Mitie Care and Custody Limited

Annual report and financial statements

Registered number 06976230

31 March 2023

Contents

Company information

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M R Peacock
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Strategic report

Mitie Care and Custody Limited (the "Company") is an indirect 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 services 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 have not been any significant changes in the Company's principal activities in the year under review.

As shown in the income statement on page 18, the Company's revenue was £167,562,000 (2022: £116,387,000) and the profit for the year was £6,371,000 (2022: £6,112,000). The increase in revenue and profit is partially driven by the continued strategy of the Company to engage with customers and recognise any Care & Custody (Health) Limited contracts that are extended within the Company. The increase in profit has however been more than offset by a short-term one-off cost increase relating to energy during the financial year.

Key performance indicators
The Group manages its operations on a divisional basis. For this reason, the 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 2023, 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 2023. 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 report (continued)

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.

During the financial year, there has been an increased net risk exposure owing to external challenges, such as ongoing threats posed by geopolitical affairs, escalating cost of living crisis and the changing UK political landscape. The reputational risk associated with the Company remains high due to the political focus of the activities delivered by the Company on behalf of the UK Government.

The Group, of which the Company is a part, derives most of its revenue from a client base in the United Kingdom, 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, including:

- 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 customer 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;
- Coupa, Mitie's digital supplier platform ("DSP"), 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.

Competitive advantage

The Company's performance could be impacted by a failure to maintain competitive advantage resulting in the loss of key clients, a heavy reliance on the immigration 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, including the commencement of the South West Police Procurement Service.

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 of geopolitical affairs, 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.

Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- 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/service level agreement formal reviews with customers;
- sales and customer relationship management ("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 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 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. During the financial year, the Company achieved certification to ISO 22301.

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.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- 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 Mitie operations, including key service providers;
- disaster recovery framework embedded and managed;
- 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;
- certified to ISO 22301:2019 and working towards certificate of conformance for ISO 31000:2018;
- regular Mitie Group Executive testing of crisis management and business continuity scenarios;
- continuous horizon scanning via the Intelligence Hub, with regular alerts to teams on potential threats and significant events;
- insurance cover in place to cover business interruption;
- colleagues can work from home without loss of any business-critical systems/applications;
- themes and root causes monitored from the results of audits to target specific actions; and
- DSP – supports the efficiency of Mitie supply chain processes (supplier onboarding/supplier health, Contract Lifecycle Management, Sourcing and Purchase to Pay).

Strategic report (continued)

Climate change and social impact
The Company's transition to a lower-carbon business could be hindered by an inability to quickly identify and effectively respond to the challenges posed by climate change, resulting in significant business interruption and/or compromise new opportunities for growth. Furthermore, a failure to appropriately consider the environmental and social impact of the Company's business and its activities may create a negative perception with employees, customers, investors, government and the general public. This could lead to failures in securing and/or retaining contracts and sources of funding, as well as impacting negatively on the Company's reputation.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- Plan Zero – continued implementation of three key pillars (eliminating carbon emissions from power and transport, eradicating non-sustainable waste and enhancing inefficient buildings to meet the highest environmental standards);
- ESG Committee;
- Environmental Management System ISO 14001 and Energy Management System ISO 50001;
- climate change risk assessment maintained and approved by the ESG Committee;
- key policies and associated operating procedures in place;
- use of in-house subject-matter experts specialising in an array of topics, including energy, waste, biodiversity, procurement and fleet;
- ISO 22301 – regular testing of crisis management and business continuity plans;
- winter and summer preparedness planning at account level;
- ongoing reviews of Planned Preventative Maintenance lifecycles;
- continuous horizon scanning via the Group's Intelligence Hub, with regular alerts to teams on potential threats and significant events;
- insurance cover in place to cover property damage and business interruption;
- targets in place for Mitie's social value framework pillars;
- Mitie Foundation – Giving Back, Mitie's employee volunteering programme; and
- active apprenticeship scheme across the Group, training Mitie colleagues to enhance operational delivery and address skills gaps.

Financial risks
Reliance on material counterparties
As all business is transacted with UK government, there is limited exposure to risks arising from the credit quality of the Company's customers.

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 financial year, there has been an increased net risk exposure owing to the same challenges facing the Company also impacting the supply chain, potentially impacting access to goods and services. 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.

Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:
- key policies and associated operating procedures, including Supply Management Framework;
- dedicated Procurement and Commercial teams;
- 'Mitie First' approach adopted;
- rigorous onboarding framework integrated into business utilising the DSP;
- defined SLAs and KPIs;
- ongoing spending review;
- dedicated risk management and assurance procedures (including targeted Quality, Health, Safety and Environment ("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 Risk team;
- DSP facilitating supplier health and risk checks (including insolvency risk) as well as invoice processing; and
- Procurement and Supply Chain Insights.

Change management
Fundamental to the Company's growth strategy is the ability to successfully undertake transformation projects and ensure all aspects of change management are correctly integrated. A failure to successfully manage the aggregated impact of simultaneously delivering transformation programmes could impact the delivery of planned business benefits.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:
- Executive sponsorship;
- deliverables agreed in advance by Board and Mitie Group Executive;
- centralised Project Management Office function;
- subject-matter experts appointed early on with agreed roles and responsibilities;
- standardised programme governance framework, including risk management;
- contract management controls embedded for third-party support; and
- regular auditing with periodic reporting on key business activities to the Audit Committee.

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

During the financial year, there has been increased net risk exposure owing to uncertainties concerning several known legislative changes. 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.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:
- 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 Mitie'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)

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 has continued to monitor the cost-of-living crisis and COVID-19, specifically the potential for a resurgence. Both issues have the potential to impact health both in the short and long term. The Company is keen to ensure interruptions are kept to a minimum and productivity in a safe environment is maximised. 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.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:
- a comprehensive QHSE strategy in place and under continual review for effectiveness;
- major cultural HS&E 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 eLearning training programme sets out HS&E expectations, including 'stop the job' supported by key safety message from the Group's Chief Executive, Phil Bentley;
- H&S management system certified to ISO 45001 and environmental system to ISO 14001;
- fully integrated incident recording, monitoring and reporting system;
- regular HS&E 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 risk assessment and technical compliance processes in place and regularly reviewed;
- UVC disinfection system and thermal imaging in place to mitigate against spread of Covid;
- 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 Mitie'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)

People risks

Employees

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

During the financial year, there has been an increased net risk exposure owing to external challenges, such as reduced labour market, which triggered shortages of materials, impacted markets, and intensified the cost-of-living crisis. The Company will continue to proactively monitor developments in relation to the labour market as well as any further implications resulting from the current external landscape.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- 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 business partners aligned with business units;
- induction programme, mandatory for new starters;
- regular communications from leadership team – including Mitie Group Executive 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 Winter Support package, free shares, life assurance, virtual GP and a salary advance scheme;
- careers website;
- Employee Value Proposition; and
- career band framework.

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's requirement for additional funding is managed as part of the Group's financing arrangements.

Strategic report (continued)

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. The Directors aim to understand the interests of each stakeholder through various methods, including information gathered and cascaded by both the divisional and senior leadership teams, and Group-wide engagement, both direct and indirect.

Stakeholder	Engagement activity	Important issues discussed
Customers	- Management of customer relationships by divisional leadership	- Customer satisfaction - Labour market constraints - Governance and transparency - Social value
Shareholder	- Regular senior leadership meetings	- Financial performance - Expanding the Company's suite of margin enhancement initiatives, incorporating the outsourcing of diverse functions - 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 Group non-executive director, Jennifer Duvalier	- Reward and recognition - Remuneration and benefits - Career opportunities and development
Suppliers	- Global supplier portal	- 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.

During the second half of the year, the Directors actively participated in expanding the Company's suite of margin enhancement initiatives. This phase of the program specifically targeted the business's Target Operating Model, encompassing the outsourcing of HR and Payroll, Finance, and IT functions. During the expansion of the suite of margin initiatives, the Directors diligently considered and managed various factors, including system testing, project resourcing and potential redundancies to ensure the continuing delivery of services.

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.

Throughout the year, the Directors actively interacted with employees, focusing on employee-related matters such as reward and recognition, as well as during the expansion of the Company's suite of margin enhancement initiatives. To ensure effective communication, multiple mechanisms were utilised, including an annual employee survey, regular pulse surveys, and the dedicated efforts of Jennifer Duvalier, as Group non-executive director assigned to oversee the workforce. These measures effectively contributed towards keeping the workforce updated.

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.

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 Company's directors is a member of the Group's Environment Social and Governance ("ESG") Committee. The committee provides oversight and governance for all of the Group's ESG 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 complies with the UK Corporate Governance Code can be found in the Mitie Group plc annual report and accounts 2023.

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)

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

Future developments
The Directors expect the general level of activity to increase in the forthcoming year. This is as a result of the Company being a key partner of the UK Government to deliver Immigration Services, which is a key focus area for the current Government.

Approved by the Board and signed on its behalf by:

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M R Peacock
Director
18 July 2023

Directors' report

The Directors present the annual report and audited financial statements of Mitie Care and Custody Limited for the year ended 31 March 2023.

In preparing this Directors' report, the Directors have complied with Section 414C(11) of the Companies Act 2006 by including certain disclosures required by Section 416(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:

P J G Dickinson
M R Peacock
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
There were no dividends during the year (2022: £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 Group 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 Group's Chief Executive Officer.

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.

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.

Directors' report (continued)

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:

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M R Peacock
Director
18 July 2023

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 2023 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 2023 which comprise the Income statement, 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 FRS 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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, FRS 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:
Steve Jordan
97E5A2122B35429

Steve Jordan (Senior Statutory Auditor)
for and on behalf of BDO LLP, Statutory Auditor
Bristol 18 July 2023

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

Income statement

	Note	2023 £000	2022 £000
Revenue	2	**167,562**	116,387
Cost of sales		**(152,841)**	(104,332)
Gross profit		**14,721**	12,055
Administrative expenses		**(8,324)**	(5,705)
Operating profit	3	**6,397**	6,350
Finance income	7	**1,689**	1,230
Finance costs	8	**(3)**	(21)
Net finance income		**1,686**	1,209
Profit before tax		**8,083**	7,559
Tax	9	**(1,712)**	(1,447)
Profit for the year		**6,371**	6,112

The notes on pages 21 to 41 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 presented.

Balance sheet

	Note	2023 £000	2022 £000
Non-current assets			
Property, plant and equipment	*10*	**34**	128
Other receivables	*12*	**394**	130
Contract assets	*13*	**428**	1,270
Deferred tax assets	*15*	**326**	428
Total non-current assets		**1,182**	1,956
Current assets			
Inventories	*11*	**91**	96
Trade and other receivables	*12*	**66,474**	54,089
Contract assets	*13*	**889**	997
Cash and cash equivalents		**601**	270
Total current assets		**68,055**	55,452
Current liabilities			
Trade and other payables	*14*	**(36,559)**	(29,405)
Deferred income		**(2,766)**	(2,820)
Current tax payable		**(1,577)**	(2,743)
Lease liabilities	*17*	**(14)**	(22)
Provisions	*16*	**(318)**	(124)
Total current liabilities		**(41,234)**	(35,114)
Net current assets		**26,821**	20,338
Non-current liabilities			
Deferred income		**(931)**	(2,349)
Lease liabilities	*17*	**(8)**	(24)
Provisions	*16*	**(477)**	(288)
Total non-current liabilities		**(1,416)**	(2,661)
Net assets		**26,587**	19,633
Equity			
Share capital	*18*	**385**	385
Share premium	*18*	**313**	313
Retained earnings	*18*	**25,889**	18,935
Total equity		**26,587**	19,633

The notes on pages 21 to 41 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 18 July 2023 and were signed on its behalf by:

DocuSigned by:
M. Ted
67580D9FE8A6479...

M R Peacock
Director

Statement of changes in equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 April 2021	385	313	12,010	12,708
Profit for the year	-	-	6,112	6,112
Total comprehensive income	-	-	6,112	6,112
Share-based payments	-	-	778	778
Tax	-	-	35	35
Total transactions with owners	-	-	813	813
At 31 March 2022	385	313	18,935	19,633
Profit for the year	**-**	**-**	**6,371**	**6,371**
Total comprehensive income	**-**	**-**	**6,371**	**6,371**
Share-based payments	**-**	**-**	**569**	**569**
Tax	**-**	**-**	**14**	**14**
Total transactions with owners	**-**	**-**	**583**	**583**
At 31 March 2023	**385**	**313**	**25,889**	**26,587**

The notes on pages 21 to 41 form an integral part of the financial statements.

Notes to the financial statements

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. The Company's financial statements are presented in pounds sterling, which is the Company's functional and presentational currency. All amounts have been rounded to the nearest thousand pounds, unless otherwise indicated.

b) Statement of compliance with FRS 101
These financial statements were prepared in accordance with FRS 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of 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.

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 the 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 2023 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 the 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 is 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 2023 were a £150.0m revolving credit facility, of which £8.4m was drawn as at 31 March 2023, and £150.0m of US private placement ("USPP") notes. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Of the USPP notes, £120.0m were issued in December 2022 under a delayed funding agreement to avoid any overlap with the £121.5m (being the repayment amount after taking account of the cross-currency swaps hedging the principal amount) of notes that matured in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and were issued with an average coupon of 2.94% that is significantly below the coupon of the maturing notes. The remaining £30.0m of USPP notes are due to mature in December 2024, which the Base Case Forecasts assume will not be replaced.

The Group currently operates within the terms of its agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, including the exclusion of lease liabilities) of £83.5m at 31 March 2023. The Base Case Forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's debt facilities currently in place is adequate to support the Group over the Going Concern Assessment Period.

The directors of Mitie Group plc have also completed a reverse stress test using the Group cash flow model to assess the point at which the financial covenants, or facility headroom, would be breached. The sensitivities considered have been chosen after considering the Group's principal risks and uncertainties.

The primary financial risks related to adverse changes in the economic environment and/or a deterioration in commercial or operational conditions are listed below. These risks have been considered in the context of any further UK budgetary changes, political uncertainty and the continued impact of the Russian invasion of Ukraine as well as an inflationary and potential recessionary economic environment:

- 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;
- an increase in costs—this reflects the risks of a shortfall in planned overhead cost savings, including the margin enhancement initiatives not being delivered, or other cost increases such as sustained higher cost inflation; and
- a downturn in cash generation—this reflects the risks of customers delaying payments due to liquidity constraints, the removal of ancillary debt facilities or any substantial one-off settlements related to commercial issues.

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

- all stress test scenarios would require a very severe deterioration compared to the Base Case Forecasts. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 38% in the year ending 31 March 2024, compared to the Base Case Forecasts, 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 even in a COVID-hit year, the Group's revenue excluding Interserve declined by only 1.6%; and
- in the event that the Group's results started to trend significantly below those included in the Base Case Forecasts, additional mitigation actions have been identified that would be implemented, which are not factored into the stress test scenarios. These include the short-term scaling down of capital expenditure, overhead efficiency/reduction measures including cancellation of discretionary bonuses and reduced discretionary spend, asset disposals and reductions in cash distributions and share buybacks.

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. In addition, the directors of Mitie Group plc have concluded that the likelihood of the reverse stress scenarios arising is remote and therefore no material uncertainty exists.

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 financial statements for the year ended 31 March 2023. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

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

- a cash flow statement and related notes;
- comparative period reconciliations for 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.

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

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

Accounting standards that are newly effective in the current year
The following amendments became effective during the year ended 31 March 2023.

Amendment to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
The Company adopted the amendment to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* on 1 April 2022. The amendment clarifies that costs to fulfil a contract comprises both incremental costs of fulfilling a contract (for example, direct labour and materials) and an allocation of other direct costs that relate to fulfilling contracts. Although this has resulted in a change in accounting policy for performing an onerous contracts assessment, the amendment has not had an impact on the financial statements.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use
In May 2020 the IASB published amendments to IAS 16 *Property, Plant and Equipment* which requires amounts received from selling items produced while the company is preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset as was previously the case. The Company has not recognised any such amounts within property, plant and equipment and thus the amendment has not had an impact on the financial statements.

Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework
The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. This amendment has not had an impact on the financial statements.

Measurement convention
The financial statements are prepared on the historical cost basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies

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

Revenue recognition

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 year 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. Judgement is applied to assess the impact that such clauses have in determining the relevant contract term. The term of the contract affects the period over which amortisation of contract assets and revenue from performance obligations is recognised. 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
Where the Company's contracts are amended for changes to customer requirements, such as change orders and variations, 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.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

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

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

Step 2 - Identify the performance obligations in the contract
Performance obligations are the contractual promises by the Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers, judgement is applied to consider whether those promised goods or services are:

- 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. Variability in revenue can arise from a number of factors, including discounts, rebates or 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.

Certain contracts incorporate indexation related adjustments to consideration, whereby pricing is adjusted based on an external metric (such as CPI or RPI). Variable consideration related to indexation adjustments are only recognised once these are confirmed.

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. It is necessary to estimate the stand-alone selling price when the Company does not sell equivalent goods or services in similar circumstances on a stand-alone basis. When estimating the stand-alone selling price, the Company maximises the use of external inputs by observing the stand-alone selling prices for similar goods and services using an industry recognised price list or cost indices in applying a cost-plus reasonable margin approach.

Notes to the financial statements (continued)

1 **Accounting policies, judgements and estimates** (continued)

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.

Other revenue
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.

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 year.

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 relevant standard.

Notes to the financial statements (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 year.

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. An impairment is recognised immediately where such losses are forecast.

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

Where revenue recognised at the year end date is more than amounts invoiced, the Company recognises accrued income for the difference. Where revenue recognised at the year 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 year in which they are incurred.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Taxation

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

Current tax is based on taxable profit or loss for the year. Taxable profit or loss differs from the accounting profit or loss 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. Current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the 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, 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:

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 and are mainly consumables in nature. 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.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

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 where access is constrained is classified as restricted cash. Bank transactions are recorded on their settlement date. All of the Company's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost.

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

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 credit loss experience, adjusted for forward-looking factors that incorporate macroeconomic conditions, for example changes in interest rates and inflation, and 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 the rate implicit in the lease or, where not available, 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.

Notes to the financial statements (continued)

1 **Accounting policies, judgements and estimates** (continued)

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.

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 finance cost.

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.

Retirement benefit costs
The Company operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as the related service is provided.

Share-based payments
The Company participates in a number of Group executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model or the share price at grant date, 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 and accounts.

Notes to the financial statements (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 1d, 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.

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 2023. 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.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (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 2023 of £795,000 (2022: £412,000). Further details are included in Note 16.

2 Revenue

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

3 Operating profit

Operating profit is stated after charging:

	2023	2022
	£000	£000
Depreciation of property, plant and equipment (Note 10 and Note 17)	**94**	307
Amortisation of contract assets (Note 13)	**950**	814

4 Auditor's remuneration

The auditor's remuneration was borne by Mitie Group plc (2022: Mitie Group plc) and no allocation or recharge (2022: £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 to the financial statements (continued)

5 Staff numbers and costs

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

	Number of employees	
	2023	2022
Operations	**2,330**	1,890
	2,330	1,890

510 employees worked for the Company but were employed by another Group company and the associated costs were allocated to the Company for cost recharging purposes (2022: 561). The aggregate payroll costs incurred by the Company were as follows.

	2023	2022[1]
	£000	£000
Wages and salaries	**73,681**	53,499
Share-based payments	**569**	778
Social security costs	**7,106**	5,012
Pension costs	**1,855**	3,147
	83,211	62,436

Note:
1. Certain balances for the year ended 31 March 2022 have been re-presented to be consistent with current year disclosures.

6 Directors' remuneration

	2023	2022
	£000	£000
Directors' emoluments	**294**	363
Amounts receivable under long term incentive schemes	**191**	298
Company contributions to money purchase pension plans	**18**	15

	Number of Directors	
	2023	2022
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	**1**	1

The following Directors were also directors or employees of another Group company. They were 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
D A Spencer	Mitie Limited	Mitie Care and Custody Limited

Notes to the financial statements (continued)

7 Finance income

	2023	2022
	£000	£000
Interest receivable from Group undertakings	**1,689**	1,230
	1,689	1,230

8 Finance costs

	2023	2022
	£000	£000
Interest on bank loans and overdrafts	**1**	19
Interest on lease liabilities (Note 17)	**2**	2
	3	21

Notes to the financial statements (continued)

9 Tax

	2023 £000	2022 £000
Analysis of charge in the year		
UK corporation tax at 19% (2022: 19%)		
Current tax on profit for the year	**1,605**	1,611
Adjustments in respect of prior periods	**18**	(6)
Total current tax charge	**1,623**	1,605
Deferred tax (see Note 15)		
Origination and reversal of temporary timing differences	**94**	(70)
Change in statutory tax rate	**19**	(96)
Adjustments in respect of prior periods	**(24)**	8
Total deferred tax charge/(credit)	**89**	(158)
Total charge for the year	**1,712**	1,447

Tax recognised directly in equity

Current tax	**(27)**	-
Deferred tax	**13**	(35)
	(14)	(35)

Tax reconciliation

Profit before tax	**8,083**	7,559
Tax using the UK corporation tax rate of 19% (2022: 19%)	**1,536**	1,436
Items not deductible for tax purposes	**1**	1
Adjustments in respect of employee share options	**162**	104
Change in statutory tax rate	**19**	(96)
Adjustments in respect of prior periods	**(6)**	2
Total tax charge	**1,712**	1,447

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

Notes to the financial statements (continued)

10 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2023 £000	2022 £000
Owned property, plant and equipment	**4**	80
Right-of-use assets (Note 17)	**30**	48
	34	128

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

	Plant and vehicles £000
Cost	
At 1 April 2022	1,926
At 31 March 2023	**1,926**
Accumulated depreciation and impairment	
At 1 April 2022	1,846
Charge for the year	76
At 31 March 2023	**1,922**
Net book value	
At 1 April 2022	80
At 31 March 2023	**4**

11 Inventories

	2023 £000	2022 £000
Raw materials and consumables	**91**	96
	91	96

Notes to the financial statements (continued)

12 Trade and other receivables

	2023 £000	2022 £000
Trade receivables	**15,660**	12,396
Amounts owed by Group undertakings	**46,807**	37,400
Prepayments	**369**	394
Accrued income	**2,511**	3,145
Other receivables	**1,521**	884
	66,868	54,219
Current	**66,474**	54,089
Non-current	**394**	130

Management considers that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are interest-free except as noted below.

Amounts owed by Group undertakings are repayable on demand. Included within these amounts are £46,000,000 (2022: £32,000,000) relating to interest-bearing loans at 5% per annum (2022: 5% per annum).

13 Contract assets

	Pre-contract costs £000
At 1 April 2021	2,084
Additions	997
Amortisation	(814)
At 31 March 2022	2,267
Amortisation	(950)
At 31 March 2023	**1,317**
Current	**889**
Non-current	**428**

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.

Notes to the financial statements (continued)

14 Trade and other payables

	2023 £000	2022 £000
Trade payables	**7,780**	4,382
Amounts owed to Group undertakings	**5,517**	5,498
Other taxes and social security	**8,386**	6,508
Accruals	**14,474**	12,771
Other payables	**402**	246
	36,559	29,405

Trade and other payables are interest-free.

Amounts owed to Group undertakings are repayable on demand.

15 Deferred tax assets

	Accelerated capital allowances £000	Share options £000	Short-term timing differences £000	Total £000
At 1 April 2021	106	100	29	235
Recognised in income statement	54	101	3	158
Recognised in other comprehensive income and equity	-	35	-	35
At 31 March 2022	160	236	32	428
Recognised in income statement	(8)	(107)	26	(89)
Recognised in other comprehensive income and equity	-	(13)	-	(13)
At 31 March 2023	**152**	**116**	**58**	**326**

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

16 Provisions

	Insurance reserve £000
At 1 April 2022	412
Additional provisions in the year	396
Released to the income statement	(13)
At 31 March 2023	**795**
Current	**318**
Non-current	**477**

The insurance reserve provides for fleet and liability claims, which typically settle over three to five years. This includes a provision for claims incurred but not yet reported and is based on information available at the balance sheet date.

Notes to the financial statements (continued)

17 Leases

Right-of-use assets	**Properties £000**
At 1 April 2021	66
Depreciation	(18)
At 31 March 2022	**48**
Depreciation	**(18)**
At 31 March 2023	**30**

Lease liabilities

	£000	£000
At 1 April 2022/2021	**46**	68
Interest on lease liabilities	**2**	2
Repayment of lease liabilities (including interest)	**(26)**	(24)
At 31 March 2023/2022	**22**	46
Current	**14**	22
Non-current	**8**	24

	2023 £000	2022 £000
Maturity analysis-contractual undiscounted cash flows		
Less than one year	**15**	23
Between one to five years	**8**	23
	23	46

	2023 £000	2022 £000
Amounts recognised in the income statement		
Depreciation	**(18)**	(18)
Short-term lease expense	**(15)**	(15)
Operating profit impact	**(33)**	(33)
Interest on lease liabilities	**(2)**	(2)
Profit before tax impact	**(35)**	(35)

Notes to the financial statements (continued)

18 Equity

Share capital	2023 Number	2022 Number	2023 £000	2022 £000
A Ordinary shares of £1 each	**382,500**	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	**-**	-
	620,028	620,028	**385**	385

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank pari passu in all respects.

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

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

19 Contingent liabilities

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

	2023 £000	2022 £000
Private placement notes and revolving credit facility	**158,351**	179,827
Performance bonds	**190**	190

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.

Notes to the financial statements (continued)

20 Related parties

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

21 Subsequent events

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

22 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie Limited which is the immediate parent company incorporated in 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.