

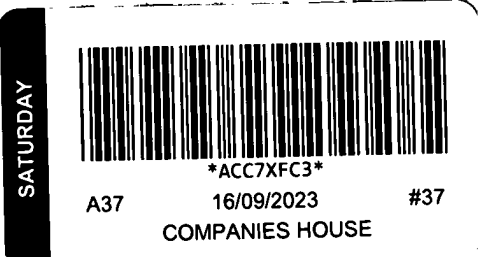
Registration number: SC120550



# Morrison Facilities Services Limited

Annual Report and Unaudited Financial Statements

for the Year Ended 31 December 2022



## **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>	Phoenix House 1 Souterhouse Road Glasgow ML5 4AA
<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

## Morrison Facilities Services Limited

# Strategic Report for the Year Ended 31 December 2022

The directors present their report for the year ended 31 December 2022.

### 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.

With a challenging economic backdrop and the volatility experienced in 2022, a key concern for the Company was managing the current inflationary headwinds, labour shortages, and challenges within the supply chain.

The Company's operating margin decreased to 2.6% (2021: 14.6%) as price increases in energy in particular put pressure on margins, especially in the short-term. 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 £22,377,000 (2021: £27,177,000), a decrease of 17.7%.

The Directors are satisfied with the resilience shown by the business during the year given the challenging economic backdrop and the volatility experienced during 2022, in particular in energy prices. 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)

#### *Operating margin*

The Company's operating margin decreased to 2.6% (2021: 14.6%) as it returned to normal operations and contractual conditions following the impacts of the pandemic.

#### *Revenue decline*

Revenue represents the amounts due for goods and services provided during the year. The decline for 2022 of 17.7% (2021: 32.7%) was anticipated due to the novation of existing contracts to Mears Limited.

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	2022	2021
Revenue decline	%	(17.70)	(32.70)
Operating margin	%	2.60	14.60

### 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.

## **Strategic Report for the Year Ended 31 December 2022 (continued)**

### *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 2023 and potentially beyond. Any price increases in energy in particular, above the 2022 levels, which were extraordinary, would 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.

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, the extraordinary levels and volatility of energy prices witnessed in 2022 due to geopolitical shocks are unlikely to repeat in 2023 or in the near future.

## **Strategic Report for the Year Ended 31 December 2022 (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 2022.

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 14 September 2023 and signed on its behalf by:



.....  
B R Westran  
Director

## **Morrison Facilities Services Limited**

# **Directors' Report for the Year Ended 31 December 2022**

The directors present their report and the unaudited financial statements for the year ended 31 December 2022.

### **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.

### **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 43 days of average supplies for the year (2021: 23 days).

### **Going concern**

The Company reported a profit for the period of £904,000 (2021: £2,898,000). The balance sheet shows net assets of £18,097,000 (2021: net assets of £17,193,000).

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 at least 30 September 2024.

The principal risks and uncertainties of the Company are managed at a Group level. However, the Company itself has a positive balance sheet 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.

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.

### **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.

### **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.

**Morrison Facilities Services Limited**

## **Directors' Report for the Year Ended 31 December 2022 (continued)**

Approved by the board on 14 September 2023 and signed on its behalf by:

.....  
B R Westran  
Director



**Morrison Facilities Services Limited**

**Profit and Loss Account for the Year Ended 31 December 2022**

	Note	2022 £ 000	2021 £ 000
Revenue	4	22,377	27,177
Cost of sales		<u>(17,127)</u>	<u>(21,297)</u>
Gross profit		5,250	5,880
Administrative expenses		<u>(4,674)</u>	<u>(1,904)</u>
Operating profit	5	576	3,976
Interest receivable and similar income	6	731	116
Interest payable and similar charges	7	<u>(39)</u>	<u>(67)</u>
Profit before tax		1,268	4,025
Tax on profit on ordinary activities	10	<u>(364)</u>	<u>(1,127)</u>
Profit for the year		<u>904</u>	<u>2,898</u>

The results above are in respect of continuing operations.

**Morrison Facilities Services Limited**

**Statement of Comprehensive Income for the Year Ended 31 December 2022**

	Note	2022 £ 000	2021 £ 000
Profit for the year		<u>904</u>	<u>2,898</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of post employment benefit obligations	20	(12,733)	36,680
Deferred tax in respect of defined benefit pensions	11	3,196	(6,738)
Pension guarantee asset movement in respect of actuarial adjustment	20	<u>(50)</u>	<u>(9,378)</u>
		<u>(9,587)</u>	<u>20,564</u>
Total comprehensive income for the year		<u><u>(8,683)</u></u>	<u><u>23,462</u></u>

The notes on pages 12 to 38 form an integral part of these financial statements.

**Morrison Facilities Services Limited**

**(Registration number: SC120550)**

**Balance Sheet as at 31 December 2022**

	Note	31 December 2022 £ 000	31 December 2021 £ 000
<b>Non-current assets</b>			
Intangible assets	12	1	2
Tangible assets	13	180	330
Investments	16	1	1
Right of use assets	14	292	357
Pension asset	20	23,368	35,731
		<u>23,842</u>	<u>36,421</u>
<b>Current assets</b>			
Inventories	15	136	124
Current debtors	17	4,029	4,207
Debtors due after more than one year	17	-	150
Cash at bank and in hand		1,609	1,558
		<u>5,774</u>	<u>6,039</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other creditors	18	(5,390)	(5,234)
Lease liabilities	19	(56)	(67)
Corporation tax liability	10	-	(1)
<b>Creditors: Amounts falling due within one year</b>		<u>(5,446)</u>	<u>(5,302)</u>
<b>Net current assets</b>		<u>328</u>	<u>737</u>
<b>Total assets less current liabilities</b>		<u>24,170</u>	<u>37,158</u>
<b>Creditors: Amounts falling due after more than one year</b>			
Lease liabilities	19	(246)	(313)
Amounts due to related parties	24	(522)	(1,689)
Deferred tax liabilities	11	(5,305)	(8,137)
Pension liability	20	-	(239)
<b>Creditors: Amounts falling due after more than one year</b>		<u>(6,073)</u>	<u>(10,378)</u>
<b>Net assets</b>		<u>18,097</u>	<u>26,780</u>
<b>Capital and reserves</b>			
Called up share capital	22	-	-
Share premium reserve		10,000	10,000
Profit and loss account		8,097	16,780
<b>Shareholders' funds</b>		<u>18,097</u>	<u>26,780</u>

For the financial year ending 31 December 2022 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The notes on pages 12 to 38 form an integral part of these financial statements.

**Morrison Facilities Services Limited**

**(Registration number: SC120550)**

**Balance Sheet as at 31 December 2022 (continued)**

Directors' responsibilities:

- The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476; and
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

Approved by the board on 14 September 2023 and signed on its behalf by:



.....  
A C M Smith  
Director

The notes on pages 12 to 38 form an integral part of these financial statements.

**Morrison Facilities Services Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2022**

	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

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	-	10,000	16,780	26,780
Profit for the year	-	-	904	904
Other comprehensive income	-	-	(9,587)	(9,587)
Total comprehensive income	-	-	(8,683)	(8,683)
At 31 December 2022	-	10,000	8,097	18,097

## **Morrison Facilities Services Limited**

# **Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022**

## **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 2022.

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:

Phoenix House  
1 Souterhouse Road  
Glasgow  
ML5 4AA

These financial statements were authorised for issue by the board on 14 September 2023.

## **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**

The principal risks and uncertainties of the Company are managed at a Group level, and given how the Group's intra-group funding structure is administered the Directors deem it appropriate to consider going concern at a Group level, and not the individual Company level.

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 at least 30 Sep 2024.

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.

### **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 England & Wales.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (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 2022. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) The requirements of IFRS 2 Share-based Payments;
- b) The requirements of IFRS 3 Business Combinations;
- c) The requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- d) The requirements of IFRS 7 Financial Instruments: Disclosures;
- e) The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- f) The requirements of IFRS 15 Revenue from Contracts with Customers;
- g) The requirements of IFRS 16 Leases;
- h) The requirements of paragraph 58 of IFRS 16;
- i) 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;
- j) The requirements of paragraph 10(d) and 134 to 136 of IAS 1 Presentation of Financial Statements;
- k) The requirements of IAS 7 Statement of Cash Flows;
- l) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- m) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- n) 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;
- o) 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.
- p) The requirements of paragraph 5(c) of the FRS 101 Reduced Disclosure Framework.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (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.

#### Tax

The tax expense comprises current deferred tax.



## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 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	The lower of estimated useful life or over the period of the lease, straight line
Plant and machinery	20% per annum, straight line
Fixtures and fittings	over two years, straight line
Equipment	20% per annum, straight line

#### Changes to accounting policies

During the period, the Company reviewed its estimation of the useful economic lives of plant and machinery and equipment. As a result of this review, the rates of depreciation generally applicable for these categories were changed to 20% straight line from 25% reducing balance. The current year impact of this change in estimate of £117,000 was recognised as an expense during the year in Administrative expenses.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 2 Accounting policies (continued)

#### Intangible assets

Software is stated at cost less amortisation.

#### 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

#### 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.

#### 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 Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 2 Accounting policies (continued)

#### Defined benefit pension obligation

The Company contributes to defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Company, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. The asset that is recognised is restricted to the amount by which the service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

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

Actuarial gains and losses are taken to the Statement of Comprehensive Income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the Profit and Loss Account, including the current service cost, any past service cost and the effect of curtailments or settlements. The net interest cost is also charged to the Profit and Loss Account. The amount charged to the Profit and Loss Account in respect of these plans is included within operating costs.

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

## **Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

### **2 Accounting policies (continued)**

#### **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.

#### **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.

#### **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 at least 30 June 2024.

The principal risks and uncertainties of the Company are managed at a Group level. However, the Company itself has a positive balance sheet 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.

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.

#### **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.

#### **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 debtors**

Trade debtors 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 debtors and are therefore initially measured at their transaction price.

#### **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.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 2 Accounting policies (continued)

#### **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 Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 2 Accounting policies (continued)

#### *Financial Liabilities*

The Company's financial liabilities are overdrafts, trade and other creditors 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 creditors 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.

### 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.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (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.

Additions and remeasurements to right of use assets in respect of lease agreements are equivalent to the present value (or change in present value) of the relevant lease obligation. Unless there is an interest rate implicit in the lease itself, the Group's Incremental Borrowing Rate (IBR) is used to calculate the present value of future lease payments. Estimation is required in deriving an appropriate IBR. The Directors believe that the best approximation for IBR is the currently applicable margin from the grid contained within the Group's rolling credit facility (RCF) agreement, added to an appropriate base rate. The Group's RCF is linked to SONIA, so that is considered the most appropriate base rate to use.

#### 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.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (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 20.

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 Unaudited Financial Statements for the Year Ended 31 December 2022 (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:

	2022 £ 000	2021 £ 000
<b>Revenue from contracts with customers</b>		
Repairs and maintenance	22,377	27,177
	<u>22,377</u>	<u>27,177</u>

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 Operating profit**

Arrived at after charging

	2022 £ 000	2021 £ 000
Depreciation on fixed assets	173	86
Depreciation on right of use assets	65	98
Amortisation expense	1	23
Loss on disposal of intangible assets	-	84
	<u>-</u>	<u>84</u>

**6 Interest receivable and similar income**

	2022 £ 000	2021 £ 000
Other interest receivable	731	116
	<u>731</u>	<u>116</u>

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**7 Interest payable and similar expenses**

	2022 £ 000	2021 £ 000
Interest paid to group undertakings	24	25
Interest expense on leases	11	14
Interest expense on net defined benefit scheme obligation	4	28
	<u>39</u>	<u>67</u>

**8 Staff costs**

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

	2022 £ 000	2021 £ 000
Wages and salaries	5,573	5,879
Social security costs	508	811
Other pension costs	495	1,270
	<u>6,576</u>	<u>7,960</u>

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

	2022 No.	2021 No.
Administration and support	68	88
Other departments	173	270
	<u>241</u>	<u>358</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.

**9 Auditors' remuneration**

	2022 £ 000	2021 £ 000
Audit of the financial statements	<u>38</u>	<u>63</u>

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**10 Income tax**

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

	2022 £ 000	2021 £ 000
<b>Current taxation</b>		
UK corporation tax adjustment to prior periods	-	1
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	227	714
Arising from changes in tax rates and laws	-	412
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	137	-
Total deferred taxation	364	1,126
Tax expense in the profit and loss account	364	1,127

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £ 000	2021 £ 000
Profit before tax	1,268	4,025
Corporation tax at standard rate	241	765
Increase in current tax from adjustment for prior periods	137	1
Decrease from effect of capital allowances depreciation	(5)	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	465	239
Decrease from tax treatment of employee share options	(1)	-
Decrease arising from group relief	(473)	(290)
Deferred tax expense relating to changes in tax rates or laws	-	412
Total tax charge	364	1,127

**Factors affecting future tax charges**

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end, to the extent those balances are expected to impact on current tax after 1 April 2023.

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**11 Deferred tax**

**Deferred tax asset and liabilities**

	<b>Balance sheet</b>		<b>Profit and loss</b>		<b>Other movements</b>	
	<b>At 31 December 2022</b>	<b>At 31 December 2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Pension schemes	(5,814)	(8,844)	(166)	(1,212)	3,196	(6,738)
Provisions	-	10	(10)	10	-	-
Capital allowances	509	697	(188)	76	-	-
	<u>(5,305)</u>	<u>(8,137)</u>	<u>(364)</u>	<u>(1,126)</u>	<u>3,196</u>	<u>(6,738)</u>

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

Other movements are recognised in the Statement of Other Comprehensive Income.

**12 Intangible assets**

	<b>Software £ 000</b>
<b>Cost or valuation</b>	
At 1 January 2022	<u>26</u>
At 31 December 2022	<u>26</u>
<b>Amortisation</b>	
At 1 January 2022	24
Amortisation charge	<u>1</u>
At 31 December 2022	<u>25</u>
<b>Carrying amount</b>	
At 31 December 2022	<u>1</u>
At 31 December 2021	<u>2</u>

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

Amortisation of intangible assets is included within other operating charges.

# Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

## 13 Tangible assets

	Leasehold improvements £ 000	Fixtures, fittings and equipment £ 000	Plant and machinery £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2022	282	635	217	1,134
Additions	-	23	-	23
Disposals	-	(407)	(122)	(529)
At 31 December 2022	282	251	95	628
<b>Depreciation</b>				
At 1 January 2022	161	479	164	804
Charge for the year	17	117	39	173
Eliminated on disposal	-	(407)	(122)	(529)
At 31 December 2022	178	189	81	448
<b>Carrying amount</b>				
At 31 December 2022	104	62	14	180
At 31 December 2021	121	156	53	330

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**14 Right of use assets**

	Offices £ 000
<b>Cost or valuation</b>	
At 1 January 2021	864
Additions	(28)
Disposals	(282)
At 31 December 2021	554
At 1 January 2022	554
Disposals	(13)
At 31 December 2022	541
<b>Depreciation</b>	
At 1 January 2021	359
Charge for year	98
Eliminated on disposal	(260)
At 31 December 2021	197
At 1 January 2022	197
Charge for the year	65
Eliminated on disposal	(13)
At 31 December 2022	249
<b>Carrying amount</b>	
At 31 December 2022	292
At 31 December 2021	357

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.

**15 Inventories**

	31 December 2022 £ 000	31 December 2021 £ 000
Raw materials and consumables	136	124

The Company consumed inventories totalling £2,395,000 during the year (2021: £1,754,000). No items are being carried at fair value less costs to sell (2021: £nil).

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**16 Investments**

<b>Subsidiaries</b>	<b>£ 000</b>
<b>Cost or valuation</b>	
At 1 January 2022	<u>1</u>
At 31 December 2022	<u>1</u>
<b>Provision</b>	
<b>Carrying amount</b>	
At 31 December 2022	<u>1</u>
At 31 December 2021	<u>1</u>

Details of the subsidiaries as at 31 December 2022 are as follows:

<b>Name of subsidiary</b>	<b>Principal activity</b>	<b>Registered office</b>	<b>Holding</b>	<b>Proportion of ownership interest and voting rights held</b>	
				<b>2022</b>	<b>2021</b>
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	Phoenix House, 1 Souterhouse Road, Glasgow ML5 4AA United Kingdom	Partnership member	67%	67%
Mears Scotland (Services) Limited	Dormant	Phoenix House, 1 Souterhouse Road, Glasgow ML5 4AA United Kingdom	Ordinary shares	67%	67%

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**17 Trade and other debtors**

	31 December 2022 £ 000	31 December 2021 £ 000
Trade debtors	2,397	1,707
Provision for impairment of trade debtors	<u>(112)</u>	<u>(44)</u>
Net trade debtors	2,285	1,663
Current debtors due from related parties	788	179
Debtors due from related parties after more than one year	-	150
Prepayments	19	8
Contract assets	927	2,010
Other debtors	<u>10</u>	<u>347</u>
	4,029	4,357
Less non-current portion	<u>-</u>	<u>(150)</u>
	<u>4,029</u>	<u>4,207</u>

Trade debtors are normally due within 30 to 60 days and do not bear any effective interest rate. All trade debtors 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 Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**18 Trade and other creditors**

	31 December 2022 £ 000	31 December 2021 £ 000
Trade creditors	1,500	1,408
Accrued expenses	2,381	2,260
Amounts due to related parties	528	513
Social security and other taxes	938	960
Other creditors	43	93
	<u>5,390</u>	<u>5,234</u>

**19 Lease liabilities**

	31 December 2022 £ 000	31 December 2021 £ 000
<b>Non-current loans and borrowings</b>		
Lease liabilities	<u>246</u>	<u>313</u>

	31 December 2022 £ 000	31 December 2021 £ 000
<b>Current loans and borrowings</b>		
Lease liabilities	<u>56</u>	<u>67</u>

The above lease liabilities relate to the right of use assets in note 14.

**20 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 £1,910,000.

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 20 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 2022 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 2022 %	31 December 2021 %
Discount rate	4.64	2.00
Future salary increases - long term	2.99	3.00

#### Post retirement mortality assumptions

	31 December 2022 Years	31 December 2021 Years
Current UK pensioners at retirement age - male	21.1	20.3
Current UK pensioners at retirement age - female	23.7	23.2
Future UK pensioners at retirement age - male	22.5	21.6
Future UK pensioners at retirement age - female	25.5	24.6

#### Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2022 £ 000	31 December 2021 £ 000
<b>Quoted assets</b>		
Equity	3,025	64,976
Bonds	98,177	132,084
Property	3,381	17,043
<b>Pooled investment vehicles</b>		
Multi-asset funds	9,251	61,011
Alternative asset funds	3,090	7,635
Other	1,705	1,700
<b>Other assets</b>		
Equities	315	356
Property	556	74
Derivatives	1,134	1,415
Cash and other	6,187	28,242
<b>Investment liabilities</b>		
Derivatives	(9,380)	(10,612)
Company's estimated asset share	117,441	303,924

Morrison Facilities Services Limited

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**20 Pension and other schemes (continued)**

	31 December 2022 £ 000	31 December 2021 £ 000
Pension asset	<u>117,441</u>	<u>303,924</u>

***Reconciliation of scheme assets and liabilities to assets and liabilities recognised***

The amounts recognised in the balance sheet are as follows:

	31 December 2022 £ 000	31 December 2021 £ 000
Fair value of scheme assets	117,441	303,924
Present value of scheme liabilities	<u>(92,711)</u>	<u>(239,664)</u>
	24,730	64,260
Scheme surpluses not recognised as assets	<u>(1,362)</u>	<u>(28,768)</u>
Net pension surplus / (deficit)	<u>23,368</u>	<u>35,492</u>
Defined benefit pension scheme surplus	23,368	35,731
Defined benefit pension scheme deficit	<u>-</u>	<u>(239)</u>
Net pension surplus / (deficit)	<u>23,368</u>	<u>35,492</u>
Pension guarantee assets	<u>-</u>	<u>-</u>

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**20 Pension and other schemes (continued)**

***Amounts recognised in the income statement***

	<b>31 December 2022 £ 000</b>	<b>31 December 2021 £ 000</b>
<b>Amounts recognised in operating profit</b>		
Current service cost	1,952	2,862
Losses (gains) on curtailments and settlements	-	(3,971)
Administrative expenses paid	263	378
	<u>2,215</u>	<u>(731)</u>
(Credit)/expense recognised in arriving at operating profit		
<b>Amounts recognised in finance income or costs</b>		
Expected return on plan assets	(1,205)	(184)
Effects of limitation on recognisable surplus	478	141
	<u>(727)</u>	<u>(43)</u>
Recognised in other finance (income)/cost		
Total (credit)/expense recognised in the income statement	<u>1,488</u>	<u>(774)</u>

***Amounts taken to the Statement of Comprehensive Income***

	<b>31 December 2022 £ 000</b>	<b>31 December 2021 £ 000</b>
Actuarial gains and losses arising from changes in demographic assumptions	(190)	(73)
Actuarial gains and losses arising from changes in financial assumptions	81,417	33,523
Actuarial gains and losses arising from liability experience	(2,639)	13,360
Return on plan assets in excess of that recorded in net interest	(71,010)	8,080
Effect of limitation on surplus recognition	(20,311)	(18,210)
	<u>(12,733)</u>	<u>36,680</u>
Amounts recognised in the Statement of Comprehensive Income		

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 20 Pension and other schemes (continued)

#### *Scheme liabilities*

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

	31 December 2022 £ 000	31 December 2021 £ 000
Present value at start of year	239,664	338,913
Current service cost	1,952	2,862
Actuarial (gains) and losses arising from changes in demographic assumptions	190	73
Actuarial (gains) and losses arising from changes in financial assumptions	(81,417)	(33,523)
Actuarial (gains) and losses arising from liability experience	2,639	(13,360)
Interest cost	4,356	3,735
Contributions by scheme participants	244	324
Benefits paid	(7,625)	(8,464)
Contract transfer	(67,292)	(50,896)
Present value at end of year	<u>92,711</u>	<u>239,664</u>

# Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

## 20 Pension and other schemes (continued)

### Scheme assets

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

	31 December 2022 £ 000	31 December 2021 £ 000
Fair value at start of year	303,924	339,310
Expected return	-	3,919
Actuarial gain	(71,010)	8,080
Employer contributions	2,097	2,348
Contributions by scheme participants	244	324
Benefits paid	(7,625)	(8,464)
Administrative expenses paid	(263)	(378)
Return on plan assets, excluding amounts included in interest income/(expense)	5,561	-
Contract transfer	(115,487)	(41,215)
Fair value at end of year	117,441	303,924
	31 December 2022 £ 000	31 December 2021 £ 000
Fair value of guarantee assets at 1 January	-	14,725
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	50	328
Guarantee asset movement in respect of net interest	-	35
<b>Recognised in Other Comprehensive Income</b>		
Guarantee asset movement in respect of actuarial (gains)/losses	(50)	(9,378)
Fair value of guarantee assets at 31 December	-	-

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 2022 can be summarised as follows:

	31 December 2022 £'000	31 December 2021 £'000
Local Government Pension Schemes	-	(239)
Morrison Facilities Pension Scheme	23,368	35,731

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

## Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)

### 20 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 2022		31 December 2021	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
<b>Adjustment to discount rate</b>				
Present value of total obligation	(1,301)	1,301	(4,312)	4,312
	31 December 2022		31 December 2021	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
<b>Adjustment to rate of inflation</b>				
Present value of total obligation	1,027	(1,027)	3,714	(3,714)
	31 December 2022		31 December 2021	
	+ 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	274	(274)	574	(574)
	31 December 2022		31 December 2021	
	+ 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	2,838	(2,838)	10,084	(10,084)

### 21 Contingent liabilities

Morrison Facilities Services Limited and the other companies in the group headed by Mears Group PLC have entered into a Composite Accounting Agreement with 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 2022 was £0.1m (2021: £0.1m).

**Morrison Facilities Services Limited**

**Notes to the Unaudited Financial Statements for the Year Ended 31 December 2022 (continued)**

**22 Share capital**

**Allotted, called up and fully paid shares**

	<b>31 December 2022</b>		<b>31 December 2021</b>	
	<b>No.</b>	<b>£</b>	<b>No.</b>	<b>£</b>
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

**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.

**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>2022 £ 000</b>	<b>2021 £ 000</b>
<b>Mears Scotland LLP</b>		
Outstanding debtor balance - loan	-	(150)
Outstanding debtor balance - other amounts	(282)	-
Outstanding creditor balance	<u>-</u>	<u>(156)</u>