

Mitie Care and Custody Limited

Annual Report and Financial Statements

Registered number 06976230

31-March-2020

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Company information

Directors

P J G Dickinson
S C Kirkpatrick
D A Spencer

Secretary

Mitie Company Secretarial Services Limited

Registered office

Level 12
The Shard
32 London Bridge Street
London
SE1 9SG

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

Mitie Care and Custody Limited (the "Company") is part of the Mitie group of companies (the "Group"), the ultimate parent company being Mitie Group plc.

The Directors, in preparing this Strategic report, have complied with Section 414c of the Companies Act 2006.

Review of the business

The principal activity of the Company is to provide outsourced custody services to HM Government, including the management of immigration removal centres. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the Company's profit and loss account on page 12, the Company's turnover was £85,226,000 (2019: £80,655,000) and the profit after tax was £3,865,000 (2019: £1,403,000).

The increase in revenue of 5.7% was driven by an extra month of the Escorting Services contract in FY20 (commenced 1 May 2018) and prior year mobilisation revenue was deferred in line with IFRS 15. This has been partially offset by the Campsfield contract expiring and a slight drop in variable revenue.

The increase in profit after tax of £2,462,000 was attributable to the increased revenue in FY20, which was partially offset by higher Group recharges (shown in administrative expenses), lower interest receivable and higher tax. FY19 profit was lower as mobilisation costs were expensed in line with IFRS15 on the Escorting Services contract.

Key performance indicators

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

Principal risks and uncertainties

The Company is part of the Mitie Group and manages its risks within the Mitie Group Risk Framework. Details of the principal risks and uncertainties are given in the Mitie Group plc annual report for the year ended 31 March 2020. The Directors have reviewed the financial risk management objectives and policies of the Company in light of the Group Risk Framework. The Directors do not believe there to be any significant risks other than those detailed below.

Key risks include:

Strategic risks

COVID-19

The COVID-19 pandemic has already had an unprecedented impact on businesses and economic activity across the world. Almost every business has seen uncertainty in revenues, supplies and employee availability. Failure to monitor, respond to and plan for the ongoing and any future impacts of the COVID-19 pandemic, in particular the effect on employees, customers and the supply chain, could result in severe consequences for the financial health and reputation of the Company's business.

The Company has implemented a process of assessing the impact of the crisis, including the government imposed lockdown measures, seeking to establish new ways of working through the first phase and then starting to look at longer term plans once the UK lockdown starts to ease and business activity returns to more normal levels. To manage the risk, crisis management and business continuity plans have been initiated, government support schemes are being utilised and working groups have been established at the Mitie Group level to monitor ongoing impacts and to direct actions.

Impact of the UK leaving the European Union ("Brexit")

The lack of clarity of the impact of Brexit on the UK can adversely affect organisations' ability to plan and invest, as well as the availability of labour and materials. However, as the Company's services are primarily people based, we believe our exposure is limited with regard to the supply of materials. As the Company's client base is within the UK, we are particularly exposed to uncertainties in the ongoing negotiations for the UK to leave the European Union. This may result in changes to the regulatory framework as well as, for example, any new rules around immigration and rules around non-UK nationals working in the UK may adversely impact the supply of labour for our business. This is mitigated by the residency qualification needed for the majority of roles in our business which means we have little reliance on migrant labour.

Strategic report *(continued)*

Controls and mitigation plans have been put in place by the Group to mitigate such risks. These controls include, but are not limited to having:

- i) close strategic relationships with our commissioners to manage emerging risks in partnership; and
- i) shared risk registers that are reviewed regularly with our commissioners.

In conjunction with the above it is important that we are able to offer competitive, innovative and high-quality solutions to clients, and demonstrate the value we bring to them. We also need to ensure we carefully monitor and identify the most appropriate opportunities.

Financial risks

Reliance on material counterparties

The Company depends on significant counterparties, including clients, suppliers, banks and insurers, to maintain its business. The failure of a key business partner could affect the business. This risk is mitigated by limiting the dependency on any one partner.

Operational risks

Significant health, safety or environmental incidents

The potential to cause harm to employees, clients, or to damage the environment, exists and is mitigated by an extensive Quality, Health, Safety and Environmental (QHSE) programme that is closely monitored.

System, process or control failure

Increased reliance on business systems necessitates a robust governance framework and set of processes. Failure of the framework could impact on operational performance. The Group's core policies provide the basis of the governance framework. These are subject to reviews which underpin the mitigation activity for this risk. These reviews are carried out alongside regular, formal, documented testing of business-critical systems.

Attracting and retaining skilled people

Failure to attract new talent and develop existing employees could impact growth. The Company utilises the Group's career development, recruitment and talent management programmes to ensure that it attracts and retains key people.

Financial risk management

The Company does not enter into any hedging instruments, or any financial instruments for speculative purposes.

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The Company prepares regular forecasts of cash flow and liquidity and any requirement for additional funding is managed as part of the overall Mitie Group plc financing arrangements.

Section 172 statement

The board of directors of Mitie Group plc ("Mitie") is referred to in this statement as the "Board".

The following disclosure describes how the directors of the Company (the "Directors") have had regard to the matters set out in section 172(1) (a) to (f) and forms the statement required under section 414CZA of the Companies Act 2006.

Strategic report (continued)

Stakeholders

The Directors consider the groups set out in the table below as its key stakeholders, these align with those of the wider Group. Through various methods, including information gathered and cascaded by both the divisional and senior leadership teams, and groupwide engagement, both direct and indirect, the Directors aim to understand the factors and respective interests of each.

Stakeholder	Engagement activity	Areas of interest identified
Customers	<ul style="list-style-type: none"> - Management of customer relationships by divisional leadership - Net Promoter Score programme 	<ul style="list-style-type: none"> - Customer satisfaction - Governance and transparency - Social value
Shareholders	<ul style="list-style-type: none"> - Regular senior leadership meetings with shareholders. 	<ul style="list-style-type: none"> - Financial performance - People and culture
Communities and the environment	<ul style="list-style-type: none"> - The Mitie Foundation - Local community events - Employee volunteering 	<ul style="list-style-type: none"> - Social Value - Reduction in carbon emissions
Employees ¹	<ul style="list-style-type: none"> - Upload engagement survey - Townhall meetings and Team Talk Live - Back to Floor sessions 	<ul style="list-style-type: none"> - Reward and recognition - Remuneration and benefits - Career opportunities and development - Effective data, systems and processes
Suppliers	<ul style="list-style-type: none"> - Supplier conferences and workshops - Global supplier portal 	<ul style="list-style-type: none"> - Responsible procurement - Prompt payment code

1. A portion of the Company's workforce is employed through another Group company.

Consequences of any decision in the long term

The Directors are aware that strategic decisions can have long term implications on the Company and its stakeholders, and these decisions are carefully considered.

Example: In the first half of 2019/20, the Care & Custody business (which includes the Company) was appointed to the Prison Operator Services Framework. The appointment reinforces Mitie's wider strategy to broaden the range of essential services it delivers to Government and other public sector bodies and builds on previous experience in delivering custodial services to the UK Government.

Having regard to the interests of employees

Mitie has a number of mechanisms to engage with employees and the Directors are committed to ensuring that the results are considered in decision making. Two examples of how Directors engage with employees are Mitie's annual Upload survey, the annual benchmark of employee engagement measurement, and the work carried out by Jennifer Duvalier, a member of Mitie's Board, as designated non-executive director for the workforce. Jennifer provides the Board with an update on her activities undertaken in respect of this role at every Mitie Board meeting which is then cascaded to senior managers and Directors in the Group.

Examples: In response to the Upload results, the Directors were part of the decision to the roll out several new reward and recognition initiatives and now has a celebration hub where all colleagues can go to recognise and celebrate each other's achievements in a variety of ways.

Strategic report *(continued)*

Recognising the need for effective processes and efficient working, the Directors endorsed the 'Simplifying Mitie' campaign which encourages employees to make suggestions to improve this. The Directors recognise that those using the technology and observing processes every day are best placed to make the suggestions for improvement. As a result of Simplifying Mitie feedback, several improvements have been implemented, including the launch of a new supplier on-boarding portal (see below).

Fostering business relationships with suppliers, customers and others

Suppliers

The Directors aim to ensure the Company's suppliers adhere to Mitie's supplier code of conduct and selects a supply chain according to how Mitie can best support SME's and local enterprises.

Mitie recently launched a new vendor on-boarding platform which reduces the risk of engaging with non-compliant suppliers and makes it easier to communicate with existing suppliers. With suppliers in mind, the new system makes on-boarding straightforward and provides the Directors the peace of mind that suppliers will be compliant, safe and meet the needs of customers. Further, the portal will be fully integrated with SAP, which will mean suppliers will be able to check invoice status.

Customers

Customers are at the heart of the business and therefore the Directors consider that getting closer to customers and thus becoming more responsive to their needs, is important. To support this Mitie implemented the Net Promoter Score ("NPS") in 2018 which is carried out annually and uses direct customer feedback to inform a company's activity. The NPS score for the Group has increased year on year demonstrating the focus on customer service is having the right impact.

Example: For customers, and potential customers, working with a socially responsible provider is becoming increasingly important. The Directors are mindful of this and fully supported the introduction of the Social Value and Responsible Business Committee to underpin and govern the Company's social value agenda.

Impact of operations on the community and the environment

The Directors are supportive of Mitie's initiatives to improve the operations of the Company on the community and the environment.

Example: The Directors have been involved in Mitie's Plan Zero commitment, pledging that the company will reach net zero carbon emissions by 2025.

Example: Through the Mitie Foundation, Mitie offers a range of volunteering activities for employees, including in schools, academies and colleges, in prisons and with ex-offenders and with people with disabilities.

Maintaining a high standard of business conduct

Ethical business practice

The Company has a duty to act responsibly and to show the highest levels of ethical and moral stewardship. A Group ethical business practice policy is in place which applies to all employees in relation to dealings with its people, agents, clients, suppliers, subcontractors, competitors, government officials, the public and investors.

To support this, there are a wide range of policies and training modules available including, modern slavery, whistleblowing, anti-bribery and anti-corruption, business expenses and entertaining and Mitie's One Code of conduct.

Strategic report (continued)

Good governance

The Company operates within a robust governance framework which includes processes and procedures set by the Board. This framework is applied throughout the Mitie Group and is adhered to by the directors of all of Mitie's subsidiaries. This ensures consistency in decision making which is crucial for achieving long term success and creating sustainable value.

Details of how Mitie complies with the UK Corporate Governance Code can be found in the annual report and accounts 2020.

The need to act fairly as between members of the company.

The Company is a wholly owned subsidiary of Mitie. The Directors of the Company operate within the governance framework for the Group and hold regular senior leadership meetings where items such as financial performance and people are discussed.

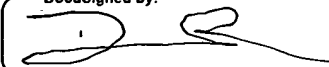
Future developments

The Directors expect the general level of activity to remain consistent in the forthcoming year, although it is expected that there will be a slight reduction in variable revenue compared to the previous year due to the impact of COVID-19. The Company has also successfully secured three new contracts that will commence in the second half of FY21 and there is a robust pipeline of bidding activity throughout the coming year. The government is committed to an outsourcing agenda, providing certainty to the existing pipeline. We expect a new range of opportunities in our core criminal justice markets to be created through expiration of our competitors' existing contracts and further central government initiatives.

Post balance sheet events

Subsequent events have been disclosed in Note 21.

Approved by the Board and signed on its behalf by:

DocuSigned by:

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D A Spencer
Director

25 November 2020

Directors' report

The Directors present the Annual report and audited financial statements of Mitie Care and Custody Limited for the year ended 31 March 2020.

In preparing this Directors' report, the Directors have complied with S414C(11) of the Companies Act 2006 by including certain disclosures required by S416(4) within the Strategic report.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out in the Strategic report. The financial statements have been prepared on a going concern basis. See Note 1c.

Directors

The Directors who held office during the year and subsequently were:

	Date of appointment	Date of resignation
P J G Dickinson		
C A Dobell		18/09/2020
D A Spencer		
S C Kirkpatrick	22/09/2020	

Directors' indemnity

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of certain Mitie Care and Custody Limited Directors listed above in respect of liabilities incurred as a result of their office to the extent permitted by law.

Dividends

No dividend was declared or paid in the year (2019: no dividend).

COVID-19 and current trading

In line with the Group approach, the Company established three overriding priorities to guide its response to the COVID-19 crisis: protecting the health and safety of colleagues, customers, other business partners and the communities that it serves; ensuring that its business is able to continue to operate with minimal disruption; and to deliver the essential services it provides to its customers.

The common theme across the business is that Mitie Care and Custody Limited has been kept whole by our customers, all colleagues have remained in employment and performance measures have been relaxed by commissioners where self-isolation has impacted staffing levels. Variable income from contracts has reduced slightly but profitability has only been marginally affected as contracts are on a 'fee-for-service' basis. All contracts have continued to perform well.

Environment

The Group endeavours to identify, monitor and manage the impact of their activities on the environment and is fully committed to environmental accountability and protection. The Company operates in accordance with Group policies which are described in the Group's annual report.

Employees

The Company recognises the importance of good communications and employee relationships. The Group communicates with employees via multiple channels, including Group-wide mailings, employee magazines and updates, employee-focused initiatives and events (including Group business road shows, media networks and the provision of access to broadcasts of periodic financial presentations).

The Company remains committed to developing a culture that encourages the inclusion and diversity of all of the Company's employees through respecting and appreciating their differences and promoting the continuous development of employees through skills enhancement and training programmes.

Directors' report *(continued)*

The Company's employment policies are designed to attract, retain, train and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion, age, disability, sexual orientation or any other aspect of diversity. Applications from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Company that the training, career development and promotion of disabled persons (including those who become disabled whilst employees of the Company) should, as far as reasonably possible, be identical to that of other employees.

Further information on employees has been provided in the Section 172 statement in the Strategic report.

Political contributions

The Company made no political donations nor incurred any political expenditure during the year (2019: £nil).

Disclosure of information to auditor

Each Director who is the Director of the Company at the date of approval of these financial statements confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

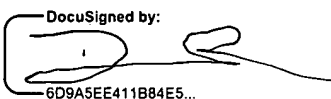
Other information

An indication of likely future developments in the business, discussion of financial risk management, and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report on page 2.

Auditor

Pursuant to Section 487 of the Companies Act 2006, BDO LLP have been reappointed as the auditor.

On behalf of the Board

DocuSigned by:

6D9A5EE411B84E5...

D A Spencer
Director

Level 12
The Shard
32 London Bridge Street
London
SE1 9SG

25 November 2020

Statement of Directors' responsibilities in respect of the Annual report and financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Mitie Care and Custody Limited

Opinion

We have audited the financial statements of Mitie Care and Custody Limited for the year ended 31 March 2020 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of Changes in Equity, and notes to the financial statements, 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 Financial Reporting Standard 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 March 2020 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this 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.

Independent auditor's report to the members of Mitie Care and Custody Limited *(continued)*

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 and Director's report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual report and the financial statements, 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.

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

Use of our report

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



Oliver Chinneck (Senior Statutory Auditor)
for and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

25 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Profit and loss account

	<i>Note</i>	2020 £000	2019 ¹ £000
Turnover	2	85,226	80,655
Cost of sales		(74,726)	(74,679)
Gross profit		10,500	5,976
Administrative expenses		(5,899)	(4,565)
Operating profit	3	4,601	1,411
Interest receivable and similar income	6	173	416
Profit before tax		4,774	1,827
Tax	7	(909)	(424)
Profit for the year		3,865	1,403

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

The notes on pages 16 to 37 form an integral part of the financial statements.

The results for the year are wholly attributable to the continuing operations of the Company.

There were no items of other comprehensive income recognised during the current or prior year. Accordingly, no statement of comprehensive income has been prepared.

Balance sheet

	Note	2020 £000	2019 ¹ £000
Non-current assets			
Tangible fixed assets ²	8	665	752
Deferred tax assets	14	146	104
Contract assets	11	2,051	2,321
Total non-current assets		2,862	3,177
Current assets			
Inventories	9	56	42
Debtors	10	8,885	10,573
Contract assets	11	665	569
Cash at bank and in hand		20,097	12,574
Total current assets		29,703	23,758
Current liabilities			
Creditors	12	(17,496)	(14,365)
Deferred income	13	(1,907)	(1,977)
Lease liabilities ³	15	(5)	-
Provisions	16	(33)	-
Total current liabilities		(19,441)	(16,342)
Net current assets		10,262	7,416
Non-current liabilities			
Deferred income	13	(5,170)	(6,590)
Lease liabilities ³	15	(14)	-
Provisions	16	(44)	(82)
Total non-current liabilities		(5,228)	(6,672)
Net assets		7,896	3,921
Capital and reserves			
Called up share capital	17	385	385
Share premium account	17	313	313
Profit and loss account	17	7,198	3,223
Shareholders' funds		7,896	3,921

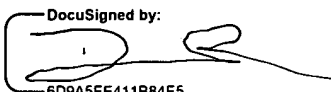
Balance sheet (continued)

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Tangible fixed assets at 31 March 2020 includes £19,000 of additional right-of-use assets recognised under IFRS 16. See Note 18.
3. Lease liabilities at 31 March 2020 include £5,000 of additional current lease liabilities and £14,000 of additional non-current lease liabilities recognised under IFRS 16. See Note 18.

The notes on pages 16 to 37 form an integral part of the financial statements.

The financial statements of Mitie Care and Custody Limited, company number 06976230, were approved by the Board of Directors and authorised for issue on 25 November 2020 and were signed on its behalf by:

DocuSigned by:

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D A Spencer
Director

Statement of changes in equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity ¹ £000
Adjusted balance at 1 April 2018	385	313	1,816	2,514
Profit for the year	-	-	1,403	1,403
Total comprehensive income	-	-	1,403	1,403
Share-based payments	-	-	4	4
At 31 March 2019	385	313	3,223	3,921
At 1 April 2019	385	313	3,223	3,921
Profit for the year	-	-	3,865	3,865
Total comprehensive income	-	-	3,865	3,865
Share-based payments	-	-	102	102
Deferred tax	-	-	8	8
At 31 March 2020	385	313	7,198	7,896

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option which has resulted in no impact on the Company's opening equity. Under this option, the comparative information is not restated. See Note 1.

The notes on pages 16 to 37 form an integral part of the financial statements.

Notes

1 Accounting policies, judgements and estimates

a) General information

Mitie Care and Custody Limited (the "Company") is a private company limited by shares and is incorporated in England and Wales and domiciled in the UK. Details of the Company's activities are set out in the Strategic report.

b) Statement of compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the Group's centralised treasury arrangements and shares banking arrangements with Mitie Group plc, its ultimate parent, and with fellow subsidiaries. The Directors have received a letter of support from the directors of Mitie Group plc to confirm provision of adequate financial resources to the Company for a period of not less than twelve months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2020 to ensure that the Company can meet its liabilities as they fall due.

Going concern assessments have been performed for two scenarios: (1) Mitie Group plc and its subsidiaries (the "Group") on a standalone basis; and (2) assuming that the acquisition of Interservefm (Holdings) Limited ("Interserve Facilities Management") by Mitie Group plc (together the "Enlarged Group"), which obtained shareholder approval at a General Meeting convened on 23 November 2020, is completed before 31 March 2021. The forecasts prepared for the Group's going concern assessment are also used as part of the Enlarged Group's going concern assessment, and therefore the assumptions applied for the purposes of these two assessments are consistent.

As part of the going concern assessments, the directors of Mitie Group plc have considered modelling through to March 2022 performed using a number of different scenarios, including a base case, a Reasonable Worst Case ("RWC") downside scenario and reverse stress tests, all in the context of the COVID-19 pandemic.

The forecasts for Interserve Facilities Management, included in the forecasts for the Enlarged Group, have been subject to reviews by the directors of Mitie Group plc and external professional advisors, and, where possible, have been reviewed against actual results to assess the accuracy of forecasts. These reviews resulted in some adjustments to the forecasts for Interserve Facilities Management that were included in the forecasts for the Enlarged Group, including the base case. The directors of Mitie Group plc also considered the nature of contingent liabilities relating to Interserve Facilities Management, and the nature of the warranties and escrow arrangements in place, particularly in relation to the cyber incident.

The COVID-19 pandemic is having an impact on the Group's and Enlarged Group's business. In some instances, this has led to an increase in demand for services from areas such as supermarkets, online retailers and COVID-19 NHS Nightingale hospitals. Conversely, discretionary variable works and engineering projects have seen a significant slowdown, and many offices and retail outlets have been closed during lockdown, impacting revenues.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

Going concern (continued)

In undertaking the going concern assessments for both the Group and the Enlarged Group, the directors of Mitie Group plc have considered the RWC downside scenario, which takes into account the potential impact of COVID-19. The RWC downside scenario assumes that the second COVID-19 lockdown announced by the Government on 31 October 2020 ultimately results in a three month lockdown, with an impact more severe than the first COVID-19 lockdown resulting in revenue for the Group and the Enlarged Group being approximately 10% lower than that recognised in the first COVID-19 lockdown. As a result of the restrictions to date and those assumed to occur over the following months, the revenue for the Group and the Enlarged Group is assumed to decline by approximately 20% in the year to 31 March 2021, with variable works and projects being most significantly impacted. Revenue for the Group and the Enlarged Group in the year to 31 March 2022 is expected to remain approximately 10% below revenue for the year to 31 March 2020. In addition, the RWC downside scenario assumes that working capital, inclusive of bad debts, excluding the HMRC "Time to Pay" deferral, comes under pressure in the year to 31 March 2021, resulting in a net negative cash flow impact of approximately £115m in Mitie and approximately £20m in Interserve Facilities Management. It is assumed that this dynamic slowly reverses to normalised levels from April 2021 and into the year to 31 March 2022.

The RWC downside scenario also factors in the actions that are within the Group's and the Enlarged Group's control that would be taken in response to the revenue reduction, to mitigate the profit and cash flow impacts, including reducing the labour force to reflect revenue reduction, cost saving initiatives to reduce overheads, deferral of non-essential costs and uncommitted capital expenditure, pay reductions for the Board and many employees for a period of time, and the deferral of tax payments.

The Group's and Enlarged Group's principal debt financing arrangements are, and will be, a £250m revolving credit facility, which expires on 16 December 2022, and £151.5m of US private placement notes (being the repayment amount based on the original dollar exchange rates when issued), of which £121.5m are repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis. Bank consent, required in respect of the acquisition of Interserve Facilities Management, has already been received and Mitie currently operates within the terms of its agreements with its lenders.

If the Group's or the Enlarged Group's results were to be in line with the base case or the RWC downside scenario, it would not be in breach of its financial covenants for a period of no less than 12 months from the date of approval of the Company's audited financial statements for the year ended 31 March 2020.

The directors of Mitie Group plc have also completed reverse stress tests on the base case scenario, but for the Enlarged Group only. This is on the basis that they already consider the RWC downside to be a remote scenario for both the Group and the Enlarged Group, and that it is likely that the acquisition of Interserve Facilities Management will complete before 31 March 2021.

The reverse stress tests for the Enlarged Group assessed the point at which the covenants, or facility headroom, would be breached, based on sensitivities to the financial measures listed below. The financial measures considered have been chosen after giving consideration to the Principal risks and uncertainties detailed in Mitie's annual report and accounts for the year ended 31 March 2020 and considered in the Viability Statement in the same annual report. In particular, the primary financial risks related to COVID-19 are expected to impact the Enlarged Group in the following ways:

- **a further downturn in revenues:** this reflects the risks of not being able to deliver services to existing customers, or contracts being terminated or not renewed;
- **a deterioration of gross margin:** this reflects the risks of contracts being renegotiated at lower margins, or planned cost savings not being delivered;
- **lack of planned overhead savings:** this reflects the risks of planned overhead cost savings not being delivered; and
- **downturn in cash generation:** this reflects the risks of customers delaying payments due to liquidity constraints, or the removal of ancillary debt facilities.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

Going concern (continued)

As a result of completing this assessment, the directors of Mitie Group plc considered the likelihood of the reverse stress scenarios arising to be remote. In all reverse stress scenarios, the point at which the covenants were breached was beyond that already considered in the RWC, which is itself considered a remote scenario. In reaching the conclusion of remote, the directors of Mitie Group plc considered the following:

- current trading is performing above the base case;
- the reverse stress test scenario would require a decline in revenue for the Enlarged Group of over 30% in the second half of the year to 31 March 2021 against the base case. In the year to 31 March 2022 the required revenue decline for the Enlarged Group would have to exceed 25% compared to the base case. These scenarios are considered to be remote given the high proportion of public sector and 'fixed billing' revenue;
- the RWC downside scenario for both the Group and the Enlarged Group assumes that the impact from the second COVID-19 lockdown would be more severe than the first, resulting in revenues being an additional 10% lower than experienced in the first COVID-19 lockdown, despite the Government's need to ensure national economic activity is supported through any future restrictions. Also, in that scenario it would be expected to see increased opportunities from COVID-19 testing and vaccinations, meaning that the implied revenue decline in other areas of the business is even greater than the overall additional 10% assumed in the RWC downside scenario; and
- in the event that results started to trend significantly below the base case, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses, temporary pay cuts and reduced investments in discretionary areas of spend.

Each of the reverse stress test scenarios would result in a breach of covenants, rather than a breach of liquidity headroom.

Based on these assessments, the directors of Mitie Group plc have a reasonable expectation that the Group and the Enlarged Group have adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the condensed consolidated financial statements for the six months ended 30 September 2020 on 18 November 2020. In addition, in respect of material uncertainty, the directors consider that this is remote. The directors of Mitie Group plc note that in making an assessment over the remoteness of the COVID-19 assumptions, significant judgement has been applied.

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the Company's audited financial statements for the year ended 31 March 2020. Accordingly, the financial statements have been prepared on a going concern basis.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

FRS 101 exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- comparative period reconciliations for share capital and tangible fixed assets;
- the statement of compliance with Adopted IFRSs;
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosure in respect of 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.

As the consolidated financial statements of Mitie Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-based Payment* in respect of Group settled share-based payments; and
- certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments: Disclosures*.

Accounting standards that are newly effective in the current year

With the exception of IFRS 16 which is discussed below, there are no new and mandatorily effective standards in the year that would have a material impact on the financial statements.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

Adoption of IFRS 16

The Company adopted IFRS 16 with a date of initial application of 1 April 2019 using the modified retrospective approach whereby the right-of-use asset on transition equalled the lease liability, before the reclassification and adjustment of associated balance sheet items. The comparative information for the year ended 31 March 2019 has not been restated and continues to be reported under IAS 17.

The Company applied the following practical expedients available on transition to IFRS 16, to leases previously classified as operating leases:

- grandfathered the definition of a lease on transition and applied IFRS 16 only to those contracts that were previously identified as containing a lease. Contracts previously identified as not containing leases under IAS 17 and IFRIC 4 were not reassessed;
- relied on the Company's previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis;
- a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term in a similar class of underlying asset); and
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

IFRS 16 eliminates the classification of leases as either operating or finance leases as required by IAS 17 and introduces a single accounting model. The Company changed its accounting policies and updated its internal processes and controls relating to leasing. The new definition of a lease has been applied to contracts entered into from 1 April 2019.

Lease accounting policy

The Company has various lease arrangements for equipment. At inception of a lease contract, the Company assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Company recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the profit and loss account as they are incurred.

The lease liability is initially measured at amortised cost using the effective interest rate method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount. Lease payments comprise fixed lease rental payments only with the exception of property leases, for which the associated fixed service charge is also included. Lease liabilities are classified between current and non-current on the balance sheet.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

The lease term comprises the non-cancellable period in addition to the determination of the enforceable period which is covered by an option to extend the lease, where it is reasonably certain that the option will be exercised, and the period covered by the option to terminate the lease to a point in time where no more than an 'insignificant penalty' is incurred. The Company assesses an insignificant penalty with reference to the wider economics of the lease including any investment in non-transferable leasehold improvements which may result in an impairment charge should the lease be terminated.

A modification to a lease which changes the lease payment amount (e.g. due to a renegotiation or market rent review) or amends the term of the lease, results in a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Impact on transition

The impact on the Company's opening balance sheet at 1 April 2019 as a result of the adoption of IFRS 16 was as follows:

	£000
Net assets at 31 March 2019	3,921
Right-of-use assets recognised ¹	24
Lease liabilities recognised	(24)
Net assets at 1 April 2019	3,921

Note:

1. The right-of-use assets recognised are included within tangible fixed assets. The amounts stated above exclude the finance leases already capitalised at the date of transition to IFRS 16.

Lease liabilities of £24,000 have been recognised at 1 April 2019 as a result of the following adjustments:

	£000
Operating lease commitments at 31 March 2019	-
Reassessment of lease terms including extension and termination options reasonably certain to be exercised	24
Lease liabilities recognised at 1 April 2019	24

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Revenue recognition policy

The Company operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

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 contracts.

Step 1 - Identify the contract(s) with a customer

For all contracts with customers, the Company determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements (MSAs) not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Company frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. As the term of the contract impacts the period over which amortisation of contract assets and revenue from performance obligations may be recognised, judgement is applied to assess the impact that such clauses have in determining the relevant contract term. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, change to the total transaction price is estimated.

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. If the price of additional distinct goods or services is not commensurate with the standalone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 - Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers, judgement is applied to consider whether those promised goods or services are:

- i. distinct and accounted for as separate performance obligations;
- ii. combined with other promised goods or services until a bundle is identified that is distinct; or
- iii. part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Company treats the series as a single performance obligation.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Step 3 - Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which management expects the Company to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 - Allocate the transaction price to the performance obligations in the contract

The Company allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 - Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, management determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Company applies the relevant output or input revenue recognition method for measuring progress that depicts the Company's performance in transferring control of the goods or services to the customer.

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Company to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Company's efforts in delivering the service.

Where deemed appropriate, the Company will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company's performance obligations completed to date.

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Repeat service-based contracts (single and bundled contracts)

The Company operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same. They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Company therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Company delivers a range of other short-term service based performance obligations and professional services work for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Interest and similar income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Contract costs

The Company incurs pre-contract expenses (e.g. legal costs) when it is expected to enter into a new contract. The incremental costs to obtain a contract with a customer are recognised within contract assets if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Contract fulfilment costs

Costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures, and mechanisms in place to enable the delivery of full services under the contract target operating model, are defined as contract fulfilment costs. Only costs which meet all three of the criteria below are included within contract assets on the balance sheet:

- i. the costs directly relate to the contract (e.g. direct labour, materials, sub-contractors);
- ii. the Company is building an asset that will subsequently be used to deliver contract outcomes; and
- iii. the costs are expected to be recoverable i.e. the contract is expected to be profitable after amortising the capitalised costs.

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or tangible fixed assets are not capitalised as contract fulfilment assets but are treated in accordance with the other standard.

Amortisation and impairment of contract assets

The Company amortises contract assets (pre-contract costs and contract fulfilment costs) on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The expense is recognised in the profit and loss account in the period.

A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use.

Management is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, management uses the same principles as it does to determine the contract transaction price which includes estimates around variable consideration. An impairment is recognised immediately where such losses are forecast.

Accrued income and deferred income

The Company's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

Where revenue recognised at the period end date is more than amounts invoiced, the Company recognises accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Company recognises deferred income for the difference.

Certain arrangements with customers include a contractual obligation to make redundancies for which the Company is reimbursed for the costs incurred. Revenue is not recognised on these transactions. Instead, the Company expenses all redundancy costs in the period they are incurred and any reimbursement credit is matched against the associated cost included in the profit and loss account up to the value of the redundancy cost incurred. Any cash payments received from the customer in excess of the reimbursement cost of redundancy are deferred over the contract term and unwound in line with the other services being delivered.

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Company allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax 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 to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows or over the lifetime of the contract:

Plant and vehicles	3-10 years
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The Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Inventories

Stocks are stated at the lower of cost and net realisable value. Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise cash at bank and in hand, and trade and other debtors. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Cash at bank and in hand include cash in hand, demand 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. All of the Company's 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 transaction price and are subsequently remeasured at amortised cost. The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using a lifetime credit loss approach. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type.

Financial liabilities comprise trade and other creditors. These are measured at initial recognition at fair value and subsequently at amortised cost.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement.

Retirement benefit costs

The Company operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

Share-based payments

The Company participates in a number of Mitie Group plc executive and employee share option schemes. For grants of share options and awards, the fair value as at the date of grant is calculated using the appropriate valuation model and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. Further details of the Group's share option schemes are contained in the Mitie Group plc annual report.

Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts, to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Dividends

Dividends are recognised when they become legally payable. This is when approved by the shareholders of the Company.

e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements under FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, made by management in the process of applying the Company's accounting policies, that have the most significant effect on the amounts recognised in the Company's financial statements.

Revenue recognition

The Company's revenue recognition policies, which are set out under Revenue recognition in Note 1, are central to how the Company measures the work it has performed in each financial year.

Due to the size and complexity of the Company's contracts, management is required to form a number of key judgements in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

Recoverability of trade debtors and accrued income

The Company has material amounts of billed and unbilled work outstanding at 31 March 2020. Debtors are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes an assessment of current disputes with customers over commercial positions, and where information suggests customers are facing significant financial difficulties. The judgement on specific allowance for impairments on receivables as at 31 March 2020 has included an assessment of COVID-19 impacts.

Recoverability of amounts owed by Group undertakings

The Company has material amounts owed by Group undertakings outstanding at year end. The judgement as to whether an amount has become irrecoverable is an assessment made by the Directors in the determination of the expected total credit loss recognised under IFRS 9. This assessment takes into consideration Group solvency and access to Group funding by the debtor. The Directors consider the full amount owed to be recoverable under IFRS 9.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Notes (continued)

2 Turnover

The Company derives all of its turnover from the provision of services to customers based in the UK.

3 Auditor's remuneration

The audit fee for the year of £50,000 (2019: £10,000) was borne by Mitie Group plc and no amount was allocated or recharged to the Company in the year.

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Mitie Group plc.

4 Staff numbers and costs

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

	Number of employees	
	2020	2019
Operations	719	779
	<u>719</u>	<u>779</u>

In the current year 869 employees were employed by another Group company and allocated to the Company by Group for cost recharging purposes (2019: 791). The aggregate payroll costs incurred by the Company for both allocated employees and employees under contract with the Company were as follows:

	2020	2019
	£000	£000
Wages and salaries	45,240	44,821
Share-based payments	102	4
Social security costs	4,334	4,201
Termination and redundancy payments	75	717
Pension costs	1,633	1,338
	<u>51,384</u>	<u>51,081</u>

Notes (continued)

5 Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments	766	460
Amounts receivable under long term incentive schemes	20	16
	<u>786</u>	<u>476</u>

In respect of the highest paid Director:

	2020 £000	2019 £000
Emoluments and amounts receivable under long term incentive schemes	410	259
Money purchase pension contributions	20	3
	<u>430</u>	<u>262</u>

Number of Directors
2020 2019

Retirement benefits are accruing to the following number of Directors under:

Money purchase schemes	<u>2</u>	<u>2</u>
------------------------	----------	----------

The following Directors are also Directors or employees of another Group company. They are remunerated by the company shown. It is not practicable to allocate their remuneration between their services as Directors of this Company and as Directors or employees of other Group companies.

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Limited	Mitie Limited
S C Kirkpatrick	Mitie Limited	Mitie Limited

6 Interest receivable and similar income

	2020 £000	2019 £000
Interest receivable and similar income from Group undertakings	173	416
Total interest receivable and similar income	<u>173</u>	<u>416</u>

Notes (continued)

7 Tax

	2020 £000	2019 £000
<i>Analysis of charge in the year</i>		
Current tax on profit for the period	938	383
Adjustments in respect of prior periods	5	(204)
Total current tax	943	179
<i>Deferred tax (see note 14)</i>		
Origination and reversal of temporary timing differences	(4)	24
Reduction in statutory tax rate	-	(3)
Restatement of opening deferred tax balances	(14)	-
Adjustments in respect of prior periods	(16)	224
Total deferred tax	(34)	245
Tax charge for the year	909	424
	2020 £000	2019 £000
<i>Tax recognised directly in equity</i>		
Deferred tax	8	0
Total tax recognised directly in equity	8	0
	2020 £000	2019 £000
<i>Reconciliation of effective tax rate</i>		
Profit before tax	4,774	1,827
Tax using the UK corporation tax rate of 19% (2019: 19%)	907	347
Reduction in statutory tax rate on deferred tax balances	-	(3)
Restatement of opening deferred tax balances	(14)	-
Expenses not deductible for tax purposes	2	23
Adjustment in respect of employee share options	25	37
Adjustments in respect of prior periods	(11)	20
Total tax charge	909	424

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £14,000 (2019: £nil) has been included in the tax charge. The UK deferred tax assets at 31 March 2020 reflect this change.

Notes (continued)

8 Tangible fixed assets

Tangible fixed assets comprise owned and leased assets.

	2020 £000
Owned tangible fixed assets	646
Right-of-use assets (See note 18)	19
	<hr/>
At 31 March 2020	665 <hr/> <hr/>

	Plant & vehicles £000	Under construction £000	Total £000
Cost			
At 1 April 2019	2,225	15	2,240
Additions	128	-	128
Disposals	(449)	(15)	(464)
	<hr/>	<hr/>	<hr/>
At 31 March 2020	1,904	-	1,904 <hr/> <hr/>
Accumulated depreciation and impairment			
At 1 April 2019	1,488	-	1,488
Depreciation charge for the year	214	-	214
Disposals	(444)	-	(444)
	<hr/>	<hr/>	<hr/>
At 31 March 2020	1,258	-	1,258 <hr/> <hr/>
Net book value			
At 1 April 2019	737	15	752
	<hr/>	<hr/>	<hr/>
At 31 March 2020	646	-	646 <hr/> <hr/>

9 Inventories

	2020 £000	2019 £000
Raw materials and consumables	56	42
	<hr/>	<hr/>
	56	42 <hr/> <hr/>

Notes (continued)

10 Debtors

	2020 £000	2019 £000
Trade debtors	7,206	6,947
Amounts owed by Group undertakings	31	1,177
Prepayments	220	534
Accrued income	1,048	1,617
Other debtors	380	298
	<hr/>	<hr/>
Total	8,885	10,573
	<hr/>	<hr/>

In the opinion of the Directors, the fair value does not materially differ from the carrying value.

Amounts owed by Group undertakings are repayable on demand.

11 Contract assets

	Pre-contract costs £000
At 31 March 2019	2,890
Additions	360
Amortisation	(534)
At 31 March 2020	2,716
	<hr/>
Included in current assets	665
Included in non-current assets	2,051
Total	2,716
	<hr/>

Contract assets

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2020.

Notes (continued)

12 Creditors

	2020 £000	2019 £000
Trade creditors	3,195	1,553
Amounts owed to Group undertakings	1,756	1,147
Other taxes and social security	5,040	4,776
Corporation tax	1,319	172
Accruals	6,011	6,443
Other creditors	175	274
	<u>17,496</u>	<u>14,365</u>

Amounts owed to Group undertakings are repayable on demand.

13 Deferred income from contracts with customers

	2020 £000	2019 £000
Included within current liabilities	1,907	1,977
Included within non-current liabilities	5,170	6,590
Total	<u>7,077</u>	<u>8,567</u>

Notes (continued)

14 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2020 £000	2019 £000
Tangible fixed assets	98	77
Share-based payments	26	21
Provisions	22	6
	<hr/>	<hr/>
Net tax assets	146	104
	<hr/> <hr/>	<hr/> <hr/>

Movement in deferred tax during the year

	1 April 2019 £000	Recognised in income £000	Recognised in equity £000	31 March 2020 £000
Tangible fixed assets	77	21	-	98
Share-based payments	21	(3)	8	26
Provisions	6	16	-	22
	<hr/>	<hr/>	<hr/>	<hr/>
	104	34	8	146
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Movement in deferred tax during the prior year

	1 April 2018 £000	Recognised in income £000	31 March 2019 £000
Tangible fixed assets	58	19	77
Share-based payments	62	(41)	21
Provisions	11	(5)	6
Tax losses carried forward	218	(218)	-
	<hr/>	<hr/>	<hr/>
	349	(245)	104
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence deferred tax balances are now valued using the 19% corporation tax rate. The opening deferred tax balances, previously valued using the 17% rate, have therefore been restated by £14,000 in the current period, with all of this adjustment has being recognised in income.

Notes (continued)

15 Lease liabilities

	2020 £000	2019 £000
Lease liabilities ¹ (Note 18)	19	-
Total	19	-
Included in current liabilities	5	-
Included in non-current liabilities	14	-
Total	19	-

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option resulting in the inclusion of an additional £19,000 lease liabilities at 31 March 2020, of which £5,000 has been recorded as current liabilities. Under this option, the comparative information is not restated. See Note 1.

16 Provisions

	Insurance Excess Provision £000
At 1 April 2019	82
Amounts recognised in profit or loss	(5)
At 31 March 2020	77
Due within one year	33
Due after more than one year	44

The insurance reserve provides for the self-insured element of Fleet and Liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

17 Capital and reserves

Share capital authorised and fully paid	2020 Number	2019 Number	2020 £000	2019 £000
Ordinary shares				
A Ordinary shares at £1 each	382,500	382,500	383	383
B Ordinary shares at £0.01 each	237,527	237,527	2	2
C Ordinary shares at £1 each	1	1	-	-
	620,028	620,028	385	385

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium account

The share premium account represents the premium arising on the issue of equity shares.

Profit and loss account

The profit and loss account comprises the retained earnings and losses of the Company, less amounts distributed to the Company's shareholder.

Notes (continued)

18 Leases

The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. The details of adjustments made on transition and the related accounting policy is contained in Note 1.

	Plant and Vehicles £000
Right-of-use assets	
At 1 April 2019	24
Depreciation	(5)
At 31 March 2020	19

	Plant and Vehicles £000
Lease liabilities	
At 1 April 2019	24
Repayment of lease liabilities (including interest)	(5)
At 31 March 2020	19

	2020 £000
Discounted lease liabilities included in the balance sheet at 31 March 2020	19
Current	5
Non-current	14

19 Contingent liabilities

The Company is party with other Group undertakings to provide cross-guarantees of each other's liabilities.

	2020 £000	2019 £000
Bank overdrafts and loans	227,600	264,051

20 Related parties

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

Notes (continued)

21 Subsequent events

On 25 June 2020, the Group announced that it had signed a conditional share purchase agreement to acquire the entire issued share capital of Interservefm (Holdings) Limited. On 4 November 2020, Mitie announced that it had renegotiated the terms of the acquisition and entered into an amendment agreement. The consideration for the acquisition will comprise the issuance of c. 248 million ordinary shares, representing c. 17.5% of the share capital of Mitie Group plc, and a cash payment of £120m. The acquisition is classified as a class 1 transaction under the Listing Rules of the Financial Conduct Authority and was therefore conditional upon, amongst other things, the approval of the shareholders of Mitie Group plc at a General Meeting which was obtained on 23 November 2020.

22 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie Limited which is the immediate parent company incorporated in England and Wales. The ultimate controlling party is Mitie Group plc, a company incorporated in Scotland with its registered office at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. Mitie Group plc is the parent company of the largest and smallest groups into which the accounts of the Company are consolidated. The consolidated financial statements of Mitie Group plc are available to the public and may be obtained from the Company Secretary at Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG or from www.mitie.com.
