MEARS

Independent Living Services (ILS) Limited

Unaudited Financial Statements

For the year ended 31 December 2016

Company No. SC184499

Company information

Company registration number	SC184499
Registered office	Unit 9 Hillfoots Business Village Alva Industrial Estate Alva Clackmannanshire FK12 5DQ
Directors	B R Westran Mears Group PLC
Bankers	Barclays Bank PLC Corporate Banking 4th Floor Bridgwater House Counterslip Finzels Reach Bristol BS1 6BX
Solicitors	BPE St James' House St James' Square Cheltenham Gloucestershire GL50 3PR

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Strategic Report

Business review

The Directors are satisfied with the performance of the Company throughout the previous year, with a small decline in turnover to £14.6m (2015: £15.7m) but a reduction in operating loss to £32,000 (2015: £97,000 loss).

There are still challenges in the business and the main limitation to growth in Care remains the sourcing and retention of sufficient care workers of good quality. This challenge will continue to increase as we move forward and we are beginning to implement sustainable solutions to address this problem. There is no shortage of care work and carer churn rates remain a key focus for 2017.

We are placing greater emphasis on maintaining a portfolio of good quality contracts that can provide clear and sustainable margins whilst at the same time delivering a first class experience to our service users and a value offering to our commissioners. We still have some way to go to achieve this aim. We have carried out an intensive business planning process with particular focus on carer retention and recruitment which continues to be the primary challenge. The business planning process also addressed the impact of the National Living Wage (NLW), identifying key actions on a contract by contract basis. The business planning process encouraged the business to be more selective and to place increased focus on those commissioners with a desire to also move towards more innovative, outcomes-based solutions which better fit Mears' long-term model.

Prospects for the care market over the long-term remain very strong given the underlying growth drivers of an ageing population and the need to look after people in their own homes rather than in hospital or other residential settings. Domiciliary care will also benefit from greater integration of health and social care. Social care has seen a significant reduction in funding over the last few years, but these pressures have in turn created a momentum for change which is starting to support Mears' long-term vision for a more integrated and better commissioned range of services, delivered by a sustainable workforce.

Key Performance Indicators (KPIs)

The Company operates a balanced scorecard approach. This ensures that the Company targets its resources around our customers, community, employees, operations and finance. This enables the business to be operated on a balanced basis with due regard for all stakeholders.

We use the following KPIs to monitor our performance:

Turnover growth rate

Turnover represents the amounts due for services provided during the year. The decline for 2016 of 6.9% (2015: 15.7%) represents the continued trend of contracts being retendered in the Company's larger fellow subsidiaries.

Operating margin

Our operating margin of (0.2%) (2015: (0.6%)) reflects the start of an improvement in the Company's profitability after its recent investment in its workforce.

Financial 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.

Strategic Report - continued

- ***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, otherwise the delivery of business objectives will be jeopardised.
- ***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 which extends 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.

The Company's principal credit risk arises from its trade debtors. The Company reviews the credit quality of customers and limits credit exposures accordingly. Limits are set for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history. All trade debts 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.

This report was approved by the Board on 25 July 2017 and is signed on its behalf by:

....
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 supply of domiciliary care to Local Authorities, Primary Care Trusts and the private sector.

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 loss for the year of £113,000 (2015: loss for the year of £90,000).

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

Directors

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

B R Westran
Mears Group PLC

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) 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.

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. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

This report was approved by the Board on 25 July 2017 and is signed on its behalf.

B R Westran
Director

Principal accounting policies

Statement of compliance

Independent Living Services (ILS) Limited is a limited liability company incorporated in the United Kingdom. Its registered office is Unit 9 Hillfoots Business Village, Alva Industrial Estate, , Alva, Clackmannanshire FK12 5DQ.

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 Independent Living Services (ILS) 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, Gloucester, GL3 4AH.

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 actual care has been delivered and is generally based on a price per time period of care delivered. Turnover relating to care delivered and not invoiced is accrued and disclosed under trade and other receivables as amounts recoverable on contracts. Certain 'block' contracts guarantee a certain level of turnover. Turnover attributable to any unused capacity under block contracts, where the Company is able to invoice for contracted services not provided, is recognised when the recovery of income is considered virtually certain. There is minimal scope for judgement based on the care process.

The Company utilises rostering systems to manage care. These systems allow for planning a rota for each staff member, together with the corresponding pay and bill rates for the particular service type, length of service and time of delivery. These results are very accurate in the calculation of billable time, income and corresponding employee pay for a particular contract, branch or region.

Accrued income is determined by applying an average historical billing rate to the number of unbilled hours delivered at the balance sheet date. Variances are reviewed in the following month once actual billing is known. The rostering systems allow unbilled hours to be calculated based on planned, rostered and actual visits along with the corresponding pay and bill rates for the particular service type, length of service and time of delivery. These results are very accurate in the calculation of billable time, income and corresponding employee pay for a particular contract, branch or region.

Investments

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

Principal accounting policies - continued

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.

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.

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.

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.

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.

Profit and loss account

	Note	**2016 £ 000**	2015 £ 000
Turnover	1	**14,631**	15,723
Cost of sales		**(11,504)**	(12,673)
Gross profit		**3,127**	3,050
Other operating charges		**(3,159)**	(3,147)
Operating loss	2	**(32)**	(97)
Net interest	5	**(61)**	-
Loss on ordinary activities before tax		**(93)**	(97)
Tax on profit on ordinary activities	6	**(20)**	7
Loss and total comprehensive income for the financial year		**(113)**	(90)

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

Balance sheet

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Intangible assets	7		
Goodwill		175	243
Investments	8	1,790	1,790
		1,965	2,033
Current assets			
Debtors	9	1,692	2,091
Cash at bank and in hand		3	10
		1,695	2,101
Creditors: amounts falling due within one year	10	(45)	(73)
Net current assets		1,650	2,028
Total assets less current liabilities		3,615	4,061
Creditors due after more than one year	11	(2,320)	(2,653)
		1,295	1,408
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		1,295	1,408
Shareholder's funds		1,295	1,408

For the financial year ending 31 December 2016 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors' responsibilities:

- The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476; and
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The financial statements were approved and authorised for issue by the Directors and are signed on their behalf on 25 July 2017.

Mears Group PLC
Director

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

Statement of changes in equity

	Profit and loss account £ 000
At 1 January 2015	1,498
Loss for the year	(90)
At 31 December 2015	1,408

	Profit and loss account £ 000
At 1 January 2016	1,408
Loss for the year	(113)
At 31 December 2016	**1,295**

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 loss

Operating loss is stated after charging:

	2016 £ 000	2015 £ 000
Amortisation	**68**	97
Profit/(loss) on disposal of fixed assets	**-**	(1)
Hire of plant and equipment	**23**	59
Operating lease rentals:		
- land and buildings	**143**	201
- motor vehicles	**8**	3

3 Auditors' remuneration

Fees payable to the auditor for the period:

	2016 £ 000	2015 £ 000
For the audit of the Company's financial statements	**-**	3

4 Employees

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

	2016 No.	2015 No.
Administrative staff	**69**	72
Home care staff	**730**	918
	799	990

Notes to the financial statements (continued)

4 Employees (continued)

The aggregate payroll costs of the above were:

	2016 £ 000	2015 £ 000
Wages and salaries	**11,485**	12,811
Social security costs	**762**	775
Other pension costs	**63**	64
	12,310	13,650

5 Net interest

	2016 £ 000	2015 £ 000
Interest payable on loans from group undertakings	**(61)**	-

6 Taxation on ordinary activities

	2016 £ 000	2015 £ 000
Analysis of charge in the year		
Current tax:		
Adjustment in respect of prior periods	**-**	(27)
Total current tax	**-**	(27)
Deferred tax:		
Change in tax rate	**20**	20
Total deferred tax	**20**	20
Tax on loss on ordinary activities	**20**	(7)

Notes to the financial statements (continued)

6 Taxation on ordinary activities (continued)

Factors affecting tax charge for the year

The tax assessed on the loss 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
Loss on ordinary activities before taxation	**(93)**	(97)
Loss on ordinary activities multiplied by standard rate of tax	**(19)**	(20)
Effects of:		
Expenses not deductible for tax purposes	**-**	20
Depreciation for period in excess of capital allowances	**4**	(1)
Tax increase (decrease) from effect of unrelieved tax losses carried forward	**(2)**	-
Tax increase (decrease) arising from group relief	**37**	21
Adjustment to tax in respect of prior periods	**-**	(27)
Total tax charge/(credit) for the year	**20**	(7)

7 Intangible fixed assets

	Goodwill £ 000
Cost	
At 1 January 2016	1,934
At 31 December 2016	**1,934**
Amortisation	
At 1 January 2016	1,691
Charge for the year	68
At 31 December 2016	**1,759**
Carrying amount	
At 31 December 2016	**175**
At 31 December 2015	243

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

Amortisation of intangible assets is included within other operating charges.

Notes to the financial statements (continued)

7 Intangible fixed assets (continued)

8 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2016	1,790
At 31 December 2015	**1,790**
Carrying amount	
At 31 December 2016	**1,790**
At 31 December 2015	1,790

Details of undertakings

Subsidiary	Nature of business	Holding	Net assets/ (liabilities)	Profit/(loss) for the period
		%	£ 000	£ 000
Coulter Estates Limited	Care provider	100	322	151
Heatherpark Community Services Limited	Care provider	100	246	(81)

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

9 Debtors

	2016	2015
	£ 000	£ 000
Trade debtors	1,368	1,205
Other debtors	11	19
Amounts recoverable on contracts	211	730
Prepayments and accrued income	22	37
Deferred tax assets	80	100
	1,692	2,091

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

	2016	2015
Deferred tax assets	80	100

Notes to the financial statements (continued)

10 Creditors: amounts falling due within one year

	2016 £ 000	2015 £ 000
Other creditors	-	33
Accrued expenses	45	40
	45	73

11 Creditors: amounts falling due after more than one year

	2016 £ 000	2015 £ 000
Amounts owed to group undertakings	2,320	2,653

12 Financial instruments

The Company has the following financial instruments:

	2016 £ 000	2015 £ 000
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	1,368	1,205
Other debtors	11	19
	1,379	1,224
Financial liabilities measured at amortised cost		
Amounts owed to group undertakings	2,320	2,653
Other creditors	-	33
	2,320	2,686

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)

13 Deferred tax

Deferred tax assets and liabilities

	Accelerated capital allowances £ 000
At 1 January 2015	120
Deferred tax charge in profit and loss account	
- On origination and reversal of timing differences	(20)
At 1 January 2015	100
Deferred tax charge in profit and loss account	
- On origination and reversal of timing differences	(20)
At 31 December 2015	**80**

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

14 Leasing commitments

Operating leases

The total of future minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Not later than one year	**55**	124
Later than one year and not later than five years	**66**	251
	121	375

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.

15 Contingent liabilities

Independent Living Services (ILS) 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 Independent Living Services (ILS) Limited in respect of this arrangement.

Notes to the financial statements (continued)

16 Share capital

Allotted, called up and fully paid share capital

	2016	2015
	£	£
100 ordinary shares of £1 each	**100**	100

17 Ultimate parent company

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

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.