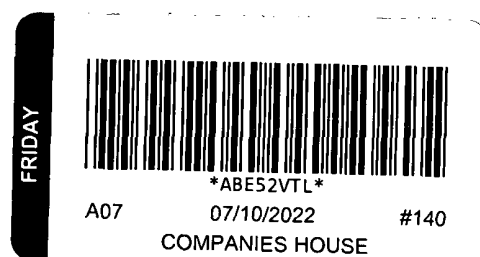


Mitie Care and Custody Limited

Annual report and financial statements

Registered number 06976230

31 March 2022



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Company information

Directors

P J G Dickinson
M R Peacock
D A Spencer

Secretary

Mitie Company Secretarial Services Limited

Registered office

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

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

Mitie Care and Custody Limited (the "Company") is a subsidiary of Mitie Group plc. Mitie Group plc, together with its subsidiaries, comprise the "Group".

The directors of the Company (the "Directors"), in preparing this Strategic report, have complied with Section 414C of the Companies Act 2006.

Review of the business

The principal activity of the Company is to provide outsourced custody services to HM Government. The major activity of the company is to provide immigration service to the Home Office, which includes escorting and detention, along with the management of immigration removal centres. Services are also provided to Police forces, including custody detention services and forensic medical services. There has not been any significant changes in the Company's principal activities in the year under review.

As shown in the income statement account on page 17, the Company's revenue was £116,387,000 (2021: £86,739,000) and the profit for the year was £6,112,000 (2021: £4,506,000). Revenue increase of 35% was mainly driven by new contract wins, additional projects delivered for our clients and increased activity levels as COVID-19 restrictions were lifted.

Key performance indicators

The Group manages its operations on a divisional basis. For this reason, the Company's Directors do not believe further key performance indicators are necessary for an appropriate understanding of the performance and position of the Company. The performance of the Group's divisions is discussed in the Mitie Group plc annual report and accounts 2022 which does not form part of this report.

Principal risks and uncertainties

The Company is part of the Group and manages its risks in line with the Group's enterprise risk management framework. Details of this framework and information on the principal risks and uncertainties are given in the Mitie Group plc annual report and accounts 2022. The Directors have reviewed the Company's financial objectives alongside the risk profile for the Company and the significant risks and uncertainties have been detailed below.

Strategic risks

Economic and political uncertainties

The Company's performance may be affected by general economic conditions and other financial and political factors outside the Company's control. An economic slowdown may result in decreased project work and discretionary spend or descoping of services by customers, which can lead to an impact on the Company's financial performance.

Post COVID-19, demand for goods and services and economic growth has started to recover. However, this recovery has caused prices to increase due to global supply and demand issues, and such pressures may continue in the medium term. Recent political conflicts have compounded the risk further with additional price increases being experienced, for example in relation to fuel and energy.

The Group, of which the Company is a part, drives most of its revenue from a client base in the UK, with limited exposure to the wider global economy in respect of demand for services. However, the costs of delivery are exposed to global inflationary impacts. The Group continues to monitor the impact of the current economic and political challenges on the cost of delivering its services to ensure mitigating actions, such as using contractual protections to pass on such cost increases, minimise the Group's exposure to this and associated risks.

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

- mix of long-term contract portfolio in both the public and private sectors;
- continual development of new and innovative solutions via Connected Workspace;
- focus on higher margin growth opportunities;
- regular reviews of the sales pipeline;
- increasing spread of client base, reducing reliance on individual customers;
- strategic account management programme;
- dedicated Finance, Risk and Intelligence Hub specialists scanning environment;
- utilising contract mechanisms to recharge cost increases;
- digital supplier platform providing greater visibility of, and ability to manage, supply chain; and
- leveraging buying power to help mitigate the increase in cost of goods and services.

Strategic report (continued)

Competitive advantage

The Company's performance could be impacted by a failure to maintain competitive advantage resulting in the loss of key clients, an over reliance on a particular sector, or a failure to produce bids which are financially viable.

The year has witnessed many achievements for the Company, including but not limited to, a number of high-profile contract wins, all of which were successfully mobilised and are now delivering the agreed services.

Despite such achievements, the Company recognises the importance of staying focussed and continually reviewing ongoing challenges, such as the threats posed from new entrants, market saturation across the sectors, growing competition as well as the ongoing effects from COVID-19, all of which have the potential to impact profit margins and disrupt the Company's operations.

In the next financial year, the Company will continue to monitor the changing external environment as well as market coverage. Furthermore, it will continue to develop and deliver competitive bids, along with maintaining obligations towards the delivery of a quality service for existing clients.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- Bid Committee approval for complex bids;
- robust risk assessment of bids – Commercial, Legal and Operational;
- detailed contracting guidelines in place;
- clear delegated authorities register;
- strategic account management programme;
- KPI/SLA formal reviews with customers;
- sales and CRM teams focused on developing pipeline across all major sectors;
- improved CRM capabilities with active relationship management;
- focus on Customer Satisfaction (Net Promoter Score and soliciting feedback);
- review of any loss-making contracts to ensure learnings are identified and applied to future bids;
- sales and pipeline management information to track and measure growth, wins and losses;
- win/loss debriefing process to take learnings for future bidding activities;
- Chief Government & Strategy Officer coordinating all interfaces with the Cabinet Office;
- focus on high-margin opportunities with growth potential, for example technology-led solutions;
- development of new and innovative service offerings; and
- Sales Academy.

Business resilience

The Company's performance may be affected if it fails to effectively respond to a global event and/or catastrophic event at a key business location, resulting in significant business interruption.

During the year, the Company's commitment to ensuring its organisational resilience and viability has continued, despite uncertainty relating to COVID-19, post Brexit issues, increasing cyber-threats and more recent geopolitical events and the associated implications. During the year, the Company has taken additional steps to ensure its ability to respond to disruptive events is not hindered by a failure to plan. Extra controls have been rolled out to tackle the Company's response to a sustained period off-line owing to a cyber-attack and additional measures have been introduced to safeguard operational practices which could be compromised owing to an issue with one or more of the Company's major suppliers and/or service providers.

The Company remains committed to enhancing its planning and response capability to minimise the impact from any significant business interruption and improve the speed of recoverability. The Company recognises that as the business grows, the risks associated with a sustained period of downtime increase. In the next financial year, the Company will be launching a series of targeted training modules to all business area leads with responsibility for critical and business continuity management. As well as reinforcing the importance of planning in order to prevent panic, the modules will also focus on the need to plan for disruptive events associated with sustainability risk management, ensuring that colleagues are prepared for all eventualities and are well placed to support customers and other third parties engaged in the Company's activities, as required.

Strategic report (continued)

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

- key policies and associated operating procedures in place;
- dedicated specialist teams including Risk, Information Systems, Finance, Occupational Health, Supply Chain and Intelligence Hub;
- maintained and updated crisis and business continuity plans for key activities across all Group operations, including key service providers;
- disaster recovery framework embedded and managed;
- regular testing of crisis management and business continuity, including dedicated Executive Management scenario testing;
- stringent governance controls including oversight from Risk Committee, with regular reporting to the Audit Committee and board;
- close monitoring of supply chain to ensure continuity of critical supplies;
- internal and external compliance audits;
- operating in accordance with ISO 22301-2019 and 31000-2018; and
- continuous horizon scanning via the Intelligence Hub with regular alerts to teams on potential threats and significant events.

Financial risks

Reliance on material counterparties

In accordance with Group policies, before accepting a new customer, the Company uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

Operational risks

Third-party management

The Company's performance could be impacted by a failure to manage strategic third-party relationships, or a catastrophic event and/or failure involving a third-party partner.

During the year, many sectors have been impacted by shortfalls in key products and materials. This in turn has led to delayed or reduced deliveries, mis-picks of products, short notice substitutions and short-term unavailability of key products and materials. During this period, the Company has continued to work closely with supply chain partners to ensure it was operating at its most effective to reduce the impact from this disruption. At an account level there were ongoing reviews of key products and materials, and clients were continually kept abreast of developments.

During the year, the Company integrated onto the new Group digital supply chain platform ("DSP") to better manage supply chain and associated risks. This has resulted in a structured review of all suppliers and subcontractors, which has seen subcontractors (by spend) fully accredited on a best-in-class Quality, Health, Safety and Environment ("QHSE") accreditation platform (Safe Contractor). A further Procurement and Supply Chain ("PSC") Insight's initiative was also introduced to keep both clients and the Company informed of the changing environment.

The Company will continue to proactively monitor developments with both the internal and external landscapes, paying particular attention to the ongoing issues still being experienced from both COVID-19 and Brexit, combined with the impact of inflation, which continues to affect all businesses. Particular focus will continue to remain on Supplier Risk Management and Supplier Health facilitated by data delivered via the DSP.

Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- key policies and associated operating procedures, including Supply Management Framework;
- dedicated Procurement and Commercial teams;
- Mitie First approach adopted;
- Project Forté driven improvements under Supply Chain Management workstream, including enhanced supplier audits, improved invoicing capabilities, master service agreements and job automation;
- rigorous on-boarding framework integrated into business utilising the DSP;
- defined service level agreements and key performance indicators;
- ongoing spending review;
- dedicated risk management and assurance procedures (including targeted QHSE assurance programme and internal audit) to ensure internal controls are operating effectively;
- ongoing review of third-party business continuity arrangements with regular reporting to the Group Risk team;
- DSP facilitating supplier health and risk checks as well as invoice processing; and
- PSC Insights introduced.

Regulatory risks

Regulatory

The Company's performance could be impacted by a failure to comply with applicable laws and regulations.

During the year, there were notable changes to the Company's external environment in terms of regulatory updates, and in the main these continued to be related to COVID-19 (e.g. mandatory vaccination requirements and end of furlough), Brexit (e.g. new immigration laws), and corporate governance requirements. As a consequence, a number of related activities took place throughout the year to ensure the Company and the Group remained legally compliant.

Next year, the Company does not envisage the pace of legislative change altering and will continue to proactively scan the external operating environment as well as assess the impact of changes, as they arise. Uncertainty still remains around legislation yet to be passed and the impact of this on the Company. There are still unknowns associated with both the knock-on impact of Brexit as well as COVID-19 from a regulatory perspective.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- specialist legal and QHSE expertise aligned to business units;
- Code of Conduct for all employees;
- independent whistleblowing system available to all employees to report any concerns;
- Group-wide policies updated for changes to laws and regulations and maintained in the online Information Management System;
- regular and thorough internal and external regulatory audits;
- training and awareness materials communicated to employees via the Group's digital Learning Hub and monitoring of completion performed, especially for mandatory courses;
- regular monitoring of legal and regulatory changes by Group functions including Company Secretariat, Legal and QHSE;
- financial governance and controls in place;
- commercial governance and controls in place; and
- establishment of Internal Control Declaration framework ongoing to align with potential UK legislation requirements.

Strategic report (continued)

People risks

Health, Safety and Environment

The Company's performance could be impacted by a failure to maintain high standards in relation to health, safety, and environmental ("HSE") practices.

The Company's HSE key performance indicators have been broadly positive with performance stable.

The Company continues to monitor developments in relation to COVID-19 to ensure business interruptions are kept to a minimum and productivity in a safe environment is maximised. The Company contributes to the Group's live COVID-19 risk register, which is regularly reviewed and consulted on. Focus remains on ensuring that appropriate steps are taken to safeguard the physical and mental wellbeing of colleagues, suppliers and others involved in the Company's operations. The recovery phase of the pandemic has been welcomed across the Group with the Company proactively prioritising and supporting colleagues, clients, and subcontracting partners with getting Britain back to business.

The Company remains vigilant in terms of flexible responses should a change in direction be required due to a COVID variant triggering a new wave or should there be a requirement for other courses of action relating to the pandemic. Continual horizon scanning, reviewing and assessment via our Intelligence Hub continues to play a pivotal role in helping to maintain the Company's resilience.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- a comprehensive QHSE strategy in place and under continual review for effectiveness;
- major cultural HSE programme, LiveSafe, continuing, with clear rules, engagement and training for staff;
- regular training and communication delivered throughout the Group, in accordance with the LiveSafe principles. LiveSafe e-learning training programme sets out HSE expectations including 'stop the job' supported by key safety message from the Chief Executive, Phil Bentley.
- health and safety management system certified to ISO 45001 and environmental system to ISO 14001;
- fully integrated incident recording, monitoring and reporting system;
- regular HSE reviews conducted at Group and business unit level;
- clear and standardised KPIs to monitor progress and improvements;
- targeted QHSE procedural audit programme;
- themes and root causes monitored from the results of audits to target specific actions, including training;
- QHSE function 'Plan Zero Champions' as part of the Plan Zero programme to promote strategy and good practice in environmental management;
- health and wellbeing framework integrated into the business;
- COVID-19 Working Group;
- COVID-19 risk assessment and technical compliance processes in place and regularly reviewed;
- ultraviolet light disinfection system and thermal imaging in place to mitigate against spread of COVID-19;
- insurance cover in place to cover employers' liability, public liability and motor fleet insurance;
- focused zero harm weeks concentrating on pertinent subjects to further strengthen the Group's QHSE culture; and
- ongoing review of QHSE team ensuring maintenance of competencies and correct provision of support and guidance across the Group.

Strategic report (continued)

Employees

The Company's performance could be impacted by an inability to recruit, retain and reward suitably talented employees.

During the year, the Company has witnessed large-scale impacts to the UK labour market as the economy began to recover from COVID-19. This was compounded by the broader implications of Brexit which had the potential to compromise the availability of labour and key skills. During the reporting period, the Company has continued to work hard to minimise disruption caused by this evolving external landscape. During the year, the Company took positive action to retain talent, through the provision of enhanced benefits for all colleagues including free shares, enhanced maternity pay, the addition of sabbaticals/career breaks, life assurance, virtual GP, and a salary advance scheme (the ability to draw down pay earned ahead of pay day). Additionally, to ensure compliance with the EU Settlement Scheme, the Company worked closely with impacted colleagues to ensure that they were assisted and guided through the process effectively.

The Company will continue to proactively monitor developments in relation to the labour market as well as any further implications resulting from COVID-19, such as workforce fatigue. The Group will be seeking to launch a company-wide employee value proposition campaign, a career band framework as well as a cost-of-living campaign.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- consistent HR resourcing process and system across the Group;
- process in place for online training and development, with access to online learning for all colleagues;
- consistent process to manage both temporary and permanent recruitment;
- training and development programmes for senior leadership;
- developed talent identification, management and development framework;
- improved performance management framework;
- HR structure streamlined and working in close partnership with the business;
- induction programme, mandatory for new starters;
- regular communications from leadership team, including Executive Management country-wide roadshows;
- specific plans developed to address results of employee survey;
- competitive remuneration, terms and conditions;
- regular employee offers;
- succession plans in place for critical roles, especially for senior leadership;
- attraction strategy developed and deployed;
- enhanced benefits such as free shares, life assurance, virtual GP, and a salary advance scheme; and
- new careers site launched during the year attracting more than 128,000 new and unique viewers.

Strategic report (continued)**Financial risk management**

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

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

Section 172 statement

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

Stakeholders

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

Stakeholder	Engagement activity	Important issues discussed
Customers	- Management of customer relationships by divisional leadership	- Customer satisfaction - Labour market constraints - Governance and transparency - Social value
Shareholders	- Regular senior leadership meetings	- Financial performance - Integration programme following completion of the Group's acquisition of Interserve Facilities Management ("Integration Programme") - Environmental, Social and Governance matters
Communities and the environment	- Mitie Foundation - Local community events - Employee volunteering	- Social value - Reduction in carbon emissions
Employees ¹	- All employee teams meetings - Internal communications updates through weekly Recap and monthly Download updates - Pulse surveys - Designated Non-Executive Director, Jennifer Duvalier	- Integration Programme - Reward and recognition - Remuneration and benefits - Career opportunities and development
Suppliers	- Global supplier portal	- Integration Programme - Responsible procurement

Note:

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

Consequences of any decision in the long-term

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

The Group acquired Interserve Facilities Management ("Interserve") on 30 November 2020.

During the year, the Directors were involved in establishing an experienced integration team which implemented a robust governance structure to ensure all aspects of the Integration Programme were closely managed and measured. Risk areas were highlighted and escalated as appropriate. The Integration Programme completed at the end of November 2021 as planned.

Strategic report (continued)

Having regard to the interests of employees

The Group has several mechanisms to engage with employees and the Directors are committed to ensuring that the results are considered in decision making.

The Directors regularly engaged with employees during the year on employee-related matters including reward and recognition matters and the Integration Programme through various mechanisms, including an annual employee survey, regular pulse surveys and the work carried out by Jennifer Duvalier, as designated Non-Executive Director for the workforce.

Fostering business relationships with suppliers, customers and others

Suppliers

The Directors support the Group's responsibility targets which are focused on increasing the percentage of the Group's spend that goes to small and medium-sized enterprises, and voluntary, charity and social enterprise suppliers.

A new digital supplier platform was deployed during the year, which enabled a more strategic approach to surveying the Group's suppliers on a proactive basis.

Customers

Customers are at the heart of the business and therefore the Directors consider that getting closer to customers and thus becoming more responsive to their needs, is important.

The Directors monitor the Net Promoter Score, a customer loyalty metric that measures how likely a customer is to recommend a product or service to a friend, to ensure customers' sentiment remains positive.

Impact of operations on the community and the environment

The Directors are supportive of the Group's initiatives to improve the impact of the operations of the Company on the community and the environment. One of the Group's directors is a member of the Group's Social Value and Responsible Business Committee. The committee provides oversight and governance for all of the Group's social value and responsible business initiatives, ensuring that they are aligned to the Group's purpose, promises and values. The committee was in place throughout the year.

Maintaining a high standard of business conduct

Ethical business practice

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

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

Good governance

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

Details of how the Group's complies with the UK Corporate Governance Code can be found in the Annual Report and Accounts 2022.

The need to act fairly as between members of the company

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

Strategic report (continued)

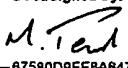
Future developments

The Directors expect the general level of activity to increase in the forthcoming year, which should see variable income increase as a result of COVID-19 restrictions continuing to be lifted. Activity will also increase as a result of the Company successfully securing three new contracts that will commence during FY23. There is a robust pipeline of bidding activity throughout the coming year from a range of new opportunities in our core criminal justice markets, from both the expiration of our competitors' existing contracts and central government initiatives.

Subsequent events

There have been no significant events since the balance sheet date.

Approved by the Board and signed on its behalf by:

DocuSigned by:

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M R Peacock
Director
22 July 2022

Directors' report

The Directors present the annual report and audited financial statements of Mitie Care and Custody Limited, for the year ended 31 March 2022.

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

Going concern

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

Directors

The Directors who held office during the year and up to the date of signing the financial statements were:

	Date of appointment	Date of resignation
P J G Dickinson		
S C Kirkpatrick		27 August 2021
M R Peacock	26 August 2021	
D A Spencer		

Directors' indemnity

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

Dividends

No dividend was declared or paid during the year (2021: £nil).

Employees

The Company recognises the importance of good communications and employee relationships. The Group communicates with employees via multiple channels, including: regular employee engagement surveys, periodic pulse surveys and feedback on actions taken; communications platforms including Minet, MitiePeople.com, and social media; Group-level board and management engagement including Townhall meetings and local site visits, and Voice of the People sessions led by a non-executive director; global company updates; promotion of improved share incentive plan through different communication channels, including Recap, Download and Minet; annual individual performance reviews and training; confidential whistleblowing service; and direct access to the CEO.

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

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

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

Directors' report (continued)

Other information

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

Disclosure of information to auditor

Each Director in office at the date of approval of these financial statements confirms that:


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

This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Auditor

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

Approved by the Board and signed on its behalf by:

DocuSigned by:

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M R Peacock
Director
22 July 2022

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

The Directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 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.

We have audited the financial statements of Mitie Care and Custody Limited ("the Company") for the year ended 31 March 2022 which comprise the Income statement, the statement of comprehensive income, the Balance sheet, the Statement of changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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

Independence

We remain 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.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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 have been prepared in accordance with applicable legal requirements.

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.

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.

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the entity and the industry in which it operates, through discussion with management and our knowledge of the industry. We focussed on significant laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice), Health and Safety, the Bribery Act 2010 and tax legislations.
- We considered compliance with these laws and regulations through discussions with management and in-house legal counsel. Our procedures also included reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations.
- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. In addressing the risk of fraud including management override of controls and improper revenue recognition, we tested the appropriateness of journal entries made throughout the year by applying specific criteria.
- We performed detailed testing of the entity's year end adjusting entries and journals throughout the year, investigated any that appeared unusual as to nature or amount; assessed whether the judgements made in accounting estimates were indicative of a potential bias and tested the application of cut-off and revenue recognition.
- We identified areas at risk of management bias and challenged key estimates and judgements applied by Management in the financial statements to assess their appropriateness.
- We remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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

Use of our report

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

DocuSigned by:

Oliver Chinneck

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

25 July 2022

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

Mitie Care and Custody Limited
Annual report and financial statements
31 March 2022

Income statement

	<i>Note</i>	2022 £000	2021 £000
Revenue	2	116,387	86,739
Cost of sales		<u>(104,332)</u>	<u>(76,333)</u>
Gross profit		12,055	10,406
Administrative expenses		<u>(5,705)</u>	<u>(5,680)</u>
Operating profit	3	6,350	4,726
Finance income	7	1,230	827
Finance costs	8	<u>(21)</u>	<u>(9)</u>
Net finance income		1,209	818
Profit before tax		7,559	5,544
Tax	9	<u>(1,447)</u>	<u>(1,038)</u>
Profit for the year		<u>6,112</u>	<u>4,506</u>

The notes on pages 20 to 39 form an integral part of the financial statements.

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

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


Mitie Care and Custody Limited
Annual report and financial statements
31 March 2022

Balance sheet

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	10	128	435
Contract assets	13	1,270	1,408
Other Receivables	12	130	-
Deferred tax assets	16	428	235
Total non-current assets		<u>1,956</u>	<u>2,078</u>
Current assets			
Inventories	11	96	58
Trade and other receivables	12	54,089	33,623
Contract assets	13	997	676
Cash and cash equivalents		270	6,818
Total current assets		<u>55,452</u>	<u>41,175</u>
Current liabilities			
Trade and other payables	14	(29,405)	(23,021)
Deferred income	15	(2,820)	(1,887)
Current tax payable		(2,743)	(2,073)
Lease liabilities	18	(22)	(23)
Provisions	17	(124)	(57)
Total current liabilities		<u>(35,114)</u>	<u>(27,061)</u>
Net current assets		<u>20,338</u>	<u>14,114</u>
Non-current liabilities			
Deferred income	15	(2,349)	(3,340)
Lease liabilities	18	(24)	(45)
Provisions	17	(288)	(99)
Total non-current liabilities		<u>(2,661)</u>	<u>(3,484)</u>
Net assets		<u>19,633</u>	<u>12,708</u>
Equity			
Share capital	19	385	385
Share premium	19	313	313
Retained earnings	19	18,935	12,010
Total equity		<u>19,633</u>	<u>12,708</u>

The notes on pages 20 to 39 form an integral part of the financial statements.

The financial statements of Mitie Care and Custody Limited, company number 06976230, were approved by the Board of Directors and authorised for issue on 22 July 2022 and were signed on its behalf by:

DocuSigned by:

 67580D9FE8A6479...
M R Peacock
 Director

Mitie Care and Custody Limited
Annual report and financial statements
31 March 2022

Statement of changes in equity

	Share capital £000	Share Premium £000	Retained earnings £000	Total equity £000
At 1 April 2020	385	313	7,198	7,896
Profit for the year	-	-	4,506	4,506
Deferred tax	-	-	(8)	(8)
Total comprehensive income	-	-	4,498	4,498
Share-based payments	-	-	314	314
Total transactions with owners	-	-	314	314
At 31 March 2021	385	313	12,010	12,708
Profit for the year	-	-	6,112	6,112
Total comprehensive income	-	-	6,112	6,112
Transactions with owners				
Share-based payments	-	-	778	778
Deferred tax	-	-	35	35
Total transactions with owners	-	-	813	813
At 31 March 2022	385	313	18,935	19,633

The notes on pages 20 to 39 form an integral part of the financial statements.

Notes

1 Accounting policies, judgements and estimates

a) General information

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

b) Statement of compliance with FRS 101

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK ("UK-adopted International Accounting Standards"), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, International Financial Reporting Standards ("IFRS") as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company transitioned to UK-adopted International Accounting Standards (as described above) in its financial statements for the year ended 31 March 2021. This change constituted a change in accounting framework. However, there was no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the centralised treasury arrangements and shared banking arrangements of Mitie Group plc, its ultimate parent, and of its fellow subsidiaries (together the "Group"). The Directors have received a letter of support from the directors of Mitie Group plc to confirm provision of adequate financial resources to the Company for a period of not less than twelve months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2022 to ensure that the Company can meet its liabilities as they fall due.

The directors of Mitie Group plc have carried out an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements (the "Going Concern Assessment Period"). This assessment was based on the latest medium-term cash forecasts from the Group's cash flow model (the "Base Case Forecasts"), which are based on the Group's board-approved budget. These Base Case Forecasts indicate that the debt facilities currently in place are adequate to support the Group over the Going Concern Assessment Period.

The Group's principal debt financing arrangements as at 31 March 2022 were a £150m revolving credit facility, of which £141.5m was undrawn as at 31 March 2022, and £151.5m of US private placement ("USPP") notes (being the repayment amount after taking account of the cross-currency swaps hedging the principal amount), of which £121.5m is due to mature in December 2022. The revolving credit facility was put in place in October 2021, maturing in October 2025 (with an option to extend for a further year, subject to lenders' approval), on significantly more favourable terms than the previous facility. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis.

The issue of £120.0m of new USPP notes has also been agreed, under a delayed funding arrangement in December 2022, avoiding any overlap with the existing £121.5m of notes that mature in the same month. The new notes are split equally between 8-year, 10-year and 12-year maturities, and will be issued with an average coupon that is significantly below the current coupon. The remaining £30m of USPP notes are due to mature in December 2024, which is outside the Going Concern Assessment Period.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Going concern

The primary financial risks from adverse changes in the economic environment and / or a deterioration in commercial or operational conditions are listed below. These risks have been considered specifically in the context of the potential further impact of COVID-19, taking into account the recent success of the vaccine roll-out, easing of restrictions and improvements in the economy:

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

As a result of completing this assessment, the directors of Mitie Group plc considered the likelihood of the reverse stress scenarios arising to be remote. In reaching the conclusion of remote, the directors of Mitie Group plc considered the following:

- reviewing how the Group has traded since the impact of COVID-19 started, up to the end of May 2021 and in light of the continued easing of the UK lockdown measures and anticipated economic recovery;
- all reverse stress scenarios would require a very severe deterioration compared to the base case. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 20% in the year ending 31 March 2022 compared to the base case, which is considered to be very severe given the high proportion of the Group's revenue that is fixed in nature and the fact that in a COVID-hit year, the Group's revenue excluding Interserve declined by only 1.6% in the year ending 31 March 2021; and
- in the event that results started to trend significantly below those included in the Group cash flow model, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses and reduced discretionary spend, including capital investments.

Based on these assessments, the directors of Mitie Group plc have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these financial statements.

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the Company's audited financial statements for the year ended 31 March 2022. Accordingly, the financial statements have been prepared on a going concern basis.

FRS 101 exemptions

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

- a cash flow statement and related notes;
- comparative period reconciliations for property plant and equipment, and share capital;
- the statement of compliance with UK-adopted International Accounting Standards;
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective UK-adopted International Accounting Standards;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosures in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

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

- IFRS 2 Share-based Payment in respect of Group settled share-based payments;
- certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments: Disclosures*.

Accounting standards that are newly effective in the current year

There are no new and mandatorily effective standards in the year that would have a material impact on the financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis

d) Significant accounting policies

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

Revenue recognition policy

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

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

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

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

Duration of contract

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

Contract modifications

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

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

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Step 2 - Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Company's integrated facilities management contracts, judgement is applied to consider whether those promised goods or services are:

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

Step 3 - Determine the transaction price

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

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

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

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

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

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

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

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

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

Contract costs

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

Contract fulfilment costs

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

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

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Amortisation and impairment of contract assets

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

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

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

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

Accrued income and deferred income

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

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

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

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

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

Taxation

Tax in the income statement represents the sum of the tax currently payable and deferred tax.

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

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Property, plant and equipment

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

Land and buildings:	50 years or lease term if shorter
Plant and vehicles:	3-10 years

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

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

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

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

Inventories

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

Financial instruments

Classification and measurement

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

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

Cash and cash equivalents include cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash that can only be used for a specific purpose or where access is constrained is classified as restricted cash. All of the Company's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their transaction price and are subsequently

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Financial instruments (continued)

remeasured at amortised cost.

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

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using the simplified approach. Under this approach, the Company recognises a loss allowance based on lifetime ECLs at each reporting date. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type.

Leases

The Company has various lease arrangements. At inception of a lease contract, the Company assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Company recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee, except low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the income statement as they are incurred.

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

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

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

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

Intra-group financial instruments

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Provisions and contingent liabilities

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Onerous contract provisions ("OCPs") arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers, except where this is impracticable and contract revenue is used as a proxy for activity. The provision is calculated as the lower of the termination costs payable for an early exit and the expected net cost to fulfil the Company's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

No provisions are recognised and only a disclosure in the financial statements is made for contingent liabilities. Contingent liabilities are possible obligations dependent on whether some uncertain future event occurs, or where a present obligation exists but payment is not probable, or the amount of payment cannot be measured reliably.

Share-based payments

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

e) Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Company's accounting policies

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

Revenue recognition

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

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

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

Some of the Company's contracts include variable consideration where management assesses the extent to which revenue is recognised. For certain contracts, key judgements were made on whether it is considered highly probable that a significant reversal of revenue will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Recoverability of trade receivables and accrued income

The Company has material amounts of billed and unbilled work outstanding at 31 March 2022. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes information about past events, current conditions and forecasts of the future economic condition of customers.

IFRS 16 – Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

e) Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions and contingent liabilities

The Company is, from time to time, party to legal proceedings and claims that are in the ordinary course of business. Judgements are required in order to assess whether these legal proceedings and claims are probable, and the liability can be reasonably estimated, resulting in a provision or, alternatively, whether the items meet the definition of contingent liabilities.

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities, judgement is applied and re-evaluated at each reporting date. The Company recognised provisions at 31 March 2022 of £412,000 (2021: £156,000). Further details are included in Note 17.

2 Revenue

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

3 Operating profit

Operating profit is stated after charging:

	2022 £000	2021 £000
Depreciation of property, plant and equipment Note 10 and Note 18	<u>307</u>	<u>318</u>

4 Auditor's remuneration

The auditor's remuneration was borne by Mitie Group plc (2021: Mitie Group plc) and no allocation or recharge (2021: £nil) was made to the Company.

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

Notes (continued)**5 Staff numbers and costs**

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

	Number of employees	
	2022	2021
Operations	1,890	645
	1,890	645

The aggregate payroll costs for employees who worked for other Group companies have been recharged by the Company to the other Group companies. The aggregate payroll costs incurred by the Company, net of recharged amounts, were as follows:

	2022	2021
	£000	£000
Wages and salaries	53,372	46,937
Share-based payments	778	314
Social security costs	5,012	4,329
Termination and redundancy payments	127	186
Pension costs	3,147	1,734
	62,436	53,500

6 Directors' remuneration

	2022	2021
	£000	£000
Directors' emoluments	363	460
Amounts receivable under long term incentive schemes	298	16
Company contributions to money purchase pension plans	15	

	Number of Directors	
	2022	2021
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	1	2

Notes (continued)

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

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Limited	Mitie Limited
M R Peacock	Mitie Limited	Mitie Limited

7 Finance income

	2022 £000	2021 £000
Interest receivable from Group undertakings	1,230	827
Total	<u>1,230</u>	<u>827</u>

8 Finance costs

	2022 £000	2021 £000
Interest on bank loans and overdrafts	19	7
Interest on lease liabilities	2	2
Total	<u>21</u>	<u>9</u>

Notes (continued)

9 Tax

	2022 £000	2021 £000
<i>Analysis of charge in the year</i>		
<i>UK corporation tax at 19% (2021: 19%)</i>		
Current tax on profit for the period	1,611	1,138
Adjustments in respect of prior periods	(6)	(3)
Total current tax	1,605	1,135
<i>Deferred tax (see Note 16)</i>		
Origination and reversal of temporary timing differences	(70)	(102)
Change in statutory tax rate	(96)	-
Adjustments in respect of prior periods	8	5
Total deferred tax credit	(158)	(97)
Total charge for the year	1,447	1,038
<i>Tax recognised directly in equity</i>		
	2022 £000	2021 £000
Deferred tax	(35)	8
Total tax recognised directly in equity	(35)	8
<i>Tax reconciliation</i>		
	2022 £000	2021 £000
Profit before tax	7,559	5,544
Tax using the UK corporation tax rate of 19% (2021: 19%)	1,436	1,053
Items not deductible for tax purposes	1	5
Adjustments in respect of employee share options	104	(22)
Change in statutory tax rate	(96)	-
Adjustments in respect of prior periods	2	2
Total tax charge	1,447	1,038

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This change has been substantively enacted at the balance sheet date and is therefore incorporated into the amounts contained in these financial statements.

Notes (continued)

10 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2022 £000	2021 £000
Owned property, plant and equipment	80	369
Right-of-use assets Note 18	48	66
Total	128	435

The table below relates to owned property, plant and equipment.

	Plant and vehicles £000
Cost	
At 1 April 2021	1,926
At 31 March 2022	1,926
Accumulated depreciation and impairment	
At 1 April 2021	1,557
Charge for the year	289
At 31 March 2022	1,846
Net book value	
At 1 April 2021	369
At 31 March 2022	80

11 Inventories

	2022 £000	2021 £000
Raw materials and consumables	96	58
	96	58

Raw materials and consumables recognised as cost of sales in the year amounted to £3,216,004 (2021: £2,152,144).

Notes (continued)**12 Trade and other receivables**

	2022 £000	2021 £000
Trade receivables	12,396	7,265
Amounts owed by Group undertakings	37,400	23,557
Prepayments	394	193
Accrued income	3,145	2,251
Other receivables	884	357
Total	54,219	33,623
Current	54,089	33,623
Non-current	130	-

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

Amounts owed by Group undertakings are repayable on demand.

Included within amounts owed by Group undertakings above is £32,000,000 (2021: £23,000,000) relating to interest-bearing loans at 5% per annum (2021: 5% per annum).

13 Contract assets

	Pre-contract costs £000
At 1 April 2020	2,716
Additions	69
Amortisation	(701)
At 31 March 2021	2,084
Additions	997
Amortisation	(814)
At 31 March 2022	2,267
Current	997
Non-current	1,270

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2022 (2021: £nil).

Notes (continued)**14 Trade and other payables**

	2022 £000	2021 £000
Trade payables	4,382	6,532
Amounts owed to Group undertakings	5,498	2,032
Other taxes and social security	6,508	4,728
Accruals	12,771	9,542
Other payables	246	187
Total	29,405	23,021

Amounts owed to Group undertakings are repayable on demand.

15 Deferred income

£2,130,910 of revenue was included in the deferred income balance at the start of the year (2021: £1,954,548)

16 Deferred tax assets

Deferred tax assets are attributable to the following:

	2022 £000	2021 £000
Accelerated capital allowances	160	106
Share options	236	100
Short-term timing differences	32	29
	428	235

Movements in deferred tax were as follows.

	1 April 2021 £000	Recognised in income £000	Recognised in equity £000	31 March 2022 £000
Accelerated capital allowances	106	54	-	160
Share options	100	101	35	236
Short-term timing differences	29	3	-	32
	235	158	35	428

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Notes (continued)

	1 April 2020	Recognised in income	Recognised in equity	31 March 2021
	£000	£000	£000	£000
Accelerated capital allowances	98	8	-	106
Share options	26	82	(8)	100
Short-term timing differences	22	7	-	29
	<u>146</u>	<u>97</u>	<u>(8)</u>	<u>235</u>

Deferred tax has been calculated using tax rates that were substantively enacted at the balance sheet date (see Note 9).

17 Provisions

	Insurance Reserve £000
At 1 April 2021	156
Charged to the income statement	331
Released to the income statement	(75)
	<u>412</u>
At 31 March 2022	
Current	124
Non-current	<u>288</u>

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

Notes (continued)**18 Leases**

Right-of-use assets	Properties	
	£000	
At 1 April 2020	19	
Additions	66	
Depreciation	(19)	
	<hr/>	
At 31 March 2021	66	
Depreciation	(18)	
	<hr/>	
At 31 March 2022	48	
	<hr/>	
Lease liabilities	£000	£000
At 1 April 2021/2020	68	19
Additions	-	65
Interest on lease liabilities	2	2
Repayment of lease liabilities (including interest)	(24)	(18)
	<hr/>	<hr/>
At 31 March 2022/2021	46	68
	<hr/>	<hr/>
Current	22	23
Non-current	24	45
	<hr/>	<hr/>
	2022	2021
	£000	£000
Maturity analysis-contractual undiscounted cash flows		
Less than one year	23	25
One to five years	23	46
	<hr/>	<hr/>
Total	46	71
	<hr/>	<hr/>
	2022	2021
	£000	£000
Amounts recognised in the income statement		
Depreciation of right-of-use assets	(18)	(19)
Short-term lease expense	(15)	(32)
	<hr/>	<hr/>
Operating profit impact	(33)	(51)
Interest on lease liabilities	(2)	(2)
	<hr/>	<hr/>
Profit before tax impact	(35)	(53)
	<hr/>	<hr/>

Notes (continued)**19 Equity**

Share capital	2022 Number	2021 Number	2022 £000	2021 £000
A Ordinary shares of £1 each	382,499	382,500	383	383
B Ordinary shares of £0.01 each	237,527	237,527	2	2
C Ordinary shares of £1 each	1	1	-	-
	<u>620,027</u>	<u>620,028</u>	<u>385</u>	<u>385</u>

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

Share premium

Share premium represents the premium arising on the issue of equity shares.

Retained earnings

This comprises the retained earnings and losses of the Company, less amounts distributed to the Company's shareholder.

20 Contingent liabilities

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

	2022 £000	2021 £000
Bank overdrafts and loans	<u>179,827</u>	<u>174,489</u>
Performance bonds	<u>190</u>	<u>-</u>

Contractual disputes

The Company is, from time to time, party to contractual disputes that arise in the ordinary course of business. Management does not anticipate that the outcome of any of these disputes will have a material adverse effect on the Company's financial position, other than as already provided for in the financial statements. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred.

Employment claims

The Company is, from time to time, party to employment disputes, claims, and other potential liabilities which arise in the ordinary course of business. Management does not anticipate that any of the current matters will give rise to settlements, either individually or in aggregate, which will have a material adverse effect on the Company's financial position.

21 Related parties

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

22 Subsequent events

There were no material post balance sheet events that require adjustment or disclosure.

Notes (continued)

23 Ultimate parent company and parent company of larger group

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