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**Morrison Facilities Services Limited**  
Financial Statements  
For the year ended 31 December 2016

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**Company No. SC120550**

## Company information

**Company registration number**

SC120550

**Registered office**

Morrison House  
Ellismuir Way  
Tannochside Park  
Uddingston  
Glasgow  
G71 5PW

**Directors**

D J Miles  
A C M Smith  
B R Westran  
C E Middlemass

**Secretary**

B R Westran

**Bankers**

Barclays Bank PLC  
Corporate Banking  
4th Floor Bridgewater House  
Counterslip  
Finzels Reach  
Bristol  
BS1 6BX

**Solicitors**

BPE  
St James' House  
St James' Square  
Cheltenham  
Gloucestershire  
GL50 3PR

**Auditor**

Grant Thornton UK LLP  
Chartered Accountants  
Hartwell House  
55 - 61 Victoria Street  
Bristol  
BS1 6FT

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## Strategic Report

### Review of the year

The Company has delivered turnover of £72.5m (2015: £85.8m). The decrease of 16% reflects the gradual movement of contracts to Mears Limited, a fellow subsidiary, following the acquisition of the Company by Mears Group PLC in 2012. This is a trend that is set to continue over the next few years.

### Business development

The Directors are very pleased with the progress made by the business. The Company is a subsidiary of Mears Group PLC. The Group has positioned itself to provide a broader service offering to a market where we are seeing an increasing blurring of the boundaries between social, affordable and private rented housing. We place particular emphasis upon ensuring that our wide spectrum of core skills is entwined within the single operating unit, which is important given the increasingly complex housing challenges being faced by our clients. The Company continues to benefit from its links with the Group.

The Directors anticipate that the novation of existing contracts to Mears Limited will continue at a gradual rate and that the majority of new bids will also be through Mears Limited. Where appropriate, we will look to utilise our position on existing contracts to provide further appropriate services from the broader offering of the Group.

### Key Performance Indicators (KPIs)

The following are the principal key performance indicators through which we monitor the business. Service delivery is our key differentiator and our non-financial measures all relate to this vital area.

#### *"Excellent" service rating*

In order for customers to recommend us, we must deliver excellent service. We randomly conduct a significant number of customer surveys per year. We achieved a rating of "excellent" in 91% of cases in 2016 (2015: 91%).

#### *Customer complaints as a percentage of jobs*

Incidents resulting from poor service result in a complaint. We are committed to dealing with all complaints on an individual basis. We maintained our complaints level at 0.3% in 2016 (2015: 0.3%).

#### *Jobs completed on time*

Each of our contracts has specific targets around job completion time based on the nature of the work and all work is monitored. Emergency jobs are typically undertaken same day while routine work is scheduled. 2016 saw a job completion rate of 92% (2015: 92%).

#### *Turnover decline*

Turnover represents the amounts due for goods and services provided during the year. The decline for 2016 of 16% (2015: 8%) represents the continued trend of business moving to Mears Limited, the Company's fellow subsidiary of Mears Group PLC.

#### *Operating margin*

Our operating margin of 2.9% (2015: 8.3%) reflects the transfer of several of the Company's most profitable contracts to Mears Limited, in line with the above mentioned trend.

## Strategic Report - continued

### **Risk management objectives and policies**

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

#### *Macro economy*

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

#### *Reputation*

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

#### *Liquidity*

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

Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility. Our bank funding facility was recently extended to service the Group's needs until July 2020.

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

#### *Business retention and new business*

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

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

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

This report was approved on 22 March 2017 and is signed by order of the Board.



B R Westran  
Director

## Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 31 December 2016.

### Principal activities

The principal activity of the Company during the year continued to be the provision of maintenance services.

### Results and dividends

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements and discussed in the strategic review. The Company made a profit for the year of £2,536,000 (2015: £4,465,000).

The directors have not recommended a dividend for 2015 or 2016.

### Directors

The directors who served the Company during the year were as follows:

D J Miles  
A C M Smith  
B R Westran (appointed 24 October 2016)  
C E Middlemass

### Policy on the payment of creditors

It is the Company's policy to settle terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

Trade creditors at the year-end amounted to 73 days of average supplies for the year (2015: 60 days).

### Disabled employees

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

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

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

### Employee involvement

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

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

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

## Report of the Directors - continued

### Directors' responsibilities

*The Directors are responsible for preparing 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 the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

### Going concern consideration

Mears Group PLC, the parent company, has a centralised treasury arrangement and so shares banking arrangements with its subsidiaries.

After making enquiries, the Directors believe that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, and they have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements. In making their enquiries, the Directors considered a period of five years and the forecasts used therefore covered the same period. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with s489 of the Companies Act 2006.

## Report of the Directors - continued

This report was approved on 22 March 2017 and is signed by order of the Board.

A handwritten signature in black ink, appearing to read 'B R Westran', followed by a long horizontal line.

B R Westran  
Director



# Report of the independent auditor to the member of Morrison Facilities Services Limited

We have audited the financial statements of Morrison Facilities Services Limited for the year ended 31 December 2016 which comprise the Profit and loss account, the Balance sheet, the Statement of other comprehensive income, the Statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company's member, 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.

## **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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.

## **Opinion on other matter 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.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

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


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

## Report of the independent auditor to the member of Morrison Facilities Services Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



**Elizabeth Collins**  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London

22 March 2017

## Principal accounting policies

### Statement of compliance

Morrison Facilities Services Limited is a limited liability company incorporated in the United Kingdom. Its registered office is Morrison House, Ellismuir Way, Tannochside Park, Uddingston, Glasgow G71 5PW.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2016.

### Basis of accounting

The financial statements of Morrison Facilities Services Limited have been prepared in accordance with applicable accounting standards, including FRS 102, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for any modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling (£).

### Summary of disclosure exemptions

The Company has taken advantage of the reduced disclosures for subsidiary entities provided for in FRS 102 and has therefore not provided a Statement of Cash Flows or certain disclosures in respect of share based payments. The Company has also taken advantage of the exemption from disclosing certain information in respect of financial instruments.

### Name of parent of group

These financial statements are consolidated in the financial statements of Mears Group PLC.

The financial statements of Mears Group PLC may be obtained from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH.

### Exemption from preparing group accounts

The financial statements contain information about Morrison Facilities Services Limited as an individual company and do not contain consolidated financial information as the parent of a group.

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

## Principal accounting policies - continued

### Significant judgements

Turnover is recognised based on the stage of completion of job or contract activity. As described in the Turnover section, certain types of Social Housing pricing mechanisms require minimal judgement; however, Social Housing lump sum contracts and construction contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract.

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

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Company is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised. Movements in the guarantee asset are taken to profit and loss and to other comprehensive income to match the movement in pension assets and liabilities.

### Key sources of estimation uncertainty

#### *Defined benefit pension scheme*

A number of key estimates have been made, which are given below, which are largely dependent on factors outside the control of the Company:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used and sensitivity analysis are included in the pensions note.

### Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

### Turnover

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

Turnover is recognised when the outcome of a job or contract can be estimated reliably; turnover associated with the transaction is recognised by reference to the stage of completion of work at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

## Principal accounting policies - continued

- the amount of turnover can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Whilst all Social Housing contracts can fit within the guidelines laid down for turnover recognition as detailed above, the alternative contractual pricing mechanisms do result in different methods of assessing the stage of completion.

There are some contracts where the Company is entitled to a fee to reimburse the costs relating to a new contract start-up. This fee is sometimes paid on commencement or paid in instalments over an extended period. Where the contractual entitlement to this income crystallises upon commencement, the turnover is recognised. All costs relating to pre-commencement and mobilisation are written off as they are incurred.

There are numerous contractual pricing mechanisms but one can broadly divide these into three types.

### **Schedule of Rates (SOR) contracts**

There is an element of SOR in the majority of contracts. At tender stage we enter a price for each of the numerous tasks carried out in respect of property maintenance. Typically we price for uplift or a discount against a pre-priced schedule. This price will, in some cases, be an all-encompassing price for the cost of direct works, the local site overhead, central overhead and profit contribution. In other instances, the SOR tendered may only recover direct works with an alternative mechanism to recover the other elements. Wherever possible, we seek to identify all works tickets received individually and capture costs and billing at the individual work ticket level. In so doing, this allows turnover to be recognised with a high degree of accuracy. Typically, reactive maintenance works are invoiced within a month of completion, hence the majority of turnover recognised has already been valued at the individual work ticket level and the significant majority has been subsequently settled. The only element of turnover or profit recognition that requires judgement is against those jobs that are part complete or those completed works that have not been subject to a final valuation.

For part completed works, consideration needs to be given as to whether the Group will recover the transaction costs incurred. Whether the outcome of the transaction can be estimated reliably needs to be considered contract by contract based on historic outcomes and knowledge of any events that may affect future job profitability. Where the outcome of the transaction cannot be estimated reliably, turnover is recognised only to the extent that the costs incurred are anticipated to be recovered. Where the outcome of the transaction can be estimated reliably, an element of anticipated profit is recognised within turnover to the extent that historic outcomes adjusted for knowledge of any events that may affect future job profitability support such recognition.

For completed but not yet priced works, the outcome of the individual valued work tickets is not reviewed individually for the purposes of profit and turnover recognition. However, given the high volume of historical data to provide an accurate indication of underlying contract margin at a particular site, the Group considers that the application of an anticipated profit margin on cost to all completed and unbilled works produces a reliable measure.

For completed and priced works, the likely outcome for the individual work ticket can be determined individually for the purposes of profit and turnover recognition. The Group considers that the recognition of the anticipated profit for the individual job within turnover is appropriate.

Full provision is made in respect of any job if a future loss is foreseen.

### **Open book contracts**

Typically the open book element of contracts relates to the local site overhead. A priced overhead model is usually provided to a client at tender stage and the client pays the Group a fixed sum for maintaining this local site. This is typically an agreed fixed price. Turnover is recognised in line with cost incurred and similarly the attributable profit recognised against that cost.

Any over or underspends are typically at the risk of the Group. The actual overhead spend is often subject to an open book review which is then used as the basis for agreeing future pricing.

## Principal accounting policies - continued

On the rare occasions that a contract does recover costs under a pure 'cost plus' arrangement, turnover is recognised in line with cost incurred and similarly the attributable profit recognised against that cost.

Full provision is made in respect of any contract if a future loss is foreseen.

### Lump sum contracts

This type of contract is becoming more commonplace. To avoid the onerous burden of administering a high volume, low value activity, the pricing mechanism is reduced to either a price per ticket or a price per property. Historically, many gas servicing and breakdown contracts have been procured on a lump sum basis. However, it is now becoming increasingly common within the reactive maintenance environment. There is typically an exclusions list for works that are not considered repairs and not deemed to fall within the lump sum price. It is normal for this excluded element of the works to be billed under an SOR arrangement.

For practical purposes, in the majority of lump sum contracts, turnover is recognised on a straight-line basis over the contract term. There is not a material impact of seasonality in a client's reactive maintenance spend (in terms of either volume or value of orders received). In terms of the lump sum element of the contract, the turnover is split evenly across the twelve monthly reporting periods. No element of turnover is either advanced or deferred.

There are a small number of lump sum contracts where recognising turnover on a straight-line basis would be inappropriate. These are contracts where the phasing of the works over the contract term varies materially over the period of the contract and there is a mismatch between the delivery of works and the timing of invoicing against those works. For these contracts, the Company has historically reverted to recognising turnover based on the proportion of costs incurred to date compared with the estimated total costs of the contract.

Full provision is made in respect of any contract if a future loss is foreseen.

### Investments

Investments are included at cost net of any provision for impairment.

### Intangible assets

Software is stated at cost less amortisation. Amortisation is calculated so as to write off the cost of the software over its useful economic life as follows:

Software	-	25% per annum, reducing balance
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### Goodwill

Purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life. The period of amortisation is assessed on an acquisition by acquisition basis and is set based on the expected period that the assets acquired will contribute to the Company's results. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable. The rate applicable to goodwill currently included in the balance sheet is 5% per annum.

### Tangible assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property improvements	-	over the period of the lease
Plant and machinery	-	25% per annum, reducing balance
Fixtures, fittings and equipment	-	25% per annum, reducing balance

## Principal accounting policies - continued

### **Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials and direct labour. Provision is made for any impairment when appropriate.

### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### **Retirement Benefits**

#### *Defined contribution pension schemes*

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account.

#### *Defined benefit pension schemes*

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

### **Share based payment**

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

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

Share based remuneration is recharged by the parent undertaking and recognised as an expense in the profit and loss account.

## Principal accounting policies - continued

### Financial instruments

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

#### *Financial assets*

Basic financial assets, including trade and other debtors, amounts owed by Group companies, cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

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

#### *Financial liabilities*

Basic financial liabilities, including trade and other creditors, accrued expenses, and amounts owed to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished; that is, when the contractual obligation is discharged, cancelled or expires.

#### *Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### Shares

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



## Principal accounting policies - continued

### **Taxation**

The tax expense for the period comprises deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only where it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

## Profit and loss account

		2016 £ 000	2015 £ 000
<b>Turnover</b>	Note 1	72,453	85,767
Cost of sales		<u>(50,247)</u>	<u>(57,905)</u>
<b>Gross profit</b>		22,206	27,862
Other operating charges	2	<u>(19,545)</u>	<u>(20,746)</u>
<b>Operating profit</b>	3	2,661	7,116
Finance income		1,006	807
Finance costs		<u>(538)</u>	<u>(715)</u>
<b>Profit on ordinary activities before tax</b>		3,129	7,208
Tax on profit on ordinary activities	7	<u>(593)</u>	<u>(2,743)</u>
<b>Profit for the financial year</b>		<u>2,536</u>	<u>4,465</u>

All of the activities of the Company are classed as continuing.

## Balance sheet

	Note	2016 £ 000	2015 £ 000
<b>Fixed assets</b>			
Intangible assets	8		
Software		550	-
Tangible assets	9	483	1,179
Investments	10	<u>1</u>	<u>1</u>
		1,034	1,180
<b>Current assets</b>			
Stocks	11	1,204	895
Debtors	12	17,169	17,034
Cash at bank and in hand		<u>2,099</u>	<u>4,872</u>
		20,472	22,801
<b>Creditors: amounts falling due within one year</b>	13	<u>(17,873)</u>	<u>(18,418)</u>
<b>Net current assets</b>		<u>2,599</u>	<u>4,383</u>
<b>Total assets less current liabilities</b>		3,633	5,563
<b>Creditors due after more than one year</b>	14	(16,779)	(22,456)
<b>Provisions for liabilities and charges</b>			
Deferred tax liabilities		<u>(2,859)</u>	<u>-</u>
<b>Net liabilities excluding pension asset/(liability)</b>		(16,005)	(16,893)
Pension asset	18	<u>15,051</u>	<u>7,704</u>
		<u>(954)</u>	<u>(9,189)</u>
<b>Capital and reserves</b>			
Called up share capital	21	10,000	10,000
Profit and loss account		<u>(10,954)</u>	<u>(19,189)</u>
<b>Shareholder's funds</b>		<u>(954)</u>	<u>(9,189)</u>

The financial statements were approved and authorised for issue by the Directors and are signed on their behalf on 22 March 2017.



B R Westran  
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

## Statement of other comprehensive income

### Statement of other comprehensive income

	Note	2016 £ 000	2015 £ 000
<b>Profit for the financial year</b>		<b>2,536</b>	<b>4,465</b>
Adjustments in respect of defined benefit pension schemes			
Actuarial gains/(losses)	18	7,013	(6,143)
Deferred tax	17	<u>(1,314)</u>	<u>1,229</u>
		<u>5,699</u>	<u>(4,914)</u>
<b>Total recognised gains and losses relating to the year</b>		<u><b>8,235</b></u>	<u><b>(449)</b></u>

The accompanying accounting policies and notes form an integral part of these financial statements.

## Statement of changes in equity

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	10,000	(18,740)	(8,740)
Profit for the year	-	4,465	4,465
Other comprehensive income	-	(4,914)	(4,914)
Total comprehensive income	-	(449)	(449)
At 31 December 2015	10,000	(19,189)	(9,189)
	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	10,000	(19,189)	(9,189)
Profit for the year	-	2,536	2,536
Other comprehensive income	-	5,699	5,699
Total comprehensive income	-	8,235	8,235
At 31 December 2016	10,000	(10,954)	(954)

The accompanying accounting policies and notes form an integral part of these financial statements.

## Notes to the financial statements

### 1 Turnover

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

### 2 Other operating charges

	2016	2015
	£ 000	£ 000
Administrative expenses	<u>19,545</u>	<u>20,746</u>

### 3 Operating profit

Operating profit is stated after charging:

	2016	2015
	£ 000	£ 000
Amortisation	184	-
Depreciation of tangible fixed assets	123	382
Hire of plant and equipment	446	346
Operating lease rentals:		
- land and buildings	599	398
- motor vehicles	<u>2,189</u>	<u>1,830</u>

### 4 Auditors' remuneration

Fees payable to the auditor for the period:

	2016	2015
	£ 000	£ 000
For the audit of the Company's financial statements	<u>40</u>	<u>38</u>

### 5 Employees

The average number of staff employed by the Company, including directors, during the financial year amounted to:

	2016	2015
	No.	No.
Administrative staff	202	293
Operatives	<u>583</u>	<u>525</u>
	<u>785</u>	<u>818</u>

## Notes to the financial statements (continued)

### 5 Employees (continued)

The aggregate payroll costs of the above were:

	2016 £ 000	2015 £ 000
Wages and salaries	19,159	21,068
Social security costs	1,811	1,843
Other pension costs	2,368	2,296
	<u>23,338</u>	<u>25,207</u>

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

### 6 Net interest

	2016 £ 000	2015 £ 000
Interest payable on bank borrowing	-	(2)
Interest payable on loans from group undertakings	<u>(538)</u>	<u>(713)</u>
	(538)	(715)
Interest receivable on loans to group undertakings	-	47
Other interest receivable	61	-
Net income from defined benefit pension schemes	<u>945</u>	<u>760</u>
Net interest (payable)/receivable	<u>468</u>	<u>92</u>

### 7 Taxation on ordinary activities

	2016 £ 000	2015 £ 000
Analysis of charge in the year		
Current tax:		
Adjustment in respect of prior periods	<u>-</u>	<u>1,095</u>
Total current tax	-	1,095
Deferred tax:		
Change in tax rate	5	68
Accelerated Capital allowances	-	(81)
Other short term timing differences	731	1,609
Adjustments in respect of prior periods	<u>(143)</u>	<u>52</u>
Total deferred tax	<u>593</u>	<u>1,648</u>
Tax on profit on ordinary activities	<u>593</u>	<u>2,743</u>

## Notes to the financial statements (continued)

### 7 Taxation on ordinary activities (continued)

#### Factors affecting tax charge for the year

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK. During the period the average corporation tax rate was 20% (2015: 20.25%).

	2016 £ 000	2015 £ 000
Profit on ordinary activities before taxation	3,129	7,208
Profit on ordinary activities multiplied by standard rate of tax	626	1,460
Effects of:		
Expenses not deductible for tax purposes	2	161
Effect of tax losses	-	(20)
Deferred tax expense relating to changes in tax rates or laws	55	-
Depreciation for period in excess of capital allowances	62	(4)
Tax decrease arising from group relief	108	-
Timing differences on pension payments	(3)	(1)
Adjustment to tax in respect of prior periods	(143)	1,147
Total tax charge for the year	707	2,743

### 8 Intangible fixed assets

	Software £ 000	Goodwill £ 000
<b>Cost</b>		
At 1 January 2016	-	1,070
Transferred in	3,179	-
<b>At 31 December 2016</b>	<b>3,179</b>	<b>1,070</b>
<b>Amortisation</b>		
At 1 January 2016	-	1,070
Transferred in	2,445	-
Charge for the year	184	-
<b>At 31 December 2016</b>	<b>2,629</b>	<b>1,070</b>
<b>Carrying amount</b>		
<b>At 31 December 2016</b>	<b>550</b>	<b>-</b>
At 31 December 2015	-	-

Software is computer software purchased from third parties for use in the business. Goodwill represents the excess of purchase price over net assets in respect of the acquisition of a number of social housing businesses.



## Notes to the financial statements (continued)

### 8 Intangible fixed assets (continued)

During the year, software costs included in equipment in tangible fixed assets were transferred to a separate category and subsequently recognised as intangible fixed assets.

Amortisation of intangible assets is included within other operating charges.

### 9 Tangible fixed assets

	Leasehold property improvements £ 000	Plant and machinery £ 000	Furniture, fittings and equipment £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2016	713	110	4,057	4,880
Transferred out	-	-	(3,179)	(3,179)
Additions	14	12	135	161
<b>At 31 December 2016</b>	<b>727</b>	<b>122</b>	<b>1,013</b>	<b>1,862</b>
<b>Depreciation</b>				
At 1 January 2016	648	37	3,016	3,701
Transferred out	-	-	(2,445)	(2,445)
Charge for the year	19	19	85	123
<b>At 31 December 2016</b>	<b>667</b>	<b>56</b>	<b>656</b>	<b>1,379</b>
<b>Carrying amount</b>				
<b>At 31 December 2016</b>	<b>60</b>	<b>66</b>	<b>357</b>	<b>483</b>
At 31 December 2015	65	73	1,041	1,179

### 10 Investments

	2016 £ 000	2015 £ 000
<b>Group companies:</b>		
<b>Cost and net book value</b>		
Investments in subsidiaries	<u>1</u>	<u>1</u>

## Notes to the financial statements (continued)

### 10 Investments (continued)

#### Details of undertakings

Subsidiary	Nature of business	Holding %	Net assets/ (liabilities) £ 000	Profit/(loss) for the period £ 000
Mears Scotland (Services) Limited	Staff provider	67	4,442	109
Manchester Working Limited	Maintenance and repair services	80	3,982	405
Mears Scotland LLP	Maintenance and repair services	67	(7,642)	1,739

Mears Scotland (Services) Limited and Mears Scotland LLP both have a year end of 31 December. Manchester Working Limited has a year end of 31 March and therefore the above figures for that company are those for the year ended 31 March 2016.

### 11 Stocks

	2016 £ 000	2015 £ 000
Raw materials and consumables	966	595
Work in progress	238	300
	<u>1,204</u>	<u>895</u>

### 12 Debtors

	2016 £ 000	2015 £ 000
Trade debtors	3,111	3,034
Other debtors	-	15
Amounts recoverable on contracts	6,587	8,028
Prepayments and accrued income	87	163
Deferred tax assets	3,172	2,219
Amounts owed by group undertakings	4,212	3,575
	<u>17,169</u>	<u>17,034</u>

The debtors above include the following amounts falling due after more than one year:

Amounts owed by group undertakings	4,212	3,575
Deferred tax assets	3,172	2,219
	<u>7,384</u>	<u>5,794</u>

## Notes to the financial statements (continued)

### 13 Creditors: amounts falling due within one year

	2016	2015
	£ 000	£ 000
Trade creditors	10,674	9,884
Other taxation and social security	2,422	2,895
Other creditors	414	207
Accrued expenses	4,363	5,432
	<u>17,873</u>	<u>18,418</u>

### 14 Creditors: amounts falling due after more than one year

	2016	2015
	£ 000	£ 000
Amounts owed to group undertakings	<u>16,779</u>	<u>22,456</u>

### 15 Provisions

	2016	2015
	£ 000	£ 000
At 1 January	-	1,361
Utilisation of provision	-	(1,361)
At 31 December	<u>-</u>	<u>-</u>

The provision represents the Company's obligations in relation to onerous contracts with clients.

## Notes to the financial statements (continued)

### 16 Financial instruments

The Company has the following financial instruments:

	2016 £ 000	2015 £ 000
<b>Financial assets that are debt instruments measured at amortised cost</b>		
Trade debtors	3,111	3,034
Amounts owed by group undertakings	4,212	3,575
Other debtors	-	15
Amounts recoverable on contract	<u>6,587</u>	<u>8,028</u>
	<u>13,910</u>	<u>14,652</u>
<b>Financial liabilities measured at amortised cost</b>		
Trade creditors	10,674	9,884
Amounts owed to group undertakings	16,779	22,456
Other creditors	<u>414</u>	<u>207</u>
	<u>27,867</u>	<u>32,547</u>

The Company uses financial instruments, other than derivatives, comprising borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Company's operations. The Company has no interests in the trade of financial instruments, interest rate swaps or forward interest rate agreements.

The Company charges or pays interest at market rate on intragroup loans classified as financing transactions.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

The Company seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Company has no overdraft.

Trade debtors are normally due within 30 to 60 days. All trade debtors are subject to credit risk exposure. However there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

## Notes to the financial statements (continued)

### 17 Deferred tax

#### Deferred tax assets and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Tax losses carried forward £ 000	Pension scheme £ 000	Total £ 000
At 1 January 2015	710	272	4,358	(2,702)	2,638
Deferred tax charge in profit and loss account					
- On origination and reversal of timing differences	81	(272)	(1,609)	(68)	(1,868)
Deferred tax charge in other comprehensive income					
- On origination and reversal of timing differences	-	-	-	(1,229)	(1,229)
- Adjustments in respect of prior periods	(209)	-	(11)	-	(220)
At 1 January 2016	1,000	-	2,760	(1,541)	2,219
Deferred tax charge in profit and loss account					
- Change in tax rate	-	-	(114)	59	(55)
- On origination and reversal of timing differences	-	-	(617)	(63)	(680)
- Adjustments in respect of prior periods	-	-	143	-	143
Deferred tax charge in other comprehensive income					
- Change in tax rate	-	-	-	18	18
- On origination and reversal of timing differences	-	-	-	(1,332)	(1,332)
At 31 December 2016	1,000	-	2,172	(2,859)	313

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

### 18 Pension commitments

The Company participates in a number of multi-employer defined benefit pension schemes for the benefit of certain employees within the Company. The assets of the schemes are administered by trustees in a fund independent from the assets for the Company.

When a new contract is taken on, generally the defined benefit schemes are fully funded. Once the Company has gained admitted body status for a scheme, it will recognise the deficits or surpluses (subject to the limits defined within FRS 102). The amount of surplus recognised as an asset is limited to the amount that the Company can use to generate future economic benefits.

## Notes to the financial statements (continued)

### 18 Pension commitments (continued)

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2016 by a qualified independent actuary using the projected unit method.

The following disclosures are aggregated results of the remaining defined benefit schemes.

The Company expects to contribute £4,047,000 to its defined benefit pension plans in 2017.

#### *Principal actuarial assumptions*

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

	2016	2015
	%	%
Discount rate	3.05	3.95
Future salary increases - first year	1.00	1.00
Future salary increases - second year	1.00	1.00
Future salary increases - long term	3.35	3.30
Future pension increases - capped at 5% based on RPI	3.25	3.20
Future pension increases - capped at 3% based on RPI	2.55	2.55
Future pension increases - capped at 5% based on CPI	2.45	2.40
Future pension increases - capped at 3% based on CPI	2.10	2.10
RPI Inflationary growth	3.35	3.30
CPI Inflationary growth	<u>2.45</u>	<u>2.40</u>

The mortality assumptions used were as follows:

	2016	2015
	years	years
Longevity at age 65 for current pensioners		
- Males	22.6	22.3
- Females	25.0	24.6
Longevity at age 65 for future pensioners		
- Males	24.7	24.5
- Females	<u>27.3</u>	<u>27.0</u>

## Notes to the financial statements (continued)

### 18 Pension commitments (continued)

#### *Analysis of assets*

The major categories of scheme assets are as follows:

	2016 £ 000	2015 £ 000
Equity	151,590	125,090
Bonds	119,775	92,712
Property	11,892	9,250
Guarantees	12,051	5,425
Other	<u>35,880</u>	<u>32,193</u>
Total market value of assets	331,188	264,670
Present value of scheme liabilities	<u>(313,303)</u>	<u>(252,387)</u>
Funded status	17,885	12,283
Scheme surpluses not recognised	<u>(2,834)</u>	<u>(4,579)</u>
Pension asset	<u>15,051</u>	<u>7,704</u>

#### *Defined benefit obligation*

Reconciliation of the present value of the defined benefit obligation:

	2016 £ 000	2015 £ 000
Opening defined benefit obligation	252,387	246,726
Service cost	4,351	4,618
Past service cost	-	39
Interest cost	9,926	9,369
Actuarial (gain)/ loss	51,140	(4,979)
Contributions by scheme participants	1,161	1,265
Benefits paid	(5,205)	(4,651)
Settlements	<u>(457)</u>	<u>-</u>
Closing defined benefit obligation	<u>313,303</u>	<u>252,387</u>

## Notes to the financial statements (continued)

### 18 Pension commitments (continued)

#### *Fair value of scheme assets*

Reconciliation of fair value of scheme assets:

	2016 £ 000	2015 £ 000
Opening fair value of plan assets	264,670	264,834
Expected return	10,871	10,129
Actuarial gain	56,408	(11,142)
Contributions by employer	4,083	4,403
Contributions by scheme participants	1,161	1,265
Benefits paid	(5,205)	(4,819)
Administration costs	(250)	-
Settlements	(550)	-
<b>Closing fair value of plan assets</b>	<b>331,188</b>	<b>264,670</b>

The amounts recognised in profit or loss are as follows:

	2016 £ 000	2015 £ 000
<i>Analysis of the amount charged to operating profit:</i>		
Current service cost	4,101	4,786
Past service cost	-	39
<i>Analysis of the amount credited to finance income:</i>		
Expected return on plan assets	10,871	10,129
Interest on obligation	(9,926)	(9,369)
<b>Total</b>	<b>3,156</b>	<b>4,065</b>



## Notes to the financial statements (continued)

### 18 Pension commitments (continued)

The amounts recognised in other comprehensive income are as follows:

	2016 £ 000	2015 £ 000
Actuarial gain on pension scheme assets	56,408	(11,142)
Actuarial loss on pension scheme liabilities	(51,140)	4,979
	5,268	(6,163)
Effect of limitation on surplus recognition	(2,834)	(4,579)
Reversal of previously unrecognised surplus	4,579	4,599
Actuarial gains/(losses)	7,013	(6,143)
Cumulative actuarial losses recognised	306	(6,707)

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the company.

### 19 Leasing commitments

#### Operating leases

The total of future minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Not later than one year	2,293	1,367
Later than one year and not later than five years	4,861	2,953
Later than five years	149	52
	7,303	4,372

Operating lease payments represent rentals payable by the Group for certain of its office properties, the hire of vehicles and the hire of other equipment. These leases have durations ranging from three to 15 years. No arrangements have been entered into in respect of contingent rental payments.

### 20 Contingent liabilities

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

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2016 was £2.1m (2015: £2.1m).

## Notes to the financial statements (continued)

### 21 Share capital

#### Allotted, called up and fully paid share capital

	2016 £	2015 £
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>

### 22 Related party transactions

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

#### *Summary of transactions with subsidiaries*

During the year, the Company made sales of £nil (2015: £1,000) to Manchester Working Limited, an 80% subsidiary. In addition, the Company made purchases of £137,000 (2015: £346,000) from Manchester Working Limited. At the year end £1,000 (2015: £802,000) was owed to Manchester Working Limited in respect of sales, purchases and other transactions as described above.

During the year the Company made sales of £2,000 (2015: £7,000) to Mears Scotland LLP, an entity in which the Company has a 67% interest. At the year end there was an intra-group debtor balance of £4,178,000 (2015: £3,537,000) between the two entities in respect of sales, purchases and other transactions as described above.

During the year the Company made purchases of £158,000 (2015: £nil) from Mears 24/7 LLP, an entity in which the Company has a 50% interest. At the year end £18,000 (2015: £nil) was owed to Mears 24/7 in respect of sales, purchases and other transactions as described above.

#### *Transactions with other related parties*

During the year, the Company made purchases of £nil (2015: £10,000) from Mears New Homes Limited, a fellow subsidiary of Mears Group PLC. At 31 December 2016, there was no balance outstanding in respect of these transactions (2015: £nil).

During the year, the Company made purchases of £62,000 (2015: £31,000) from Mears Learning Limited, a fellow subsidiary of Mears Group PLC. At 31 December 2015, there was no balance outstanding in respect of these transactions (2015: £nil).

### 23 Ultimate parent company

The Directors consider that the ultimate parent undertaking and controlling related party of this Company is its parent undertaking Mears Group PLC by virtue of its 100% shareholding.

The largest and smallest group of undertakings for which Group accounts have been drawn up is that headed by Mears Group PLC. The accounts are available from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.