Registration number: SC120550

MORRISON | MEARS

Morrison Facilities Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Contents

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 6BH
Auditors	Grant Thornton UK LLP Chartered Accountants 30 Finsbury Square London EC2A 1AG

Morrison Facilities Services Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Fair review of the business

The Company has delivered revenue of £58,908,000 (2018: £62,709,000). The decrease of 6.1% reflects the anticipated cessation of the contract with East Durham Homes, which previously contributed £7.8m of revenues per annum and which contributed only £3.6m of revenue up until the end of June 2019 when the contract ceased. Facilities Management delivered a strong performance; adding £2.3m of annual revenue compared to 2018. The gradual movement of contracts to Mears Limited, a fellow subsidiary, has continued, and is expected to continue into the future as contracts are re-tendered.

Operating profit margin has increased to 7.6% (2018: 4.6%) and this can be attributed to continual close monitoring of overheads by the management team.

The Directors have overseen the mobilisation of a variety of new Facilities Management contracts and the exit from existing onerous agreements to ensure that the Company remains best placed to benefit from future opportunities.

The Directors are pleased with the progress made by the business during the year. The Group has positioned itself to provide a broad 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.

It is difficult to predict the overall outcome and impact of COVID-19 at this stage however the Company's Directors are satisfied that the Company has adequate resources to meet its obligations as they fall due and, for this reason, this company continues to adopt the going concern basis in preparing the Company's 2019 financial statements.

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	**2019**	**2018**
Revenue decline	%	(6.10)	(9.70)
Operating margin	%	7.60	4.60

Revenue decline

Revenue represents the amounts due for goods and services provided during the year. The decline for 2019 of 6.1% (2018: 9.7%) 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 7.6% (2018: 4.6%) 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.

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. The facility has currently been agreed 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.

Strategic Report for the Year Ended 31 December 2019 (continued)

Section 172 statement

The Directors of the Company 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 2019.

The Directors recognise a wide range of stakeholder interests and seek 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.

Our employees are fundamental to meeting our strategic priorities. We aim to be a responsible employer in our approach to the pay and benefits that our employees receive and have implemented strong governance.

The health, safety and well-being of our employees is our primary consideration in the way we do business. Health, safety and environmental risks are fully embedded throughout the business.

Our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance. Employee reward and recognition is directed towards delivering high service levels, in a safe and responsible environment.

We have been recognised as an organisation which is delivering strongly on the social responsibility agenda. The Company takes a strategic approach to corporate social responsibility and embeds it into every area of our business.

We aim to act responsibly in how we engage with our suppliers. We expect our suppliers to acknowledge the significance of social, environmental and ethical matters in their conduct and demonstrate compliance with legislation. We acknowledge the importance of good payment practices and is committed to ensuring that suppliers are paid to on a timely basis to agreed terms.

Approved by the Board on 22 May 2020 and signed on its behalf by:

Ben Westran

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B R Westran

Director

Morrison Facilities Services Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

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 72 days of average supplies for the year (2018: 81 days).

Directors' Report for the Year Ended 31 December 2019 (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.

However, the uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the Company's adoption of the going concern basis. The company has completed an assessment as to the impact to the Company in the event of a significant deterioration in revenues and productivity. This most severe downside scenario included a number of assumptions with regards to revenue recognition, non-productive labour costs and changes in working capital. This scenario is currently considered unlikely; however, it is difficult to predict the overall outcome and impact of COVID-19 at this stage. The Directors believe that in this most severe downside scenario, there is a risk that the Company's funding requirement could exceed its existing committed debt facilities and therefore concluded that in this scenario there is a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

The Company also completed an assessment of what is considered the most likely impact of COVID-19, which incorporated a number of mitigating actions, together with the benefit of reliefs made available from the Central Government including furloughing of employees and a deferral of the settlement of VAT liabilities. The most likely impact shows the Company's existing funding is sufficient to sustain the business and settle obligations as and when they fall due.

Given that it remains challenging to measure the impact with any degree of precision given the extent of the uncertainty, and the fact that whilst the most likely scenario shows increased headroom when compared to the most severe downside scenario, the risk of a potential covenant breach remains a risk. The Directors have concluded that the uncertainty over the impact of the COVID-19 pandemic described above, including possible mitigating actions represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Further adverse changes arising from COVID-19 would increase the challenge of complying with financial covenants and remaining within banking facilities.

Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of an extended period of impact as a result of the COVID-19 pandemic, the Directors have a reasonable expectation the Company has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company were unable to continue as a going concern.

Directors' liabilities

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.

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.

Directors' Report for the Year Ended 31 December 2019 (continued)

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 22 May 2020 and signed on its behalf by:

Ben Westran

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B R Westran

Director

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Strategic Report, Directors' Report and 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 2019, 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 2019 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Material uncertainty related to going concern

We draw attention to the Basis of preparation in 'Principal accounting policies' to the financial statements on page 17, which indicates that the Directors have prepared a most severe downside scenario which models the potential impact of the recent COVID-19 outbreak. This scenario indicates that a material uncertainty exists that may cast significant doubt on this Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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

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.

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 8, 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.

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

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.

Grant Thornton UK LLP

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Elizabeth Collins
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
London

22 May 2020

Morrison Facilities Services Limited

Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	4	58,908	62,709
Cost of sales		(43,022)	(45,843)
Gross profit		15,886	16,866
Administrative expenses		(11,386)	(13,660)
Exceptional items	5	-	(319)
Operating profit	6	4,500	2,887
Income from participating interests		-	54
Other interest receivable and similar income	7	533	782
Interest payable and similar charges	8	(435)	(457)
Profit before tax		4,598	3,266
Tax on profit on ordinary activities	11	(859)	(667)
Profit for the year		3,739	2,599

The above results were derived from continuing operations.

Morrison Facilities Services Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Profit for the year		3,739	2,599
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations (net)	21	(7,650)	(8,505)
Total comprehensive income for the year		(3,911)	(5,906)

The notes on pages 17 to 40 form an integral part of these financial statements.

Morrison Facilities Services Limited

(Registration number: SC120550)
Balance Sheet as at 31 December 2019

	Note	31 December 2019 £ 000	(As restated) 31 December 2018 £ 000
Fixed assets			
Intangible assets	15	218	309
Tangible assets	14	472	414
Investments	16	1	1
Right of use assets	13	1,716	-
Pension guarantee assets	21	11,442	6,396
		13,849	7,120
Current assets			
Inventories	17	923	1,248
Debtors	18	10,135	14,329
Cash at bank and in hand		711	433
		11,769	16,010
Creditors: Amounts falling due within one year			
Trade and other payables	19	(14,048)	(15,559)
Loans and borrowings	20	(883)	-
Creditors: Amounts falling due within one year		(14,931)	(15,559)
Net current (liabilities)/assets		(3,162)	451
Total assets less current liabilities		10,687	7,571
Creditors: Amounts falling due after more than one year			
Loans and borrowings	20	(867)	-
Amounts owed to group undertakings		(8,721)	(8,958)
Provisions for liabilities	12	(1,354)	(3,089)
Net liabilities excluding pension asset/(liability)		(255)	(4,476)
Net pension (liability)/asset	21	(4,314)	9,862
Net (liabilities)/assets		(4,569)	5,386
Capital and reserves			
Called up share capital	25	-	10,000
Profit and loss account		(4,569)	(4,614)
Shareholders' (deficit)/funds		(4,569)	5,386

The notes on pages 17 to 40 form an integral part of these financial statements.

(Registration number: SC120550)
Balance Sheet as at 31 December 2019 (continued)

Approved by the Board on 22 May 2020 and signed on its behalf by:

Andrew Smith

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A C M Smith
Director

The notes on pages 17 to 40 form an integral part of these financial statements.

Morrison Facilities Services Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	10,000	(4,622)	5,378
Change in accounting policy	-	(36)	(36)
At 1 January 2019 (As restated)	10,000	(4,658)	5,342
Profit for the year	-	3,739	3,739
Other comprehensive income	-	(7,650)	(7,650)
Total comprehensive income	-	(3,911)	(3,911)
Dividends	-	(6,000)	(6,000)
Capital reduction	(10,000)	10,000	-
At 31 December 2019	-	(4,569)	(4,569)

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	10,000	2,117	12,117
Change in accounting policy	-	(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

The notes on pages 17 to 40 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2019

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 22 May 2020.

2 Accounting policies

Basis of preparation
The financial statements of the Company have been prepared in accordance with applicable accounting standards, including FRS 101, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis. The financial statements are presented in Sterling (£).

Impact of COVID-19

The uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the Company's adoption of the going concern basis. The Directors completed an assessment as to the impact to the Company in the event of a significant deterioration in revenues and productivity. This most severe downside scenario is currently considered unlikely; however it is difficult to predict the overall outcome and impact of COVID-19 at this stage. The Directors believe that in this most severe downside scenario, there is a risk that the Company's funding requirement could exceed its existing committed debt facilities.

Only the specific downside scenario would indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Company was unable to continue as a going concern. On this basis, the Directors are satisfied that the Company has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing the Company's 2019 financial statements.

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.

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 2019. 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 paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
c) The requirements of IFRS 15 Revenue from Contracts with Customers;
d) The requirements of IFRS 16 Leases;
e) The requirements of paragraph 58 of IFRS 16;
f) 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;
g) The requirements of paragraph 10(d) and 134 to 136 of IAS 1 Presentation of Financial Statements;
h) The requirements of IAS 7 Statement of Cash Flows;
i) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
j) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
k) 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;
l) 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.

Revenue

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 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.

IFRS 15 'Revenue from Contracts with Customers' replaces the previous measurement standards IAS 18 'Revenue' and IAS 11 'Construction Contracts'. IFRS 15 was applied using the modified retrospective approach on transition which resulted in an adjustment of £825k to the opening balance of equity at 1 January 2018. The scope of the transitional adjustment is all contracts with customers which span the 1 January 2018 transition date.

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. 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.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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.

Mobilisation
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.

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 current and deferred tax.

2 Accounting policies (continued)

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 Profit and Loss Account, any related tax generated is recognised as a component of tax expense in the Profit and Loss Account. Where an item is recognised directly to equity or presented within the Profit and Loss Account, 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 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 and fittings	20% per annum, straight line
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 2019 (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

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 receivables

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.

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.

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 2019 (continued)

2 Accounting policies (continued)

Leased assets
From 1 January 2019, 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 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 Company'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 Company 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.

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
The assets generated from goods or services transferred to customers are presented as either receivables or contract assets, in accordance with IFRS 15. The assessment of impairment of receivables or contract assets 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 recognises 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 2019 (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.

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.

Inventories
Inventory is stated at the lower of cost and net realisable value (NRV). Cost is the actual purchase price of materials. NRV is the estimated selling price in the ordinary course of business less applicable selling expenses.

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.

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.

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

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 in 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.

Changes resulting from adoption of IFRS 16

IFRS 16 'Leases' replaces IAS 17 'Leases' for accounting periods commencing on or after 1 January 2019. The adoption of this standard has resulted in the Company recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

2 Accounting policies (continued)

The new standard has been applied using a modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment of £36,000 to the opening balance of retained earnings for the current period. Prior periods have not been restated.

Instead of performing an impairment review on the right of use assets at the date of initial application, the Company has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.26%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The change to IFRS 16 has no impact on the lifetime expenditure on leased assets and there are no cash flow impacts. The impact of this standard has been to decrease the operating result for 2019 by £44,000. Moving forward, it is expected to have a neutral impact in respect of operating profit.

The Company recognised lease liabilities in relation to leases that were classified as 'operating leases" under the principles of IAS 17 - Leases. On transition, an additional £2,364,000 (2018 - £Nil) of right-to-use assets and £2,408,000 (2018 - £Nil) of lease liabilities were recognised with the difference allocated to retained earnings.

	As originally reported 31 December 2018 £ 000
Operating lease commitments at 31 December 2018	3,503
Recognition exemption for short-term leases	(1,230)
Operating leases not previously recognised	232
Operating lease liabilities before discounting	2,505
Operating lease commitments discounted using the above rate	(97)
Operating lease liabilities	2,408
Lease liabilities recognised at 1 January 2019	2,408

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.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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.

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 recovery of pre-contract costs, changes in the scope of work and changes in costs. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

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.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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

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.

Leased assets
Estimation is required in calculating the appropriate discount rate to use when recognising the present value of future lease payments as a lease obligation. The Group undertook a synthetic credit rating exercise which determined a credit rating of BB+ for Mears Group PLC by reference to the consolidated results of the Group for the year ended 31 December 2018. Given the cross guarantees in place across the Group, it was considered appropriate to use a single credit rating across all Group entities. Using the Thomson Reuters EIKON database, a yield curve was built that can be used to determine appropriate incremental borrowing rates for the varying lease tenors. In order to build an appropriate yield curve, we have calculated a proxy GBP BB+ yield curve for a range of maturities by interpolating yields at the mid-point between BBB and BB rated GBP corporate bond yields.

4 Revenue

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

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

	2019 £ 000	2018 £ 000
Revenue from contracts with customers		
Schedule of rates contracts	35,391	10,753
Contracting and variable consideration	(239)	32,338
Lump sum contracts	23,756	19,618
	58,908	62,709

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 £nil (2018: £319,000) in respect of restructuring costs and largely comprise non-recurring staff costs.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation on fixed assets	146	138
Depreciation on right of use assets	999	-
Amortisation expense	77	103
Loss on disposal of property, plant and equipment	54	-

7 Interest receivable and similar income

	2019 £ 000	2018 £ 000
Other finance income	533	782

8 Interest payable and similar expenses

	2019 £ 000	2018 £ 000
Interest paid to group undertakings	318	457
Other finance costs	61	-
Interest expense on leases	56	-
	435	457

9 Staff costs

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

	2019 £ 000	2018 £ 000
Wages and salaries	13,429	16,766
Social security costs	1,225	1,532
Other pension costs	919	1,540
	15,573	19,838

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

	2019 No.	2018 No.
Administration and support	114	144
Other departments	418	525
	532	669

Morrison Facilities Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Staff costs (continued)

The Directors were remunerated through other Group companies during the year and no remuneration was paid in respect of their positions as Directors of Morrison Facilities Services Limited.

10 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	42	38

11 Income tax

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

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax adjustment to prior periods	7	-
Deferred taxation		
Arising from origination and reversal of temporary differences	972	857
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(120)	(190)
Total deferred taxation	852	667
Tax expense in the profit and loss account	859	667

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	4,598	3,266
Corporation tax at standard rate	874	621
Decrease in current tax from adjustment for prior periods	(113)	(190)
Increase from effect of capital allowances depreciation	6	169
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	227	2
Tax decrease from utilisation of tax losses	-	(118)
Increase arising from group relief tax reconciliation	(128)	64
Increase from changes in pension fund prepayment	(7)	119
Total tax charge	859	667

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 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 1 January 2019	689	867	(3,089)	(1,533)
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	40	(952)	(60)	(972)
- Adjustments in respect of prior periods	-	120	-	120
Deferred tax charge in other comprehensive income				
- On origination and reversal of timing differences	-	-	1,795	1,795
At 31 December 2019	729	35	(1,354)	(590)

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

13 Right of use assets

	Equipment £ 000	Property £ 000	Vehicles £ 000	Total £ 000
Cost or valuation				
At 1 January 2019	16	603	1,745	2,364
Additions	19	291	42	352
At 31 December 2019	35	894	1,787	2,716
Depreciation				
Charge for the year	10	215	775	1,000
At 31 December 2019	10	215	775	1,000
Carrying amount				
At 31 December 2019	25	679	1,012	1,716

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

14 Tangible assets

	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2019	757	1,132	191	2,080
Additions	171	67	5	243
Disposals	-	(598)	-	(598)
At 31 December 2019	928	601	196	1,725
Depreciation				
At 1 January 2019	715	849	102	1,666
Charge for the year	42	81	23	146
Eliminated on disposal	-	(559)	-	(559)
At 31 December 2019	757	371	125	1,253
Carrying amount				
At 31 December 2019	171	230	71	472
At 31 December 2018	42	283	89	414

15 Intangible assets

	Software £ 000
Cost or valuation	
At 1 January 2019	3,180
Disposals	(357)
At 31 December 2019	2,823
Amortisation	
At 1 January 2019	2,870
Amortisation charge	77
Amortisation eliminated on disposals	(342)
At 31 December 2019	2,605
Carrying amount	
At 31 December 2019	218
At 31 December 2018	309

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Intangible assets (continued)

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

Amortisation of intangible assets is included within other operating charges.

16 Investments

Subsidiaries	**£ 000**
Cost or valuation	
At 1 January 2019	1
At 31 December 2019	1
Provision	
Carrying amount	
At 31 December 2019	1
At 31 December 2018	1

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2019	2018
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	Partnership member	67%	67%

17 Inventories

	31 December 2019 £ 000	31 December 2018 £ 000
Raw materials and consumables	923	1,248

18 Trade and other debtors

	31 December 2019 £ 000	31 December 2018 £ 000
Trade debtors	3,292	2,701
Debtors from related parties	799	3,629
Prepayments	33	75
Other debtors	125	721
Contract assets	5,122	5,647
Deferred tax assets	764	1,556
	10,135	14,329
Less non-current portion	(1,563)	(5,185)
	8,572	9,144

Details of non-current trade and other debtors

£799,000 (2018: £3,629,000) of debtors from related parties is classified as non current.

£764,000 (2018: £1,556,000) of deferred tax asset is classified as non current.

19 Trade and other creditors

	31 December 2019 £ 000	31 December 2018 £ 000
Trade creditors	8,683	10,144
Accrued expenses	3,088	2,929
Amounts due to related parties	10	-
Social security and other taxes	1,694	2,090
Other creditors	573	396
	14,048	15,559

20 Loans and borrowings

	31 December 2019 £ 000	31 December 2018 £ 000
Non-current loans and borrowings		
Lease liabilities	867	-

	31 December 2019 £ 000	31 December 2018 £ 000
Current loans and borrowings		
Lease liabilities	883	-

The above lease liabilities relate to the right of use assets in note 13 as accounted for under IFRS 16.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Pension and other schemes

Defined benefit schemes

The Company participates in a pension scheme arrangement where the Company's parent, Mears Group PLC (the 'Group'), is the principle employer and where contributions are made to separately administered funds. The assets of the schemes are administered by trustees in funds independent from the assets of the Company.

In certain cases, the Group will participate under Admitted Body status in the Local Government Pension Scheme. 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 total surplus in the scheme as at 31 December 2019 was £9,208,000 (2018: £16,258,000).

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

The expected contributions to the plan for the next reporting period are £2,741,000.

The scheme was most recently valued on 31 December 2019. Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2019 by qualified independent actuary using the projected unit method.

Principal actuarial assumptions

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

	31 December 2019 %	31 December 2018 %
Discount rate	2.10	2.95
Future salary increases - first two years	2.90	2.00
Future salary increases - long term	2.90	3.15
Future pension increases - capped at 5% based on RPI	2.85	3.05
Future pension increases - capped at 3% based on RPI	2.35	2.45
Future pension increases - capped at 5% based on CPI	1.90	2.20
Future pension increases - capped at 3% based on CPI	1.75	1.90
RPI inflationary growth	2.90	3.15
CPI inflationary growth	1.90	2.15

Morrison Facilities Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Pension and other schemes (continued)

Post retirement mortality assumptions

	31 December 2019 Years	31 December 2018 Years
Current UK pensioners at retirement age - male	21.90	21.90
Current UK pensioners at retirement age - female	24.10	24.10
Future UK pensioners at retirement age - male	23.70	23.80
Future UK pensioners at retirement age - female	26.00	26.00

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 2019 £ 000	31 December 2018 £ 000
Fair value of scheme assets	325,902	258,637
Present value of scheme liabilities	(328,338)	(245,733)
	(2,436)	12,904
Scheme surpluses not recognised as assets	(1,878)	(3,042)
Defined benefit pension scheme (deficit)/surplus	(4,314)	9,862
Related deferred tax asset	764	(3,089)
Net pension deficit	(3,550)	6,773
Pension guarantee assets	11,442	6,396

21 Pension and other schemes (continued)

Scheme assets

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

	31 December 2019 £ 000	31 December 2018 £ 000
Fair value at start of year	265,033	337,943
Expected return	8,266	7,366
Actuarial gain	32,123	(17,638)
Guarantee asset movement	213	79
Employer contributions	2,641	3,213
Contributions by scheme participants	681	819
Benefits paid	(8,535)	(6,694)
Administrative expenses paid	(277)	(121)
Contract transfer	37,199	(59,934)
Fair value at end of year	337,344	265,033

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2019 £ 000	31 December 2018 £ 000
Equity	156,213	99,794
Bonds	122,877	112,586
Property	13,027	10,871
Other	33,785	35,386
Company's estimated asset share	325,902	258,637
Guarantees	11,442	6,396
Pension asset	337,344	265,033

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 2019 (continued)

21 Pension and other schemes (continued)

Scheme liabilities

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

	31 December 2019 £ 000	31 December 2018 £ 000
Present value at start of year	245,733	302,384
Current service cost	3,677	4,504
Past service cost	9	125
Interest cost	7,924	6,566
Guarantee asset movement	(1,122)	(1,078)
Actuarial loss	42,772	(3,390)
Contributions by scheme participants	681	819
Benefits paid	(8,535)	(6,694)
Contract transfer	37,199	(57,503)
Present value at end of year	328,338	245,733

Past service cost above includes a charge of £nil (2018: £125,000) in respect of the Company's estimate of the impact of GMP equalisation, following the recent Lloyds Banking Group ruling.

Amounts recognised in the income statement

	31 December 2019 £ 000	31 December 2018 £ 000
Amounts recognised in operating profit		
Current service cost	3,954	4,625
Past service cost	9	125
Guarantee asset movement	(1,335)	(1,157)
Recognised in arriving at operating profit	2,628	3,593
Amounts recognised in finance income or costs		
Expected return on plan assets	(8,266)	(7,366)
Interest on obligation	7,924	6,566
Effects of limitation on recognisable surplus	41	107
Recognised in other finance cost	(301)	(693)
Total recognised in the income statement	2,327	2,900

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Pension and other schemes (continued)

Amounts taken to the Statement of Comprehensive Income

	31 December 2019 £ 000	31 December 2018 £ 000
Actuarial gain/(loss) on pension scheme assets	32,123	(17,638)
Actuarial gain on TUPE transfer of employees	-	(2,431)
Actuarial (loss)/gain on pension scheme liabilities	(42,772)	3,390
Effect of limitation on surplus recognition	(1,837)	(2,935)
Reversal of previously unrecognised surplus	3,042	9,114
Amounts recognised in the Statement of Comprehensive Income	(9,444)	(10,500)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

		31 December 2019			31 December 2018	
Adjustment to discount rate	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**
Present value of total obligation	(7,238)	-	7,090	(4,156)	-	4,089

		31 December 2019			31 December 2018	
Adjustment to rate of inflation	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**
Present value of total obligation	6,978	-	(6,837)	3,825	-	(3,760)

		31 December 2019			31 December 2018	
Adjustment to rate of salary growth	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**	**+ 0.1% £ 000**	**0.0% £ 000**	**- 0.1% £ 000**
Present value of total obligation	3,216	-	(3,181)	607	-	(586)

		31 December 2019			31 December 2018	
Adjustment to mortality age rating assumption	**+ 1 Year £ 000**	**None £ 000**	**- 1 Year £ 000**	**+ 1 Year £ 000**	**None £ 000**	**- 1 Year £ 000**
Present value of total obligation	12,429	-	(12,429)	6,611	-	(6,611)

22 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 2019 was £1.3m (2018: £2.1m).

23 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.

24 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 £nil (2018: £1,000) to Manchester Working Limited, an entity in which the Company has an 80% interest. At the year end £nil (2018: £nil) 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 £3,000 (2018: £2,000) to Mears Scotland LLP, an entity in which the Company has a 67% interest. At the year end £nil (2018: £1,000) 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 (2018: £4,000) to YourMK LLP, a joint venture in which Mears Group PLC has a 50% interest. At the year end £nil (2018: £nil) was owed by YourMK LLP in respect of sales, purchases and other transactions as described above.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

25 Share capital

Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No.	£	No.	£
Ordinary shares of £1 each	1	1	10,000,000	10,000,000

During the year the company undertook a capital reduction, reducing issued share capital from £10,000,000 to £1 by cancelling £9,999,999 of paid-up share capital.

26 Restatement of prior year Balance Sheet

The Company has made a minor amendment to the presentation of its net pension (liabilities)/assets in the current year. Previously, where a guarantee was in place for some or all of any deficit on each scheme, the guarantee asset was offset with the pension liability in the Balance Sheet.

The guarantee asset is now presented separately in fixed assets assets while the pension (deficit)/surplus before any guarantee asset is shown in non-current assets. This change is shown in the table below:

Balance sheet as at 31 December 2018	**As restated £ 000**	**As originally presented £ 000**
Fixed assets		
Pension guarantee assets	6,396	-
Non-current assets		
Pension asset	9,862	16,258
Net pension asset	16,258	16,258

27 Non adjusting events after the financial period

Since early 2020, the COVID-19 outbreak has increasingly impacted on businesses across the world. Whilst it is too early to determine the consequences of the outbreak on the Company, the Directors are confident that the Company has put in place the correct measures to ensure the Company's future.