

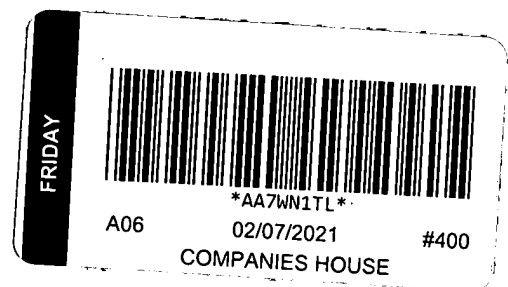
Registration number: SC120550



## Morrison Facilities Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020



**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 Redcliffe Bristol BS1 6BX

## Morrison Facilities Services Limited

# Strategic Report for the Year Ended 31 December 2020

The directors present their report for the year ended 31 December 2020.

### Fair review of the business

As with all businesses in the UK, the past year has been dominated by the Covid-19 pandemic and our response to the complex operational and financial challenges it presented to our business, our staff and our customers. The scale of disruption to our normal ways of working has been immense and there will be no-one within the company who has been unaffected. I can report that your company, particularly its people, have risen magnificently to the challenges and continue to do so.

The financial results for the year were inevitably impacted by the pandemic but the strengths of our business model have underpinned our response. Work volumes were inevitably impacted by lockdown restrictions, and we agreed with most clients to defer non-emergency works in people's homes and deliver a service more focused on emergency works. In the majority of cases, our long-term relationships with our clients facilitated a swift transition to interim trading arrangements, reflecting these reduced activity levels, which broadly allowed us to recover direct labour and local overhead costs, but typically not central overhead or a profit contribution. These arrangements were in line with government guidance to support public sector supply chains. This eliminated the risk of significant loss in this part of our business and also allowed us to retain our operational infrastructure for the recovery in work volumes which we expect this year. The Company has reported revenue of £40,387,000 (2019: £58,908,000), a decrease of 31.4%, reflecting the impact Covid-19 had on the ability of the Company to trade.

The need for restrictions to curtail the pandemic, preventing all but essential works, and specific overheads associated with the procurement of adequate PPE for our operatives, saw operating profit margin fall from 7.6% to a loss of 0.1%. The management team took decisive action to immediately reduce overheads, whilst working with our partners to deliver those projects considered essential services, in a safe and Covid-19 secure manner, and exited some loss making contracts. Facilities Management reported a small decrease in revenue; whilst some small contracts ceased, such as Home Group Estates and Inverness College, a new contract was secured with North Somerset Council, and this contributed £550,000 of revenue in 2020. The gradual movement of contracts to Mears Limited, a fellow subsidiary, has continued, and is expected to continue into the future as contracts are re-tendered.

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.

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

### Corrections relating to prior periods

During the year, the Company revisited the assumptions made at the time of the adoptions of IFRS 16, and its assessment of the right of use assets and lease obligations as at transition and at 31 December 2019. As detailed in note 26, the Directors have concluded that in the prior year, the right of use asset and associated lease obligations were overstated and as such, the Statement of Profit and Loss and Balance Sheet have been restated to correct this error.

## Morrison Facilities Services Limited

# Strategic Report for the Year Ended 31 December 2020 (continued)

### Key Performance Indicators (KPIs)

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

	Unit	2020	2019
Revenue decline	%	(31.40)	(6.10)
Operating margin	%	(0.10)	7.60
<i>Revenue decline</i>			

Revenue represents the amounts due for goods and services provided during the year. The decline for 2020 of 31.4% (2019: 6.1%) represents the impact of Covid-19 restrictions on the Company's ability to operate a full service throughout 2020.

#### *Operating margin*

Our operating margin loss of 0.1% (2019: profit 7.6%) reflects the impact of Covid-19 restrictions on the Company's ability to operate a full service throughout 2020.

### Risk management objectives and policies

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

Management has considered the risk of ongoing Covid-19 restrictions and do not believe there to be a going concern risk to the Company. Management successfully mitigated the operation risk caused by the 2020 Government restrictions and given the success of the vaccine roll out in the United Kingdom, any further restrictions are unlikely to significantly affect the Company's performance.

#### *Macro economy*

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

The Company has limited exposure to Brexit risk, although some material supplies may be impacted in the short term. We remain ready to act on Government advice as the Brexit process goes on and have planned ahead on material supply to ensure minimal impact on the business.

#### *Reputation*

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

## Morrison Facilities Services Limited

# Strategic Report for the Year Ended 31 December 2020 (continued)

### *Liquidity*

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

Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility. The facility has currently been agreed until November 2022.

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

### *Business retention and new business*

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

### *Integrity, ethics, anti-bribery and corruption*

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

### **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 2020.

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. This has been done to ensure the long term future of the Company.

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

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

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

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

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

**Morrison Facilities Services Limited**

**Strategic Report for the Year Ended 31 December 2020 (continued)**

Approved by the Board on 30 June 2021 and signed on its behalf by:



.....  
B R Westran  
Director

**Morrison Facilities Services Limited**

**Directors' Report for the Year Ended 31 December 2020**

The directors present their report and the financial statements for the year ended 31 December 2020.

**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 housing management service, predominately to Local Authorities and other Registered Providers of Social Housing.

**Risk management**

***Objectives and policies***

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

***Risks***

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

**Employment of disabled persons**

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

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

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

**Employee involvement**

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

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

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

## **Morrison Facilities Services Limited**

# **Directors' Report for the Year Ended 31 December 2020 (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 28 days of average supplies for the year (2019: 72 days).

### **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 robust defensive markets where spend is largely non-discretionary and that contracts tend to be long-term partnerships. The Board has a reasonable expectation that the group is able to manage its business risks and to continue in operational existence for at least 12 months from the date of signing of the accounts and has sufficient liquidity and covenant headroom, after consideration of the reasonably possible downside scenarios, until 30 June 2022.

On this basis, and with Mears Group PLC having confirmed in writing its intention to continue to support the Company for at least 12 months from the date of the approval of this report, the directors consider it appropriate to adopt the going concern basis for preparing the financial information.

### **Directors' liabilities**

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

### **Disclosure of information to the auditors**

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

### **Reappointment of auditors**

During the year, Ernst & Young LLP was appointed as auditor, replacing Grant Thornton UK LLP. Ernst & Young LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continued in force under the Companies Act 2006.

### **Energy and Carbon Reporting**

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

Approved by the Board on 30 June 2021 and signed on its behalf by:



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 2020, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, 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 2020 and of its loss 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.

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 a period of 12 months from when the financial statements are authorised for issue through until 30 June 2022.

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 there is 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 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 Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

## 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.

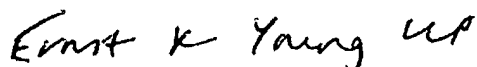
Our approach was as follows:

- 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 group has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud, how senior management monitor those programs and controls, evaluating conditions in the context of incentive and/or pressure to commit fraud, considering the opportunity to commit fraud and the potential rationalisation of the fraudulent act.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of senior management, including the Directors and Company Secretary. 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.



Paul Mapleston  
Senior Statutory Auditor  
for and on behalf of Ernst & Young LLP,  
Statutory Auditor, Chartered Accountants  
Bristol

1 July 2021

Morrison Facilities Services Limited

**Profit and Loss Account for the Year Ended 31 December 2020**

		(As restated*)	
	Note	2020 £ 000	2019 £ 000
Revenue	4	40,387	58,908
Cost of sales		<u>(33,160)</u>	<u>(43,022)</u>
Gross profit		7,227	15,886
Administrative expenses		(7,960)	(11,405)
Other operating income	5	<u>707</u>	<u>-</u>
Operating (loss)/profit	6	(26)	4,481
Other interest receivable and similar income	7	255	533
Interest payable and similar charges	8	<u>(335)</u>	<u>(404)</u>
(Loss)/profit before tax		(106)	4,610
Tax on (loss)/profit on ordinary activities	11	<u>(140)</u>	<u>(859)</u>
(Loss)/profit for the year		<u><u>(246)</u></u>	<u><u>3,751</u></u>

The above results were derived from continuing operations.

\*Note 26 contains details of the restatement of the prior year figures.

Morrison Facilities Services Limited

**Statement of Comprehensive Income for the Year Ended 31 December 2020**

		(As restated*)	
	Note	2020 £ 000	2019 £ 000
(Loss)/profit for the year		<u>(246)</u>	<u>3,751</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of post employment benefit obligations (net)	21	(4,531)	(13,155)
Deferred tax in respect of defined benefit pensions		443	1,794
Pension guarantee asset movement in respect of actuarial loss	21	<u>2,202</u>	<u>3,711</u>
		<u>(1,886)</u>	<u>(7,650)</u>
Total comprehensive income for the year		<u><u>(2,132)</u></u>	<u><u>(3,899)</u></u>

\*Note 26 contains details of the restatement of the prior year figures.

Morrison Facilities Services Limited

(Registration number: SC120550)

Balance Sheet as at 31 December 2020

			(As restated*)
		31 December 2020 £ 000	31 December 2019 £ 000
	Note		
<b>Fixed assets</b>			
Intangible assets	15	109	218
Tangible assets	14	400	472
Investments	16	1	1
Right of use assets	13	505	706
Pension guarantee assets	21	14,725	11,442
		<u>15,740</u>	<u>12,839</u>
<b>Current assets</b>			
Inventories	17	455	923
Current debtors	18	6,928	8,731
Debtors due after more than one year	18	703	1,404
Cash at bank and in hand		2,136	711
		<u>10,222</u>	<u>11,769</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	19	(10,920)	(14,048)
Loans and borrowings	20	(139)	(209)
Income tax liability	11	(15)	-
		<u>(11,074)</u>	<u>(14,257)</u>
<b>Creditors: Amounts falling due within one year</b>			
<b>Net current liabilities</b>		<u>(852)</u>	<u>(2,488)</u>
<b>Total assets less current liabilities</b>		14,888	10,351
<b>Creditors: Amounts falling due after more than one year</b>			
Loans and borrowings	20	(390)	(512)
Amounts due to related parties		(266)	(8,721)
<b>Provisions for liabilities</b>	12	<u>(894)</u>	<u>(1,354)</u>
<b>Net assets/(liabilities) excluding pension asset/(liability)</b>		13,338	(236)
Net pension liability	21	<u>(10,020)</u>	<u>(4,314)</u>
<b>Net assets/(liabilities)</b>		<u>3,318</u>	<u>(4,550)</u>
<b>Capital and reserves</b>			
Called up share capital	25	-	-
Share premium reserve	25	10,000	-
Profit and loss account		<u>(6,682)</u>	<u>(4,550)</u>
<b>Shareholders' funds/(deficit)</b>		<u>3,318</u>	<u>(4,550)</u>

The notes on pages 17 to 45 form an integral part of these financial statements.


**Morrison Facilities Services Limited**

**(Registration number: SC120550)**

**Balance Sheet as at 31 December 2020 (continued)**

\*Note 26 contains details of the restatement of the prior year figures.

Approved by the Board on 30 June 2021 and signed on its behalf by:



.....  
A C M Smith  
Director

Morrison Facilities Services Limited

**Statement of Changes in Equity for the Year Ended 31 December 2020**

		Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019 as reported		10,000	-	(4,622)	5,378
Restatement		-	-	(29)	(29)
At 1 January 2019 (As restated*)		10,000	-	(4,651)	5,349
Profit for the year (As restated*)		-	-	3,751	3,751
Other comprehensive income		-	-	(7,650)	(7,650)
Total comprehensive income		-	-	(3,899)	(3,899)
Dividends		-	-	(6,000)	(6,000)
Capital reduction		(10,000)	-	10,000	-
At 31 December 2019 (As restated*)		-	-	(4,550)	(4,550)
			Share premium	Retained earnings	Total
	Note	£ 000	£ 000	£ 000	£ 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)
Issue of shares	25	-	10,000	-	10,000
At 31 December 2020		-	10,000	(6,682)	3,318

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.

\*Note 26 contains details of the restatement of the prior year figures.

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2020**

**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 2020.

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 30 June 2021.

**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 (£'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.

The Directors have obtained confirmation from the Company's immediate Parent, Mears Group PLC, that it will give financial support to the Company to enable it to meet its liabilities as and when they fall due to ensure its future operations, for at least one year from the date of authorisation of the financial statements for the period ended 31 December 2020.

**Corrections relating to prior periods**

During the year, the Company revisited the assumptions made at the time of the adoption of IFRS 16, and its assessment of the right of use assets and lease obligations as at transition and at 31 December 2019. As detailed in note 26, the Directors have concluded that in the prior year, the right of use asset and associated lease obligation were overstated and as such, the Statement of Profit or Loss and Balance Sheet have been restated to correct this error.

The prior year impact on the profit and loss account and the 2019 opening retained earnings is also disclosed in note 26.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 2 Accounting policies (continued)

#### 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 robust defensive markets where spend is largely non-discretionary and that contracts tend to be long-term partnerships. The Board has a reasonable expectation that the group is able to manage its business risks and to continue in operational existence for at least 12 months from the date of signing of the accounts and has sufficient liquidity and covenant headroom, after consideration of the reasonably possible downside scenarios, until 30 June 2022.

On this basis, and with Mears Group PLC having confirmed in writing its intention to continue to support the Company for at least 12 months from the date of the approval of this report, the directors consider it appropriate to adopt the going concern basis for preparing the financial information.

#### 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.

#### 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 2020. 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.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

#### *Contracting*

For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. The Company is continuously satisfying this single performance obligation as cost is incurred, determining progress against the performance obligation on an input basis. The customer controls the site or output as the work is being performed on it and therefore revenue is recognised over time where there is an enforceable right to payment for works completed to date and the work completed does not create an asset with an alternative use to the Company. An assessment is made of costs incurred to date and the costs required to complete the project. If a project is not deemed to be profitable, the unavoidable costs of fulfilling the contract are provided for immediately. This category also includes construction contracts where an end customer has not yet been identified and the revenue is recognised at a point in time, rather than over time.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 2 Accounting policies (continued)

#### *Property income*

Where the Company is acting as principal, lessor operating lease revenue is recognised in revenue on a straight-line basis over the tenancy.

Where the Company is providing a management service, the Company recognises revenue as an agent (the net management fee) on a straight-line basis. Where significant initial costs are required to make good the housing to perform Housing Management activities, the costs directly attributable to the initial upgrade will be recognised as costs incurred to fulfil a contract and held within current assets, to the extent that it is determined that costs are recoverable.

Where the Company is providing an accommodation and support service, revenue is recognised at a point in time for each night that the accommodation is occupied. These types of contracts typically include elements of variable consideration in the form of key performance indicators and revenue arising from these elements is recognised in line with the Company's other variable consideration.

Where the Company enters into arrangements with customers for the provision of housing an assessment is made as to whether this income is recognised under IFRS 15 or IFRS 16. The contract between the Company and the customer is deemed to contain a lease where the contract conveys the right to control an identified asset for a period of time in exchange for consideration. In this instance, the rental income is recognised on a straight line basis over the life of the lease. All such sub-leased residential property leases are classified as operating leases. Revenue in respect of sub-leased residential property is disclosed separately in note 4.

#### *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.

#### *Other*

From time to time, the Company receives revenue that doesn't fall within any of the categories above but is not individually significant enough to require a specific policy. In these cases, the revenue is considered separately and recognised in accordance with IFRS 15.

#### **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.

#### **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.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 2 Accounting policies (continued)

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	25% per annum, reducing balance
Fixtures and fittings	over two years
Equipment	25% per annum, reducing balance

#### 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

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 2 Accounting policies (continued)

#### 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.

#### 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.

#### Work in progress

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

#### 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 2020 (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.

**Dividends**

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

## Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

### 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 Financial Statements for the Year Ended 31 December 2020 (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' favour, the Company measures the obligation based on the Company's best estimate of its future intentions;
  - where a unilateral break is in place, assessing whether the lease can be terminated with no more than an insignificant penalty;
  - where Morrison Facilities Services does not in practice have the right to control the use of the asset and the key decision-making rights are retained by the supplier;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under IFRS 16;
- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which Morrison Facilities Services only makes lease payments to the owner to the extent that the property is occupied and to the extent that rents are received from the tenant; and
  - where the lease contains an extension or termination clause in Morrison Facilities Services' favour, the Company will judge whether 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. The Group undertook a synthetic credit rating exercise which determined a credit rating of BB+ for Mears Group PLC. Given the cross guarantees in place across the Group, it was considered appropriate to use a single credit rating across all Group entities. Using the Thomson Reuters EIKON database, a yield curve was built that can be used to determine appropriate incremental borrowing rates for the varying lease tenors. In order to build an appropriate yield curve, we have calculated a proxy GBP BB+ yield curve for a range of maturities by interpolating yields at the mid-point between BBB and BB rated GBP corporate bond yields.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

#### 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.

#### 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 2020 (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:

	2020 £ 000	2019 £ 000
<b>Revenue from contracts with customers</b>		
Repairs and maintenance	40,387	543
Contracting	-	58,365
	<u>40,387</u>	<u>58,908</u>

Repairs and maintenance revenue is typically invoiced between one and 30 days from completion of the performance obligation. Contracting revenue is typically invoiced based on the stage of completion of the overall contract. Property income is typically invoiced monthly in advance. Payment terms for revenue invoiced are typically 30 to 60 days from the date of invoice.

## 5 Other operating income

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

	2020 £ 000	2019 £ 000
Government grants	<u>707</u>	<u>-</u>

The other operating income in the year of £707,000 (2019: £nil) relates to the government furlough scheme, which provides financial support relating to the Covid-19 pandemic.

## 6 Operating (loss)/profit

Arrived at after charging/(crediting)

	(As restated*)	
	2020 £ 000	2019 £ 000
Depreciation on fixed assets	113	146
Depreciation on right of use assets	201	230
Amortisation expense	55	77
Loss on disposal of property, plant and equipment	<u>54</u>	<u>54</u>

\*Note 26 contains details of the restatement of the prior year figures.

## 7 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Other finance income	<u>255</u>	<u>533</u>

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

**8 Interest payable and similar expenses**

	<b>(As restated*)</b>	
	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Interest paid to group undertakings	277	318
Other finance costs	38	61
Interest expense on leases	20	25
	<u>335</u>	<u>404</u>

\*Note 26 contains details of the restatement of the prior year figures.

**9 Staff costs**

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

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Wages and salaries	8,733	13,429
Social security costs	1,125	1,225
Other pension costs	1,394	919
	<u>11,252</u>	<u>15,573</u>

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

	<b>2020</b>	<b>2019</b>
	<b>No.</b>	<b>No.</b>
Administration and support	131	114
Other departments	349	418
	<u>480</u>	<u>532</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**

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Audit of the financial statements	<u>57</u>	<u>42</u>

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

**11 Income tax**

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

	2020 £ 000	2019 £ 000
<b>Current taxation</b>		
UK corporation tax adjustment to prior periods	15	7
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(14)	972
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	139	(120)
Total deferred taxation	125	852
Tax expense in the profit and loss account	140	859

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
		(As restated*)
(Loss)/profit before tax	(106)	4,610
Corporation tax at standard rate	(20)	876
Increase/(decrease) in current tax from adjustment for prior periods	153	(113)
Increase from effect of capital allowances depreciation	5	6
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	77	225
Decrease arising from group relief tax reconciliation	(93)	(128)
Increase/(decrease) from changes in pension fund prepayment	18	(7)
Total tax charge	140	859

\*Note 26 contains details of the restatement of the prior year figures.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 11 Income tax (continued)

#### Factors that may affect future tax charges

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019: 19%) which represents the future corporation tax rate that was enacted at the balance sheet date.

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 not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the Company's deferred tax balances.

### 12 Deferred tax

#### Deferred tax asset and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Pension scheme £ 000	Total £ 000
At 1 January 2019	689	867	(3,089)	(1,533)
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	40	(952)	(60)	(972)
- Adjustments in respect of prior periods	-	120	-	120
Deferred tax charge in other comprehensive income				
- On origination and reversal of timing differences	-	-	1,795	1,795
At 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	-	(139)
Deferred tax charge in other comprehensive income				
- Adjustments in respect of prior periods	-	-	442	442
At 31 December 2020	621	-	(894)	(273)

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 2020 (continued)**

**13 Right of use assets**

	Offices £ 000
<b>Cost or valuation</b>	
At 1 January 2019 (As restated*)	655
Additions (As restated*)	<u>281</u>
At 31 December 2019 (As restated*)	<u>936</u>
At 1 January 2020	936
Disposals	<u>(72)</u>
At 31 December 2020	<u>864</u>
<b>Depreciation</b>	
Charge for year (As restated*)	<u>230</u>
At 31 December 2019 (As restated*)	<u>230</u>
At 1 January 2020	230
Charge for the year	201
Eliminated on disposal	<u>(72)</u>
At 31 December 2020	<u>359</u>
<b>Carrying amount</b>	
At 31 December 2020	<u><u>505</u></u>
At 31 December 2019	<u><u>706</u></u>

\*Note 26 contains details of the restatement of the prior year figures.

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020	928	601	196	1,725
Additions	-	21	20	41
Disposals	(647)	-	-	(647)
Reclassifications	1	(1)	-	-
At 31 December 2020	<u>282</u>	<u>621</u>	<u>216</u>	<u>1,119</u>
<b>Depreciation</b>				
At 1 January 2020	757	371	125	1,253
Charge for the year	32	60	21	113
Eliminated on disposal	(647)	-	-	(647)
At 31 December 2020	<u>142</u>	<u>431</u>	<u>146</u>	<u>719</u>
<b>Carrying amount</b>				
At 31 December 2020	<u>140</u>	<u>190</u>	<u>70</u>	<u>400</u>
At 31 December 2019	<u>171</u>	<u>230</u>	<u>71</u>	<u>472</u>

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

**15 Intangible assets**

	Software £ 000
<b>Cost or valuation</b>	
At 1 January 2020	2,823
Disposals	<u>(1,341)</u>
At 31 December 2020	<u>1,482</u>
<b>Amortisation</b>	
At 1 January 2020	2,605
Amortisation charge	55
Amortisation eliminated on disposals	<u>(1,287)</u>
At 31 December 2020	<u>1,373</u>
<b>Carrying amount</b>	
At 31 December 2020	<u>109</u>
At 31 December 2019	<u>218</u>

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

Amortisation of intangible assets is included within other operating charges.

**16 Investments**

	£ 000
<b>Subsidiaries</b>	
<b>Cost or valuation</b>	
At 1 January 2020	<u>1</u>
At 31 December 2020	<u>1</u>
<b>Provision</b>	
<b>Carrying amount</b>	
At 31 December 2020	<u>1</u>
At 31 December 2019	<u>1</u>

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

**16 Investments (continued)**

Details of the subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held	
				2020	2019
Manchester Working Limited	Maintenance and repair services	1390 Montpellier Court Gloucester Business Park, Brockworth, Gloucester, GL3 4AH United Kingdom	Ordinary shares	80%	80%
Mears Scotland LLP	Maintenance and repair services	224 West George Street, Glasgow, United Kingdom, G2 2PQ United Kingdom	Partnership member	67%	67%

**17 Inventories**

	31 December 2020	31 December 2019
	£ 000	£ 000
Raw materials and consumables	455	923

The Company consumed inventories totalling £2,981,675 during the year (2019: £4,536,819). No items are being carried at fair value less costs to sell (2019: £nil).

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

**18 Trade and other debtors**

	(As restated*)	
	31 December 2020 £ 000	31 December 2019 £ 000
Trade debtors	1,812	3,399
Provision for impairment of trade debtors	(167)	(107)
Net trade debtors	1,645	3,292
Current debtors due from related parties	1,156	246
Debtors due from related parties after more than one year	-	553
Contract assets	4,181	5,122
Prepayments	13	33
Deferred tax assets due after more than one year	621	764
Other debtors	15	125
	7,631	10,135
Less non-current portion	(703)	(1,404)
	<u>6,928</u>	<u>8,731</u>

\*Note 26 contains details of the restatement of the prior year figures.

**Details of non-current trade and other debtors**

£Nil (2019: £553,000) of debtors from related parties is classified as non current.

£621,000 (2019: £764,000) of deferred tax asset is classified as non current.

£82,000 (2019: £87,000) of debtor retentions is classified as non current.

Included in trade receivables is £82,000 (2019: £87,000) 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 2020 (continued)**

**19 Trade and other creditors**

	31 December 2020 £ 000	31 December 2019 £ 000
Trade creditors	2,527	8,683
Accrued expenses	2,543	3,088
Amounts due to related parties	3,380	10
Social security and other taxes	1,685	1,694
Other creditors	785	573
Income tax liability	15	-
	<u>10,935</u>	<u>14,048</u>

**20 Loans and borrowings**

	(As restated*)	
	31 December 2020 £ 000	31 December 2019 £ 000
<b>Non-current loans and borrowings</b>		
Lease liabilities	<u>390</u>	<u>512</u>
		(As restated*)
	31 December 2020 £ 000	31 December 2019 £ 000
<b>Current loans and borrowings</b>		
Lease liabilities	<u>139</u>	<u>209</u>

\*Note 26 contains details of the restatement of the prior year figures.

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

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 21 Pension and other schemes

#### Defined benefit schemes

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

In certain cases, the Group will participate under Admitted Body status in the Local Government Pension Scheme. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Group has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised as a separate pension guarantee asset. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

The expected contributions to the plan for the next reporting period are £2,500,000.

The scheme was most recently valued on 31 December 2020. Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2020 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 2020 %	31 December 2019 %
Discount rate	1.35	2.10
Future salary increases - first two years	2.85	2.90
Future salary increases - long term	2.85	2.90
Future pension increases - capped at 5% based on RPI	2.85	2.85
Future pension increases - capped at 3% based on RPI	2.35	2.35
Future pension increases - capped at 5% based on CPI	2.50	1.90
Future pension increases - capped at 3% based on CPI	2.15	1.75
RPI inflationary growth	2.85	2.90
CPI inflationary growth	2.45	1.90

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

*Post retirement mortality assumptions*

	31 December 2020 Years	31 December 2019 Years
Current UK pensioners at retirement age - male	21.60	21.90
Current UK pensioners at retirement age - female	23.80	24.10
Future UK pensioners at retirement age - male	23.30	23.70
Future UK pensioners at retirement age - female	<u>25.70</u>	<u>26.00</u>

*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 2020 £ 000	31 December 2019 £ 000
Fair value of scheme assets	339,310	325,902
Present value of scheme liabilities	<u>(338,913)</u>	<u>(328,338)</u>
	397	(2,436)
Unrecognised past service cost	<u>(10,417)</u>	<u>(1,878)</u>
Defined benefit pension scheme deficit	<u>(10,020)</u>	<u>(4,314)</u>
Net pension deficit	<u>(10,020)</u>	<u>(4,314)</u>
Pension guarantee assets	<u>14,725</u>	<u>11,442</u>

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

***Scheme assets***

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

	31 December 2020 £ 000	31 December 2019 £ 000
Fair value at start of year	325,902	258,637
Expected return	6,303	8,266
Actuarial gain	36,786	27,290
Employer contributions	2,820	2,641
Contributions by scheme participants	566	681
Benefits paid	(6,800)	(8,535)
Administrative expenses paid	(298)	(277)
Contract transfer	(25,969)	37,199
Fair value at end of year	<u>339,310</u>	<u>325,902</u>

***Analysis of assets***

The major categories of scheme assets are as follows:

	31 December 2020 £ 000	31 December 2019 £ 000
Equity	158,805	156,213
Bonds	134,364	122,877
Property	23,326	13,027
Other	<u>22,815</u>	<u>33,785</u>
Company's estimated asset share	<u>339,310</u>	<u>325,902</u>
Pension asset	<u>339,310</u>	<u>325,902</u>

	31 December 2020 £ 000	31 December 2019 £ 000
Fair value of guarantee assets at 1 January	11,442	6,396
<b>Recognised in the Consolidated Statement of Profit or Loss</b>		
Guarantee asset movement in respect of service cost	826	1,122
Guarantee asset movement in respect of net interest	255	213
<b>Recognised in Other Comprehensive Income</b>		
Guarantee asset movement in respect of actuarial (gains)/losses	<u>2,202</u>	<u>3,711</u>
Fair value of guarantee assets at 31 December	<u>14,725</u>	<u>11,442</u>

**Morrison Facilities Services Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

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.

***Scheme liabilities***

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

	31 December 2020 £ 000	31 December 2019 £ 000
Present value at start of year	328,338	245,733
Current service cost	3,659	3,677
Past service cost	-	9
Actuarial gains and losses arising from changes in demographic assumptions	(7,410)	(618)
Actuarial gains and losses arising from changes in financial assumptions	56,421	41,243
Actuarial gains and losses arising from liability experience	(17,899)	1,025
Interest cost	6,337	7,924
Contributions by scheme participants	566	681
Benefits paid	(6,800)	(8,535)
Contract transfer	(24,299)	37,199
Present value at end of year	<u>338,913</u>	<u>328,338</u>

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

	31 December 2020 £ 000	31 December 2019 £ 000
<b>Amounts recognised in operating profit</b>		
Current service cost	3,659	3,677
Past service cost	-	9
Administrative expenses paid	<u>298</u>	<u>277</u>
Recognised in arriving at operating profit	<u>3,957</u>	<u>3,963</u>
<b>Amounts recognised in finance income or costs</b>		
Net interest	34	(342)
Effects of limitation on recognisable surplus	<u>4</u>	<u>41</u>
Recognised in other finance cost	<u>38</u>	<u>(301)</u>
Total recognised in the income statement	<u>3,995</u>	<u>3,662</u>

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

*Amounts taken to the Statement of Comprehensive Income*

	31 December 2020 £ 000	31 December 2019 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	7,410	618
Actuarial gains and losses arising from changes in financial assumptions	(56,421)	(41,243)
Actuarial gains and losses arising from liability experience	17,899	(1,025)
Return on plan assets in excess of that recorded in net interest	36,786	27,290
Actuarial gain on TUPE transfer of employees	(1,670)	-
Effect of limitation on surplus recognition	(8,535)	1,205
Amounts recognised in the Statement of Comprehensive Income	<u>(4,531)</u>	<u>(13,155)</u>

**Sensitivity analysis**

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

	31 December 2020			31 December 2019		
	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Adjustment to discount rate						
Present value of total obligation	<u>(6,095)</u>	<u>-</u>	<u>6,156</u>	<u>(7,238)</u>	<u>-</u>	<u>7,090</u>
	31 December 2020			31 December 2019		
	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Adjustment to rate of inflation						
Present value of total obligation	<u>5,784</u>	<u>-</u>	<u>(5,845)</u>	<u>6,978</u>	<u>-</u>	<u>(6,837)</u>
	31 December 2020			31 December 2019		
	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Adjustment to rate of salary growth						
Present value of total obligation	<u>2,983</u>	<u>-</u>	<u>(2,989)</u>	<u>3,216</u>	<u>-</u>	<u>(3,181)</u>
	31 December 2020			31 December 2019		
	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	None £ 000	- 1 Year £ 000
Adjustment to mortality age rating assumption						
Present value of total obligation	<u>12,951</u>	<u>-</u>	<u>(12,951)</u>	<u>12,429</u>	<u>-</u>	<u>(12,429)</u>

## Morrison Facilities Services Limited

# Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 22 Contingent liabilities

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

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2020 was £1.3m (2019: £1.3m).

### 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.

#### Summary of transactions with subsidiaries

During the year the Company made sales of £nil (2019: £3,000) to Mears Scotland LLP, an entity in which the Company has a 67% interest. At the year end £nil (2019: £nil) was owed by Mears Scotland LLP in respect of sales, purchases and other transactions as described above.

### 25 Share capital

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

	31 December 2020		31 December 2019	
	No.	£	No.	£
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

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 2020 (continued)**

**26 Restatement of prior year**

**Reassessment of lease accounting**

During the year, the Company revisited the assumptions made at the time of the adoption of IFRS 16, and its assessment of the right of use assets and lease obligations as at transition and at 31 December 2019. As detailed below, the Directors have concluded that in the prior year, the right of use asset and associated lease obligation were overstated and as such, the Statement of Profit or Loss and Balance Sheet have been restated to correct this error.

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 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' favour, the Company measures the obligation based on the Company's best estimate of its future intentions;
- where a unilateral break is in place, assessing whether the lease can be terminated with no more than insignificant penalty;
- where Morrison Facilities Services does not in practice have the right to control the use of the asset and the key decision-making rights are retained by the supplier;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under IFRS 16;
- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which Morrison Facilities Services only makes lease payments to the owner to the extent that the property is occupied and to the extent that rents are received from the tenant; and
- where the lease contains an extension or termination clause in Morrison Facilities Services' favour, the Company will judge whether to exercise it or not.

Several errors and omissions impacting on the carrying value reported within the 2019 comparatives were identified. One particularly significant reassessment resulted in the conclusion that vehicles that had been recognised in the Company, should have been recognised in Mears Group Plc itself.

The comparative figures have therefore been restated to reflect the correctly calculated figures as shown in the tables below:

<b>Profit and loss account for the year ended 31 December 2019</b>	<b>As originally reported £ 000</b>	<b>Reassessment of lease accounting £ 000</b>	<b>As restated £ 000</b>
Administrative expenses	11,386	19	11,405
Interest payable and similar charges	435	(31)	404

Morrison Facilities Services Limited

**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

**26 Restatement of prior year (continued)**

Balance sheet as at 31 December 2019	As originally reported £ 000	Reassessment of lease accounting £ 000	As restated £ 000
<b>Fixed assets</b>			
Right of use assets	1,716	(1,010)	706
<b>Creditors: Amounts falling due within one year</b>			
Loans and borrowings less than one year	883	(674)	209
<b>Creditors: Amounts falling due after more than one year</b>			
Loans and borrowings greater than one year	867	(357)	512
<b>Capital and reserves</b>			
Profit and loss account	<u>4,569</u>	<u>(19)</u>	<u>4,550</u>

Statement of Changes in Equity for the year ended 31 December 2019	As originally reported £ 000	Reassessment of lease accounting £ 000	As restated £ 000
<b>Retained earnings</b>			
Changes in IFRS 16 accounting policy	(36)	7	(29)
Profit for the year	<u>3,739</u>	<u>12</u>	<u>3,751</u>