

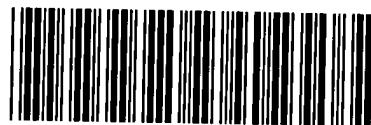
Mitie Care and Custody Limited

Annual report and financial statements

Registered number 06976230

31 March 2021

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Mitie Care and Custody Limited
Annual report and financial statements
31 March 2021

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Company information

Directors

P J G Dickinson
D A Spencer
S C Kirkpatrick

Secretary

Mitie Company Secretarial Services Limited

Registered office

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

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

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

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

Review of the business

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

Two new contracts have been awarded in FY22 following a rigorous competitive procedure and negotiation process. These were Dungavel Immigration Removal Centre (IRC) and Derwentside IRC. Dungavel IRC will start in Sept 2021 (9 year 9 month contract) and Derwentside IRC in Autumn 2021 (2 year contract)

All contracts for renewal since FY21 have been retained.

No contracts have been lost.

As shown in the Company's profit and loss account on page 13, the Company's turnover was £86,739,000 (2020: £85,226,000) and the profit after tax was £4,506,000 (2020: £3,865,000).

Key performance indicators

The Group manages its operations on a divisional basis. For this reason, the Company's Directors do not believe further key performance indicators are necessary for an appropriate understanding of the performance and position of the business. The performance of the Group's divisions is discussed in Mitie Group plc annual report and accounts 2021 which does not form part of this report.

Principal risks and uncertainties

The Company is part of the Mitie Group and manages its risks within the Mitie Group Risk Framework. Details of the principal risks and uncertainties are given in the Mitie Group plc annual report and accounts 2021. The Directors have reviewed the financial risk management objectives and policies of the Company in light of the Group Risk Framework. The Directors do not believe there to be any significant risks other than those detailed below.

Key risks include:

Strategic Risks

COVID-19

Whilst the COVID-19 pandemic has had an unprecedented impact on businesses and economic activity across the world, Mitie has been able to meet many of the challenges COVID-19 brought with it. That said, these challenges remain as major issues for all organisations including Mitie and will continue to cause uncertainty in revenues, supplies and employee availability. Failure to monitor, respond to and plan for the ongoing and any future impacts of the COVID-19 pandemic, in particular the effect on employees, customers and the supply chain, could result in severe consequences for the financial health and reputation of the Company's business.

The Company has gone through a continuing pattern of modelling and assessing the impact throughout the crisis, including the government imposed lockdown measures, establishing new ways of working through the different phases and then preparing longer term plans once the UK lockdown starts to ease and business activity returns to more normal levels. To manage the risk; crisis management and business continuity plans have been driven by a robust governance structure, agile working practices and support to our numerous front-line workers. Where necessary government support schemes have been utilised and working groups established at the Mitie Group level and with individual clients to monitor ongoing impacts, mitigating developing issues and to coordinate action planning. By being at the centre of the Government's Test and Trace approach to COVID-19 Mitie has been able to achieve good revenues, however in the medium term new business opportunities will be required to be identified as the need for testing for those affected by the pandemic reduce.

Strategic report *(continued)*

Strategic Risks *(continued)*

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

1. Crisis and Business Continuity Management frameworks invoked and implemented throughout Group and in collaboration with clients;
2. Continuing governance including a Group-led COVID-19 Working Group that has coordinated responses since February 2020;
3. Increased meeting frequency at Mitie Group Executive level (MGX) to monitor ongoing impacts and direct actions;
4. Close working relationship maintained with the UK Government through the Cabinet Office;
5. Coordinated support to critical infrastructure throughout the pandemic;
6. Ongoing dialogue with clients to understand their requirements;
7. Close monitoring of supply chain to ensure continuity of critical supplies;
8. Use of UK Government support schemes;
9. Regular forecasting and reviews of revenue and cash

Impact of the UK leaving the European Union ("Brexit")

The lack of clarity of the impact of Brexit on the UK may still adversely affect our ability to plan and invest, as well as the availability of labour and materials. Whilst the Company's client base is predominantly within the UK, the recent integration of Interserve FM has brought with it some non UK business, which may bring some trading issues. The still unresolved trading process for the Irish border may in turn cause some issues, as well as affect changes to the regulatory framework and lead to possible restrictions in the supply of materials. The rules around immigration and non-UK nationals working in the UK may adversely impact the supply of labour for our business and this is being rigorously monitored.

The continuing impact of the Brexit negotiations may also influence the decisions taken by both public and private sector clients as to which activities should be outsourced and the amount of discretionary spend available for outsourcing activities. This may result in fewer opportunities for the Company and have a consequential negative impact on our financial performance.

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

1. Executive level sponsor appointed to lead the organisational response;
2. Group-led Brexit Readiness Working Group established and led by the Group Head of Risk
3. Full review of EU-UK Trade and Cooperation Agreement undertaken, and robust control plan adopted;
4. Close working relationship maintained with UK Government to ensure continuity of service;
5. Ongoing review of Settlement Status and implications of non-tariff measures.

In conjunction with the above, it is important that we are able to offer competitive, innovative and high-quality solutions to clients, and demonstrate the value we bring to them. We also need to ensure we carefully monitor and identify the most appropriate opportunities in both the public and private sectors.

Financial Risks

Reliance on material counterparties

The Company depends on significant counterparties, including clients, suppliers, banks and insurers, to maintain its business. The failure of a key business partner could affect the business. This risk is mitigated by limiting the dependency on any one partner.

Strategic report (continued)

Operational Risks

Significant health, safety or environmental incidents

The potential to cause harm to employees, clients, or to damage the environment, exists and is mitigated by an extensive Quality, Health, Safety and Environmental programme that is closely monitored.

System, process or control failure

Increased reliance on business systems dictates a robust governance framework and set of processes. Failure of the framework could impact on operational performance. The Group's core policies provide the basis of the governance framework. These are subject to reviews which underpin the mitigation activity for this risk. These reviews are carried out alongside regular, formal, documented testing of business-critical systems.

Attracting and retaining skilled people

Failure to attract new talent and develop existing employees could impact growth. The Company utilises The Group's career development, recruitment and talent management programmes to ensure that it attracts and retains key people.

Financial risk management

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

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

Section 172 statement

Mitie Care and Custody Limited is part of the Mitie Group of companies. Mitie Group plc's ("Mitie(s)") board of directors are referred to in this statement as the "Board".

The following disclosure describes how the directors of the Company (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, these align with that of the wider Group. Through various methods including information gathered and cascaded by both the divisional and senior leadership teams, and groupwide engagement, both direct and indirect, the Directors aim to understand the factors and respective interests of each.

Stakeholder	Engagement activity	Areas of interest identified
Customers	<ul style="list-style-type: none"> - Management of customer relationships by divisional leadership - NPS programme 	<ul style="list-style-type: none"> - COVID-19 response - Customer satisfaction - Governance and transparency - Social value
Shareholder	<ul style="list-style-type: none"> - Regular senior leadership meetings 	<ul style="list-style-type: none"> - Financial performance - COVID-19 response - Rights Issue - Acquisition of Interserve
Communities and the environment	<ul style="list-style-type: none"> - The Mitie Foundation - Local community events - Employee volunteering 	<ul style="list-style-type: none"> - COVID-19 response - Social Value - Reduction in carbon emissions
Employees ¹	<ul style="list-style-type: none"> - Upload engagement survey - All employee Teams meetings - Weekly Recap & Monthly Download - Pulse surveys - Designated NED, Jennifer Duvalier 	<ul style="list-style-type: none"> - COVID-19 response - Acquisition of Interserve - Reward and recognition - Remuneration and Benefits - Career opportunities and development
Suppliers	<ul style="list-style-type: none"> - Supplier workshops - Global supplier portal 	<ul style="list-style-type: none"> - COVID-19 response - Acquisition of Interserve - Responsible procurement - Prompt payment code

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

Strategic report *(continued)*

Section 172 statement *(continued)*

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.

Example: With full support from Group approval from Mitie Group plc's shareholder was sought and obtained in November 2020 for the acquisition of Interserve Facilities Management ("Interserve"). Completion of the acquisition took place on 30 November 2020.

The Directors, through Mitie's governance framework, were a part of this decision-making process by considering matters such as the enhancement of competitive positioning, diversification, resilience, and significant growth opportunities the acquisition could bring. The Directors attended numerous Board and management meetings and were involved in the preparation and review of detailed due diligence, financial modelling, board papers and external advice related to the acquisition.

Having regard to the interests of employees

Mitie has a number of mechanisms to engage with employees and the Directors are committed to ensuring that the results are considered in decision making. Two examples of how Directors engage with employees are; Mitie's annual Upload survey, the annual benchmark of employee engagement measurement, and the work carried out by Jennifer Duvalier, a member of Mitie's Board, as designated non-executive director for the workforce. Jennifer provides the Board with an update on her activities undertaken in respect of this role at every Mitie Board meeting which is then cascaded to senior managers and Directors in the Group.

Example: In response to the COVID-19 pandemic, the Directors' were involved in several decisions designed to help and support Mitie's workforce through an extremely unsettling and uncertain time. This included the introduction of a dedicated COVID-19 email, regular pulse surveys, a new company-wide Agile Working Policy, a new external colleague platform to ensure colleagues on the frontline could easily access news and information about Mitie, optimised Microsoft Teams to enable virtual collaboration across Mitie and the launch of the 'One Mitie' Occupational Health and Wellbeing Strategy and digital wellbeing platform.

Fostering business relationships with suppliers, customers and others

Suppliers

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

Example: Mitie continues to leverage and improve its SMF to develop its partnership with key suppliers. The framework provides a mechanism for scoring a supplier's performance and jointly reviewing it to create action plans which unlock new value for both parties. As the SMF develops, a greater percentage of Mitie's spend is being brought into scope. As part of the ethical and sustainable supply metric, all SMF-managed suppliers will be scored and have their performance reviewed on meeting Mitie's social value policy, their carbon reduction plans, actions to reduce environmental impact, Modern Slavery Act compliance and innovations to support Mitie's Plan Zero and social value initiatives.

Example: Mitie supply chain was not immune to the impacts of Brexit and COVID-19, however, by adopting a flexible and responsive attitude the procurement teams managed the inherent risks so that the impact was low. COVID-19 had a major impact early on with PPE suppliers under pressure from Central Government and other customers, Mitie's response, wholly supported by the Directors', was to set up a completely new supply chain, storage and distribution solution. This benefited the whole Mitie business and customer base and continues to play a strategic part in the COVID-19 response.

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. To support this Mitie implemented the Net Promotor Score ("NPS") which is carried out annually and uses direct customer feedback to inform a company's activity.

The NPS score for the Company has increased year on year demonstrating the focus on customer service is having the right impact.

Example: The interests of customers were considered when discussing the acquisition of Interserve, including the benefits of Mitie's technology to Interserve customers, the consolidation of supplier bases, the combination of expertise from both businesses and impact of the integration process. The Directors' were heavily involved in the communication plan prepared for customers to build relationships and keep customers informed throughout the transaction.

Strategic report *(continued)*

Section 172 statement *(continued)*

Impact of operations of the community and the environment

The Directors are supportive of Mitie's initiatives to improve the operations of the company on the community and the environment. One of the Company's Directors is a member of Mitie's Social Value and Responsible Business Committee.

Example: The Directors were involved in discussions around the impact of the Interserve acquisition on Mitie's Plan Zero, specifically on Mitie targets and on the wider social value agenda and the expansion of the work of the Mitie Foundation agenda to include Interserve FM geographical areas

The Social Value and Responsible Business Committee analysed the effect of the acquisition on Mitie's Social Value targets and new targets, still ambitious, yet practical, have been agreed as a consequence

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 Board. This framework is applied throughout the Mitie Group and is adhered to by the directors of all of Mitie's subsidiaries. This ensures consistency in decision making which is crucial for achieving long term success and creating sustainable value.

Details of how Mitie complies with the UK Corporate Governance Code can be found in the annual report and accounts 2021.

The need to act fairly as between members of the company.

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

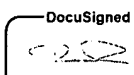
Future developments

The Directors expect the general level of activity to increase in the forthcoming year. The Company successfully secured three new contracts that commenced in the second half of FY21 and therefore these will be recognised for a full 12 months in FY22. There is a robust pipeline of bidding activity throughout the coming year. We have been named preferred bidder for 2 of these bids. The government is committed to an outsourcing agenda, providing certainty to the existing pipeline. We expect a new range of opportunities in our core criminal justice markets to be created through expiration of our competitors' existing contracts and further central government initiatives.

Post balance sheet events

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

Approved by the Board and signed on its behalf by:

DocuSigned by:

6D9A5EE411B84E5...
D A Spencer
Director

8 July 2021

Directors' report

The Directors present the Annual report and audited financial statements of Mitie Care and Custody Limited for the year ended 31 March 2021.

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

Going concern

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

Directors

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

Director	Date of appointment	Date of resignation
P J G Dickinson		
D A Spencer		
S C Kirkpatrick	22/09/2020	
C Dobell		18/09/2020

Directors' indemnity

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

Dividends

No dividend was declared or paid in the year (2020: £nil).

COVID-19 and current trading

In line with the Group approach, the Company established three overriding priorities to guide its response to the COVID-19 crisis: protecting the health and safety of colleagues, customers, other business partners and the communities that it serves; ensuring that its business is able to continue to operate with minimal disruption; and to deliver the essential services it provides to its customers.

The common theme across the business is that Mitie Care and Custody Limited has been kept whole by our customers, all colleagues have remained in employment and performance measures have been relaxed by commissioners where self-isolation has impacted staffing levels. Variable income from contracts has reduced slightly but profitability has only been marginally affected as contracts are on a 'fee-for-service' basis. All contracts have continued to perform well.

Employees

The Company recognises the importance of good communications and employee relationships. The Group communicates with employees via multiple channels, including Group-wide mailings, employee magazines and updates, employee-focused initiatives and events (including Group business road shows, media networks and the provision of access to broadcasts of periodic financial presentations).

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

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

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

Directors' report *(continued)*

Environment

The Group endeavours to identify, monitor and manage the impact of their activities on the environment and is fully committed to environmental accountability and protection. The Company operates in accordance with Group policies which are described in the Group's annual report which does not form part of this 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.

Political contributions

The Company made no political donations nor incurred any political expenditure during the year (2020: £nil).

Disclosure of information to auditor

Each Director who is the Director of the Company at the date of approval of these financial statements confirms that:

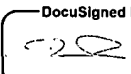
- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is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

On behalf of the Board

DocuSigned by:

6D9A5EE411B84E5...
D A Spencer
Director

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

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law 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 are also responsible for prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITIE CARE & 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 2021 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 & Custody Limited ("the Company") for the year ended 31 March 2021 which comprise the Profit and loss account, the Balance sheet and the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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

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

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

Other information

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITIE CARE & CUSTODY LIMITED (CONTINUED)

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.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We gained an understanding of the legal and regulatory framework applicable to the entity and the industry in which it operates, through discussion with management and our knowledge of the industry. We focussed on significant laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice), Health and Safety, the Bribery Act 2010 and tax legislations.
- We considered compliance with these laws and regulations through discussions with management and in-house legal counsel. Our procedures also included reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MITIE CARE & CUSTODY LIMITED (CONTINUED)

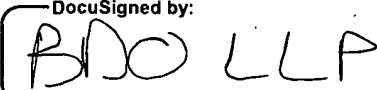
- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. In addressing the risk of fraud including management override of controls and improper revenue recognition, we tested the appropriateness of journal entries made throughout 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.

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:

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Oliver Chinneck (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

London, UK

Date: 8th July 2021

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

Mitie Care and Custody Limited
Annual report and financial statements
 31 March 2021

Profit and loss account

	<i>Note</i>	2021 £000	2020 £000
Turnover	2	86,739	85,226
Cost of sales		(76,333)	(74,726)
Gross profit		10,406	10,500
Administrative expenses		(5,680)	(5,899)
Operating profit	3	4,726	4,601
Interest receivable and similar income	6	827	173
Interest payable and similar expenses	7	(9)	-
Profit before tax		5,544	4,774
Tax	8	(1,038)	(909)
Profit for the year		4,506	3,865

The notes on pages 16 to 32 form an integral part of the financial statements.

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

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

Mitie Care and Custody Limited
Annual report and financial statements
31 March 2021

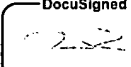
Balance sheet

	Note	2021 £000	2020 £000
Non-current assets			
Tangible fixed assets ²	9	435	665
Contract assets	12	1,408	2,051
Deferred tax asset	14	235	146
Total non-current assets		2,078	2,862
Current assets			
Inventories	10	58	56
Debtors	11	33,623	8,885
Contract assets	12	676	665
Cash at bank and in hand		6,818	20,097
Total current assets		41,175	29,703
Current liabilities			
Creditors	13	(23,021)	(16,177)
Current Tax Payable ¹		(2,073)	(1,319)
Deferred income		(1,887)	(1,907)
Lease liabilities	17	(23)	(5)
Provisions	15	(57)	(33)
Total current liabilities		(27,061)	(19,441)
Net current assets		14,114	10,262
Non-current liabilities			
Deferred income		(3,340)	(5,170)
Lease liabilities	17	(45)	(14)
Provisions	15	(99)	(44)
Total non-current liabilities		(3,484)	(5,228)
Net assets		12,708	7,896
Capital and reserves			
Share capital	16	385	385
Share premium account	16	313	313
Profit and loss reserve	16	12,010	7,198
Shareholders' funds		12,708	7,896

- The creditors balance as at 31 March 2020 has been re-presented to exclude current tax payable which is now presented on a separate line within current liabilities.
- Tangible fixed assets at 31 March 2020 includes £66,000 of additional right-of-use assets recognised under IFRS 16. See Note 17.

The notes on pages 16 to 32 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 8th July 2021 and were signed on its behalf by:

DocuSigned by:

 6D9A5EE411B84E5...
D A Spencer
 Director

Statement of changes in equity

	Share capital £000	Share premium account £000	Profit and loss reserve £000	Total equity £000
Balance at 1 April 2019	385	313	3,223	3,921
Profit for the year	-	-	3,865	3,865
Total comprehensive income	-	-	3,865	3,865
Transactions with owners				
Share-based payments	-	-	102	102
Deferred tax	-	-	8	8
Total transactions with owners	-	-	110	110
At 31 March 2020	385	313	7,198	7,896
At 1 April 2020	385	313	7,198	7,896
Profit for the year	-	-	4,506	4,506
Deferred tax	-	-	(8)	(8)
Total comprehensive income	-	-	4,498	4,498
Transactions with owners				
Share-based payments	-	-	314	314
At 31 March 2021	385	313	12,010	12,708

The notes on pages 16 to 32 form an integral part of the financial statements.

Notes

1 Accounting policies, judgements and estimates

a) General information

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

b) Statement of compliance with FRS 101

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the Group's centralised treasury arrangements and shares banking arrangements with Mitie Group plc, its ultimate parent, and with fellow subsidiaries. The Directors have received a letter of support from the directors of Mitie Group plc to confirm provision of adequate financial resources to the Company for a period of not less than twelve months from the date of approval of the Company's statutory financial statements for the period ended 31 March 2021 to ensure that the Company can meet its liabilities as they fall due.

The directors of Mitie Group plc have carried out an assessment on the ability of Mitie Group plc and its subsidiaries (the "Group") to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts using the Group's cash flow model, based on the Board approved budget. This includes the ongoing impact of COVID-19 on each of the Group's operations. 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 are a £250m revolving credit facility, which expires on 16 December 2022 and of which £241.4m was undrawn at 31 March 2021, and £151.5m of US private placement notes (being the repayment amount after taking account of the cross-currency swaps hedging the principal amount), of which £121.5m is repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis. The Group currently operates within the terms of its agreements with its lenders, with net cash as at 31 March 2021 on a pre IFRS 16 basis of £19.7m and liquidity headroom in excess of £400m. The base case forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's strong cash position and the 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 reverse stress tests using the Group cash flow model to assess the point at which the covenants, or facility headroom, would be breached. The sensitivities considered have been chosen after considering both the Group's principal risks and uncertainties and the Viability Statement.

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

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

Notes *(continued)*

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

Going concern *(continued)*

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

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

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

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the Company's audited financial statements for the year ended 31 March 2021. Accordingly, the financial statements have been prepared on a going concern basis.

FRS 101 exemptions

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

- a cash flow statement and related notes;
- comparative period reconciliations for tangible assets and share capital;
- the statement of compliance with Adopted IFRS;
- 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 IFRSs;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosure 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 Payments 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 Instrument Disclosures.

Accounting standards that are newly effective in the current year

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

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (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 policy

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

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

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

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

Duration of contract

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

Contract modifications

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

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

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

Step 2 - Identify the performance obligations in the contract

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

- i. distinct and accounted for as separate performance obligations;
- ii. combined with other promised goods or services until a bundle is identified that is distinct; or
- iii. 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.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Step 3 - Determine the transaction price

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

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

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

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

For each performance obligation, the Company 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.

Interest and similar income

Interest 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 period.

Contract fulfilment costs

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

- i. the costs directly relate to the contract (e.g. direct labour, materials, sub-contractors);
- ii. the Company is building an asset that belongs to the customer that will subsequently be used to deliver contract outcomes; and
- iii. 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 tangible fixed assets are not capitalised as contract fulfilment assets but are treated in accordance with other standard.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (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 profit or loss in the period. A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

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, the management uses the same principles as it does to determine the contract transaction price which includes estimates around variable consideration. An impairment is recognised immediately where such losses are forecast.

Accrued income and deferred income

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

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

Certain arrangements with customers include a contractual obligation to make redundancies for which the Company is reimbursed for the costs incurred. Revenue is not recognised on these transactions. Instead, the Company expenses all redundancy costs in the period they are incurred and any reimbursement credit is matched against the associated cost included in the income statement up to the value of the redundancy cost incurred. Any cash payments received from the customer in excess of the reimbursement cost of redundancy are deferred over the contract term and unwound in line with the other services being delivered.

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.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

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

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

Tangible fixed assets

Tangible fixed assets 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:

Freehold buildings and long leasehold properties	50 years
Leasehold improvements	period of the lease
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.

Leases

The Company has various lease arrangements for properties (e.g. office buildings and storage facilities), vehicles, and other equipment including IT equipment and machinery. 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 rate method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount which are disclosed within the financing activities and the operating activities sections of the consolidated statement of cash flows respectively. 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.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

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

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

Inventories

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

Financial instruments – classification and measurement

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

Financial assets comprise cash at bank and in hand, and trade and other debtors. 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 at bank and in hand 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. 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 creditors. These are measured at initial recognition at fair value and subsequently at amortised cost.

Financial instruments – 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 a lifetime credit loss approach. Under this approach, the Company recognises a loss allowance based on lifetime ECLs at each reporting date. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type.

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 they fall due.

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 profit and loss account net of any reimbursement.

Notes *(continued)*

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

d) Significant accounting policies *(continued)*

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

Share-based payments

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

Save As You Earn ("SAYE") options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

f) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the 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.

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

Recoverability of trade debtors and accrued income

The Company has material amounts of billed and unbilled work outstanding at 31 March 2021. Debtors 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 an assessment of current disputes with customers over commercial positions, and where information suggests customers are facing significant financial difficulties.

Recoverability of amounts owed by Group undertakings

The Company has material amounts owed by Group undertakings outstanding at year end. The judgement as to whether an amount has become irrecoverable is an assessment made by the Directors in the determination of the expected total credit loss recognised under IFRS 9. This assessment takes into consideration Group solvency and access to Group funding by the debtor. The Directors consider the full amount owed to be recoverable under IFRS 9.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Key sources of estimation uncertainty

Measurement of Gap to collar revenue deferral

Commercial negotiations are ongoing with respect to an escorting services contract, where revenue deferral of £5.9m (2020: £3.2m) has been made for the maximum exposure relating to revenue reimbursement. The deferral has been calculated in accordance with the terms of the underlying contract, however the actual amount reimbursed may differ due to ongoing negotiations. The revenue deferral has been recorded within Trade Creditors (note 13).

2 Turnover

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

3 Auditor's remuneration

The auditor's remuneration was borne by Mitie Group plc, no recharge (2020: £nil) was made to the Company

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

4 Staff numbers and costs

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

	Number of employees	
	2021	2020
Operations	645	719
	<u>645</u>	<u>719</u>

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

	2021 £000	2020 £000
Wages and salaries	46,937	45,240
Share based payments	314	102
Social security costs	4,329	4,334
Termination and redundancy payments	186	75
Pension costs	1,734	1,633
	<u>53,500</u>	<u>51,384</u>

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Notes (continued)

5 Directors' remuneration

	2021 £000	2020 £000
Directors' emoluments	460	766
Amounts receivable under long term incentive schemes	16	20
	<u> </u>	<u> </u>
In respect of the highest paid Director:		
	2021 £000	2020 £000
Emoluments and amounts receivable under long term incentive schemes	212	410
Money purchase pension contributions	18	20
	<u> </u>	<u> </u>
	Number of Directors	
	2021	2020
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	2	2
	<u> </u>	<u> </u>

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

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Limited	Mitie Limited
S C Kirkpatrick	Mitie Limited	Mitie Limited

6 Interest receivable and similar income

	2021 £000	2020 £000
Interest receivable and similar income from Group undertakings	827	173
	<u> </u>	<u> </u>
Total	827	173
	<u> </u>	<u> </u>

7 Interest payable and similar expenses

	2021 £000	2020 £000
Interest payable and similar on bank loans and overdrafts	7	-
Interest on lease liabilities	2	-
	<u> </u>	<u> </u>
Total	9	-
	<u> </u>	<u> </u>

Notes (continued)

8 Tax

	2021 £000	2020 £000
<i>Analysis of charge in the year</i>		
<i>UK corporation tax at 19% (2020: 19%)</i>		
Current tax on profit for the period	1,138	938
Adjustments in respect of prior periods	(3)	5
Total current tax	1,135	943
<i>Deferred tax (see note 14)</i>		
Origination and reversal of temporary timing differences	(102)	(4)
Restatement of opening deferred tax balances	-	(14)
Adjustments in respect of prior periods	5	(16)
Total deferred tax	(97)	(34)
Total charge for the year	1,038	909
	2021 £000	2020 £000
<i>Tax recognised directly in reserves</i>		
Deferred tax	8	8
Total tax recognised directly in reserves	8	8
	2021 £000	2020 £000
<i>Reconciliation of effective tax rate</i>		
Profit before tax	5,544	4,774
Tax using the UK corporation tax rate of 19% (2020: 19%)	1,053	907
Restatement of opening deferred tax balances	-	(14)
Items not deductible for tax purposes	5	2
Adjustments in respect of employee share options	(22)	25
Adjustments in respect of prior periods	2	(11)
Total tax charge	1,038	909

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £nil (2020: £ 14,000) has been included in the tax charge. Deferred tax assets (note 14) reflect this change.

The main rate of UK corporation tax will remain at 19% until 1 April 2023 when it will increase to 25%. The increased rate has not been used to calculate the deferred tax assets as it was not substantively enacted at the balance sheet date. When substantively enacted, the increased rate of UK corporation tax is not expected to have a material impact on the company's deferred tax assets.

Notes (continued)

9 Tangible fixed assets

Tangible fixed assets comprise owned and leased assets.

	2021
	£000
Owned tangible fixed assets	369
Right-of-use assets (see note 17)	66
At 31 March 2021	435

	Plant & vehicles
	£000
Cost	
At 1 April 2020	1,904
Additions	22
At 31 March 2021	1,926
Accumulated depreciation and impairment	
At 1 April 2020	1,258
Depreciation charge for the year	299
At 31 March 2021	1,557
Net book value	
At 1 April 2020	646
At 31 March 2021	369

10 Inventories

	2021	2020
	£000	£000
Raw materials and consumables	58	56
	58	56

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Notes (continued)

11 Debtors

	2021	2020
	£000	£000
Trade debtors	7,265	7,206
Amounts owed by Group undertakings	23,557	31
Prepayments	193	220
Accrued income	2,251	1,048
Other debtors	357	380
	33,623	8,885

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

Included within amounts owed by Group undertakings above, is £23,000,000 (2020: £nil) relating to a loan bearing interest at 5% per annum (2020: 5% per annum).

Amounts owed by Group undertakings are repayable on demand.

12 Contract assets

	Pre-contract costs
	£000
At 1 April 2019	2,890
Additions	360
Amortisation	(534)
At 31 March 2020	2,716
Additions	69
Amortisation	(701)
At 31 March 2021	2,084
Included in current assets	676
Included in non-current assets	1,408
Total	2,084

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2021 (2020: £nil)

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Notes (continued)

13 Creditors

	2021 £000	2020 £000
Trade creditors	6,532	3,195
Amounts owed to Group undertakings	2,032	1,756
Other taxes and social security	4,728	5,040
Accruals	9,542	6,011
Other creditors	187	175
	<u>23,021</u>	<u>16,177</u>

Included within Trade Creditors is £5.9m (2020: £3.2m) deferred revenue for the escorting services gap to collar contract.

Included within amounts owed to Group undertakings above, is £nil (2020: £nil) relating to a loan bearing interest at 5% per annum (2020: 5% per annum).

Amounts due to Group undertakings are repayable on demand.

14 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2021 £000	2020 £000
Tangible fixed assets	106	98
Share-based payments	100	26
Provisions	29	22
	<u>235</u>	<u>146</u>

Movement in deferred tax during the year

	1 April 2020 £000	Recognised in income £000	Recognised in equity £000	31 March 2021 £000
Tangible fixed assets	98	8	-	106
Share-based payments	26	82	(8)	100
Provisions	22	7	-	29
	<u>146</u>	<u>97</u>	<u>(8)</u>	<u>235</u>

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Notes (continued)

14 Deferred tax assets (continued)

Movement in deferred tax during the prior year

	1 April 2019 £000	Recognised in income £000	Recognised in equity £000	31 March 2020 £000
Tangible fixed assets	77	21	-	98
Share-based payments	21	(3)	8	26
Provisions	7	16	-	22
	<u>104</u>	<u>34</u>	<u>8</u>	<u>146</u>

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £nil (2020: £14,000) has been included in the tax charge. The deferred tax assets disclosed above reflect this change.

15 Provisions

	Insurance reserve £000
Balance at 1 April 2020	77
Amounts recognised in the profit or loss account	79
Balance at 31 March 2021	<u>156</u>
Included in current liabilities	57
Included in non-current liabilities	99
Total	<u>156</u>

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

16 Capital and reserves

Share capital authorised and fully paid	2021 Number	2020 Number	2021 £000	2020 £000
Ordinary shares				
A Ordinary shares at £1 each	382,500	382,500	383	383
B Ordinary shares at £0.01 each	237,527	237,527	2	2
C Ordinary shares at £1 each	1	1	-	-
	<u>620,028</u>	<u>620,028</u>	<u>385</u>	<u>385</u>

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

Share premium account

The share premium account represents the premium arising on the issue of equity shares

Profit and loss reserve

The profit and loss reserve comprises the retained earnings and losses of the Company, less amounts distributed to the Company's shareholder.

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Notes (continued)

17 Leases

	Properties £000	Total £000
Right-of-use assets		
At 1 April 2019	24	24
Depreciation	(5)	(5)
	<hr/>	<hr/>
At 31 March 2020	19	19
Additions	66	66
Depreciation	(19)	(19)
	<hr/>	<hr/>
At 31 March 2021	66	66
	<hr/> <hr/>	<hr/> <hr/>
	2021	2020
	£000	£000
Lease liabilities		
At 1 April	19	24
Additions	65	-
Interest expense related to lease liabilities	2	-
Repayment of lease liabilities (including interest)	(18)	(5)
	<hr/>	<hr/>
At 31 March	68	19
	<hr/> <hr/>	<hr/> <hr/>
Current	23	5
Non-current	45	14
	<hr/>	<hr/>
At 31 March	68	19
	<hr/> <hr/>	<hr/> <hr/>
		2021
		£000
Maturity analysis-contractual undiscounted cash flows		
Less than one year		25
One to five years		46
More than five years		-
		<hr/>
Total undiscounted lease liabilities at 31 March		71
		<hr/> <hr/>
		2021
		£000
Amounts recognised in the profit and loss account		
Depreciation of right-of-use assets		(19)
Impairment		-
Short-term lease expense		(32)
		<hr/>
Operating profit impact		(51)
Interest on lease liabilities		(2)
		<hr/>
Profit before tax impact		(53)
		<hr/> <hr/>

Notes (continued)

18 Contingent liabilities

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

	2021 £000	2020 £000
Bank overdraft and loans	<u>174,489</u>	<u>227,600</u>

19 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.

20 Subsequent events

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

21 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 England and Wales. The ultimate controlling party is Mitie Group plc, a company incorporated in Scotland 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, SE1 9SG or from www.mitie.com.