

Registration number: SC120550

**MEARS**

## Morrison Facilities Services Limited

Annual Report and Financial Statements  
for the Year Ended 31 December 2021

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**Morrison Facilities Services Limited**

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**Morrison Facilities Services Limited**

**Company Information**

<b>Directors</b>	B R Westran
	D J Miles
	C E Middlemass
	A C M Smith
<b>Company secretary</b>	B R Westran
<b>Registered office</b>	224 West George Street Glasgow G2 2PQ
<b>Solicitors</b>	Travers Smith 10 Snow Hill London EC1A 2AL
<b>Bankers</b>	Barclays Bank PLC Corporate Banking 4th Floor Bridgwater House Counterslip, Finzels Reach Bristol BS1 6BH
<b>Auditors</b>	Ernst & Young LLP Chartered Accountants The Paragon Counterslip Bristol BS1 6BX

**Morrison Facilities Services Limited****Strategic Report for the Year Ended 31 December 2021**

The Directors present their report for the year ended 31 December 2021.

**Fair review of the business**

Throughout the report and financial statements, the term "Company" is used to refer to Morrison Facilities Services Limited and "Group" is used to refer to Mears Group PLC and its subsidiaries.

As with many businesses in the UK, the most obvious theme for 2021 was the gradual and progressive return to normal working. At the start of the year, a version of lockdown was still in place and the Company's activities were restricted, however by the half year, it had returned to almost normal operations and contractual conditions. This resilience in performance owes much to the quality of Company's staff and the strength of customer relationships.

The Company's operating margin recovered to a profit of 14.6% in 2021 (from a loss of 0.1% in 2020) as it returned to normal operations and contractual conditions following the impacts of the pandemic. The revenue continued to decline as expected with our focus on facilities management, while the remaining housing contracts are retendered through another Group company, Mears Limited. The Company has reported revenue of £27,177,000 (2020: £40,387,000), a decrease of 32.7%.

The Directors are satisfied with the resilience shown by the business during the year. The management team will continue to closely monitor trading conditions and re-position the business accordingly.

As mentioned above, the Company is increasingly focused on facilities management as its core business, while allowing contracts in respect of social housing maintenance to end naturally on expiry of the existing contract. They are then typically retendered by other Group companies, where there will be an ongoing relationship with the client.

The facilities management business has consistently performed well over an extended period of time but is currently facing some significant macroeconomic headwinds, particularly in the form of increased energy prices. Energy has less of a direct impact on social housing maintenance contracts but it is not uncommon for facilities management contracts to pass the risks of price increases to the contractor. In those contracts where this is the case, the recent and ongoing price increases are expected to reduce future margins.

The Company continues to benefit from its position within the wider Group however, and this provides both increased buying power in respect of energy supplies as well as more direct support where necessary. The Directors anticipate the Company continuing to maintain its position as a small but highly contributory member of the Group in future.

**Key Performance Indicators (KPIs)**

The following are the principal key performance indicators through which the Directors monitor the business. The Group manages its operations on a branch basis. For this reason, the Company's Directors do not believe further key performance indicators are necessary for an understanding of the performance and position of the Company.

	Unit	2021	2020
Revenue decline	%	(32.70)	(31.40)
Operating margin	%	14.60	(0.10)

**Revenue decline**

Revenue represents the amounts due for goods and services provided during the year. The decline for 2021 of 32.7% (2020: 31.4%) was anticipated due to the novation of existing contracts to Mears Limited. The majority of the social housing maintenance contracts ended March 2020, which also led to a sharp decrease in administrative expenses largely incurred by these contracts.

**Operating margin**

The Company's operating margin recovered to a profit of 14.6% (2020: loss of 0.1%) as it returned to normal operations and contractual conditions following the impacts of the pandemic.

## **Morrison Facilities Services Limited**

# **Strategic Report for the Year Ended 31 December 2021 (continued)**

### **Risk management objectives and policies**

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

#### *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 the Company. This includes risk of negative publicity from actions of employees and suppliers. The Company is dependent on its strong management team and a skilled and motivated workforce, to deliver business objectives.

#### *Liquidity*

There is a clear client and market focus on the financial strength of the Company's 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 and its working capital requirements are managed at a Group level. The facility has currently been agreed until December 2025.

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 the Company operates in. It is important that the Company has an internal control framework and means of communication to be pro-active where any risks materialise.

#### *Macro economy*

The Company's 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.

The Directors have recognised the ongoing price increases on all fronts as a key risk going forward into 2022 and potentially beyond. These price increases are expected to put additional pressure on margins, especially in the short-term. Risks of price increases are expected to be passed to clients either through renegotiation or existing contractual mechanisms, but this will not happen immediately in most cases. In particular, energy costs have less of a direct impact on standard housing maintenance contracts, but it is not uncommon for the Company to retain the risk of energy price increases on facilities management contracts.

Even as the effects of Covid-19 appear to be reducing, global supply chains remain stressed both due to short-term events as well as due to a structural major increase in demand for a wide range of raw materials needed for decarbonisation and electrification initiatives across the globe. Therefore, price pressures on raw materials, energy and consequentially all goods and commodities may remain elevated for a prolonged period of time. On a positive note, neither governments, central banks, nor bond markets appear to expect the current above-average and above-target rates of price increases to sustain.

**Morrison Facilities Services Limited**

**Strategic Report for the Year Ended 31 December 2021 (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 2021.

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.

The Company's employees are fundamental to meeting its strategic priorities. The Company aims to be a responsible employer in its approach to the pay and benefits that its employees receive and has implemented strong governance.

The health, safety and well-being of its employees is Company's primary consideration in the way it does business. Health, safety and environmental risks are fully embedded throughout the business.

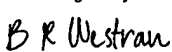
The Company's intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance. Employee reward and recognition is directed towards delivering high service levels, in a safe and responsible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

The Company has 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 its business.

The Company aims to act responsibly in how it engages with its suppliers. The Company expects its suppliers to acknowledge the significance of social, environmental and ethical matters in their conduct and demonstrate compliance with legislation. The Company acknowledges 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 29 July 2022 and signed on its behalf by:

DocuSigned by:



July 29, 2022

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B R Westran

Director

## **Morrison Facilities Services Limited**

# **Directors' Report for the Year Ended 31 December 2021**

The Directors present their report and the financial statements for the year ended 31 December 2021.

### **Directors' of the company**

The directors, who held office during the year, and up to the date of approval of the financial statements, 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 facilities management service to a range of customers in both the public and private sectors.

### **Risk management**

#### ***Objectives and policies***

The effective management of risk is a key feature to the continuing success of the Company. The Company's 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 as well as with employees themselves through the use of regular surveys. Senior management also present regular briefings cascades to all employees. The wider Group has appointed an Employee Director to better represent the interests of employees on the Board.

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

## Morrison Facilities Services Limited

# Directors' Report for the Year Ended 31 December 2021 (continued)

### 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 23 days of average supplies for the year (2020: 28 days).

### Going concern

On the basis of their assessment of the Company's financial position, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future.

In considering the appropriateness of adopting the going concern basis for preparing the financial information, the Directors noted that the Company and Group operate in defensive markets where spend is largely non-discretionary and that contracts tend to be long-term partnerships. The Board believes that the Company has adequate resources to continue in operational existence until 31 July 2023. The company is listed as a Borrower in the Revolving Credit Facility Agreement and also as a guarantor on the same facility and on the Composite Accounting Agreement as described in note 22. Therefore, the Directors have prepared cash flow forecasts and considered plausible downside scenarios in relation to the terms of those facilities. The Directors have recognised the challenging economic backdrop, including price inflation and skills shortages, however the majority of the Company's customer contracts include annual price adjustments to mitigate much of this risk.

The principal risks and uncertainties of the Company are managed at a Group level. However, the Company itself has a positive balance sheet with net current assets of £737,000 and the Directors believe that the Company will be in a position to settle its debts as they fall due.

On this basis, the Directors consider it appropriate to adopt the going concern basis for preparing the financial information.

### Directors' liabilities

Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. However, the 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.

### Reappointment of auditors

Ernst and Young LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 2006.

### Energy and carbon reporting

The Company has complied with all the streamlined Energy and Carbon Reporting requirements (SECR), along with all the other entities that are part of Mears Group PLC. The annual report and accounts of Mears Group PLC included SECR required disclosures for all subsidiaries within the Group.

Approved by the Board on 29 July 2022 and signed on its behalf by:

DocuSigned by:

*B R Westran*

July 29, 2022

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B R Westran

Director



## **Morrison Facilities Services Limited**

### **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.

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.

## **Morrison Facilities Services Limited**

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

### **Opinion**

We have audited the financial statements of Morrison Facilities Services Limited for the year ended 31 December 2021 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 26, 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 including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 31 July 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

## **Morrison Facilities Services Limited**

# **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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept, 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**

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

**Morrison Facilities Services Limited**

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

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS101 and the Companies Act 2006) and the relevant tax compliance regulations in the UK.
- We understood how Morrison Facilities Services Limited is complying with those frameworks by reading internal policies and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the company's legal counsel and internal audit of any known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the programs and controls that the company has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud, how senior management monitor those programs and controls, evaluating conditions in the context of incentive and/or pressure to commit fraud, considering the opportunity to commit fraud and the potential rationalisation of the fraudulent act.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of senior management, including the Directors. As well as attendance and enquiry at meetings, our procedures involved a review of board meetings, internal audit reports, and other committee minutes to identify any non-compliance with laws and regulations. We planned our audit procedures to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation.

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

**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.

DocuSigned by:

Ernst & Young LLP

July 29, 2022

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Greg Tyler (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol

29 July 2022

**Morrison Facilities Services Limited****Profit and Loss Account for the Year Ended 31 December 2021**

	Note	2021 £ 000	2020 £ 000
Revenue	4	27,177	40,387
Cost of sales		<u>(21,297)</u>	<u>(33,160)</u>
Gross profit		5,880	7,227
Administrative expenses		(1,904)	(7,960)
Other operating income	5	<u>-</u>	<u>707</u>
Operating profit/(loss)	6	3,976	(26)
Interest receivable and similar income	7	116	255
Interest payable and similar charges	8	<u>(67)</u>	<u>(335)</u>
Profit/(loss) before tax		4,025	(106)
Tax on profit/(loss) on ordinary activities	11	<u>(1,127)</u>	<u>(140)</u>
Profit/(loss) for the year		<u>2,898</u>	<u>(246)</u>

The results above are in respect of continuing operations.

**Morrison Facilities Services Limited****Statement of Comprehensive Income for the Year Ended 31 December 2021**

	Note	2021 £ 000	2020 £ 000
Profit/(loss) for the year		<u>2,898</u>	<u>(246)</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of post employment benefit obligations	21	36,680	(4,531)
Deferred tax in respect of defined benefit pensions	12	(6,738)	443
Pension guarantee asset movement in respect of actuarial adjustment	21	<u>(9,378)</u>	<u>2,202</u>
		<u>20,564</u>	<u>(1,886)</u>
Total comprehensive income for the year		<u><u>23,462</u></u>	<u><u>(2,132)</u></u>

The notes on pages 16 to 42 form an integral part of these financial statements.

**Morrison Facilities Services Limited****(Registration number: SC120550)****Balance Sheet as at 31 December 2021**

			(As restated*)
		31 December 2021 £ 000	31 December 2020 £ 000
	Note		
<b>Fixed assets</b>			
Intangible assets	15	2	109
Tangible assets	14	330	400
Investments	17	1	1
Right of use assets	13	357	505
Pension asset	21	35,731	7,068
Pension guarantee asset	21	-	14,725
		<u>36,421</u>	<u>22,808</u>
<b>Current assets</b>			
Inventories	16	124	455
Current debtors	18	4,207	6,928
Debtors due after more than one year	18	150	703
Cash at bank and in hand		<u>1,558</u>	<u>2,136</u>
		<u>6,039</u>	<u>10,222</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	19	(5,234)	(10,920)
Lease liabilities	20	(67)	(139)
Current tax liability	11	<u>(1)</u>	<u>(15)</u>
<b>Creditors: Amounts falling due within one year</b>		<u>(5,302)</u>	<u>(11,074)</u>
<b>Net current assets/(liabilities)</b>		<u>737</u>	<u>(852)</u>
<b>Total assets less current liabilities</b>		<u>37,158</u>	<u>21,956</u>
<b>Creditors: Amounts falling due after more than one year</b>			
Lease liabilities	20	(313)	(390)
Amounts due to related parties	24	(1,689)	(266)
<b>Provisions for liabilities</b>	12	(8,137)	(894)
<b>Pension liability</b>	21	<u>(239)</u>	<u>(17,088)</u>
<b>Net assets</b>		<u>26,780</u>	<u>3,318</u>
<b>Capital and reserves</b>			
Called up share capital	26	-	-
Share premium reserve		10,000	10,000
Profit and loss account		<u>16,780</u>	<u>(6,682)</u>
<b>Shareholders' funds</b>		<u>26,780</u>	<u>3,318</u>

The notes on pages 16 to 42 form an integral part of these financial statements.

**Morrison Facilities Services Limited**

**(Registration number: SC120550)**

**Balance Sheet as at 31 December 2021 (continued)**

\*Note 25 contains details of the restatement of the prior year figures.

Approved by the Board on 29 July 2022 and signed on its behalf by:

DocuSigned by:

*Andrew Smith*

July 29, 2022

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A C M Smith

Director

The notes on pages 16 to 42 form an integral part of these financial statements.



**Morrison Facilities Services Limited****Statement of Changes in Equity for the Year Ended 31 December 2021**

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	-	-	(4,550)	(4,550)
Loss for the year	-	-	(246)	(246)
Other comprehensive income	-	-	(1,886)	(1,886)
Total comprehensive income	-	-	(2,132)	(2,132)
Other share premium reserve movements	-	10,000	-	10,000
At 31 December 2020	-	10,000	(6,682)	3,318
	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	-	10,000	(6,682)	3,318
Profit for the year	-	-	2,898	2,898
Other comprehensive income	-	-	20,564	20,564
Total comprehensive income	-	-	23,462	23,462
At 31 December 2021	-	10,000	16,780	26,780

In 2020, the Company executed a share capital reduction which consolidated the existing share capital into two new Ordinary shares of £1 each with an increase to share premium representing the capitalisation of a loan from the Company's parent, Mears Group PLC.

## **Morrison Facilities Services Limited**

# **Notes to the Financial Statements for the Year Ended 31 December 2021**

### **1 General information**

The financial statements present the results and financial position of Morrison Facilities Services Limited ("the Company") for the year ended 31 December 2021.

The Company is a private company limited by share capital, incorporated in Scotland 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 29 July 2022.

### **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 (£), rounded to the nearest thousand (£'000), which is also the functional currency of the Company.

The Company has taken advantage of the reduced disclosures for subsidiaries provided for in FRS 101 and the specific exemptions that the Company has taken advantage of are set out in 'Summary of disclosure exemptions', as the Company is a member of a group where the parent of that group prepares publicly available financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.

#### **Going concern**

On the basis of their assessment of the Company's financial position, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future.

In considering the appropriateness of adopting the going concern basis for preparing the financial information, the Directors noted that the Company and Group operate in defensive markets where spend is largely non-discretionary and that contracts tend to be long-term partnerships. The Board believes that the Company has adequate resources to continue in operational existence until 31 July 2023. The company is listed as a Borrower in the Revolving Credit Facility Agreement and also as a guarantor on the same facility and on the Composite Accounting Agreement as described in note 22. Therefore, the Directors have prepared cash flow forecasts and considered plausible downside scenarios in relation to the terms of those facilities. The Directors have recognised the challenging economic backdrop, including price inflation and skills shortages, however the majority of the Company's customer contracts include annual price adjustments to mitigate much of this risk.

The principal risks and uncertainties of the Company are managed at a Group level. However, the Company itself has a positive balance sheet with net current assets of £737,000 and the Directors believe that the Company will be in a position to settle its debts as they fall due.

On this basis, the Directors consider it appropriate to adopt the going concern basis for preparing the financial information.

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (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 2021. 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.

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****2 Accounting policies (continued)****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.

*Repair and maintenance contracts*

For contracts in this category, the customer raises orders on demand, for example to carry out responsive repairs. Revenue is derived from a mixture of lump-sum periodic payments and task-based payments depending on the terms of the individual contract.

Where a lump sum payment is in place it may cover the administrative element of the contract or may cover the majority of the tasks undertaken within that contract with exclusions to this being charged in addition to the lump-sum charge. For the works covered by the lump-sum payment, the performance obligation is being available to deliver the goods and services in the scope of the contract, not the performance of the individual works orders themselves. Revenue is recognised on a straight-line basis as performance obligations are being met over time.

For works orders not covered by a lump-sum payment, each works order represents a distinct performance obligation and, as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. Each works order can be broken down into one or more distinct tasks which are either complete or not complete. The stage of completion of the works order is assessed by looking at which tasks are complete. The transaction price for partly completed works orders is recognised as cost plus expected margin. The transaction price for completed works orders is the invoice value, which is typically determined by a pricing schedule referred to as a Schedules of Rates that provides a transaction price for each particular task.

Some contracts may include an element of variable revenue based on certain Key Performance Indicators ('KPIs'). These are recognised either at a point in time or over time, depending on the nature of the KPI and the contractual agreement in which it is contained. Where there is uncertainty in the measurement of variable consideration, at both the start of the contract and subsequently, management will consider the facts and circumstances of the contract in determining either the most likely amount of variable consideration when the outcome is binary, or the expected value based on a range of possible considerations. Included within this assessment will be the extent to which there is a high probability that a significant reversal in variable consideration revenues will not occur once the uncertainty is subsequently resolved. This assessment will include consideration of the following factors: the total amount of the variable consideration; the proportion of consideration susceptible to judgements of customers or third parties, for example KPIs; the length of time expected before resolution of the uncertainty; and the Company's previous experience of similar contracts.

*Mobilisation*

Across all revenue types, where a contract includes a mobilisation element, consideration is initially given to whether the mobilisation element contains any discrete performance obligations. If this is the case, an element of the total contract price is allocated to those performance obligations and recognised either at a point in time or over time, depending on the nature of the performance obligation. Mobilisation income is included in the revenue category to which the contract relates.

Where amounts are received for mobilisation elements that are not performance obligations, these amounts are allocated to the performance obligations in the contract to which they relate.

**Government grants**

Grants from the government are recognised at their fair value in profit or loss where there is a reasonable assurance that the grant will be received and the company has complied with all attached conditions. Grants received where the company has yet to comply with all attached conditions are recognised as a liability (and included in deferred income within trade and other payables) and released to income when all attached conditions have been complied with.

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****2 Accounting policies (continued)****Tax**

The tax expense for the period comprises current and deferred tax.

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**

Leasehold property improvements

Plant and machinery

Fixtures and fittings

Equipment

**Depreciation method and rate**

The lower of estimated useful life or over the period of the lease, straight line

25% per annum, reducing balance

over two years, straight line

25% per annum, reducing balance

**Intangible assets**

Software is stated at cost less amortisation.

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (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:

<b>Asset class</b>	<b>Amortisation method and rate</b>
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.

**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.

**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.

**Leased assets**

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 Group's incremental borrowing rate. Lease payments include fixed payments, variable payments based on an index and payments arising from options reasonably certain to be exercised.

The 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.

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**2 Accounting policies (continued)**

**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.

**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.

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**2 Accounting policies (continued)**

**Reserves**

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

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

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

**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.



**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (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.

**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.

**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.

The estimation techniques used for revenue and profit recognition in respect of contracting and variable consideration contracts require judgements to be made about the stage of completion of certain contracts and the recovery of work in progress, mobilisation costs and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

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

**Leased assets**

The Company holds a large number of leases across its portfolio of offices. Whilst the Company endeavours to standardise the form of leases, operational demands dictate that many leases have specific wording to address particular operational needs and also to manage the associated operational and financial risks. As such, each lease requires individual assessment and the Company is required to make key judgements which include:

- the identification of a lease;
- assessing the right to direct the use of the underlying asset;
- determining the lease term; and
- the assessment as to the level of future lease payments, including fixed and variable payments.

The most typical challenges encountered and which form the key judgements are:

- where the lease contains a one-way no-fault break in Morrison Facilities Services Limited favour, the Company measures the obligation based on the Company's best estimate of its future intentions; and
- where the lease contains an extension or termination clause in Company's favour, the Company will judge whether it expects to exercise it or not.

Estimation is required in calculating the appropriate discount rate to use when recognising the present value of future lease payments as a lease obligation. Given the cross-guarantees in place across the Group, it is considered appropriate for the Company to use a rate linked to the Group's Revolving Credit Facility ('RCF'). The Company therefore determines its rates by adding the currently applicable margin from the grid contained within the RCF agreement, to an appropriate base rate. For the current period, that base rate was LIBOR, as that was the base rate under the RCF agreement throughout the year. For 2022, the base rate will switch to SONIA as that is the base rate under the new RCF agreement, finalised in December 2021. This change is not expected to have a material impact on the calculation of IBRs in 2022.

**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.

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

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

**Defined benefit pension scheme**

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.

**Defined benefit liabilities**

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

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

Details of the particular estimates used are included in the pensions note. Sensitivity analysis for these key estimates is included in note 21.

Where the Company has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the 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.

**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.

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****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:

	2021 £ 000	2020 £ 000
<b>Revenue from contracts with customers</b>		
Repairs and maintenance	27,177	40,387

Repairs and maintenance revenue is typically invoiced between one and 30 days from completion of the performance obligation. Payment terms for revenue invoiced are typically 30 to 60 days from the date of invoice.

**5 Other operating income**

The analysis of the company's other operating income for the year is as follows:

	2021 £ 000	2020 £ 000
Government grants	-	707

The other operating income for the year is £nil. The last year's other operating income (£707,000) relates to the government furlough scheme, which provided financial support relating to the Covid-19 pandemic.

**6 Operating profit/(loss)**

Arrived at after charging

	2021 £ 000	2020 £ 000
Depreciation on fixed assets	86	113
Depreciation on right of use assets	98	201
Amortisation expense	23	55
Loss on disposal of intangible assets	84	54

**7 Interest receivable and similar income**

	2021 £ 000	2020 £ 000
Other interest receivable	116	255

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****8 Interest payable and similar expenses**

	2021 £ 000	2020 £ 000
Interest paid to group undertakings	25	277
Interest expense on leases	14	20
Other finance costs	28	38
	<u>67</u>	<u>335</u>

**9 Staff costs**

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

	2021 £ 000	2020 £ 000
Wages and salaries	5,879	8,733
Social security costs	811	1,125
Other pension costs	1,270	1,394
	<u>7,960</u>	<u>11,252</u>

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

	2021 No.	2020 No.
Administration and support	88	131
Other departments	270	349
	<u>358</u>	<u>480</u>

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**

	2021 £ 000	2020 £ 000
Audit of the financial statements	<u>63</u>	<u>57</u>

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****11 Income tax**

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

	2021 £ 000	2020 £ 000
<b>Current taxation</b>		
UK corporation tax adjustment to prior periods	1	15
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	714	(14)
Arising from changes in tax rates and laws	412	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	139
Total deferred taxation	1,126	125
Tax expense in the profit and loss account	1,127	140

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit/(loss) before tax	4,025	(106)
Corporation tax at standard rate	765	(20)
Increase from effect of capital allowances depreciation	-	5
Increase from effect of expenses not deductible in determining taxable profit	239	77
Decrease arising from group relief	(290)	(93)
Deferred tax expense relating to changes in tax rates or laws	412	-
Increase from changes in unpaid pension contributions	-	18
Increase in current tax from adjustment for prior periods	1	153
Total tax charge	1,127	140

**Factors that may affect future tax charges**

The UK Budget 2021 announcements on 3 March 2021 included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end, to the extent those balances are expected to impact on current tax after 1 April 2023.

## Morrison Facilities Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 12 Deferred tax

## Deferred tax asset and liabilities

	Capital allowances £ 000	Tax losses £ 000	Provisions £ 000	DB pension scheme £ 000	Unpaid pension contributions £ 000	Total £ 000
At 1 January 2020	729	35	-	(1,354)	-	(590)
Deferred tax charge in profit and loss account						
- On origination and reversal of timing differences	37	(41)	-	18	-	14
- Adjustments in respect of prior periods	(145)	6	-	442	-	303
At 1 January 2021	621	-	-	(894)	-	(273)
Deferred tax charge in profit and loss account						
- Change in tax rate	167	-	-	(579)	-	(412)
- On origination and reversal of timing differences	(91)	-	10	(662)	29	(714)
Deferred tax charge in other comprehensive income						
- Change in tax rate	-	-	-	(1,551)	-	(1,551)
- On origination and reversal of timing differences	-	-	-	(5,187)	-	(5,187)
At 31 December 2021	697	-	10	(8,873)	29	(8,137)

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

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****13 Right of use assets**

	<b>Offices £ 000</b>
<b>Cost or valuation</b>	
At 1 January 2020	936
Disposals	<u>(72)</u>
At 31 December 2020	<u>864</u>
At 1 January 2021	864
Additions	(28)
Disposals	<u>(282)</u>
At 31 December 2021	<u>554</u>
<b>Depreciation</b>	
At 1 January 2020	230
Charge for year	201
Eliminated on disposal	<u>(72)</u>
At 31 December 2020	<u>359</u>
At 1 January 2021	359
Charge for the year	98
Eliminated on disposal	<u>(260)</u>
At 31 December 2021	<u>197</u>
<b>Carrying amount</b>	
At 31 December 2021	<u><u>357</u></u>
At 31 December 2020	<u><u>505</u></u>
Additions includes remeasurements of the right of use asset as a result of changes in the lease agreement, which can increase or decrease the right of use asset.	



## Morrison Facilities Services Limited

# Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 14 Tangible assets

	Leasehold improvements £ 000	Fixtures, fittings and equipment £ 000	Plant and machinery £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2021	282	620	216	1,118
Additions	-	15	1	16
At 31 December 2021	282	635	217	1,134
<b>Depreciation</b>				
At 1 January 2021	142	430	146	718
Charge for the year	19	49	18	86
At 31 December 2021	161	479	164	804
<b>Carrying amount</b>				
At 31 December 2021	121	156	53	330
At 31 December 2020	140	190	70	400

## 15 Intangible assets

	Software £ 000
<b>Cost or valuation</b>	
At 1 January 2021	1,482
Disposals	(1,456)
At 31 December 2021	26
<b>Amortisation</b>	
At 1 January 2021	1,373
Amortisation charge	23
Amortisation eliminated on disposals	(1,372)
At 31 December 2021	24
<b>Carrying amount</b>	
At 31 December 2021	2
At 31 December 2020	109

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

Amortisation of intangible assets is included within other operating charges.

## Morrison Facilities Services Limited

# Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 16 Inventories

	31 December 2021 £ 000	31 December 2020 £ 000
Raw materials and consumables	124	455

The Company consumed inventories totalling £1,754,000 during the year (2020: £2,982,000). No items are being carried at fair value less costs to sell (2020: £nil).

## 17 Investments

Subsidiaries	£ 000
<b>Cost or valuation</b>	
At 1 January 2021	1
At 31 December 2021	1
<b>Provision</b>	
<b>Carrying amount</b>	
At 31 December 2021	1
At 31 December 2020	1

Details of the subsidiaries as at 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held	
				2021	2020
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%
Mears Scotland (Services) Limited	Dormant	224 West George Street, Glasgow, United Kingdom, G2 2PQ United Kingdom	Ordinary shares	67%	67%

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****18 Trade and other debtors**

		<b>31 December 2021 £ 000</b>	<b>31 December 2020 £ 000</b>
Trade debtors		1,707	1,812
Provision for impairment of trade debtors		<u>(55)</u>	<u>(167)</u>
Net trade debtors		1,652	1,645
Current debtors due from related parties	24	179	1,156
Debtors due from related parties after more than one year		150	-
Contract assets		2,010	4,181
Prepayments		8	13
Deferred tax assets due after more than one year	12	-	621
Other debtors		<u>358</u>	<u>15</u>
		4,357	7,631
Less non-current portion		<u>(150)</u>	<u>(703)</u>
		<u>4,207</u>	<u>6,928</u>

Included in trade receivables is £nil (2020: £82,000) in respect of retention payments due in more than one year.

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income are subject to credit risk exposure. The Company's customers are primarily a mix of Local and Central Government and Housing Associations where credit risk is minimal.

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****19 Trade and other creditors**

	31 December 2021 £ 000	31 December 2020 £ 000
Trade creditors	1,408	2,527
Accrued expenses	2,260	2,543
Amounts due to related parties	513	3,380
Social security and other taxes	960	1,685
Other creditors	93	785
	<u>5,234</u>	<u>10,920</u>

**20 Lease liabilities**

	31 December 2021 £ 000	31 December 2020 £ 000
<b>Non-current loans and borrowings</b>		
Lease liabilities	<u>313</u>	<u>390</u>

	31 December 2021 £ 000	31 December 2020 £ 000
<b>Current loans and borrowings</b>		
Lease liabilities	<u>67</u>	<u>139</u>

The above lease liabilities relate to the right of use assets in note 13.

**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 principal 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 expected contributions to the plan for the next reporting period are £2,219,000.

## Morrison Facilities Services Limited

# Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 21 Pension and other schemes (continued)

The scheme was most recently valued on 31 December 2021. Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2021 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 2021 %	31 December 2020 %
Discount rate	2.00	1.35
Future salary increases - first two years	3.00	2.85
Future salary increases - long term	3.00	2.85
Future pension increases - capped at 5% based on RPI	2.90	2.85
Future pension increases - capped at 3% based on RPI	2.35	2.35
Future pension increases - capped at 5% based on CPI	2.55	2.50
Future pension increases - capped at 3% based on CPI	2.15	2.15
RPI inflationary growth	3.00	2.85
CPI inflationary growth	2.60	2.45

### Post retirement mortality assumptions

	31 December 2021 Years	31 December 2020 Years
Current UK pensioners at retirement age - male	20.3	21.6
Current UK pensioners at retirement age - female	23.2	23.8
Future UK pensioners at retirement age - male	21.6	23.3
Future UK pensioners at retirement age - female	24.6	25.7

### Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2021 £ 000	31 December 2020 £ 000
<b>Quoted assets</b>		
Equities	64,976	116,401
Bonds	132,084	124,636
Property	17,043	21,391
<b>Pooled investment vehicles</b>		
Multi-asset funds	61,011	66,783
Alternative asset funds	7,635	8,565
Return seeking funds	1,700	1,679
<b>Other assets</b>		

## Morrison Facilities Services Limited

# Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 21 Pension and other schemes (continued)

	31 December 2021 £ 000	31 December 2020 £ 000
Equities	356	-
Property	74	-
Derivatives	1,415	1,551
Cash and other	28,242	10,302
<b>Investment liabilities</b>		
Derivatives	(10,612)	(11,998)
Company's estimated asset share	303,924	339,310
Pension asset	303,924	339,310

**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 2021 £ 000	(As restated) 31 December 2020 £ 000
Fair value of scheme assets	303,924	339,310
Present value of scheme liabilities	(239,664)	(338,913)
	64,260	397
Scheme surpluses not recognised as assets	(28,768)	(10,417)
Net pension surplus / (deficit)	35,492	(10,020)
Defined benefit pension scheme surplus	35,731	7,068
Defined benefit pension scheme deficit	(239)	(17,088)
Net pension surplus / (deficit)	35,492	(10,020)
Pension guarantee assets	-	14,725

## Morrison Facilities Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 21 Pension and other schemes (continued)

*Amounts recognised in the income statement*

	31 December 2021 £ 000	31 December 2020 £ 000
<b>Amounts recognised in operating profit</b>		
Current service cost	2,862	3,659
Losses (gains) on curtailments and settlements	(3,971)	-
Administrative expenses paid	378	298
(Credit)/expense recognised in arriving at operating profit	(731)	3,957
<b>Amounts recognised in finance income or costs</b>		
Expected return on plan assets	(184)	34
Effects of limitation on recognisable surplus	141	4
Recognised in other finance (income)/cost	(43)	38
Total (credit)/expense recognised in the income statement	(774)	3,995

*Amounts taken to the Statement of Comprehensive Income*

	31 December 2021 £ 000	31 December 2020 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	(73)	7,410
Actuarial gains and losses arising from changes in financial assumptions	33,523	(56,421)
Actuarial gains and losses arising from liability experience	13,360	17,899
Return on plan assets in excess of that recorded in net interest	8,080	36,786
Actuarial gain on TUPE transfer of employees	-	(1,670)
Effect of limitation on surplus recognition	(18,210)	(8,535)
Amounts recognised in the Statement of Comprehensive Income	36,680	(4,531)

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****21 Pension and other schemes (continued)*****Scheme liabilities***

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

	<b>31 December 2021 £ 000</b>	<b>31 December 2020 £ 000</b>
Present value at start of year	338,913	328,338
Current service cost	2,862	3,659
Actuarial (gains) and losses arising from changes in demographic assumptions	73	(7,410)
Actuarial (gains) and losses arising from changes in financial assumptions	(33,523)	56,421
Actuarial (gains) and losses arising from liability experience	(13,360)	(17,899)
Interest cost	3,735	6,337
Contributions by scheme participants	324	566
Benefits paid	(8,464)	(6,800)
Contract transfer	(50,896)	(24,299)
Present value at end of year	<u>239,664</u>	<u>338,913</u>



**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****21 Pension and other schemes (continued)****Scheme assets**

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

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value at start of year	339,310	325,902
Expected return	3,919	6,303
Actuarial gain	8,080	36,786
Employer contributions	2,348	2,820
Contributions by scheme participants	324	566
Benefits paid	(8,464)	(6,800)
Administrative expenses paid	(378)	(298)
Contract transfer	(41,215)	(25,969)
Fair value at end of year	<u>303,924</u>	<u>339,310</u>
	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of guarantee assets at 1 January	14,725	11,442
Transferred out on scheme exit	(5,710)	-
<b>Recognised in the Consolidated Statement of Profit or Loss</b>		
Guarantee asset movement in respect of service cost	328	826
Guarantee asset movement in respect of net interest	35	255
<b>Recognised in Other Comprehensive Income</b>		
Guarantee asset movement in respect of actuarial (gains)/losses	(9,378)	2,202
Fair value of guarantee assets at 31 December	<u>-</u>	<u>14,725</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.

The pension asset / (liability) position per the balance sheet at 31 December 2021 can be summarised as follows:

	31 December 2021 £'000	31 December 2020 £'000
Local Government Pension Schemes	(239)	(17,088)
Morrison Facilities Pension Scheme	<u>35,731</u>	<u>7,068</u>

Details of the prior year reclassification of these items can be found in Note 25.

## Morrison Facilities Services Limited

# Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

## 21 Pension and other schemes (continued)

### Sensitivity analysis

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

	31 December 2021		31 December 2020	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
<b>Adjustment to discount rate</b>				
Present value of total obligation	(4,312)	4,312	(6,095)	6,156
	31 December 2021		31 December 2020	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
<b>Adjustment to rate of inflation</b>				
Present value of total obligation	3,714	(3,714)	5,784	(5,845)
	31 December 2021		31 December 2020	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
<b>Adjustment to rate of salary growth</b>				
Present value of total obligation	574	(574)	2,983	(2,989)
	31 December 2021		31 December 2020	
	+ 1 Year	- 1 Year	+ 1 Year	- 1 Year
	£ 000	£ 000	£ 000	£ 000
<b>Adjustment to mortality age rating assumption</b>				
Present value of total obligation	10,084	(10,084)	12,951	(12,951)

## 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 Barclays, 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. Additionally, the Company is a guarantor to the Group's Revolving Credit Facility Agreement, whereby it guarantees the obligations of any other borrower to the facility in the event of a default.

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2021 was £0.1m (2020: £0.1m).

## 23 Parent and ultimate parent undertaking

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

Mears Group PLC prepares group financial statements which include this Company and are the smallest and largest consolidated accounts that the Company are included in. These financial statements are available upon request from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH.

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****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.

**Transactions by related parties**

	<b>2021</b> <b>£ 000</b>	<b>2020</b> <b>£ 000</b>
<b>Mears Limited</b>		
Sales	(59)	(43)
Outstanding debtor balance	(46)	(392)
Outstanding creditor balance	(356)	(3,379)
<b>Plexus UK (First Project) Limited</b>		
Sales	(1,228)	(1,715)
Outstanding debtor balance	(124)	(296)
<b>Mears Scotland LLP</b>		
Outstanding debtor balance - loan	(150)	-
Outstanding debtor balance - other amounts	-	(459)
Outstanding creditor balance	(156)	-
<b>Mears Estates Limited</b>		
Outstanding debtor balance	(8)	(8)
<b>Mears Housing Management Limited</b>		
Outstanding debtor balance	(1)	-
Outstanding creditor balance	-	(1)
<b>Mears Group plc</b>		
Outstanding creditor balance	(1)	-
<b>MPS Housing Limited</b>		
Outstanding debtor balance	-	(1)

**Morrison Facilities Services Limited****Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)****25 Restatement of prior year**

Previously, defined benefit pension surplus/deficit was shown as a net figure on the Balance Sheet, and this has now been split out into a pension asset and a pension liability.

The comparative figures have therefore been restated as shown in the table below:

<b>Balance sheet as at 31 December 2020</b>	<b>As originally reported £ 000</b>	<b>Prior year adjustment £ 000</b>	<b>As restated £ 000</b>
<b>Fixed assets</b>			
Pension asset	-	7,068	7,068
<b>Liabilities</b>			
Pension liability	(10,020)	(7,068)	(17,088)

Details of the underlying pension schemes can be found in Note 21.

**26 Share capital****Allotted, called up and fully paid shares**

	<b>31 December 2021</b>		<b>31 December 2020</b>	
	<b>No.</b>	<b>£</b>	<b>No.</b>	<b>£</b>
Ordinary shares of £1 each	2	2	2	2

In 2020, the Company executed a share capital reduction which consolidated the existing share capital into two new Ordinary shares of £1 each with an increase to share premium representing the capitalisation of a loan from the Company's parent, Mears Group PLC.