptions

	31 December 2018 Years	31 December 2017 Years
Current UK pensioners at retirement age - male	21.90	21.90
Current UK pensioners at retirement age - female	24.10	24.00
Future UK pensioners at retirement age - male	23.80	23.90
Future UK pensioners at retirement age - female	<u>26.00</u>	<u>26.20</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

20 Pension and other schemes (continued)

Amounts recognised in the income statement

	31 December 2018 £ 000	31 December 2017 £ 000
Amounts recognised in operating profit		
Current service cost	4,625	5,904
Past service cost	125	167
Guarantee asset movement	(1,157)	(2,145)
Recognised in arriving at operating profit	3,593	3,926
Amounts recognised in finance income or costs		
Expected return on plan assets	(7,366)	(9,338)
Interest on obligation	6,566	9,483
Effects of limitation on recognisable surplus	107	-
Recognised in other finance cost	(693)	145
Total recognised in the income statement	2,900	4,071

Amounts taken to the Statement of Comprehensive Income

	31 December 2018 £ 000	31 December 2017 £ 000
Actuarial loss on pension scheme assets	(17,638)	-
Actuarial loss on TUPE transfer of employees	(2,431)	-
Actuarial gain on pension scheme liabilities	3,390	18,251
Effect of limitation on surplus recognition	(2,935)	(9,114)
Reversal of previously unrecognised surplus	9,114	2,834
Amounts recognised in the Statement of Comprehensive Income	(10,500)	11,971

21 Contingent liabilities

Morrison Facilities Services Limited and the other companies in the group headed by Mears Group PLC have entered into a Composite Accounting Agreement with the Bank, whereby each Company has provided a guarantee to the Bank and, under the terms of the guarantees, the Bank is authorised to allow set-off for interest purposes and in certain circumstances to set-off debit and credit balances within the Composite Accounting System. The Bank has a fixed and floating charge over the assets of Morrison Facilities Services Limited in respect of this arrangement.

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2018 was £2.1m (2017: £2.1m).

22 Transition for FRS 101

Morrison Facilities Services Limited has transitioned to FRS 101 from FRS 102 with no material measurement differences.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

23 Related party transactions

The Group of which the Company is a member has a central treasury arrangement in which all Group companies participate and procures a number of goods and services centrally which are recharged to its subsidiaries at cost. The Directors do not consider it meaningful to set out details of transfers made in respect of this treasury arrangement, nor the recharge of centrally procured goods and services, nor do they consider it meaningful to set out details of interest or dividend payments made within the Group.

Summary of transactions with subsidiaries

During the year the Company made sales of £1,000 (2017: £nil) to Manchester Working Limited, an entity in which the Company has a 80% interest. At the year end £nil (2017: £ni) was owed from Manchester Working Limited in respect of the sales, purchases and other transactions as described above.

During the year the Company made sales of £2,000 (2017: £4,000) to Mears Scotland LLP, an entity in which the Company has a 67% interest. At the year end £1,000 (2017: £4,012,000) was owed by Mears Scotland LLP in respect of sales, purchases and other transactions as described above.

Summary of transactions with other related parties

During the year the Company made sales of £nil (2017: £152,000) to Mears Housing Management Limited, a fellow subsidiary of Mears Group PLC. At the year end £nil (2017: £8,000) was owed to Mears Housing Management Limited in respect of sales, purchases and other transactions as described above.

During the year the Company made sales of £4,000 (2017: £3,000) to YourMK LLP, a joint venture in which Mears Group PLC has a 50% interest. At the year end £nil (2017: £4,000) was owed by YourMK LLP in respect of sales, purchases and other transactions as described above.

During the year the Company made purchases of £61,000 (2017: £98,000) from Mears 24/7 LLP, a joint venture in which Mears Group PLC had a 50% interest. At the year end £nil (2017: £11,000) was owed to Mears 24/7 LLP in respect of sales, purchases and other transactions as described above.

24 Impact of new accounting standards

As detailed in the principal accounting policies, there have been two significant mandatory accounting changes which apply from 1 January 2018: the adoption of IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'. There has been no impact resulting from the adoption of IFRS 9. The impact on the Profit and Loss Account as a result of IFRS 15 is detailed below:

	Profit and loss account £ 000
Profit and loss account as previously stated at 31 December 2017	2,117
Impact of restatement on Trade debtors (IFRS 15)	(1,019)
Impact of restatement on Deferred tax asset (IFRS 15)	194
Profit and loss account as restated at 1 January 2018	1,292

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

24 Impact of new accounting standards (continued)

The effect of the application of IFRS 15 on the year ended 31 December 2018 is detailed below:

	As would have been reported under old accounting standards £ 000	Impact of IFRS 15 £ 000	As reported under new accounting standards £ 000
Profit and loss account for the year ended 31 December 2018			
Turnover	62,628	81	62,709
Tax expense	(652)	(15)	(667)
Balance sheet as at 31 December 2018			
Trade debtors	3,640	(939)	2,701
Profit and loss account	<u>5,553</u>	<u>(939)</u>	<u>4,614</u>

Under FRS 101, IFRS 15 'Revenue from Contracts with Customers' replaces the previous measurement standards IAS 18 'Revenue'.

The change to IFRS 15 has no impact on the lifetime profitability of the contracts and there are no cash flow impacts. The impact of this standard has been to decrease the operating result for 2018 by £1.0m. Moving forward, it is expected to have a positive impact in respect of operating profit as performance obligations are met.

IFRS 15 has been applied using the modified retrospective approach on transition which results in an adjustment to the opening balance of equity at 1 January 2018 and no restatement of the prior period. The scope of the transitional adjustment is all contracts with customers which span the 1 January 2018 transition date. For the comparative period, the financial statements are reported under the aforementioned accounting standard, IAS 18.

IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction assets. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

The transition to IFRS 15 at the start of the current period resulted in an opening deferred tax balance. The £0.2m deferred tax credit in respect of transition to new accounting standards is as a result of this opening deferred tax balance arising during 2018.

Morrison Facilities Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

25 Share capital

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>

26 Parent and ultimate parent undertaking

The company's immediate parent is Mears Group PLC by virtue of its 100% shareholding.

The most senior parent entity producing publicly available financial statements is Mears Group PLC. These financial statements are available upon request from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH.