MORRISON | MEARS

Morrison Facilities Services Limited

Financial Statements

For the year ended 31 December 2017

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COMPANIES HOUSE

Company No. SC120550

Company information

Company registration number	SC120550
Registered office	224 West George Street Glasgow G2 2PQ
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 30 Finsbury Square London EC2A 1AG

Contents

Strategic Report

Review of the year

The Company has delivered turnover of £69.4m (2016: £72.5m). The decrease of 4% 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 92% of cases in 2017 (2016: 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 2017 (2016: 0.3%).

Turnover decline

Turnover represents the amounts due for goods and services provided during the year. The decline for 2017 of 4% (2016: 16%) 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 6.7% (2016: 3.7%) reflects policies implemented by management to control overheads.

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 November 2022.

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

Business retention and new business

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

Integrity, ethics, anti-bribery and corruption

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

This report was approved on 20 March 2018 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 2017.

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 £3,374,000 (2016: £2,536,000).

The directors have not recommended a dividend for 2016 or 2017.

Directors

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

D J Miles
A C M Smith
B R Westran
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 69 days of average supplies for the year (2016: 73 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 statement

The directors are responsible for preparing the Directors' Report, Strategic 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) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. 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 20 March 2018 and is signed by order of the Board.

B R Westran
Director

Independent auditor's report to the member of Morrison Facilities Services Limited

Opinion

We have audited the financial statements of Morrison Facilities Services Limited for the year ended 31 December 2017 which comprise the Profit and loss account, the Balance sheet, the Statement of other comprehensive income, 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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

Who we are reporting to

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.

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.

Independent auditor's report to the member of Morrison Facilities Services Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the strategic report and report of the directors on pages 3 to 7 , 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.

Opinion 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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the 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 material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to take advantage of the small companies' exemption from preparing a Strategic Report.

Independent auditor's report to the member of Morrison Facilities Services Limited

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement 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, 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 on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

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

20 March 2018

Principal accounting policies

Statement of compliance

Morrison Facilities Services Limited is a limited liability company incorporated in the United Kingdom. Its registered office is 224 West George Street, Glasgow G2 2PQ.

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 2017.

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 key management personnel compensation.

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, Brockworth, 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.

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.

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.

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:

- 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.

Principal accounting policies - continued

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 Company 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 Company 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 Company 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 Company 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 Company. The actual overhead spend is often subject to an open book review which is then used as the basis for agreeing future pricing.

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.

Principal accounting policies - continued

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

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Negative goodwill arising on an acquisition is recognised on the face of the balance sheet on the acquisition date and subsequently the excess up to the fair value of non-monetary assets acquired is recognised in profit or loss in the periods in which the non-monetary assets are recovered.

Software	-	25% per annum, reducing balance

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

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.

Principal accounting policies - continued

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.

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.

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.

Principal accounting policies - continued

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.

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.

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.

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.

Reserves

Called up share capital represents the nominal value of shares that have been issued.

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

Principal accounting policies - continued

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.

Profit and loss account

	Note	2017 £ 000	2016 £ 000
Turnover	1	**69,422**	72,453
Cost of sales		**(47,718)**	(50,247)
Gross profit		**21,704**	22,206
Other operating charges		**(17,086)**	(19,545)
Operating profit	2	**4,618**	2,661
Finance income		**386**	1,006
Finance costs		**(537)**	(538)
Profit on ordinary activities before tax		**4,467**	3,129
Tax on profit on ordinary activities	6	**(1,093)**	(593)
Profit for the financial year		**3,374**	2,536

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

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

Balance sheet

	Note	2017 £ 000	2016 £ 000
Fixed assets			
Intangible assets	7		
Software		**412**	550
Tangible assets	8	**508**	483
Investments	9	**1**	1
		921	1,034
Current assets			
Stocks	10	**1,902**	1,204
Debtors	11	**25,238**	17,169
Cash at bank and in hand		**1,207**	2,099
		28,347	20,472
Creditors: amounts falling due within one year	12	**(15,521)**	(17,873)
Net current assets		**12,826**	2,599
Total assets less current liabilities		**13,747**	3,633
Creditors due after more than one year	13	**(23,050)**	(16,779)
Provisions for liabilities and charges			
Deferred tax liabilities		**(5,025)**	(2,859)
Net liabilities excluding pension asset		**(14,328)**	(16,005)
Pension asset	16	**26,445**	15,051
		12,117	(954)
Capital and reserves			
Called up share capital	20	**10,000**	10,000
Profit and loss account		**2,117**	(10,954)
Shareholder's funds		**12,117**	(954)

The financial statements were approved and authorised for issue by the Directors and are signed on their behalf on 20 March 2018.

B R Westran
Director

Statement of other comprehensive income

Statement of other comprehensive income

	Note	2017 £ 000	2016 £ 000
Profit for the financial year		**3,374**	2,536
Adjustments in respect of defined benefit pension schemes			
Actuarial gains	16	**11,971**	7,013
Deferred tax	15	**(2,274)**	(1,314)
		9,697	5,699
Total recognised gains and losses relating to the year		**13,071**	8,235

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 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)

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2017	10,000	(10,954)	(954)
Profit for the year	-	3,374	3,374
Other comprehensive income	-	9,697	9,697
Total comprehensive income	-	13,071	13,071
At 31 December 2017	**10,000**	**2,117**	**12,117**

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 Operating profit

Operating profit is stated after charging:

	2017 £ 000	2016 £ 000
Amortisation	**138**	184
Depreciation of tangible fixed assets	**149**	123
Loss on disposal of fixed assets	**-**	6
Hire of plant and equipment	**240**	446
Operating lease rentals:		
- land and buildings	**464**	599
- motor vehicles	**2,049**	2,189

3 Auditors' remuneration

Fees payable to the auditor for the period:

	2017 £ 000	2016 £ 000
For the audit of the Company's financial statements	**37**	40

4 Employees

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

	2017 No.	2016 No.
Administrative staff	**188**	202
Operatives	**547**	583
	735	785

Notes to the financial statements

The aggregate payroll costs of the above were:

	2017 £ 000	2016 £ 000
Wages and salaries	**18,756**	19,159
Social security costs	**1,793**	1,811
Other pension costs	**1,847**	2,368
	22,396	23,338

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.

5 Net interest

	2017 £ 000	2016 £ 000
Interest payable on loans from group undertakings	**(537)**	(538)
	(537)	(538)
Interest receivable on loans to group undertakings	**4**	-
Other interest receivable	**41**	61
Net income from defined benefit pension schemes	**341**	945
Net interest (payable)/receivable	**(151)**	468

6 Taxation on ordinary activities

	2017 £ 000	2016 £ 000
Total current tax	**-**	-
Deferred tax:		
Change in tax rate	**(110)**	5
Accelerated Capital allowances	**188**	-
Other short term timing differences	**1,122**	731
Adjustments in respect of prior periods	**(107)**	(143)
Total deferred tax	**1,093**	593

Notes to the financial statements

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 19.25% (2016: 20%).

	2017	2016
	£ 000	£ 000
Profit on ordinary activities before taxation	**4,467**	3,129
Profit on ordinary activities multiplied by standard rate of tax	**860**	626
Effects of:		
Expenses not deductible for tax purposes	**8**	2
Effect of tax losses	**(6)**	-
Deferred tax expense relating to changes in tax rates or laws	**-**	55
Depreciation in excess of capital allowances	**243**	62
Tax increase/(decrease) arising from group relief	**94**	(6)
Timing differences on pension payments	**1**	(3)
Adjustment to tax in respect of prior periods	**(107)**	(143)
Total tax charge for the year	**1,093**	593

7 Intangible fixed assets

	Software	**Goodwill**	**Total**
	£ 000	**£ 000**	**£ 000**
Cost			
At 1 January 2017	3,179	1,070	4,249
Disposals	-	(1,070)	(1,070)
At 31 December 2017	**3,179**	**-**	**3,179**
Amortisation			
At 1 January 2017	2,629	1,070	3,699
Charge for the year	138	-	138
Amortisation eliminated on disposals	-	(1,070)	(1,070)
At 31 December 2017	**2,767**	**-**	**2,767**
Carrying amount			
At 31 December 2017	**412**	**-**	**412**
At 31 December 2016	550	-	550

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. Goodwill with a net book value of £nil was disposed in the period.

Amortisation of intangible assets is included within other operating charges.

Notes to the financial statements

8 Tangible fixed assets

	Leasehold property improvements £ 000	Plant and machinery £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2017	727	122	1,013	1,862
Additions	24	43	108	175
Disposals	-	-	(1)	(1)
At 31 December 2017	**751**	**165**	**1,120**	**2,036**
Depreciation				
At 1 January 2017	667	56	656	1,379
Charge for the year	25	21	103	149
At 31 December 2017	**692**	**77**	**759**	**1,528**
Carrying amount				
At 31 December 2017	**59**	**88**	**361**	**508**
At 31 December 2016	60	66	357	483

9 Investments

	2017 £ 000	2016 £ 000
Group companies:		
Cost and net book value		
Investments in subsidiaries	**1**	1

Details of undertakings

Subsidiary	**Nature of business**	**Holding %**	**Net assets/ (liabilities) £ 000**	**Profit/(loss) for the period £ 000**
Mears Scotland (Services) Limited	Dormant	67	4,533	-
Manchester Working Limited	Maintenance and repair services	80	9,999	9,999
Mears Scotland LLP	Maintenance and repair services	67	(7,240)	2,337

Mears Scotland (Services) Limited ceased to trade on 31 January 2016 when all of the employees of the company were transferred to Mears Scotland LLP. Mears Scotland LLP has 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 2017.

Notes to the financial statements

10 Stocks

	2017 £ 000	2016 £ 000
Raw materials and consumables	**1,465**	966
Work in progress	**437**	238
	1,902	1,204

11 Debtors

	2017 £ 000	2016 £ 000
Trade debtors	**2,865**	3,111
Other debtors	**800**	-
Amounts recoverable on contracts	**6,619**	6,587
Prepayments and accrued income	**50**	87
Deferred tax assets	**1,969**	3,172
Amounts owed by group undertakings	**12,935**	4,212
	25,238	17,169

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

Amounts owed by group undertakings	**12,935**	4,212
Deferred tax assets	**1,969**	3,172
	14,904	7,384

12 Creditors: amounts falling due within one year

	2017 £ 000	2016 £ 000
Trade creditors	**9,147**	10,674
Other taxation and social security	**2,570**	2,422
Other creditors	**347**	414
Accrued expenses	**3,457**	4,363
	15,521	17,873

13 Creditors: amounts falling due after more than one year

	2017 £ 000	2016 £ 000
Amounts owed to group undertakings	**23,050**	16,779

Notes to the financial statements

14 Financial instruments

The Company has the following financial instruments:

	2017 £ 000	2016 £ 000
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	**2,865**	3,111
Amounts owed by group undertakings	**12,935**	4,212
Amounts recoverable on contracts	**6,619**	6,587
Other debtors	**800**	-
	23,219	13,910
Financial liabilities measured at amortised cost		
Trade creditors	**9,147**	10,674
Amounts owed to group undertakings	**23,050**	16,779
Other creditors	**347**	414
	32,544	27,867

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

15 Deferred tax

Deferred tax assets and liabilities

	Accelerated capital allowances £ 000	Tax losses carried forward £ 000	Pension scheme £ 000	Total £ 000
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 1 January 2017	1,000	2,172	(2,859)	313
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	(188)	(1,122)	109	(1,201)
- Adjustments in respect of prior periods	-	107	-	107
Deferred tax charge in other comprehensive income				
- On origination and reversal of timing differences	-	-	(2,275)	(2,275)
At 31 December 2017	**812**	**1,157**	**(5,025)**	**(3,056)**

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

16 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.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2017 by a qualified independent actuary using the projected unit method.

The Company participates in a multi-employer pension scheme arrangement where the Company's parent, Mears Group PLC, is the principal employer and where the Company is currently unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the Company has accounted for its contributions to the scheme as if it were a defined contribution scheme.

Notes to the financial statements

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

The Company expects to contribute £3,508,000 to its defined benefit pension plans in 2018.

Principal actuarial assumptions

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

	2017	2016
	%	%
Discount rate	**2.70**	3.05
Future salary increases - first year	**2.00**	1.00
Future salary increases - second year	**2.00**	1.00
Future salary increases - long term	**3.10**	3.35
Future pension increases - capped at 5% based on RPI	**3.05**	3.25
Future pension increases - capped at 3% based on RPI	**2.45**	2.55
Future pension increases - capped at 5% based on CPI	**2.25**	2.45
Future pension increases - capped at 3% based on CPI	**1.95**	2.10
RPI Inflationary growth	**3.10**	3.35
CPI Inflationary growth	**2.20**	2.45

The mortality assumptions used were as follows:

	2017	2016
	years	years
Longevity at age 65 for current pensioners		
- Males	**21.9**	22.6
- Females	**24.0**	25.0
Longevity at age 65 for future pensioners		
- Males	**23.9**	24.7
- Females	**26.2**	27.3

Notes to the financial statements

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ 000	2016 £ 000
Equity	**172,225**	151,590
Bonds	**105,559**	119,775
Property	**13,740**	11,892
Guarantees	**4,488**	12,051
Other	**41,931**	35,880
Total market value of assets	**337,943**	331,188
Present value of scheme liabilities	**(302,384)**	(313,303)
Funded status	**35,559**	17,885
Scheme surpluses not recognised	**(9,114)**	(2,834)
Pension asset	**26,445**	15,051

Defined benefit obligation

Reconciliation of the present value of the defined benefit obligation:

	2017 £ 000	2016 £ 000
Opening defined benefit obligation	**313,303**	252,387
Service cost	**5,750**	4,351
Past service cost	**167**	-
Interest cost	**9,483**	9,926
Guarantee asset movement	**(1,659)**	-
Actuarial (gain)/ loss	**(18,251)**	51,140
Contributions by scheme participants	**967**	1,161
Benefits paid	**(7,376)**	(5,205)
Settlements	**-**	(457)
Closing defined benefit obligation	**302,384**	313,303

Notes to the financial statements

Fair value of scheme assets

Reconciliation of fair value of scheme assets:

	2017 £ 000	2016 £ 000
Opening fair value of plan assets	331,188	264,670
Expected return	9,338	10,871
Actuarial gain	-	56,408
Guarantee asset movement	486	-
Contributions by employer	3,494	4,083
Contributions by scheme participants	967	1,161
Benefits paid	(7,376)	(5,205)
Administration costs	(154)	(250)
Settlements	-	(550)
Closing fair value of plan assets	337,943	331,188

The amounts recognised in profit or loss are as follows:

	2017 £ 000	2016 £ 000
Analysis of the amount charged to operating profit:		
Current service cost	5,904	4,101
Past service cost	167	-
Guarantee asset movement	(2,145)	-
Analysis of the amount credited to finance income:		
Expected return on plan assets	(9,338)	(10,871)
Interest on obligation	9,483	9,926
Total	4,071	3,156

Notes to the financial statements

The amounts recognised in other comprehensive income are as follows:

	2017 £ 000	2016 £ 000
Actuarial gain on pension scheme assets	-	56,408
Actuarial loss on pension scheme liabilities	18,251	(51,140)
	18,251	5,268
Effect of limitation on surplus recognition	(9,114)	(2,834)
Reversal of previously unrecognised surplus	2,834	4,579
Actuarial gains	11,971	7,013
Cumulative actuarial gains recognised	12,278	306

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

17 Leasing commitments

Operating leases

The total of future minimum lease payments is as follows:

	2017 £ 000	2016 £ 000
Not later than one year	2,194	2,293
Later than one year and not later than five years	3,050	4,861
Later than five years	149	149
	5,393	7,303

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.

18 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 2017 was £2.1m (2016: £2.1m).

Notes to the financial statements

19 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 purchases of £nil (2016: £137,000) from Manchester Working Limited, an entity in which the Company has a 80% interest. At the year end £nil (2016: £1,000) was owed to Manchester Working Limited in respect of the sales, purchases and other transactions as described above.

During the year the Company made sales of £4,000 (2016: £2,000) to Mears Scotland LLP, an entity in which the Company has a 67% interest. At the year end £4,012,000 (2016: £4,178,000) was owed by Mears Scotland LLP 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 (2016: £62,000) form Mears Learning Limited, a fellow subsidiary of Mears Group PLC. At 31 December 2017, there was no balance outstanding in respect of these transactions (2016: £nil).

During the year the Company made sales of £152,000 (2016: £nil) to Mears Housing Management Limited, a fellow subsidiary of Mears Group PLC. At the year end £8,000 (2016: £nil) was owed to Mears Housing Management Limited in respect of sales, purchases and other transactions as described above.

During the year the Company made sales of £3,000 (2016: £nil) to YourMK LLP, a joint venture in which Mears Group PLC has a 50% interest. At the year end £4,000 (2016: £nil) was owed by YourMK LLP in respect of sales, purchases and other transactions as described above.

During the year the Company made purchases of £98,000 (2016: £158,000) from Mears 24/7 LLP, a joint venture in which Mears Group PLC has a 50% interest. At the year end £11,000 (2016: £18,000) was owed to Mears 24/7 LLP in respect of sales, purchases and other transactions as described above.

20 Share capital

Allotted, called up and fully paid share capital

	2017	2016
	£	£
10,000,000 ordinary shares of £1 each	**10,000,000**	10,000,000

21 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.