Registration number: 02519234

MEARS

Mears Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Mears Limited

Contents

Mears Limited

Company Information

Directors	D J Miles B R Westran C E Middlemass A C M Smith Mears Group PLC
Company secretary	B R Westran
Registered office	1390 Montpellier Court Gloucester Business Park Brockworth Gloucester GL3 4AH
Solicitors	Travers Smith 10 Snow Hill London EC1A 2AL
Bankers	Barclays Bank PLC Corporate Banking 4th Floor Bridgwater House Counterslip, Finzels Reach Bristol BS1 6BH
Auditors	Ernst & Young LLP Chartered Accountants The Paragon Counterslip Bristol BS1 6BX

Mears Limited

Strategic Report for the Year Ended 31 December 2021

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

Fair review of the business

Overview

2021 was a strong year for Mears Limited ("the Company") characterised by high quality operations and customer service, a robust financial position and trading outperformance. The trading performance of the Company continued to recover strongly over the course of the year as the financial impacts of the Covid-19 pandemic receded. The pandemic again placed additional operating challenges this year. Prior long-term investment in client relationships, our people and systems ensured the business continued to perform well relative to its peers.

We are pleased to put on record our appreciation for the on-going dedication and commitment shown by all staff.

We are a trusted partner to our Local and Central Government clients who increasingly recognise the need for a high-quality housing specialist to help them provide a wide range of accommodation and related services to often vulnerable service users.

Revenues for the year were £644.1m (2020: £565.6m), a 14% increase on the prior year, driven by elevated volumes within our property income contracts and repair volumes returning to pre-pandemic levels within responsive maintenance. Operating profits and margins continued to strengthen over the course of the year as lockdown restrictions eased, volumes increased, and the business reverted to its original commercial mechanisms with clients. Operating profit for the year was £22.4m, an operating margin of 3.47% (2020: £11.8m, 2.1%)

Repairs, maintenance and contracting activities

Mears is responsible for the upkeep, repair, and maintenance of social housing across the UK, on behalf of over 40 Local Authorities and Housing Associations. This saw an improving volume and revenue trend during 2021 as restrictions eased and more normal trading conditions returned to most branches.

We experienced particularly high volumes in reactive maintenance activity as we worked with clients and customers to clear the backlog of lower priority maintenance jobs that had been delayed by lockdowns. Higher Covid-related levels of sickness in our workforce during 2021, together with some reduction in productivity given on-going social-distancing protocols, has resulted in a higher level of overdue works orders. Planned maintenance works have been slower to return to normal levels. However, this spend is non-discretionary over the longer-term and we are confident these works will return during 2022.

Our procurement procedures have meant that we have not experienced significant problems with material supply. Where lead times have lengthened, we have managed to plan for this in our operational delivery. However, as evidenced across the industry, we have experienced input price inflation in the period, impacting upon both materials and labour. The Company's customer contracts include inflationary uplift mechanisms which negates much of this risk over the medium term although there can be timing differences in the short term.

The Company was also pleased to secure important longer-term extensions to a few existing contracts. Notably a three-year contract extension with Livin Housing, based in Sedgefield, which will see Mears continue to provide services, with a value of around £12m per annum until at least April 2025.

Property income

Property income includes the procurement, management, and maintenance of circa 8,000 affordable homes and support to the people in those homes. The revenues in this area are generated through contracts with Central Government.

Our contracts in this area performed strongly throughout 2021, with revenues up 24% year-on-year. This was largely driven by the Asylum Accommodation and Support Contract ('AASC') in which we find initial and dispersed accommodation on behalf of the Home Office across Scotland, Northern Ireland, and parts of the north of England. AASC continued to experience elevated volumes across the entire Asylum process, with more service users entering the system than exiting. The process of supporting these vulnerable people into dispersed accommodation is continuing. During 2021, the Company has managed high demand (often at short notice) and continued to provide good quality accommodation and tenant support throughout the period. While volumes remain elevated at the time of writing, we anticipate that numbers within the system will start to normalise from the middle of 2022.

The Company was awarded a contract with the Ministry of Justice (MoJ) to provide transitional housing services and support to low and medium risk prisoners upon their release, from initial accommodation into a settled home. A key aim of this pilot scheme is to ensure that no one leaves prison without the offer of a good quality place to live from their first night in the community, and a clear pathway to a settled long-term home. This is a new customer for Mears. We will provide an integrated service including the provision of the property, maintenance, management, and welfare support. The contract mobilised in July 2021 and has ramped up slowly during the initial six-months, reaching an annualised run-rate value of circa £6m revenue by the year end. Initial feedback from the MOJ has been positive and discussions continue in respect of extending both the term and geographic reach of the programme.

Mears was delighted to be awarded the new RLAP contract, providing a wide range of housing services to the Defence Infrastructure Organisation ("DIO"). The new contract is for a period of up to seven years and has a contract value in excess of £50m a year. Under the contract, Mears will provide a wide range of accommodation and property services to service personnel and their families across the UK. Services include property search, selection and leasing, relocation services, tenancy management, responsive repairs, and maintenance. The new contract is expected to commence in April 2022. Mears has been successfully providing similar services since 2016 under the predecessor Substitute Service Accommodation contract, delivering a high level of service and operational delivery, which has contributed to this successful rebid.

Customers

The Group and its subsiidiaries ("Group") conducts over 30,000 'Voice of the Customer' surveys a year to demonstrate to ourselves and our clients that the highest standards of customer service are maintained. These show that the Group's 'Satisfied with Service' and 'Likely to Recommend (NPS)' scores remained consistently above 80% and 60% respectively, throughout the year. Such scores are substantially above the benchmark for the industry across both the public and private sector with 35% being the average. Integral to this performance was the Mears Contract Management (MCM) technology platform, which facilitated a seamless transition to and from remote working, both for Mears employees and crucially our clients.

Employees

The Mears model has always been to invest in and retain our own staff as much as possible, with lesser reliance than peers on sub-contracted and other short-term labour. At a time when competition for skilled labour is high, it has never been more important for Mears to continue its commitment to being a great place to work for our staff. For the third year running, the wider Mears Group secured a place in the 2021 Sunday Times Best Companies list of top 25 large companies to work for in the UK, and encouragingly our score being higher than both 2019 and 2020. We recognise that through great employee engagement we will achieve commercial and customer success.

A culture of investment, inclusion and development in the workforce ensured that the Company saw only modest increases in staff turnover and costs during the year, despite labour markets tightening significantly across the sector.

Health and safety

Our health and safety record across the year was exceptionally good, as evidenced by the wider Mears Group's Health and Safety Team being awarded its 19th Consecutive ROSPA Gold Award and retaining its place on ROSPA's Order of Merit. The 19th consecutive gold award resulted in Mears being awarded with ROSPA Order of Distinction.

The Health and Safety team worked closely with the operational team mobilising the Ministry of Justice contract, to ensure robust governance policies and procedures were embedded into contract delivery. In this regard, the Group's knowledge, expertise, and experience derived from managing AASC was hugely beneficial and was a key element in the very successful deployment of services during the latter part of the year.

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2021	2020
"Excellent" service rating	%	88.00	91.00
Customer complaints as a percentage of jobs	%	0.22	0.14
Revenue growth	%	13.87	2.90
Operating margin	%	3.83	2.10

"Excellent" service rating

In order the Company's customers to recommend the Company, Mears Limited must deliver excellent service. The Company randomly conducts a number of customer surveys each year. The Company achieved a rating of "excellent" in 88% of cases in 2021 (2020: 91%).

Customer complaints as a percentage of jobs

Incidents resulting from poor service result in a complaint. The Company committed to dealing with all complaints on an individual basis. Mears Limited encountered slightly high levels of 0.22% in 2021 (2020: 0.14%).

Revenue growth

Revenue represents the amounts due for goods and services provided during the year. The increase for 2021 of 13.87% (2020: 2.9%) was primarily a result of the elevated AASC revenue however It was also due to the return to higher working levels in 2021 after the stricter government guidelines for the Covid-19 pandemic in 2020.

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

Operating margin

The Company's operating margin of 3.47% (2020: 2.1%) reflects how the Company has rebounded after the impact of the start of the Covid-19 pandemic in 2020. The Company adapted quickly at the start of the first national lockdown to agree interim operating and financial arrangements with its maintenance-led clients. In the majority of cases, this limited maintenance led activity in people's homes to an emergency only service and provided new payment mechanisms which (at a minimum) were sufficient to cover direct costs and local site overheads. These arrangements varied by client, but typically, the arrangements improved in 2021 and the Company was able to increase the level of maintenance led activity compared with 2020. This was the principle factor in the improvement in operating margin in 2021 compared to 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.

Macro economy

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

The Directors have recognised the ongoing price increases on all fronts as a key risk going forward into 2022 and potentially beyond. These price increases are expected to put additional pressure on margins, especially in the short-term. Risks of price increases are expected to be passed to clients either through renegotiation or existing contractual mechanisms, but this will not happen immediately in most cases.

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

Liquidity

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

Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility and its working capital requirements are managed at a Group level. The facility has currently been agreed until December 2025.

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

Business retention and new business

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

Integrity, ethics, anti-bribery and corruption

There are inherent risks of bribery, fraud and corruption in some of the sectors 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.

Reputation

The ultimate success of the Company relies upon Maintaining a positive reputation in the public domain 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, otherwise the delivery of business objectives will be jeopardised.

Section 172 statement

The Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole in the decisions taken during the year ended 31 December 2021.

The Directors recognise a wide range of stakeholder interests and seek to create a culture whereby decisions are made with consideration to the wider impact upon the organisation as well as financial performance and strategic objectives.

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

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

The 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.

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

The Company aims to act responsibly in how it engages with the suppliers. Mears expects suppliers to acknowledge the significance of social, environmental and ethical matters in their conduct and demonstrate compliance with legislation. The Company acknowledges the importance of good payment practices and is committed to ensuring that suppliers are paid to on a timely basis to agreed terms.

Corporate governance

For the year ended 31 December 2021, under The Companies (Miscellaneous Reporting) Regulations 2019, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website). The following paragraphs summarise how the Group has applied the principles over the past year.

Wates Principles

We have a single-minded focus on the housing market and delivering services to the residents of these homes. We operate within the affordable housing sector, which is an area that will see continued investment given the significant housing shortage and the rising number of people who are regarded as statutorily homeless.

Our core services are in the maintenance and management of homes. Increasingly we operate an intelligent approach to maintenance, using technology and experience to operate preventative maintenance programmes that reduce levels of emergency repairs. As regards management, we ensure homes are managed and maintained to a decent standard, whilst often providing other welfare services to the tenants. Our particular focus is on the management of accommodation services to Central Government through long-term contracts.

The shortage of housing in the UK has made investment in housing both a political and an economic priority. More recently, the Social Housing White Paper and the Grenfell tragedy have put greater focus on tenant engagement and safety. Long-term UK carbon reduction targets will also mean that significant further investment in housing is needed, including the replacement of gas boilers.

The size and composition of the Board is considered to be appropriate for a business of this size and complexity, as well as bringing the necessary skills and experience to fulfil the Board's responsibilities.

The Company benefits from the wide range of experience and knowledge of its parent company Board and the wider Mears Group. This includes a number of independent non-executive Directors who bring experience and challenge from different sectors. The Company is confident that the Board has the right skills and experience to discharge its duties effectively. The Board calendar includes visits to major sites and directors are free to request such information as they may wish on any aspect of the company's operations.

Our governance framework supports the development of good governance practices throughout the company. No one individual has unfettered powers of decision-making. The Board delegates day-to-day management of the company to the Executive team. The Board works closely with the Executive team which ensures that the Board and its culture are effectively communicated and embedded within the Company and the wider Group.

The Company's revenue is generated from payments from Government, Local Authority and Housing Association clients in respect of its Housing services. Whilst the end service users are at the centre of our business model, they do not pay for the service directly. These payments are made under long term contracts. Creating social value is a key part of our business strategy, as this enables us to be seen as a trusted partner by our clients and is an essential part of building stronger relationships. The challenge of delivering service improvements at a lower cost requires innovative thinking and the use of technology. Our performance is built on a bedrock of first class IT platforms giving market-leading capability and driving innovation and engagement.

The Board undertakes a continuous assessment of risks affecting the company and has in place the necessary oversight for the identification and mitigation of risk. The senior management team reviews and identifies the key risks which may impact upon the achievement of the company's strategic goals and considers how these risks are developing with changes in the operations, markets and the regulatory environment.

The nature of the risk is reviewed, including the possible triggering events and the aggregated impacts, before setting appropriate mitigation strategies directed at the causes and consequences of each risk. The risk is assessed in relation to the likelihood of occurrence and the potential impact of the risk upon the business and assessed against a matrix scoring system which is then used to escalate risks within the company as appropriate. The Senior Management Team has responsibility for managing the company's key risks.

The Company is part of a wider Group and as such remuneration of the directors of the Company is based on their particular management role and responsibilities, rather than their appointment as a director. Accordingly, remuneration of these directors is reviewed and set by the Group Chief Executive Officer or Chief Operating Officer on behalf of the company, taking into account any relevant input from the Group Remuneration Committee.

The ability to attract and retain people to the business is of critical importance and is therefore included in the strategic objectives led at a Group level by the Remuneration Committee.

The Board recognises that engagement with key stakeholder groups strengthens our relationships and is an ongoing part of the operational management of the company. This includes employee surveys, assessments of customer satisfaction and ongoing conversations with regulators and non-governmental organisations. The Board receives regular updates from senior management on insights and feedback from stakeholders, which allows the Board to understand and consider the perspectives of key stakeholders in decision-making.

The Executive team have daily contact with clients and review monthly customer performance statistics including satisfaction, complaints and compliments. A Customer Scrutiny Board exists at the wider group level enabling independent review and the reporting of findings at the highest level within the company.

We work in partnership with clients and we reflect this way of working with our suppliers. We focus on keeping our promises to them, from how we pay them to the commitments we make in terms of helping them grow their business. This has been especially important in 2021. We challenge them to operate to the same social value approaches that we do and have a clear supplier charter that sets out our expectations from them. We recognise that all suppliers cannot be at the same level as ourselves but will support them where we can to improve. As you would expect, we set appropriate controls to ensure work quality and compliance standards are delivered to our expectations. We also have an established approach to setting up new supplier arrangements, to ensure that both parties are clear on responsibilities and risks.

We are proud to be part of a Group that is on the list of the Sunday Times 25 Best Big Companies to Work For, and on the Social Mobility Index of the top 75 employers in the UK for our commitment to social mobility. We have a national Workforce Group that is responsible for setting the approach to staff engagement and each local branch has a People plan, which sets out what it will do in each year. The wider Group has an Employee Director who sits on the Board, which also helps ensure that the views of the workforce are listened to and actioned.

Approved by the Board on 22 July 2022 and signed on its behalf by:

DocuSigned by:

B R Westran July 22, 2022

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B R Westran

Company secretary and director

Directors' Report for the Year Ended 31 December 2021

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

Directors' of the company

The directors, who held office during the year and up to the date of approval of these financial statements, were as follows:

D J Miles

B R Westran - Company secretary and director

C E Middlemass

A C M Smith

Mears Group PLC

Principal activity

The principal activity of the company is the provision of property maintenance and management services.

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.

Corporate governance

The corporate governance statement has been included within the Strategic Report due to it's strategic importance.

Employment of disabled persons

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

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

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

Employee involvement

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

This is achieved through consultations with employee representatives as well as with employees themselves through the use of regular surveys. Senior management also present regular briefings cascades to all employees. The wider Group has appointed an Employee Director to better represent the interests of employees on the Board.

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

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 26 days of average supplies for the year (2020: 56 days).

Going concern
The Company reported turnover for the period of £644m (2020: £566m). The balance sheet shows net assets of £114m (2020: net assets of £106m).

In considering the appropriateness of adopting the going concern basis for preparing the financial information, the Directors noted that the Company and Group operate in defensive markets where spend is largely non-discretionary and that contracts tend to be long-term partnerships. The Board believes that the Company has adequate resources to continue in operational existence until 31st July 2023. The Company and Group carried out stress tests against the business plan to determine the performance levels that would result in a breach of covenants or in a reduction in headroom against its borrowing facilities to £nil. In reaching this judgement, the Directors considered a number of possible downside scenarios and concluded that any scenario or combination of scenarios that could cause the business to be no longer a going concern to be implausible.

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

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

Directors' liabilities
Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. However, the indemnity does not cover Directors or officers in the event of being proven of acting dishonestly or fraudulently.

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

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

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

Approved by the Board on 22 July 2022 and signed on its behalf by:

DocuSigned by:
B R Westran July 22, 2022
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B R Westran
Company secretary and director

Statement of Directors' Responsibilities

The Directors acknowledge their responsibilities for preparing the Strategic Report, Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Mears Limited

Opinion

We have audited the financial statements of Mears Limited (the 'Company') for the year ended 31 December 2021, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The principal risks and uncertainties of the Company are managed at a Group level, and given the Group's intra-group funding structure is administered at a group level the directors deem it appropriate to consider going concern at a group level, and not the individual company level. On that basis, the directors have received a parent support letter from Mears Group PLC which states that Mears Group PLC will provide support to the company in meeting its liabilities as and when they fall due, but only to the extent that money is not otherwise available to meet such liabilities until 31 July 2022, consistent with the company and Group's going concern assessment period. Our evaluation of the directors' assessment of the Group's ability to continue to support Mears Limited throughout the going concern assessment period included:

• confirming that the Company is listed as an Original Borrower to the Mears Group PLC's (the "Group") Revolving Facility Agreement, thereby allowing it access to the available funds stipulated in the Facility;
• testing the clerical accuracy of the model and obtaining management's going concern paper used to prepare the Group's going concern assessment;

• assessing the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy as well as reviewing the contracted order book and margins. We evaluated the key assumptions underpinning the group's forecasts (such as contract renewals and margins) by proposing alternatives such as a greater loss rate, as well as considering the uncertainties arising from COVID-19 (eg, the extent to which the Group's activities can continue to be performed due to restrictions), and challenging management's position by modelling our own scenarios;

• assessing whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including goodwill impairment;

• challenging, based on our own independent analysis, whether the severe downside cases prepared by management could lead either to a loss of liquidity or a covenant breach and whether these scenarios were plausible. Our assessment included consideration of the impact and likelihood of:
- the loss of significant customer contracts;
- ongoing COVID-19 restrictions;
- a significant health and safety event which leading to significant reputational damage to the Group;

Independent Auditor's Report to the Members of Mears Limited (continued)

• considering the mitigating actions such as cost optimisation programmes and reduced fixed asset spend that management could undertake in a severe but plausible downside scenario;

• considering, independently, a "reverse stress-test" scenario that would lead to either a loss of liquidity or a covenant breach and concluding that such a scenario would be implausible based on evidence obtained and our understanding of the business; and

• we also confirmed the availability of debt facilities and considered their underlying terms, including covenants, by examination of executed documentation.

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

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

Other information

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

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.

Independent Auditor's Report to the Members of Mears Limited (continued)

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, 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.

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 Mears 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.

Independent Auditor's Report to the Members of Mears Limited (continued)

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 Mears 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 www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Mears Limited (continued)

Use of our report

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

DocuSigned by:
Paul Mapleston July 22, 2022
4FB70A01B097426

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

22 July 2022

Mears Limited

Profit and Loss Account for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Revenue	4	644,129	565,648
Cost of sales		(503,866)	(450,449)
Gross profit		140,263	115,199
Administrative expenses		(115,590)	(110,691)
Exceptional items	5	(2,300)	-
Other operating income	6	-	7,286
Operating profit	7	22,373	11,794
Income receivable from group undertakings		1,724	2,340
Other interest receivable and similar income		6	13
Interest payable and similar charges	8	(2,838)	(6,144)
Profit before tax		21,265	8,003
Tax on profit on ordinary activities	12	(381)	13
Profit for the year		20,884	8,016

The above results were derived from continuing operations.

The notes on pages 22 to 53 form an integral part of these financial statements.

Mears Limited

Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Profit for the year		20,884	8,016
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	22	18,324	(12,560)
Deferred tax in respect of defined benefit pensions		(1,505)	986
Pension guarantee asset movement in respect of actuarial adjustment	22	(9,640)	7,371
		7,179	(4,203)
Total comprehensive income for the year		28,063	3,813

The notes on pages 22 to 53 form an integral part of these financial statements.

Mears Limited

(Registration number: 02519234)
Balance Sheet as at 31 December 2021

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Fixed assets			
Intangible assets	16	6,519	8,075
Tangible assets	15	13,498	11,703
Investments	17	7,883	7,883
Right of use assets	14	90,412	83,740
Pension guarantee assets	22	12,975	15,980
		131,287	127,381
Current assets			
Inventories	18	2,412	2,550
Current debtors	19	105,744	111,498
Debtors due after more than one year	19	81,028	95,226
Cash at bank and in hand		34,178	37,911
		223,362	247,185
Creditors: Amounts falling due within one year			
Trade and other payables	20	(125,799)	(154,652)
Lease liabilities	21	(25,027)	(23,759)
Creditors: Amounts falling due within one year		(150,826)	(178,411)
Net current assets		72,536	68,774
Total assets less current liabilities		203,823	196,155
Creditors: Amounts falling due after more than one year			
Lease liabilities	21	(69,534)	(64,027)
Amounts due to related parties	27	(13)	(264)
Provisions for liabilities	23, 13	(3,342)	-
Net assets excluding pension asset/(liability)		130,934	131,864
Net pension liability	22	(16,756)	(25,749)
Net assets		114,178	106,115
Capital and reserves			
Called up share capital	28	-	-
Share premium reserve		100,000	100,000
Profit and loss account		14,178	6,115
Shareholders' funds		114,178	106,115

The notes on pages 22 to 53 form an integral part of these financial statements.

(Registration number: 02519234)
Balance Sheet as at 31 December 2021 (continued)

Approved by the Board on 22 July 2022 and signed on its behalf by:

DocuSigned by:
Andrew Smith
9A7577668CE5499............... July 22, 2022

A C M Smith
Director

Mears Limited

Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	-	100,000	6,115	106,115
Profit for the year	-	-	20,884	20,884
Other comprehensive income	-	-	7,179	7,179
Total comprehensive income	-	-	28,063	28,063
Dividends	-	-	(20,000)	(20,000)
At 31 December 2021	-	100,000	14,178	114,178

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	-	-	2,302	2,302
Profit for the year	-	-	8,016	8,016
Other comprehensive income	-	-	(4,203)	(4,203)
Total comprehensive income	-	-	3,813	3,813
Other share premium reserve movements	-	100,000	-	100,000
At 31 December 2020	-	100,000	6,115	106,115

The notes on pages 22 to 53 form an integral part of these financial statements.

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

1 General information

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

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

The address of its registered office is:
1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester
GL3 4AH

These financial statements were authorised for issue by the Board on 22 July 2022.

2 Accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with applicable accounting standards, including FRS 101, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis. The financial statements are presented in Sterling (£), rounded to the nearest thousand (£'000), which is also the functional currency of the Company.

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

Going concern

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

In considering the appropriateness of adopting the going concern basis for preparing the financial information, the Directors noted that the Company and Group operate in defensive markets where spend is largely non-discretionary and that contracts tend to be long-term partnerships. The Board believes that the Company has adequate resources to continue in operational existence until 31st July 2023.

In reaching this judgement, the Directors considered a number of possible downside scenarios and concluded that any scenario or combination of scenarios that could cause the business to be no longer a going concern to be implausible

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

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

The Directors have recognised the challenging economic backdrop, including price inflation and skills shortages, however the majority of the Company's customer contracts include annual price adjustments to mitigate much of this risk.

2 Accounting policies (continued)

Summary of disclosure exemptions

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2021. The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirements of IFRS 2 Share-based Payments;
b) The requirements of IFRS 3 Business Combinations;
c) The requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
d) The requirements of IFRS 7 Financial Instruments: Disclosures;
e) The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
f) The requirements of IFRS 15 Revenue from Contracts with Customers;
g) The requirements of IFRS 16 Leases;
h) The requirements of paragraph 58 of IFRS 16;
i) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
(iii) paragraph 118(e) of IAS 38 Intangible Assets;
j) The requirements of paragraph 10(d) and 134 to 136 of IAS 1 Presentation of Financial Statements;
k) The requirements of IAS 7 Statement of Cash Flows;
l) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
m) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
n) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
o) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
p) The requirements of paragraph 5(c) of the FRS 101 Reduced Disclosure Framework.

2 Accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Company accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Where applicable, the consideration for an acquisition includes any assets or liabilities arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information obtained up to one year from the acquisition date about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the Profit and loss account.

Costs relating to acquisitions in the year have been expensed.

For transactions with non-controlling parties that do not result in a change of control, the difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognised in equity.

Any business combinations prior to 1 January 2010 were accounted for in accordance with the standards in place at the time, which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Company had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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.

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

Tax

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

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the accounting periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the Profit and Loss Account, any related tax generated is recognised as a component of tax expense in the Profit and Loss Account. Where an item is recognised directly to equity or presented within the Profit and Loss Account, any related tax generated is treated similarly.

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated using the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to either the Profit and Loss Account, the Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited. Deferred tax relating to items charged or credited directly to equity is also credited or charged to equity.

Tangible assets

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Profit and loss account during the financial period in which they are incurred.

Depreciation

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

Asset class	Depreciation method and rate
Leasehold property improvements	over the period of the lease, straight line
Plant and machinery	25% per annum, reducing balance
Motor vehicles	25% per annum, reducing balance
Fixtures and fittings	50% straight line
Equipment	25% per annum, reducing balance
Property	2% straight line

2 Accounting policies (continued)

Investment property
Included within right of use assets are certain properties classified as investment properties in accordance with IAS 40. These properties are held primarily in order to earn rentals. The Company has chosen to apply the cost model to all investment property and therefore measurement is in line with IFRS 16 as described in the Leased assets accounting policy.

Intangible assets
In accordance with IFRS 3 (Revised) 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Company of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Company. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Company are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Company recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are *amortised over the useful economic life of those assets.*

Development costs incurred on software development are capitalised when all the following conditions are satisfied:

• completion of the software module is technically feasible so that it will be available for use;
• the Group intends to complete the development of the module and use it;
• the software will be used in generating probable future economic benefits;
• there are adequate technical, financial and other resources to complete the development and to use the software; and
• the expenditure attributable to the software during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software are continually monitored by management.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on software development.

The cost of purchased software is recognised as an intangible asset when incurred.

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. Development expenditure is amortised over the period expected to benefit.

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 development expenditure	over 4 or 5 years, straight line
Software	25% per annum, reducing balance
Acquisition intangibles	over the period expected to benefit

2 Accounting policies (continued)

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Company's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit and loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the Directors, not exceeding its useful economic life. It has been deemed, however, that non amortisation of goodwill is a required departure from the requirements of the Companies Act 2006 for the overriding purpose of giving a true and fair view.

Under the business combinations exemption of IFRS 1, goodwill previously written off directly to reserves under FRS 101 is not recycled to the Profit and Loss Account on calculating a gain or loss on disposal.

Impairment

For the purposes of assessing impairment, assets are tested individually.

Goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Profit and Loss Account for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal evaluation. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

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.

2 Accounting policies (continued)

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.

Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right of use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right of use assets and lease liabilities are presented separately.

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.

2 Accounting policies (continued)

Defined benefit pension obligation

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

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

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

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

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

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

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

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.

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.

2 Accounting policies (continued)

Share based payments

An expense is recognised for all share based payment arrangements that were granted after 7 November 2002 in the financial statements.

The Company participates in equity-settled share based remuneration plans operated by its parent undertaking, Mears Group PLC, for its employees. All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Black Scholes Option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period to satisfy service conditions. For SAYE plans, employees are required to contribute towards the plan. This non-vesting condition is taken into account in calculating the fair value of the option at the grant date.

Share based remuneration is recharged by the parent undertaking and recognised as an expense in the Profit and Loss Account.

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 2021 (continued)

2 Accounting policies (continued)

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

All interest related charges are recognised as an expense in 'Interest payable and similar charges' in the Profit and Loss Account with the exception of those that are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance income and finance costs. Borrowing costs are recognised as an expense in the period in which they are incurred with the exception of those which are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Trade payables on normal terms are not interest bearing and are stated at their fair value on initial recognition and subsequently at amortised cost.

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.

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

Revenue recognition

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

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 22..

Where the Company has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Company's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Company is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised.

Contract recoverability
Determining future contract profitability requires estimates of future revenues and costs to complete. In making these assessments there is a degree of inherent uncertainty. The Company utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimate of the value in use to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the goodwill and also the selection of appropriate discount rates to calculate present values. Future cash flows are estimated using the current one-year budget forecast, extrapolated for a future growth rate. The estimated growth rates are based on past experience and knowledge of the individual sector's markets. Changes in the estimated growth rate could result in variations to the carrying value of goodwill. The estimated cash flows and future growth rates are based on past experience and knowledge of the sector. The value in use is most sensitive to changes in the terminal growth rate, the explicit growth rate and the discount rate.

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:

4 Revenue (continued)

	2021 £ 000	2020 £ 000
Revenue from contracts with customers		
Repairs and maintenance	340,040	300,104
Contracting	56,773	65,187
Property income	245,344	197,318
Other	298	109
	642,455	562,718
Lease income	1,674	2,930
	644,129	565,648

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.

A total of £9,842,000 of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2020: £1,140,000).

5 Exceptional items

There were £2,300,000 of exceptional costs in the year, relating to the write off a loan to fellow subisdiary, Mears New Homes Limited. Prior year exceptional items were £nil.

6 Other operating income

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

	2021 £ 000	2020 £ 000
Government grants	-	7,286

There was no other operating income in the year (2020: £7,286,000). The other operating income in the prior year relates to the government furlough scheme, which provides financial support relating to the Covid-19 pandemic.

7 Operating profit

Arrived at after charging/(crediting)

	2021 £ 000	2020 £ 000
Depreciation on fixed assets	4,096	3,733
Depreciation on right of use assets	24,431	19,382
Amortisation expense	2,737	3,101
Share based payment	575	1,029
Loss on disposal of property, plant and equipment	152	210
Profit on disposal of right of use assets	-	(2)

8 Interest payable and similar charges

	2021 £ 000	2020 £ 000
Interest payable to group undertakings	-	3,499
Interest expense on leases	2,670	2,478
Other finance costs	168	167
	2,838	6,144

9 Staff costs

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

	2021 £ 000	2020 £ 000
Wages and salaries	93,780	95,694
Social security costs	8,944	9,230
Other pension costs	3,384	4,155
	106,108	109,079

9 Staff costs (continued)

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

	2021 No.	2020 No.
Administration and support	1,084	1,229
Site workers	1,649	2,000
	2,733	3,229

10 Directors' remuneration

The directors' remuneration for the year was as follows:

There was one director paid for qualifying services for Mears Limited during the year. The remaining directors were not remunerated in respect of qualifying services as directors of Mears Limited. All Statutory Directors were remunerated by Mears Group PLC.

Director remuneration in the year:

	2021 £ 000	2020 £ 000
Remuneration	291	291
Pension	28	28
Taxable benefits	2	2
	321	321

11 Auditors' remuneration

	2021 £ 000	2020 £ 000
Audit of the financial statements	198	111

12 Income tax

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

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	2,173	(200)
UK corporation tax adjustment to prior periods	(1,457)	668
	716	468
Deferred taxation		
Arising from origination and reversal of temporary differences	150	722
Arising from changes in tax rates and laws	(148)	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(337)	(1,203)
Total deferred taxation	(335)	(481)
Tax expense/(receipt) in the profit and loss account	381	(13)

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2021 - the same as the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit before tax	21,265	8,003
Corporation tax at standard rate	4,040	1,521
Decrease in current tax from adjustment for prior periods	(1,794)	(535)
Increase from effect of capital allowances depreciation	-	331
Decrease from effect of expenses not deductible in determining tax loss	(1,151)	-
Tax decrease from utilisation of tax losses	(148)	-
Increase from tax treatment of employee share options	107	-
Decrease arising from group relief	(609)	(1,488)
Deferred tax credit from unrecognised temporary difference from a prior period	(64)	-
Increase from changes in pension fund prepayment	-	11
Other tax effects for reconciliation between accounting profit and tax expense	-	147
Total tax charge/(credit)	381	(13)

Factors that may affect future tax charges

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

Mears Limited

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

13 Deferred tax

Deferred tax asset and liabilities

	Capital allowances £ 000	Tax losses £ 000	Provisions £ 000	DB pension scheme £ 000	IFRS 16 £ 000	Unpaid pension contributions £ 000	Total £ 000
At 1 January 2020	46	-	160	698	155	-	1,059
Deferred tax charge in profit and loss account							
- On origination and reversal of timing differences	(140)	(621)	(122)	174	(11)	-	(720)
- Adjustments in respect of prior periods	573	621	-	-	10	-	1,204
Deferred tax charge in other comprehensive income							
- On origination and reversal of timing differences	-	-	-	984	-	-	984
At 1 January 2021	479	-	38	1,856	154	-	2,527
Deferred tax charge in profit and loss account							
- On origination and reversal of timing differences	(403)	-	26	512	(11)	64	188
- Change in tax rate	24	-	-	42	82	-	148
Deferred tax charge in other comprehensive income							
- Adjustments in respect of prior periods	-	-	-	145	-	-	145
- Change in tax rate	-	-	-	(1,650)	-	-	(1,650)
At 31 December 2021	100	-	64	905	225	64	1,358

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

Mears Limited

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

14 Right of use assets

	Offices £ 000	Investment property £ 000	Residential property £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	5,599	27,052	42,352	75,003
Additions	971	476	33,462	34,909
Disposals	(464)	-	(508)	(972)
At 31 December 2020	6,106	27,528	75,306	108,940
At 1 January 2021	6,106	27,528	75,306	108,940
Additions	1,734	416	29,646	31,796
Disposals	(535)	-	(1,487)	(2,022)
At 31 December 2021	7,305	27,944	103,465	138,714
Depreciation				
At 1 January 2020	1,412	1,509	3,459	6,380
Charge for year	1,568	1,521	16,293	19,382
Eliminated on disposal	(421)	-	(141)	(562)
At 31 December 2020	2,559	3,030	19,611	25,200
At 1 January 2021	2,559	3,030	19,612	25,201
Charge for the year	1,289	1,553	21,589	24,431
Eliminated on disposal	(535)	-	(795)	(1,330)
At 31 December 2021	3,313	4,583	40,406	48,302
Carrying amount				
At 31 December 2021	3,992	23,361	63,059	90,412
At 31 December 2020	3,547	24,498	55,695	83,740

Additions includes remeasurements of the right of use asset as a result of changes in the lease agreement, which can increase or decrease the right of use asset.

Investment property included above represents properties held by the company primarily to earn rentals, rather than for use in the company's other activities. The amount included in lease income in note 4 in respect of these properties is £1,674,000 (2020: £2,930,000). Direct operating expenses arising from investment property that generated rental income during the period was £3,336,000 (2020: £3,400,000). The carrying value of the right of use asset in respect of investment property is considered to be approximately equal to its fair value.

Residential properties are used within the business on the AASC contract rather than being subleased to customers.

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

15 Tangible assets

	Land and buildings £ 000	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation						
At 1 January 2021	-	10,867	18,744	503	1,455	31,569
Additions	100	4,024	1,852	-	67	6,043
Disposals	-	-	(1,907)	-	(412)	(2,319)
At 31 December 2021	100	14,891	18,689	503	1,110	35,293
Depreciation						
At 1 January 2021	-	5,198	12,931	496	1,241	19,866
Charge for the year	2	2,321	1,703	2	68	4,096
Eliminated on disposal	-	-	(1,782)	-	(385)	(2,167)
At 31 December 2021	2	7,519	12,852	498	924	21,795
Carrying amount						
At 31 December 2021	98	7,372	5,837	5	186	13,498
At 31 December 2020	-	5,669	5,813	7	214	11,703

16 Intangible assets

	Goodwill £ 000	Software £ 000	Internally generated software development costs £ 000	Acquisition intangibles £ 000	Total £ 000
Cost or valuation					
At 1 January 2021	3,274	1,854	19,961	1,966	27,055
Additions	-	-	1,182	-	1,182
At 31 December 2021	3,274	1,854	21,143	1,966	28,237
Amortisation					
At 1 January 2021	1,259	1,130	15,059	1,533	18,981
Amortisation charge	-	181	2,123	433	2,737
At 31 December 2021	1,259	1,311	17,182	1,966	21,718
Carrying amount					
At 31 December 2021	2,015	543	3,961	-	6,519
At 31 December 2020	2,015	725	4,902	433	8,075

Amortisation of intangible assets is included within other operating charges.

Development expenditure is internally generated and relates to the development of the Company's job management system, which is amortised over its useful economic life of five years. Software, other intangibles and goodwill are separately acquired.

Goodwill represents the excess of purchase price over net assets in respect of the acquisition of a number of social housing businesses. Other intangibles represents intellectual property.

Goodwill arises on the excess of cost of acquisition over the fair value of the net assets acquired on purchase of a company.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there are any indications that goodwill may be impaired. Goodwill is carried at cost less accumulated impairment losses.

An asset is impaired if its carrying value exceeds the recoverable amount, which is based upon value in use. At 31 December 2021 impairment reviews were performed by comparing the carrying value with the value in use.

Budgeted operating profits during the budget period are estimated by reference to the operating margin achieved in the period leading up to the start of the budget period, flexed for known changes in either the pricing mechanism or the cost base at a contract level. There is no inclusion of any anticipated efficiency improvements which have not been formally committed to before the year end.

The Directors consider that reasonably possible changes in these key assumptions would not cause the carrying amount to exceed its recoverable amount.

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

17 Investments

Subsidiaries	**£ 000**
Cost or valuation	
At 1 January 2021	7,883
At 31 December 2021	7,883
Provision	
Carrying amount	
At 31 December 2021	7,883

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

Name of subsidiary	**Principal activity**	**Registered office**	**Holding**	**Proportion of ownership interest and voting rights held 2021**	**2020**
Mears Home Improvement Limited	Home improvement agency	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary A	100%	100%
Mears Learning Limited	Training provider	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary A	90%	90%
Mears New Homes Limited	Building contractor	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary	100%	100%
MPM Housing Limited	Support services	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary A	100%	100%
MPS Housing Limited	Maintenance services	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary	100%	100%
Plexus UK (First Project) Limited	Housing management services	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary	100%	100%

17 Investments (continued)

All of the above subsidiaries have a 31 December year end.

At 31 December 2021 the Company also held an interest in the entire issued ordinary share capital of the following dormant companies:

Mears Scotland (Housing) Limited, Mears Wales Limited, Mears Social Housing Limited, Mears Energy Limited, Laidlaw Scott Limited, Helcim Group Limited and Helcim Homes Limited. All subsidiaries are incorporated in the United Kingdom.

18 Inventories

	31 December 2021 £ 000	31 December 2020 £ 000
Raw materials and consumables	2,412	2,550

The Company consumed inventories totalling £46,657,000 during the year (2020: £45,160,000). No items are being carried at fair value less costs to sell (2020: £nil).

19 Trade and other debtors

	31 December 2021 £ 000	31 December 2020 £ 000
Trade debtors	19,672	30,556
Provision for impairment of trade debtors	(1,044)	(1,295)
Net trade debtors	18,628	29,261
Current debtors due from related parties	2,931	13,544
Debtors due from related parties after more than one year	77,476	92,699
Contract assets	74,475	60,863
Prepayments	7,802	6,033
Deferred tax assets due after more than one year	1,358	2,527
Corporation Tax asset	2,460	210
Other debtors	1,642	1,587
	186,772	206,724
Less non-current portion	(83,328)	(95,226)
	103,444	111,498

Included in trade receivables is £2,194,000 (2020: £2,188,000) 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 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.

20 Trade and other creditors

	31 December 2021 £ 000	31 December 2020 £ 000
Trade creditors	40,774	77,939
Accrued expenses	35,909	27,686
Amounts due to related parties	1,125	760
Social security and other taxes	21,673	26,231
Contract liabilities	24,798	21,263
Other creditors	1,520	773
	125,799	154,652

21 Lease liabilities

	31 December 2021 £ 000	31 December 2020 £ 000
Non-current loans and borrowings		
Lease liabilities	69,534	64,027

	31 December 2021 £ 000	31 December 2020 £ 000
Current loans and borrowings		
Lease liabilities	25,027	23,759

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

22 Pension and other schemes

Defined benefit plans

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

In certain cases, the Company will participate under Admitted Body status in the Local Government Pension Scheme. The Company will contribute for a finite period up until the end of the particular contract. The Company 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 Company has a contractual right to recover the costs of making good any deficit in the scheme from the Company'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.

22 Pension and other schemes (continued)

The expected contributions by the Company for the next reporting period are £1,263,000.

The schemes were most recently valued on 31 December 2021. Costs and liabilities of the schemes are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2021 by a qualified independent actuary using the projected unit method.

Principal actuarial assumptions

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

	31 December 2021 %	31 December 2020 %
Discount rate	2.00	1.35
Future salary increases - first year	3.00	2.85
Future salary increases - first two years	3.00	2.85
Future salary increases - long term	3.00	2.85
Future pension increases - capped at 5% based on RPI	2.90	2.80
Future pension increases - capped at 3% based on RPI	2.35	2.30
Future pension increases - capped at 5% based on CPI	2.55	2.45
Future pension increases - capped at 3% based on CPI	2.15	2.10
RPI inflationary growth	3.00	2.85
CPI inflationary growth	2.60	2.45

Post retirement mortality assumptions

	31 December 2021 Years	31 December 2020 Years
Current UK pensioners at retirement age - male	21.5	21.9
Current UK pensioners at retirement age - female	24.1	24.0
Future UK pensioners at retirement age - male	22.9	23.4
Future UK pensioners at retirement age - female	25.8	25.8

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2021 £ 000	31 December 2020 £ 000
Quoted assets		
Equities	74,719	64,390
Bonds	36,204	30,473
Property	10,072	12,233
Pooled investment vehicles		
Multi-asset funds	1,804	-
Alternative asset funds	226	-

22 Pension and other schemes (continued)

	31 December 2021 £ 000	31 December 2020 £ 000
Return seeking funds	333	-
Other assets		
Equities	13,777	-
Bonds	3,170	-
Property	4,201	361
Derivatives	331	-
Cash and other	19,898	4,110
Company's estimated asset share	164,735	111,567
Pension asset	164,735	111,567

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of scheme assets	164,735	111,567
Present value of scheme liabilities	(172,521)	(136,591)
	(7,786)	(25,024)
Scheme surpluses not recognised as assets	(8,970)	(725)
Defined benefit pension scheme deficit	(16,756)	(25,749)
Pension guarantee assets	12,975	15,980

Mears Limited

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

22 Pension and other schemes (continued)

Amounts recognised in the income statement

	31 December 2021 £ 000	31 December 2020 £ 000
Amounts recognised in operating profit		
Current service cost	3,561	2,601
Gains on curtailments and settlements	3,284	(22)
Recognised in arriving at operating profit	6,845	2,579
Amounts recognised in finance income or costs		
Interest on obligation	360	198
Effects of limitation on recognisable surplus	11	52
Recognised in other finance cost	371	250
Total recognised in the income statement	7,216	2,829

Amounts taken to the Statement of Comprehensive Income

	31 December 2021 £ 000	31 December 2020 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	964	2,863
Actuarial gains and losses arising from changes in financial assumptions	12,749	(27,363)
Actuarial gains and losses arising from experience adjustments	(924)	6,884
Return on plan assets, excluding amounts included in interest income/(expense)	13,769	2,971
Effect of limitation on surplus recognition	(8,234)	2,085
Amounts recognised in the Statement of Comprehensive Income	18,324	(12,560)

22 Pension and other schemes (continued)

Scheme liabilities

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

	31 December 2021 £ 000	31 December 2020 £ 000
Present value at start of year	136,591	117,830
Current service cost	3,561	2,601
Actuarial gains and losses arising from changes in demographic assumptions	(964)	(2,863)
Actuarial gains and losses arising from changes in financial assumptions	(12,749)	27,363
Actuarial gains and losses arising from experience adjustments	924	(6,884)
Interest cost	2,141	2,415
Contributions by scheme participants	450	459
Benefits paid	(2,375)	(1,211)
Liabilities extinguished on settlements	(3,742)	(144)
Contract transfer	48,684	(2,975)
Present value at end of year	172,521	136,591

Scheme assets

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

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value at start of year	111,567	108,700
Expected return	1,781	2,217
Actuarial gain	13,769	3,303
Employer contributions	2,936	948
Contributions by scheme participants	450	459
Benefits paid	(2,375)	(1,211)
Settlements	(3,055)	(122)
Contract transfer	39,662	(2,727)
Fair value at end of year	164,735	111,567

22 Pension and other schemes (continued)

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of guarantee assets at 1 January	15,980	7,978
Transferred in on scheme entry	5,710	-
Transferred out on scheme exit	(659)	(332)
Recognised in the Statement of Profit or Loss		
Guarantee asset movement in respect of service cost	1,379	800
Guarantee asset movement in respect of net interest	205	163
Recognised in Other Comprehensive Income		
Guarantee asset movement in respect of actuarial (gains)/losses	(9,640)	7,371
Fair value of guarantee assets at 31 December	12,975	15,980

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.

22 Pension and other schemes (continued)

Sensitivity analysis

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

	31 December 2021		31 December 2020	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
Adjustment to discount rate	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	(3,740)	3,749	(2,536)	2,491

	31 December 2021		31 December 2020	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
Adjustment to rate of inflation	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	3,252	(3,261)	2,536	(2,491)

	31 December 2021		31 December 2020	
	+ 0.1%	- 0.1%	+ 0.1%	- 0.1%
Adjustment to rate of salary growth	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	770	(770)	347	(352)

	31 December 2021		31 December 2020	
Adjustment to mortality age rating assumption	+ 1 Year £ 000	- 1 Year £ 000	+ 1 Year £ 000	- 1 Year £ 000
Present value of total obligation	7,288	(7,287)	4,778	(4,778)

23 Other provisions

	Onerous contract provisions £ 000	Legal provisions £ 000	Total £ 000
At 1 January 2021	-	-	-
Provided during the year	1,099	2,243	3,342
At 31 December 2021	1,099	2,243	3,342

At 31 December 2021, the Company identified a small number of maintenance contracts where the estimate of unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. These have been categorised as onerous contracts. In each case, the Company has triggered the contractual break clause and the respective contracts will conclude during the course of 2022; a provision of £1.1m has been made for the remaining lifetime losses on those contracts.

Legal provisions relate to an employee, subcontractor and property subcontractor and employee related legal claims which are also expected to be utilised within one year.

24 Dividends

	31 December 2021 £ 000	31 December 2020 £ 000
Interim dividend of £100,000.00 (2020 - £Nil) per ordinary share	20,000	-

25 Contingent liabilities

Mears 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 2021 was £3,760,000 (2020: £4,900,000).

26 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.

27 Related party transactions

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

28 Share capital

Allotted, called up and fully paid shares

	31 December 2021 No.	£	31 December 2020 No.	£
Ordinary shares of £1 each	200	200	200	200