Registration number: 03662604

MEARS

Mears Housing Management Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

Mears Housing Management Limited

Contents

Mears Housing Management Limited

Company Information

Directors	J K Taylor
	Mears Group PLC
	B R Westran
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 Bridgewater House Counterslip, Finzels Reach Bristol BS1 6BH
Auditors	Ernst & Young LLP Chartered Accountants The Paragon Counterslip Redcliffe Bristol BS1 6BX

Strategic Report for the Year Ended 31 December 2020

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

Fair review of the business

The Company is a leading private sector provider of residential lettings and management services to the Social Housing market, with a portfolio of approximately 900 properties.

The Company has recorded a 21.3% reduction in revenue (2019: 14.9%) as a result of the reduced portfolio size, having exited the Birmingham City Council scheme in 2020. Gross margins have declined significantly in the year as the Company has been going through a period of transition where the focus of management is to retain contracts that can deliver a positive financial outcome, whilst simultaneously exiting from loss making contracts. Accordingly, both revenue and profitability have declined as contract exit costs have impacted on the financial results.

The Company is well positioned to combine its strengths in housing and asset management to benefit from the 'Placemaking' strategy being offered to customers by the wider Mears Group. This strategy will result in new opportunities for the Company through its ability to provide, as part of the Mears Group of Companies, a multi-faceted service offering to clients. The Company will focus on maintaining the existing property portfolio, making sure it is fit for purpose, and is expected to realise costs savings resulting from significant restructuring in the operational department.

The operating loss for the year was 45.5% (2019: operating loss 10.4%). The majority of the decline reflects the introduction of an administrative recharge between Plexus UK (First Project) Limited and Mears Housing Management Limited which commenced in 2020 and reflects the accurate allocation of costs between the two entities.

The Company's Directors are satisfied that the Company has adequate resources to meet its obligations as they fall due and, for this reason, this company continues to adopt the going concern basis in preparing the Company's 2020 financial statements.

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

	Unit	2020	2019
Gross profit margin	%	(8.50)	1.70
Operating loss margin	%	45.50	10.40
Decrease in revenue on the previous year	%	21.30	14.90

Corrections relating to prior periods

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

Principal risks and uncertainties

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.

The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Directors have overall responsibility for risk management and internal control within the context of achieving the Company's objectives. The key risks and mitigating factors are set out below.

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

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

Financial
The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Company and to invest cash assets safely and profitably.

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

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

The Company does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Company does not engage in any hedging activities.

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

Operational
The principal risks and uncertainties that the business faces are operational risks, most importantly welfare reforms. As the majority of business is generated through local authority contracts, government public spending cuts may have affected trading had it not been for the Directors prudent approach to income generation.

The Company has limited exposure to these risks by negotiating and tendering for council contracts in a variety of different ways, ranging from yearly as well as long term contracts.

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.

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

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B R Westran
Company secretary

Mears Housing Management Limited

Directors' Report for the Year Ended 31 December 2020

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

Directors' of the company

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

J K Taylor

Mears Group PLC

B R Westran (appointed 7 September 2020)

Principal activity

The principal activity of the company is the management of a portfolio of properties and the provision of a full housing management service, predominately to Local Authorities and other Registered Providers of Social Housing.

Risk management

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.

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

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 themsleves through the use of regular surveys. Senior management also present regular briefings cascades to all employees.

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 64 days of average supplies for the year (2019: 42 days).

Directors' Report for the Year Ended 31 December 2020 (continued)

Going concern

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

In considering the appropriateness of adopting the going concern basis for preparing the financial information, the directors noted that the Company and Group operate in robust defensive markets where spend is largely non-discretionary and where contracts tend to be long-term partnerships. The Board has a reasonable expectation that the group is able to manage its business risks and to continue in operational existence for at least 12 months from the date of signing of the accounts and has sufficient liquidity and covenant headroom, after consideration of the reasonably possible downside scenarios, until 30 June 2022.

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

Directors' liabilities

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

Disclosure of information to the auditors

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

Appointment of auditors

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

Energy and Carbon Reporting

The Company has complied with all the streamlined Energy and Carbon Reporting requirements (SECR), along with all 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 30 June 2021 and signed on its behalf by:

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B R Westran
Company secretary

Mears Housing Management Limited

Statement of Directors' Responsibilities

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

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

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

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

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

Independent Auditor's Report to the Members of Mears Housing Management Limited

Opinion

We have audited the financial statements of Mears Housing Management Limited (the 'Company') for the year ended 31 December 2020, which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue through until 30 June 2022.

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

Other information

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

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

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

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors in preparation of the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

•We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS101 and the Companies Act 2006) and the relevant tax compliance regulations in the UK
•We understood how Mears Housing Management 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. 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.

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.

Ernst & Young LLP

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

1 July 2021

Mears Housing Management Limited

Profit and Loss Account for the Year Ended 31 December 2020

	Note	2020 £ 000	(As restated*) 2019 £ 000
Revenue	4	12,567	15,977
Cost of sales		(13,636)	(15,705)
Gross (loss)/profit		(1,069)	272
Administrative expenses		(4,690)	(1,940)
Other operating income	5	34	-
Operating loss	6	(5,725)	(1,668)
Interest receivable from group undertakings		92	240
Other interest receivable and similar income	7	1	2,008
Interest payable and similar charges	8	(1,976)	(1,674)
Loss before tax		(7,608)	(1,094)
Tax on loss on ordinary activities	12	1,164	(78)
Loss for the year		(6,444)	(1,172)

The above results were derived from continuing operations.

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

The notes on pages 14 to 33 form an integral part of these financial statements.

Mears Housing Management Limited

(Registration number: 03662604)
Balance Sheet as at 31 December 2020

	Note	31 December 2020 £ 000	(As restated*) 31 December 2019 £ 000
Fixed assets			
Intangible assets	16	30	40
Tangible assets	15	512	518
Investments	17	12,325	12,325
Right of use assets	14	29,203	33,802
		42,070	46,685
Current assets			
Current debtors	18	913	4,169
Debtors due after more than one year	18	4,261	4,345
Cash at bank and in hand		1,176	2,352
		6,350	10,866
Creditors: Amounts falling due within one year			
Trade and other payables	19	(3,831)	(2,889)
Loans and borrowings	20	(4,157)	(5,688)
Creditors: Amounts falling due within one year		(7,988)	(8,577)
Net current (liabilities)/assets		(1,638)	2,289
Total assets less current liabilities		40,432	48,974
Creditors: Amounts falling due after more than one year			
Loans and borrowings	20	(26,435)	(29,060)
Amounts due to related parties		(20,425)	(19,898)
Net (liabilities)/assets		(6,428)	16
Capital and reserves			
Called up share capital	25	-	-
Profit and loss account		(6,428)	16
Shareholders' (deficit)/funds		(6,428)	16

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

The notes on pages 14 to 33 form an integral part of these financial statements.

Mears Housing Management Limited

(Registration number: 03662604)
Balance Sheet as at 31 December 2020 (continued)

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

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Mears Group PLC
Director

The notes on pages 14 to 33 form an integral part of these financial statements.

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

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019 as reported	-	4,892	4,892
Restatement	-	(504)	(504)
At 1 January 2019 (As restated*)	-	4,388	4,388
Loss for the year (As restated*)	-	(1,172)	(1,172)
Total comprehensive income	-	(1,172)	(1,172)
Dividends	-	(3,200)	(3,200)
At 31 December 2019 (As restated*)	-	16	16

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	-	16	16
Loss for the year	-	(6,444)	(6,444)
Total comprehensive income	-	(6,444)	(6,444)
At 31 December 2020	-	(6,428)	(6,428)

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

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

1 General information

The financial statements present the results and financial position of Mears Housing Management Limited ("the Company") for the year ended 31 December 2020.

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 30 June 2021.

2 Accounting policies

Basis of preparation

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

Corrections relating to prior periods

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

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

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

2 Accounting policies (continued)

Going concern

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

In considering the appropriateness of adopting the going concern basis for preparing the financial information, the directors noted that the Company and Group operate in robust defensive markets where spend is largely non-discretionary and where contracts tend to be long-term partnerships. The Board has a reasonable expectation that the group is able to manage its business risks and to continue in operational existence for at least 12 months from the date of signing of the accounts and has sufficient liquidity and covenant headroom, after consideration of the reasonably possible downside scenarios, until 30 June 2022.

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

Exemption from preparing group accounts

The financial statements contain information about Mears Housing Management Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Mears Housing Management (Holdings) Limited, a company incorporated in United Kingdom.

Summary of disclosure exemptions

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020. The Company has taken advantage of the following disclosure exemptions under FRS 101:

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

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

2 Accounting policies (continued)

Revenue

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

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.

Government grants

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

Tax

The tax expense for the period comprises deferred tax.

2 Accounting policies (continued)

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

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

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

Tangible assets

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

Depreciation

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

Asset class	Depreciation method and rate
Leasehold property improvements	Shorter of useful economic life or over the period of the lease
Fixtures and fittings	over two years
Equipment	25% per annum, reducing balance

Intangible assets

Software is stated at cost less amortisation

Amortisation

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until the asset is available for use on completion of the project, the assets are subject to impairment testing only.

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Software	25% per annum, reducing balance

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

2 Accounting policies (continued)

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.

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

2 Accounting policies (continued)

Financial assets and liabilities

Financial assets and liabilities are recognised in the Balance Sheet when the Company becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

Financial assets, loans and receivables

The assets generated from goods or services transferred to customers are presented as either receivables or contract assets, in accordance with IFRS 15. The assessment of impairment of receivables or contract assets is in accordance with IFRS 9 'Financial Instruments'.

All cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their fair value, which is considered to be their transaction price (as defined in IFRS 15) and are subsequently remeasured at amortised cost.

Under IFRS 9, the Company recognises a loss allowance for expected credit losses (ECL) on financial assets subsequently measured at amortised cost using the 'simplified approach'. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

Trade receivables, contract assets and cash at bank and in hand are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and contract assets are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Profit and Loss Account.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

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.

2 Accounting policies (continued)

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.

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.

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.

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.

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

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

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.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

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

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Leased assets
The Company holds a large number of leases across its portfolio of residential properties and 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 the Company's 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 a wider agreement for a supply of services includes a lease component which meets the definition of a lease under IFRS 16; and
- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which the 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.

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

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

4 Revenue

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

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

	2020 £ 000	2019 £ 000
Property income	1,485	869
Lease income	11,082	15,108
	12,567	15,977

Property income is typically invoiced monthly in advance. Payment terms for revenue invoiced is typically 30 to 60 days from the date of invoice.

A total of £30,000 of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2019: £41,000).

5 Other operating income

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

	2020 £ 000	2019 £ 000
Government grants	34	-

The other operating income in the year of £34,000 (2019: £nil) relates to the government furlough scheme, which provides financial support relating to the Covid-19 pandemic.

6 Operating loss

Arrived at after charging/(crediting)

	2020 £ 000	(As restated*) 2019 £ 000
Depreciation on fixed assets	107	67
Depreciation on right of use assets	5,506	6,162
Amortisation expense	10	-

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

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

7 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Interest income on bank deposits	1	8
Dividend income	-	2,000
	1	2,008

8 Interest payable and similar expenses

	2020 £ 000	(As restated*) 2019 £ 000
Interest paid to group undertakings	368	425
Interest expense on leases	1,608	1,249
	1,976	1,674

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

9 Staff costs

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

	2020 £ 000	2019 £ 000
Wages and salaries	1,422	1,354
Social security costs	105	99
Other pension costs	24	23
	1,551	1,476

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

	2020 No.	2019 No.
Administration and support	32	38
Other departments	5	-
	37	38

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

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

10 Directors' remuneration

The directors' remuneration for the year was as follows:

There was one director paid for qualifying services for Mears Housing Management Limited during the year. The other director was not remunerated in respect of qualifying services as a director of Mears Housing Management. Both Statutory Directors were remunerated by Mears Group PLC.

Director remuneration in the year:

	2020 £ 000	2019 £ 000
Remuneration	184	180
Pension	18	18
Taxable benefits	8	12
	210	210

11 Auditors' remuneration

	2020 £ 000	2019 £ 000
Audit of the financial statements	56	30

12 Income tax

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

	2020 £ 000	2019 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	(1,197)	78
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	33	-
Total deferred taxation	(1,164)	78

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

The differences are reconciled below:

12 Income tax (continued)

	2020 £ 000	(As restated*) 2019 £ 000
Loss before tax	(7,608)	(1,094)
Corporation tax at standard rate	(1,446)	(208)
Increase in current tax from adjustment for prior periods	23	-
Decrease from effect of capital allowances depreciation	(1)	(13)
Decrease from effect of expenses not deductible in determining taxable profit	(7)	(7)
Increase arising from group relief tax reconciliation	267	686
Decrease from effect dividends from UK companies	-	(380)
Total tax (credit)/charge	(1,164)	78

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

Factors that may affect future tax charges

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

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the Company's deferred tax balances.

13 Deferred tax

Deferred tax asset and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	IFRS 16 (As restated*) £ 000	Total £ 000
At 1 January 2019	(10)	82	-	72
Change in accounting policies (As restated*)	-	-	118	118
Adjusted balance at 1 January 2019 (As restated*)	(10)	82	118	190
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	10	(82)	(6)	(78)
At 1 January 2020	-	-	112	112
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	5	1,192	-	1,197
- Adjustments in respect of prior periods	(18)	-	(15)	(33)
At 31 December 2020	(13)	1,192	97	1,276

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

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

14 Right of use assets

	Residential property (As restated*) £ 000	Offices (As restated*) £ 000	Total (As restated*) £ 000
Cost or valuation			
At 1 January 2019 (As restated*)	34,958	707	35,665
Additions (As restated*)	4,298	-	4,298
At 31 December 2019 (As restated*)	39,256	707	39,963
At 1 January 2020	39,256	707	39,963
Additions	1,012	-	1,012
Disposals	(3,852)	-	(3,852)
At 31 December 2020	36,416	707	37,123
Depreciation			
At 1 January 2019	-	-	-
Charge for year (As restated*)	6,058	103	6,161
At 31 December 2019 (As restated*)	6,058	103	6,161
At 1 January 2020	6,058	103	6,161
Charge for the year	5,403	103	5,506
Eliminated on disposal	(3,747)	-	(3,747)
At 31 December 2020	7,714	206	7,920
Carrying amount			
At 31 December 2020	28,702	501	29,203
At 31 December 2019 (As restated*)	33,198	604	33,802

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

15 Tangible assets

	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	667	370	1,037
Additions	76	25	101
Disposals	(57)	-	(57)
Transfers	(11)	11	-
At 31 December 2020	675	406	1,081
Depreciation			
At 1 January 2020	202	317	519
Charge for the year	84	23	107
Eliminated on disposal	(57)	-	(57)
Transfers	(2)	2	-
At 31 December 2020	227	342	569
Carrying amount			
At 31 December 2020	448	64	512
At 31 December 2019	465	53	518

16 Intangible assets

	Software £ 000
Cost or valuation	
At 1 January 2020	40
At 31 December 2020	40
Amortisation	
At 1 January 2020	-
Amortisation charge	10
At 31 December 2020	10
Carrying amount	
At 31 December 2020	30
At 31 December 2019	40

16 Intangible assets (continued)

Amortisation of intangible assets is included within other operating charges.

17 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2020	12,325
At 31 December 2020	12,325
Carrying amount	
At 31 December 2020	12,325
At 31 December 2019	12,325

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

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2020	2019
Tando Property Services Limited	Management of property on a fee or contract basis	Innova House, Innova Park, Kinetic Crescent, Enfield, London, United Kingdom, EN3 7XH	Ordinary shares	100%	100%
O & T Developments Limited	Management of property on a fee or contract basis	Innova House, Innova Park, Kinetic Crescent, Enfield, London, United Kingdom, EN3 7XH	Ordinary shares	100%	100%
Tando Homes Limited	Management of property on a fee or contract basis	Innova House, Innova Park, Kinetic Crescent, Enfield, London, United Kingdom, EN3 7XH	Ordinary shares	100%	100%

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

18 Trade and other debtors

	31 December 2020 £ 000	(As restated*) 31 December 2019 £ 000
Trade debtors	770	2,207
Provision for impairment of trade debtors	(769)	(167)
Net trade debtors	1	2,040
Current debtors due from related parties	35	-
Debtors due from related parties after more than one year	2,985	4,233
Contract assets	625	2,032
Prepayments	172	92
Deferred tax assets due after more than one year	1,276	112
Other debtors	80	5
	5,174	8,514
Less non-current portion	(4,261)	(4,345)
	913	4,169

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

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

19 Trade and other creditors

	31 December 2020 £ 000	31 December 2019 £ 000
Trade creditors	2,810	2,311
Accrued expenses	342	262
Amounts due to related parties	548	102
Social security and other taxes	44	58
Other creditors	71	126
Contract liabilities	16	30
	3,831	2,889

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

20 Loans and borrowings

	31 December 2020 £ 000	(As restated*) 31 December 2019 £ 000
Non-current loans and borrowings		
Lease liabilities	26,435	29,060

	31 December 2020 £ 000	(As restated) 31 December 2019 £ 000
Current loans and borrowings		
Lease liabilities	4,157	5,688

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

The above lease liabilities relate to the right of use assets in note 14 as accounted for under IFRS 16.

21 Dividends

Final dividends paid

	31 December 2020 £ 000	31 December 2019 £ 000
Final dividend of £Nil (2019 - £10,667.00) per each share.	-	3,200

22 Contingent liabilities

Mears Housing Management 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.

23 Parent and ultimate parent undertaking

The company's immediate parent is Mears Housing Management (Holdings) Limited by virtue of its 100% shareholding.

The ultimate parent is Mears Group PLC.

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

24 Related party transactions

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

25 Share capital

Allotted, called up and fully paid shares

	31 December 2020		31 December 2019	
	No.	£	No.	£
Ordinary shares of £1 each	300	300	300	300

26 Restatement of prior year

Reassessment of lease accounting

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

The Company holds a large number of leases across its portfolio of residential properties and offices. The most significant and complex category relates to the Company's portfolio of residential properties; 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. The Company's suppliers of residential properties, being the property owners, will similarly have their own requirements. As such, each residential property lease requires individual assessment and the Company is required to make key judgements which include:

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

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

- where the lease contains a one-way no-fault break in the Company's favour, the Company measures the obligation based on the Company's best estimate of its future intentions;
- where a unilateral break is in place, assessing whether the lease can be terminated with no more than insignificant penalty;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under IFRS 16; and
- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which the 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.

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

26 Restatement of prior year (continued)

Several errors and omissions impacting on the carrying value reported within the 2019 comparatives were identified. One particularly significant reassessment resulted in the conclusion that several residential properties were omitted in the prior year.

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

Profit and loss account for the year ended 31 December 2019	As originally reported £ 000	Reassessment of lease accounting £ 000	As restated £ 000
Cost of sales	16,031	(326)	15,705
Administrative expenses	1,955	(15)	1,940
Interest payable and similar charges	1,084	590	1,674

Balance sheet as at 31 December 2019	As originally reported £ 000	Reassessment of lease accounting £ 000	As restated £ 000
Fixed assets			
Right of use assets	20,302	13,500	33,802
Current assets			
Debtors	8,455	59	8,514
Creditors: Amounts falling due within one year			
Loans and borrowings less than one year	3,992	1,696	5,688
Creditors: Amounts falling due after more than one year			
Loans and borrowings greater than one year	16,664	12,396	29,060
Capital and reserves			
Profit and loss account	549	(533)	16

Statement of Changes in Equity for the year ended 31 December 2019	As originally reported £ 000	Reassessment of lease accounting £ 000	As restated £ 000
Retained earnings			
Changes in IFRS 16 accounting policy	220	(284)	504
Loss for the year	923	(249)	1,172