RNS Number : 6746G
Mears Group PLC
31 March 2022

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MEARS GROUP PLC

("Mears" or the "Group" or the "Company")

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Operating excellence delivers strong financial performance with positive trading outlook

Mears Group PLC, the leading provider of services to the Housing sector in the UK, announces its preliminary financial results for the year ended 31 December 2021 ("FY 2021").

Financial highlights

- Strong revenue recovery with Group revenues up 9.0% year-on-year to £878.4m (FY 2020: £805.8m)
- Adjusted profit before tax[1] at the top end of market expectations at £25.6m (FY 2020: £3.4m loss)
    - Operating margins continue to strengthen in H2 to 3.7%[2] (H1: 3.1%)
- Excellent cash performance with average daily adjusted net cash of £0.4m (FY 2020: £97.3m adjusted net debt)[3]
    - 2-year cash conversion at 117% of EBITDA including continued unwind of Development[4]
    - Adjusted net cash[3] at 31 December 2021 of £54.6m (2020: £56.9m)
- Board is recommending a final dividend of 5.50p, bringing the full year dividend FY 2021to 8.00p (2020: nil) reflecting continued strong cash performance and positive outlook

Operating highlights

- Excellent customer satisfaction, contract KPIs and employee engagement despite Covid-19 challenges
- Continued investment in Mears' in-house IT operating platform which remains a key differentiator
- Successful financial and operational management of inflationary, supply chain and labour market pressures
- Net Zero targets set (Scope 1 and 2 by 2030) to complement our market-leading Social and Governance framework

Strategic highlights

- Positive momentum in pipeline conversion underpins organic growth strategy
    - Awarded the Residential Living Accommodation Project ("RLAP") contract providing a wide range of housing services to the Defence Infrastructure Organisation ("DIO" or "MOD")
    - Ministry of Justice ("MOJ") transitional housing contract award successfully mobilised and extended
    - Order book now stands at £2.4bn[5] (2020: £2.6bn), reflecting the good progress on contract retentions and extensions
- Strong cash generation facilitates modest increases in growth investment, particularly
    - Technology and digital solutions that drive operational efficiency and develop the Group's business lines
    - Small bolt-on acquisitions which enhance the Group's capabilities (eg. decarbonisation)

Financial summary

Continuing operations	**FY 2021**	FY 2020
Revenue (£m)	**878.4**	805.8
Statutory profit / (loss) before tax (£m)	**16.3**	(15.2)
Adjusted profit / (loss) before tax[1] (£m)	**25.6**	(3.4)
Statutory diluted EPS (p)	**11.50**	(10.66p)
Adjusted diluted EPS[5] (p)	**18.23**	(2.29p)
Dividend per share (p)	**8.00**	-
Average daily adjusted net cash / (debt)[3] (£m)	**0.4**	(97.3)

Current trading and outlook

- Mears has made a positive start to 2022 with current trading in-line with the Board's expectations
- Excellent revenue and profit visibility for current financial year from
    - a strong start in management-led contracts, including continuing elevated activity levels on Asylum Accommodation and Support Contract ("AASC"), and extensions to the MOD and MOJ contracts
    - maintenance-led activities returning to normal levels, augmented by progress in securing decarbonisation works
- Cash and working capital management has remained strong, reporting a daily adjusted net cash[3] balance for every day of the first quarter
- Mears is generally well-positioned in respect of sector-wide inflationary pressures, with the majority of contracts enjoying annual indexation. However, given recent price volatility, particularly in energy prices, the Group is managing its cost base continuously, in line with contractual mechanisms

David Miles, Chief Executive Officer of the Group, commented:

"These results are testament to the strength of the Group's high-quality operations, trusted customer relationships and collaborative approach. The positive trading performance across revenues, profits and cash was driven by good pipeline conversion, successful cost management and long-term investment in our people and our systems. The year has started well and Mears is well-positioned to manage the sector-wide inflationary cost pressures.

"We are trusted partners to our Local and Central Government clients who increasingly recognise the need for a high quality, housing specialist to help them provide a broad range of housing solutions. With the fundamentals of our business in such good shape and the long-term challenges of affordable housing, public health and climate change high on the political agenda, we believe we are the housing partner of choice and look to the future with confidence."

1. *Adjusted profit/(loss) before tax stated on continuing activities before non-underlying items of £1,627k (2020: £2,279k) and before the amortisation of acquired intangibles of £7,655k (2020: £9,525k).*
2. *Operating profit (pre-IFRS 16) before non-underlying items and before the amortisation of acquired intangibles.*
3. *Adjusted Net cash / (debt) excludes IFRS 16 lease obligations.*
4. *Cash inflows from operating activities to EBITDA conversion on a two-year view to eliminate the distorting impact of the Covid-19 pandemic on working capital balances*
5. *Group order book as 31 December 2021 adjusted for £0.3bn of RLAP contract confirmed in February 2022 (delayed from 2021)*
6. *The adjusted diluted EPS measure is further adjusted to reflect a full tax charge.*

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About Mears

Mears is the leading provider of services to the Affordable Housing sector in the UK: responsible for the maintenance of c.10% of the UK's social housing stock; and managing over 10,000 homes for local and central government.

Mears currently employs around 5,500 people and provides services in every region of the UK. In partnership with our Housing clients, we maintain, repair and upgrade the homes of hundreds of thousands of people in communities from remote rural villages to large inner-city estates. Mears has extended its activities to provide broader housing solutions to solve the challenge posed by the lack of affordable housing and to provide accommodation and support for the most vulnerable.

We focus on long-term outcomes for people rather than short-term solutions and invest in innovations that have a positive impact on people's quality of life and on their communities' social, economic and environmental wellbeing. Our innovative approaches and market leading positions are intended to create value for our customers and the people they serve while also driving sustainable financial returns for our providers of capital, especially our shareholders.

CHAIRMAN'S LETTER

Introduction

The most obvious theme for 2021 was the gradual and progressive return to normal working across most of Mears' activities. At the start of the year, a version of lockdown was still in place, our repair and maintenance activities were restricted and a number of contracts continued, as they had for much of 2020, to repay our costs but eliminated the scope for profit generation. By the half year, we had returned to almost normal operations and contractual conditions. Activity continued to build throughout the second half of the year with growing work volumes and a more active bidding process. The resilience of our markets and our operations was underlined by the fact that the appearance late in the year of the Omicron Covid variant, while creating some operational challenges, had very little impact on activity levels, service quality or financial performance. We entered 2022 with a strong trading and financial position, a good pipeline of work and continued high levels of customer service.

This resilience in performance owes much to three factors. The first, and most important, is the quality of our staff. I have seen many examples of extraordinary dedication and resilience in the face of difficult circumstances and a determination to deliver a good experience for customers, not simply to execute a piece of work. The second is the strength of our customer relationships, fostered by our belief that excellent customer service is the key to effective cooperative working between client and provider. Finally, our information technology platform has been integral to the delivery of our high quality, responsive service. Mears' people have much to be proud of in the way they navigated 2021.

Mears in 2022 is a financially strong group whose business is to fulfil contracts from UK Local and Central Government bodies to provide essential services to customers in need. No UK company will be entirely immune from the consequences of the current deterioration in the world geopolitical climate, but Mears' financial stability and increasing certainty of revenue provides the Group with strong defensive qualities and confidence in our sustainable future.

Results

Mears' results for the year reflect this pattern of underlying activity, with activity and profitability growing as the year progressed. Full year revenue from continuing activities reached £878.4m, very close to that achieved in 2019 (£881.5m) and a significant increase on 2020 (£805.8m). Adjusted profit before tax reached £25.6m (2020: £3.4m loss). Cash generation throughout the year was particularly strong both in the core operations and in proceeds from realisations in the residual development business. The year-end adjusted net cash balance was £54.6m but, more importantly, average daily adjusted net debt for the year was effectively zero. Underlying cash conversion of over 100% in the last two years, (as defined and detailed in the Finance Review), has, along with strategic disposals, transformed the Group's financial position and created the current balance sheet strength which Mears is determined to retain into the future.

The value of new contracts bid and secured in the year was relatively low given the delay caused by Covid. The Group was pleased to develop a new Central Government client relationship with the Ministry of Justice ("MOJ") to provide housing services, supporting low and medium risk prisoners upon their release into initial accommodation and then providing a clear pathway to a settled home. While the initial value of the contract is modest, there is scope to extend the longevity and geographic coverage of this work as we become familiar with the requirements of a new and different customer base and a new client.

We were delighted that in early 2022, the Ministry of Defence ("MOD") notified Mears that it had been successful in its bid to continue to provide housing services to military personnel in the community under the new Rented Living Accommodation Project (RLAP). This is an extremely important client and contract for the Group, and we look forward to continuing to provide a very high-quality service to our military customers for a number of years. Including this successful retention, the Company's order book remains strong at some £2.4bn (2020: £2.6bn).

Dividend

The Board is proposing a final dividend of 5.50 pence per share, bringing the total dividend for the year to 8.00 pence per share. We are pleased to have been able to reinstate dividend payments as our trading returned towards normal during 2021 and it is the Board's policy to pay a progressively growing dividend, keeping cover at between 2x and 2.5x of normalized earnings.

Strategy

For much of the last two years, Mears' strategy has been to streamline and refocus its activities on the core provision of low capital intensity housing services to public sector clients and in doing so has realised value from non-core activities to reduce its indebtedness. This has now been achieved. During the last year, the Board has invested considerable time in working with the management team, supported by external advisers, to assess the scope for the Group's future development.

The backdrop is encouraging. Demographic trends are increasing the demand for affordable housing and more sophisticated retirement living solutions. Social housing waiting lists remain long and there is growing pressure on local authorities and housing associations to find, service and maintain homes to a high standard. Finally, the Government's commitment to national carbon reduction targets cannot be achieved without both a very substantial investment in the quality of the existing housing stock as well as significant changes in the way houses are heated.

Mears is positioned to benefit from all of these trends. We expect to use our position as the market leader in housing maintenance to win new business at good margin and to progressively extend our range of services to clients. We will explore ways in which we might be able to operate profitably with private sector clients. We will grow our capabilities, especially in relation to the 'greening' of housing and, once effective funding mechanisms are found to pay for this work, expect to be a market leader in this transformation of the country's social housing stock. We will maintain a strong financial position and our focus on excellent cash generation.

Our commitment to all of our stakeholders will remain at the forefront of our development. We will continue to support customers and communities, both in how we undertake our core work and in the social value projects we support. We will invest in our business to generate incremental opportunity and quality improvements in the service we can provide customers and clients. Our commitment to our staff's welfare and their personal and career development will also be strengthened. We will institute a programme to eliminate our own carbon footprint by 2030. We will maintain close relationships with our bank lenders, although our facilities will be smaller than in past years. And we will keep a close eye on the need to balance retained financial strength for the group with a steady and growing return of value to our shareholders.

Board developments

As foreshadowed in last year's report, both Roy Irwin and Geraint Davies stood down from the Board at the 2021 AGM. The Board is grateful for their services. At that time, the Board proposed to add one new non-executive director during 2022.

Much work was undertaken in Nominations Committee to identify both what skills and experience would be of most value in recruiting a new director and in examining our need for a continued effort to reflect at Board level the Group's overall commitment to diversity. This work is discussed further in the report of the Nominations Committee. Following an extensive process, the board was pleased to announce the appointment of Angela Lockwood as its new non-executive director with effect from 1 January 2022. Angela has held senior roles in the Affordable Housing sector for many years and her in-depth understanding of that community will be of immense value to Mears as it continues to develop its business.

Relationships with shareholders

For a number of years, Mears' largest shareholder was Primestone Capital, which held over 12% of the Company's shares. Over the last 12-months, Primestone progressively reduced its holding and, by the end of 2021, it was no longer a shareholder. Mears' current shareholder base is dominated by a small number of funds with significant holdings, most of whom have been substantial and supportive owners of the company for many years.

While day-to-day dialogue with shareholders is led by the senior management team, it is important for me as Chairman to have the opportunity to talk with shareholders from time to time so that I can understand the key issues which underpin their support for Mears. During 2021, I held discussions on at least one occasion with most of the largest 15 shareholders in the group which allowed them to question me about the position and prospects for the Group and facilitated my understanding of what matters for them in their continuing support for the Company. I intend to continue that dialogue, both reactively and proactively, through 2022.

ESG

I referred above to the importance of the 'carbon zero agenda' in the future development of the Mears' business, and this is discussed further in the CEO's review. Mears is developing its plan to eliminate its own carbon footprint by 2030. This plan will be closely monitored by the Board as it is rolled out across the group to ensure that the changes we make are sustainable, effective, and permanent.

Mears' commitment to responsible business and the creation of social value is an integral part of the fabric of the Group. We are pleased that it continues to be recognised by a wide range of outside observers. We were delighted to be awarded the Order of Distinction by RoSPA (the Royal Society for the Prevention of Accidents), having achieved Gold Award standard in our safety record for 19 consecutive years. We remain one of the Best Big companies to work for in the annual Sunday Times survey. We have continued to develop a range of programs to support staff from apprentices through to middle management in their career development. Our commitment to customer service was reflected in the retention of the Institute of Customer

Service Mark Accreditation for Housing.

We remain in the forefront of the development of good business practice with the production of our report on Ethical Procurement and in the development of our Scottish Business Charter.

Further details of other initiatives are included in the ESG section of the Strategic Report.

Conclusion and outlook

Much has been achieved by Mears over the last three years to optimise its position and prospects, despite the strong headwinds of the Covid pandemic for much of that period. Credit for this must go to the management team and the workforce generally and it is a pleasure, on behalf of the Board, to acknowledge the hard and effective work which has been put in over this period. We are confident in our capabilities, our ability to add value and our capacity to generate sustainable profitable growth.

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

2021 was a strong year for the Group, characterised by high quality operations and customer service, a robust financial position and trading outperformance. Our track record of operational excellence underpins everything we do; from winning new work, attracting and retaining the best staff, delivering a strong and sustainable financial performance. The pandemic again placed additional operating challenges this year. Prior long-term investment in client relationships, our people and systems ensured the business continued to perform well relative to its peers.

We are a trusted partner to our Local and Central Government clients who increasingly recognise the need for a high quality housing specialist to help them provide a wide range of accommodation and related services to often vulnerable service users.

I am keen to put on record its appreciation for the on-going dedication and commitment shown by all staff and the co-operation and support received from our clients and customers.

Group Overview

The trading performance of the Group continued to recover strongly over the course of the year as the financial impacts of the Covid-19 pandemic receded. The recovery in revenue in the continuing operations to near 2019 levels in 2021, and the rise in operating margins, especially in the second half, were very positive.

Continuing activities	H1 2021 £m	H2 2021 £m	2021 £m	2020 £m
Revenue				
Maintenance-led	286.5	257.9	**544.4**	536.9
Management-led	139.5	168.9	**308.4**	253.8
Development	17.7	7.9	**25.6**	15.1
Total	443.7	434.7	**878.4**	805.8
Operating profit before tax measures:				
Statutory operating profit / (loss))[1]	9.7	14.7	**24.4**	(6.3)
Adjusted operating profit / (loss) (post-IFRS 16)[2]	15.6	18.1	**33.7**	6.6
Adjusted operating profit / (loss) (pre-IFRS 16) [2]	13.7	15.9	**29.6**	0.6
Adjusted operating margin (pre-IFRS 16)	*3.1%*	*3.7%*	***3.4%***	*0.1%*
Profit before tax measures				
Statutory profit / (loss) before tax	5.6	10.7	**16.3**	(15.2)
Adjusted profit / (loss) before tax[2]	11.1	14.5	**25.6**	(3.4)

1. *Statutory operating profit / (loss) includes share of profit in associates*
2. *Adjusted measures are defined in the Alternative Performance Measures section of the Finance Review*

Group revenues for the year were £878.4m (2020: £805.8m), a 9% increase on the prior year, driven by elevated volumes across the Management-led contracts, repair volumes returning to pre-pandemic levels within responsive Maintenance and a good sell-through in Development, especially in the first half of 2021.

Operating profits and margins continued to strengthen over the course of the year as lockdown restrictions eased, volumes increased, and the business reverted to its original commercial mechanisms with clients. Pre-IFRS 16 adjusted operating profit for the year was £29.5m (2020: £0.6m), with pre-IFRS 16 adjusted operating margins recovering from 3.1% in the first half to 3.6% by the second half.

Adjusted profit before tax for the year was £25.6m (2020: £3.4m loss), benefitting from the improved trading performance and lower interest costs given the Group's much improved debt position throughout 2021.

OPERATING REVIEW

Maintenance-led

Through its portfolio of Maintenance-led contracts Mears is responsible for the upkeep, repair, and maintenance of social housing across the UK, on behalf of around 50 local authorities and housing associations.

The Group's Maintenance-led contracts saw an improving volume and revenue trend during 2021 as restrictions eased and more normalised trading conditions returned to most branches. All contracts reverted to their original commercial mechanisms.

We experienced particularly high volumes in reactive maintenance activity in the second half of 2021 as we worked with clients and customers to clear the backlog of lower priority maintenance jobs that had been delayed by lockdowns. Higher Covid-related levels of sickness in our workforce during 2021, together with some reduction in productivity given on-going social-distancing protocols, has resulted in a higher level of overdue works orders. Planned maintenance works have been slower to return to normal levels. However, this spend is non-discretionary over the longer-term and we are confident these works will return during 2022.

Our procurement procedures have meant that we have not experienced significant problems with material supply. Where lead times have lengthened, we have managed to plan for this in our operational delivery. However, as evidenced across the industry, we have experienced input price inflation in the period, impacting upon both materials and labour. The Group's customer contracts include inflationary uplift mechanisms which negates much of this risk over the medium term although there can be timing differences in the short-term. The Mears model has always been to invest in and retain our own staff as much as possible, with lesser reliance than peers on sub-contracted and other short-term labour. Our employee turnover remains low relative to the industry and accordingly, we are better protected from the shortages and accompanying price inflation seen in the broader construction labour markets.

Management-led

Mears Management-led contracts include the procurement, management, and maintenance of over 10,000 affordable homes and support to the people in those homes. Most of the revenues in this area are generated through contracts with Central Government.

Our contracts in this Management-led category performed strongly throughout 2021, with revenues up 22% year-on-year. This was largely driven by the Asylum Accommodation and Support Contract ('AASC') in which we find initial and dispersed accommodation on behalf of the Home Office across Scotland, Northern Ireland, and parts of the north of England. AASC continued to experience elevated volumes across the entire Asylum process, with more service users entering the system than exiting. The process of supporting these vulnerable people into dispersed accommodation is continuing.

I am immensely proud of how the Mears AASC team and Group infrastructure has managed such high demand (often at short notice) and continued to provide good quality accommodation and tenant support throughout the year. While volumes remain elevated at the time of writing, we anticipate that numbers within the system will start to normalise from the middle of 2022.

Mears was awarded a contract with the Ministry of Justice (MoJ) to provide transitional housing services and support to low and medium risk prisoners upon their release, from initial accommodation into a settled home. A key aim of this pilot scheme is to ensure that no one leaves prison without the offer of a good quality place to live from their first night in the community, and a clear pathway to a settled long-term home. This is a new customer for Mears. We will provide an integrated service including the provision of the property, maintenance, management, and welfare support. The contract mobilised in July 2021 and has ramped up slowly during the initial six-months, reaching an annualised run-rate value of circa £6m revenue by the year end. Initial feedback from the MOJ has been positive and discussions continue in respect of extending both the term and geographic reach of the programme.

Mears was delighted to be awarded the new RLAP contract, providing a wide range of housing services to the Defence Infrastructure Organisation ("DIO"). The new contract is for a period of up to seven years and has a contract value in excess of £50m a year. Under the contract, Mears will provide a wide range of accommodation and property services to service personnel and their families across the UK. Services include property search, selection and leasing, relocation services, tenancy management, responsive repairs, and maintenance. The new contract is expected to commence in April 2022. Mears has been successfully providing similar services since 2016 under the predecessor Substitute Service Accommodation contract, delivering a high level of service and operational delivery, which has contributed to this successful rebid.

Development

Our few remaining development sites achieved a strong sell-through, particularly in the first half-year. The Group sold 50 units in the year, generating cash and revenues of £25.6m (2020: £15.1m). The Group anticipates a full exit from the remaining Development portfolio during 2022.

Development plots	units
Completed units as at 1 January 2021	49
Units completed during period	17
Units sold during period	(50)
Completed units at 31 December 2021	16
Building in progress at 31 December (in addition to completed units)	26
Net Working Capital absorbed (31 December 2021)	£12m (2020: £25m)

Energy Efficiency

The Social Housing sector, comprising some 20% of the total number of 28 million dwellings in the UK, has been tasked by Government to lead the way in the decarbonisation of the UK's housing stock, in line with the UK's overall climate change ambitions. Furthermore, rising levels of fuel poverty as energy prices surge demand further action on energy efficiency. Mears has built significant capabilities in this area and is heavily engaged with its Local Authority and Housing Association client base to help them rise to these challenges.

An analysis by Inside Housing put the estimated cost of decarbonising the UK's social housing stock at £104 billion or c. £21,000 per property. While central Government has not yet released enough funding for clients to achieve their 2030 targets, there are now increasing funding commitments available to enable progress to be made. April 2022 will see £800m released for the English Social Housing Decarbonisation Fund ("SHDF"), with similar funds existing in devolved nations. The Warm Homes Front and ECO4, also present significant investment opportunities.

Mears has created an end-to-end offer for clients, enabling projects to be designed, funded, implemented, and measured.

Mears has worked collaboratively with several clients to design tailored retrofit solutions and secure funding through the SHDF. This is the first tranche of funding from Central Government which will be released over the next 10 years to improve the energy performance of social rented homes on the journey to achieve net zero by 2050 in England. The funding applications were facilitated by Mears in partnership with Livin Housing, Crawley Homes and Milton Keynes Council. The Group created a 'Carbon reduction team' focused on developing solutions to support our existing clients to decarbonise their housing stock by taking a resident first approach that is centred on reducing fuel stress, improving residents' quality of life, and improving the condition and energy performance of clients' housing stock.

The successful funding awards to date, combined with client investment, will deliver schemes to our Milton Keynes Council, Crawley Homes and Livin Housing for an aggregate value of over £15m (including grant funding of c. £5m), with works to be completed before March 2023.

It is obviously important for clients to integrate green investment with other planned maintenance work and for this work to be well maintained after installation. Mears is uniquely placed to integrate such projects efficiently into clients' on-going maintenance and regeneration programmes. Creating energy efficiency is not a one-off piece of work, it will become an ongoing key part of the management of housing stock, along with rising standards of building safety and tenant engagement. The current Decent Homes standards review can only give further momentum to these improvements.

Of course, we have a responsibility to take action on our own direct operations to increase carbon efficiency and aim to achieve Net Zero on Scope 1 and 2 emissions by 2030. We will publish our roadmap to this target in 2022.

Customers

The Group conducts over 36,000 'Voice of the Customer' surveys a year to demonstrate to ourselves and our clients that the highest standards of customer service are maintained. These show that the Group's 'Satisfied with Service' and 'Likely to Recommend (NPS)' scores remained consistently above 80% and 60% respectively, throughout the year. Such scores are substantially above the benchmark for the industry across both the public and private sector with 35% being the average. Integral to this performance was the Mears Contract Management (MCM) technology platform, which facilitated a seamless transition to and from remote working, both for Mears employees and crucially our clients.

Employees

At a time when competition for skilled labour is high, it has never been more important for Mears to continue its commitment to being a great place to work for our staff. For the third year running, we have secured our place in the 2021 Sunday Times Best Companies list of top 25 large companies to work for in the UK, and encouragingly our score being higher than both 2019 and 2020. Our culture is defined by our values as set out in the "Red Thread". We recognise that through great employee engagement we will achieve commercial and customer success. A culture of investment, inclusion and development in the workforce ensured that the Group saw only modest increases in staff turnover and costs during the year, despite labour markets tightening significantly across the sector.

The benefits of this effort can be seen in the extraordinary effort and commitment from our staff during the Covid period, which has had such a big impact on our operational delivery. As new opportunities arise, such as Energy Efficiency, we will have to continue investing in our staff to develop both the capability and capacity of our teams to take advantage of this opportunity.

During the year, we have used staff feedback to further strengthen our workforce proposition with the following key initiatives implemented during the year:

· Improved holiday and sick pay for front line operatives

· Building the workforce of tomorrow, through investing in apprentices, supporting the Kickstart programme and creating new entry level roles to drive social mobility

· Introducing flexible benefits and enabling a better balance between home and office working

· Providing excellent communication and support around Covid and maintaining the highest standards of internal communication more broadly

· Increasing investment in staff, through bespoke training such as our "Emerge" development programme, for staff looking to progress to senior management positions

· Externally appointed Social and Diversity Impact Board and accredited by the Housing Diversity Network, including growing the number of women in management positions and reducing the gender pay gap. We will publish our first 'ethnicity gap' report by the end 2022

· The development of new low carbon technology and awareness training to help transition our staff to these new opportunity areas

· Providing comprehensive mental health and wellbeing support, especially given the difficult situations many of our staff face on a day-to-day basis

Health and safety

The Group's health and safety record across the year was exceptionally good, as evidenced by our Health and Safety Team being awarded its 19th Consecutive ROSPA Gold Award and retaining its place on ROSPA's Order of Merit.

The Health and Safety team worked closely with the operational team mobilising the Ministry of Justice contract, to ensure robust governance policies and procedures were embedded into contract delivery. In this regard, the Group's knowledge, expertise, and experience derived from managing AASC was hugely beneficial and was a key element in the very successful deployment of services during the latter part of the year.

The ever-increasing importance of data security is a key strategic consideration for the Group and in this regard, I have recently widened the role of the Compliance Committee's role to encompass greater scrutiny of this essential area moving forward into 2022, to enhance the level of information available to the main Board.

Social value and responsible business

Our business is founded in local communities where we deliver the highest standards of care to people, their homes and their lived environment. By caring about the people and communities we work with, we are welcomed into people's homes, are a trusted partner to our clients, and an attractive and valued local employer. Despite a challenging year in which to engage with our local communities, the Group's staff delivered over 1,500 local community projects generating over £29.4m of social value. Our AASC staff delivered laptops to schools and supported children through lockdown with self-isolation packs in 11 different languages. Our Key Worker contract teams contributed over £11 million of social value through the 'Reuse' initiative that donates and distributes used furniture to those in local need.

We have targeted each employee to generate £5,000 of social value in 2022 and the Mears Foundation (our in-house, company/employee funded charity) to award £200,000 in funding to support local projects.

Order book and pipeline

The order book as at 31 December 2021 stood at £2.4bn (2020: £2.6bn), reflecting the timing of contract renewals over the last twelve months and lower levels of re-tender activity across the industry due to Covid.

Whilst Mears itself enjoyed several short-term extensions, such as at Tower Hamlets, the Group was also pleased to secure important longer-term extensions to a few existing contracts. Notably:

· a five-year contract extension with Orbit Housing which will see Mears continue to provide services, with an annual value of circa £20m, until at least March 2027.

· a three-year contract extension with Livin Housing, based in Sedgefield, which will see Mears continue to provide services, with an annual value of around £12m per annum until at least April 2025.

· As discussed above, the Group was delighted to secure work with a new Central Government client, the MOJ

We are seeing increasing levels of bid activity and the Group's current bid pipeline is currently standing at circa £1bn. The Group continues to prioritise the retention and expansion of work within existing client relationships. The reported pipeline excludes the North Lanarkshire Future Integrated Housing Services contract re-tender estimated at more than £1.0bn where the Group is well-placed, with further feedback expected during Q2 2022. The Group has also had positive initial feedback from the MOJ in respect of the CAS 3 temporary accommodation pilot programme and discussions continue around the potential extension and expansion of these services.

Strategy review

We are leaders in the affordable housing market in the UK. Our services include responsive repair, refurbishment, and regeneration of housing stock, as well as the procurement and management of temporary accommodation and tenant support for Local and Central Government clients. The future demand profile for these specialist housing services remains positive, given the fundamental shortage and poor quality of affordable housing in the UK.

In 2021, we completed a 5-year strategic plan for the Group, focused on this affordable housing sector. We see opportunities to grow consistently and sustainably over the medium term, given the following market drivers:

· Increased Government investment in the affordable housing sector given expanding social housing waiting lists and renewed political focus on quality housing post-Covid

· Social Housing white paper and Government policy towards higher standards for safety and customer engagement. Changes in procurement procedures, post Brexit, are also likely to bring advantages to those companies who have high focus on social value and service quality.

· The commitment to raise the carbon efficiency of all social housing stock by one EPC band by 2030, presents significant investment requirements. We are now starting to see increased funding come through.

· Increasing local authority spend on long-term, cost-effective homelessness solutions

· On-going demographic pressure on the UK housing shortage particularly in Mears core competencies of affordable rental and specialist retirement living

Mears will address these market opportunities by:

· Leveraging our market leading position in housing maintenance to better cross-sell/ upsell our broader housing services through more effective client planning and thereby grow our share of wallet with existing clients

· Continuing to evolve our affordable rental, temporary accommodation, and integrated housing offer to meet increasing market demands

· Participation in larger, integrated housing contracts, across Local and Central Government

· Driving greater operational efficiencies through more centralised administrative and support services such as our regional Hub network

· Continued digital innovation to increase agility of frontline operations whilst continuing to drive improvements to the customers experience

· Operational consistency across the Group and drive improvements where contracts are underperforming

· Delivering ESG commitments in line with the high standards of social responsibility that are the foundations of our business

Even with the potential post-Covid economic challenges, Housing is a sector that will gain investment to support economic recovery and to meet longer term challenges, such as those posed by climate change. There is clear opportunity to grow both our maintenance-led and management-led work and indeed we see a number of opportunities that will integrate all of our services. The responsible approach that we have taken to business through Covid and from the start of Mears, has left us well placed to benefit.

The business continues to make strategic progress towards the vision to be the UK's most respected and trusted provider of housing solutions.

Capital allocation

Over the last couple of years, the Group has significantly reduced its indebtedness and re-established its cash generative, lease-based business model. Following this successful de-gearing process, the Board will continue to keep under close review its policy as to the appropriate allocation of the Group's capital resources. At least in current market conditions, it is intended to continue to operate the Group with no more than modest levels of debt.

The Board considers that the Group can continue to deliver organic growth within that framework, with a relatively modest level of capital expenditure. This business model will continue to generate strong free cash flows.

The Board is committed to investing in the business and to innovation and will be willing to increase capital investment, especially in technology, to develop new digital solutions both to drive operational efficiency and to develop business lines. Opportunities may also arise to complete small strategic acquisitions, again particularly of technology or data-oriented businesses, where they can add value to the development of the Group's business lines, especially in carbon reduction. The Group's current view is that larger acquisitions are unlikely to drive shareholder value but the Group will retain the flexibility to act where opportunities arise at short notice. Mears will continue to promote its objective of being the most socially responsible business working with the public sector and in that context would expect to continue to drive improvements in payment practices.

Having restored the payment of regular dividends to shareholders, the Board intends to continue to maintain a progressive dividend policy and would expect to reduce earnings cover over the relatively short-term toward 2 times. The scope to make further distributions to shareholders, whether by way of share buybacks or special dividends will be kept under review as the investment policy described above unfolds.

FINANCIAL REVIEW

This section provides further key information in respect of the financial performance and financial position of the Group to the extent not already covered in detail within the Chief Executive Officer's Review.

ALTERNATIVE PERFORMANCE MEASURES ('APM')

The Strategic Report includes both statutory and adjusted performance measures, the latter of which is considered to be useful to stakeholders in projecting a basis for measuring the underlying performance of the business and excludes items which could distort the understanding of performance in the year and between periods, and when comparing the financial outputs to those of our peers. The APMs have been set considering the requirements and views of the Group's investors and debt funders among other stakeholders. The APMs and KPIs are aligned to the Group's strategy and also form the basis of the performance measures for remuneration.

These APMs should not be considered to be a substitute for or superior to IFRS measures, and the Board has endeavoured to report both statutory and alternative measures with equal prominence throughout the Strategic Report and Financial Statements.

The APMs used by the Group are detailed below and an explanation as to why management considers the APM to be useful in helping users to have a better understanding as to the Group's underlying performance. A reconciliation is also provided to map each non-IFRS measure to its IFRS equivalent.

The Group defines normalised results as excluding the amortisation of acquisition intangibles and before other normalisation adjustments which management believe are infrequent in nature and are considered not to be part of underlying trading. The normalised results are further adjusted to reflect an 19% corporation tax charge. The Directors believe this aids consistency when comparing to historical results and provides less incentive for the Group to participate in schemes where the primary intention is to reduce the tax charge.

A reconciliation between the statutory profit measures and the normalised result for both 2021 and 2020 is detailed below.

In addition, the Group also provides an APM which reports results before the impact of lease accounting under IFRS 16. Management have provided this alternative measure at the request of a number of shareholders and market analysts to allow those stakeholders to properly assess the results of the Group over-time. In particular, the Directors use the pre-IFRS 16 measure to generate the Group's headline operating margin; whilst this generates a lower operating margin, it reflects how the underlying contracts have been tendered and is also more aligned to cash generation. In addition, the Group's banking covenants utilise adjusted profit measurements which are reported before IFRS 16 and stakeholders require better visibility of the Group's adjusted profit for that purpose.

Continuing activities[1]	**Note**	**2021** **£'000**	**2020** **£'000**
Profit / (loss) before tax	Statutory	16,333	(15,218)
Amortisation of acquired intangibles	Note 13	7,654	9,526
Non-underlying items	See below	1,627	2,279
Profit / loss before non-underlying items, amortisation of acquired intangible and tax	**APM**	25,614	**(3,413)**
Removal of IFRS 16 profit impact	See below	2,876	1,118
Finance costs (non-IFRS 16)	Note 5	1,148	2,875
Operating profit pre-IFRS-16 before non-underlying items and amortisation of acquired intangibles	**APM**	29,638	**580**
Amortisation of software intangibles	Note 13	2,123	2,211
Depreciation and loss on disposal (non IFRS 16)[3]	Note 14	5,884	5,677
EBITDA pre-IFRS 16 and before non-underlying items	**APM**	37,644	**8,468**
IFRS 16 profit impact	See below	(2,876)	(1,118)
Finance costs (IFRS 16)	Note 5	6,921	7,123
Depreciation and loss on disposal (IFRS 16)[2]	Note 15	43,386	42,242
EBITDA post-IFRS-16 before non-underlying items and amortisation of acquired intangibles	**APM**	85,075	**56,715**
Amortisation of software intangibles	Note 13	(2,123)	(2,211)
Depreciation and loss on disposal (IFRS 16)[2]	Note 15	(43,386)	(42,242)
Depreciation and loss on disposal (non-IFRS 16)[3]	Note 14	(5,884)	(5,677)
Operating profit post IFRS 16 and before non-underlying items	**APM**	33,683	**6,585**

1. *Operating profit / (loss) and EBITDA measures include share of profits of associates*
2. *Includes profit on disposal of £27,000 (2020: £268,000)*
3. *Includes loss / (profit) on disposal of £268,000 (2020: (£3,000))*

The profit impact in respect of IFRS 16 is detailed below:

	2021 **£'000**	**2020** **£'000**
Charge to income statement on a post-IFRS 16 basis	(50,307)	(49,365)
Charge to Income Statement on a pre-IFRS 16 basis	(47,431)	(48,247)
Profit impact from the adoption of IFRS 16	(2,876)	(1,118)

Non-underlying items

Non-underlying items are items which are considered outside normal operations. They are material to the results of the Group either through their size or nature. These items have been disclosed separately in the adjusted result above to provide a better understanding as to the underlying performance of the Group.

	2021 £'000	**2020 £'000**
Repayment or waiver of furlough entitlement	1,627	-
Impairment of assets in the course of construction	-	1,500
Restructure costs	-	779
	1,627	2,279

The Directors elected to voluntarily repay to HMRC amounts previously received of £1.1m and, in addition, to not submit a claim for a further amount of £0.5m accruing during 2021 under the Coronavirus Job Retention Scheme ('furlough'). During the first lockdown, the furlough scheme was essential in safeguarding the financial stability of the Group and protecting employment. However, the Directors believe that the strong recovery of the business in 2021, augmented by the disposal of Terraquest, means that to continue to claim furlough is no longer necessary and is not within the spirit of the legislation. A number of Mears' clients looked to the Group to continue to utilise the furlough scheme, and much of that cost reduction passed to those clients as part of the open book reconciliation, leaving Mears Group PLC to subsidise this voluntary repayment.

The Directors believe that the repayment of furlough should be disclosed within non-underlying items; this voluntary repayment is not a trading item and by its nature is unique and non-recurring. The size of this item is considered material and the Directors believe would distort the readers understanding of the financial results of the Group.

All furlough received during 2020 was recognised within the Income Statement in normal trading, matched against the associated cost, and no repayment is intended in respect of that earlier period.

In the prior period, the Group incurred restructuring costs of £0.8m which were disclosed as non-underlying and excluded from the adjusted operating profit to the extent they arose from initiatives which were significant in scope and impact but would not form part of recurring operational activities in the future. In addition, during that same period, the Group recognised a £1.5m impairment on an asset in the course of construction being the difference between the total cost (including an estimate of the costs to complete) and the fair value of the asset. The impairment charge applied against this asset was considered exceptional given its size and due to it relating to an activity which is not part of the continuing activities of the Group.

Earnings per share

For the purposes of assessing the Group's compliance with its banking covenants, the Group utilises an adjusted measure based on EBITDA before the impact of IFRS 16 and before non-underlying items which are termed as 'exceptional items' within the Group's bank facility agreement.

A reconciliation between the statutory measure for profit (loss) for the year attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	Diluted (continuing)		**Diluted (discontinued)**		**Diluted (continuing and discontinued)**	
	2021 p	**2020 p**	**2021 p**	**2020 p**	**2021 p**	**2020 p**
Earnings per share	11.50	(10.66)	0.99	50.87	12.49	40.21
Effect of amortisation of acquisition intangibles	6.77	8.62	-	-	6.77	8.62
Effect of full tax charge adjustment	(1.21)	(1.92)	(0.32)	(9.67)	(1.53)	(11.60)
Effect of non-underlying items	1.17	1.67	-	(38.73)	1.17	(37.06)
Normalised earnings per share	18.23	(2.29)	0.67	2.46	18.90	0.17

	Continuing		**Discontinued**		**Continuing and discontinued**	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Profit/(loss) attributable to shareholders:	12,996	(11,781)	1,122	56,242	14,118	44,461
Amortisation of acquisition intangibles	7,654	9,525	-	-	7,655	9,525
Full tax adjustment	(1,365)	(2,125)	(361)	(10,696)	(1,726)	(12,821)
Exceptional costs	1,318	1,846	-	(42,823)	1,318	(40,977)
Normalised earnings	20,603	(2,535)	761	2,723	21,365	188

Net cash/(debt)

The Group excludes the financial impact from IFRS 16 from its adjusted net debt measure. This adjusted net debt measure has been introduced to align the net borrowing definition to the Group's banking covenants, which are required to be stated before the impact of IFRS 16. The Group utilises leases as part of its day-to-day business providing around 10,000 residential properties to vulnerable service users and key workers. A significant proportion of these leases have break provisions and the lease terms are aligned to the Group's customer contracts to mitigate risk. The Group does not recognise these lease obligations as traditional debt instruments given the Group's ability to break these leases and in so doing, cancelling the associated lease obligation. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	Note	**2021 £'000**	2020 £'000
Cash and cash equivalents		**54,632**	96,220
Long-term borrowings and overdrafts		**-**	(39,353)
Adjusted net cash/(debt)	**APM**	**54,632**	56,867
Lease liabilities (current)	**Note 20**	**(41,600)**	(42,888)
Lease liabilities (non-current)	**Note 20**	**(175,290)**	(166,183)
Total	**Statutory**	**(162,258)**	(152,204)
Less: Lease Obligations (IFRS 16)	**above**	**216,890**	209,071
Adjusted net cash/(debt)		**54,632**	56,867

Amortisation of acquisition intangibles

	2021 £'000	2020 £'000
Amortisation charge	**7,654**	9,525

A charge for amortisation of acquisition intangibles arose in the year of £7.7m (2020: £9.5m). This charge predominantly relates to the MPS acquisition in 2018, resulting in intangible assets being identified associated to the order book and customer relationships. This MPS intangible has now been fully written off. The Directors estimate that, in the absence of further acquisitions, the amortisation charge moving forwards will be circa £0.3m per annum. As detailed above, the Group adjusts for this charge within the Group's alternative profit measure. This amortisation charge is very material in size and can vary significantly based upon the Directors' assessment of useful economic life. The Group's shareholders and market analysts typically add back this item in their analysis and the Group's alternative performance measure is aligned to that. Management believes that through reporting profit figures that exclude this item can help the reader to better understand the underlying performance of the business, without any distortion as a result of this charge.

DISCONTINUED ACTIVITIES

As detailed within last years' Annual Report, in December 2020, the Group completed a disposal of its entire share capital in its Planning Solutions business ('Terraquest') for a headline enterprise value of £72m. The consideration payable to the Company pursuant to the terms of the Disposal Agreement was structured as follows:

- £56.9 million payable in cash at Completion
- the issue by the Buyer to the Company of Consideration Loan Notes with an aggregate nominal value of £3.16 million, accruing an interest rate of 10 per cent. per annum payable on redemption
- the issue by the Buyer to the Company of £0.06m of Ordinary Shares in the Buyer, representing 6.16 per cent of the entire issued share capital
- a maximum amount of £10 million of deferred consideration payable in cash conditional upon the Terraquest Group achieving an aggregate EBITDA of £9.5 million in the financial year ending on 31 December 2021. A minimum consideration of £5 million was guaranteed.

The Directors are pleased that the Terraquest business, under new ownership, has performed well. The Directors have been notified by the buyer (Apse Capital) that the acquired business delivered an EBITDA of circa £8.5m in 2021, being the earn-out period. The legal agreement allows Mears time to review the basis of this result and a mechanism for resolution if there is any disagreement. Based on the draft assessment of the Terraquest result for 2022, deferred consideration has been fair valued at £6.5m, being an increase of £1.1m. This additional profit has been recognised within discontinued activities. The deferred consideration is payable in April 2022.

Linked to the Terraquest disposal

- the carrying value of the loan notes increased to £3.48m (2020: £3.16m), reflecting the accrued interest. The loan note issuer has not given any indication as to the timing of any redemption. The loan notes have a longstop date of 2028.
- The minority investment held in the buyer continues to be carried at £0.06m within investments. The business performance hasn't changed materially from original forecasts, and the Directors believe that the fair value of this investment is unchanged.

TAXATION

Mears does not engage in artificial tax planning arrangements but takes advantage of available tax reliefs. The tax position in any transaction is aligned with the commercial reality and any tax planning is consistent with the spirit as well as the letter of tax law. Mears has a low appetite for risk and when making decisions regarding tax; reputational and commercial as well as financial risks are considered. Given the Group's activities are largely involved in servicing public sector clients, the risk of reputational damage flowing from a tax compliance failure is higher than in other sectors. This leads the Group to take a risk averse approach if there is an element of uncertainty regarding a particular treatment.

The Group 'normalises' its headline Earnings per Share ('EPS') measure to reflect a full tax charge. In so doing, the Board has removed from its primary performance measure any potentially positive impact that could be achieved through reducing the Group's corporation tax charge.

Taxes paid

Further detail in respect of the taxes paid during 2021 are detailed below:

	For the year ended 31 December 2021		
	Taxes borne £m	**Tax collected £m**	**Total £m**
Corporation Tax	3.8	0.0	3.8
VAT & IPT	0.6	96.1	96.7
Construction industry tax	0.0	13.6	13.6
Income taxes	0.0	23.4	23.4
National insurance	13.4	16.4	29.8
Total	17.6	149.7	167.4

BALANCE SHEET

Overall, the Group reported an increase in net assets from £156.1m to £201.0m driven by the trading profit generated in the year, and an increase in the pension surplus. The key Balance Sheet categories are reported below together with a brief footnote to provide further explanation:

	Note	**2021 £'000**	**2020 £'000**
Goodwill, acquisition intangibles and investments	1	126,196	135,044
Property, plant and equipment	2	20,712	23,600
Right of use asset	3	204,949	200,041
Inventories	4	22,869	31,258
Trade receivables	4	141,774	139,884
Trade payables	4	(184,047)	(221,373)
Adjusted net cash		54,632	56,867
Lease obligations	3	(216,890)	(209,071)
Net pension	5	33,631	(7,880)
Taxation		(4,522)	3,678
Receivables relating to disposal of Terraquest	6	10,007	8,591
Other payables	7	(8,274)	(4,588)
Net assets		201,038	156,051

1. Comprising (i) goodwill of £118.9m (2020: £118.9m) generated from previous acquisitions; the carrying value is tested at least annually for impairment. (ii) software development costs of £4.0m (2020: £4.9m) relating to in-house developments to our key operational IT platforms; this is being written off over the estimated useful economic life, typically around 5-years. (iii) acquisition intangibles of £2.6m (2020: £10.3m) relating to customer relationships identified and valued on acquisitions and being amortised over the estimated useful economic life of 20 years. (iv) Investments of £0.7m (2020: £1.0m), this includes an entity over which the Group has significant influence but which it does not control. This is categorised as an associate. It is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise; the cost of each investment together with the Group's share of the profit generated by that entity since acquisition.
2. Property, plant and equipment ('PPE') is stated at historical cost of £57.3m (2020: £64.6m) less accumulated depreciation of £36.6m (2020: £41.0m), giving a net carrying value of £20.7m (2020: £23.6m). Mears historically has a track record of delivering organic growth in the core Housing activities with a low requirement for capital expenditure. When the Group secures a new contract, the Group will typically open an office in that locality delivering services to this single client; whilst Mears will typically lease the site office, improvements are often required to ensure that the property is set-up to deliver the required services, and IT infrastructure and equipment is also required, and all this spend is typically capitalised.
3. Leasing properties for rental to tenants is a core business activity for Mears. As a result, Mears currently holds around 10,000 residential property leases and a further 3,500 office property and vehicle leases. Broadly speaking, a lease should be accounted for under IFRS 16 only if Mears has the right to direct its use which, through its decision-making rights, can affect the economic benefit derived from that asset. Around one-half of the Group's residential leases meet the criteria for recognition on the Balance Sheet. Those that do not meet the criteria are typically due to them being short term in nature, often driven by the existence of a two-way break clause (a practical expedient offered under IFRS 16 allows those leases with a term of less than 12-months to be expensed).

   IFRS 16 focuses upon a 'right of use asset', and to complete the book-keeping, recognises a corresponding lease obligation. The lease obligation is not entirely consistent with the historical definition of a liability; accordingly, the lease obligation is not a typical debt instrument 'as Mears can terminate a significant proportion of its leases giving 30 days-notice, with no more than an insignificant penalty.

   The depreciation cost of the newly recognised 'right of use' lease asset is charged to profit within cost of sales or administrative costs, whilst the interest cost of the newly recognised lease liability is charged to finance costs. On the basis that depreciation is required to be charged on a straight-line basis, whilst the interest element is charged on a reducing balance basis, this results in a higher charge being applied to the income statement in the early years of a lease, with this impact reversing over the later years.
4. Working capital balances include trade receivables, trade payables and inventories; further explanation is provided within

the working capital management section below.

5. The Group participates in two principal Group pension schemes (2020: two) together with a further 21 (2020: 20) individual defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS).

   Net pension comprises three elements:

- Pension assets of £37.7m (2020: £7.1m) which relate to the two Group pension schemes. The significant increase in the surplus is driven by the increase in the discount rate assumption, which reduces the carrying value of the pension obligations. Positively, the focus of the pension trustees is to reach a position in the medium term where both these schemes become self-sufficient.
- Pension obligations of £17.0m (2020: £45.7m) which predominantly relate to the Group's LGPS pension arrangements. The significant reduction in this obligation is driven by increasing discount rates. Whilst pensions typically have long-term time horizons, the risks carried by the Group associated with the LGPS obligations match the time horizon of the underlying contract which, whilst not removing all risks, does reduce the period over which a deficit can arise.
- The exposure to the Group in respect of its LGPS obligations is reduced where the Group enjoys back-to-back indemnities with its Local Authority and Housing Association clients. These indemnities are classed as Guarantee assets, absorbing £13.0m of pension obligations (2020: £30.7m). Therefore, in respect of its LGPS pension schemes, the net exposure is £4.0m (2020: £15.0m) being the pension obligation less the Guarantee asset. In addition, a number of LGPS schemes are reporting surpluses amounting to £37.7m (2020: £11.1m) which the Directors believe would not be prudent to recognise as assets, but which do provide additional headroom against future deficit.

   The pension disclosure is split on the face of the Balance Sheet between non-current assets and non-current liabilities. In addition, the pension guarantee assets are reported separately from their associated liabilities. Where LGPS arrangements are reporting surpluses, these are not recognised as assets.

6. Receivables relating to the disposal of Terraquest and comprises deferred consideration of £6.5m and loan notes of £3.5m as detailed within the Discontinued activities section above.
7. Other payables include provisions relating to the Group's insurance risks and a small number of onerous contractual provisions which arises when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received

CASH FLOW AND WORKING CAPITAL MANAGEMENT

The Group has delivered excellent operating cash flows over recent years with strong underlying EBITDA to operating cash conversion. As highlighted in last years' report, and notwithstanding the strong underlying performance in the prior year, the Group did benefit from a number of Covid-19 related cash inflows which would unwind during 2021; notably the VAT deferral which increased the operating cash flows in 2020 by circa £16m and which was subsequently settled and is reported as an outflow in 2021. Given the unique circumstances brought by the pandemic, the Directors believe that taking a combined result for the two-year period provides stakeholders a better measure for assessing the underlying cash performance of the business. The EBITDA to operating cash conversion for this two-year period, as detailed below, was 118%.

Mears has always fostered a strong 'cash culture', whereby the Group's front-line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until the monies are banked. This culture has underpinned strong cash performance over many years. The reported cash conversion has been enhanced further as the working capital absorbed within the Group's Development activities, which have been in run-off phase for the past 2-years, has started to be released. The working capital absorbed in the Development activities reduced to around £12m at the 31 December 2021 (2019: c. £29m), a reduction by circa £17m over the last 2-years.

	2021	2020	**2021+2020**
	£'000	£'000	**£'000**
(Loss)/profit before tax	16,333	(15,218)	**1,115**
Net finance costs	8,069	9,998	18,066
Amortisation of acquisition intangibles	7,654	9,525	17,180
Depreciation and amortisation	51,392	51,630	**103,022**
EBITDA	83,448	55,935	139,383
Other adjustments	(1,213)	1,608	395
Change in inventories	12,944	4,787	17,731
Change in operating receivables	(2,244)	18,475	16,231
Change in operating payables	(32,573)	22,418	(10,155)
Operating cash flow	60,362	103,223	163,585
EBITDA to operating cash conversion	72%	185%	117%

The Group reported an adjusted net cash position at the year-end of £54.6m (2020: £56.9m). The small reduction predominantly reflecting the unwind of the VAT deferral which cancelled out the free cash flow generated in the period. Whilst it is pleasing to report a strong cash position within the year-end balance sheet, of much greater significance is the performance over the 365-day period. Positively, the strong year end performance is also mirrored in the average daily adjusted net cash for the year at £0.4m (2020: adjusted net debt £97.3m).

	2021	**2020**
	£'000	**£'000**
Average daily adjusted net cash / (debt)	**400**	(97,300)
Adjusted net cash/ (debt) at 31 December	**54,632**	56,867

The average month end trade receivable and trade payable balance split by Housing category reflects strong working capital management during the period and is detailed below:

	2021			2020		
	Receivables £m	Payables £m	Net working capital £m	Receivables £m	Payables £m	Net working capital £m
Maintenance-led	142.0	(129.5)	12.5	138.5	(125.7)	12.8
Management-led	17.9	(31.8)	(13.8)	32.4	(25.5)	6.9
Development	21.6	(3.8)	17.8	31.0	(6.0)	25.0
	181.5	(165.1)	16.5	201.9	(157.2)	44.7

The core activities of Maintenance and Management have historically absorbed a relatively low level of working capital when compared to the size of the business and the profit generated. This low working capital intensity remains the case and is reflected in the average month end balances detailed above. The working capital absorbed within Management-led activities benefited from payments received on account averaging around £15.0m over the year; however even if excluding this temporary benefit, the adjusted measure would reflect strong performance.

The Development portfolio had a strong sell-through in the period totalling £25.6m of revenues. The working capital absorbed within the Development activity has seen a reduction reflecting excellent progress in unlocking the cash that has been absorbed in this legacy part of the business. The working capital balance absorbed in Development as at 31 December 2021 was c. £12.0m. Management continue to expect to complete the remaining unwind of the working capital absorbed in this area over the course of the next 12 months.

Banking and financial covenants

The Group has a simple approach to its debt funding arrangements, holding a single Revolving Credit Facility ('RCF') which provides a total commitment, but allows the Group to draw down monies as required, mirroring an overdraft facility. Following the significant reduction in debt levels, the Directors completed a refinancing, reducing the total commitment to £70m.

The Board is grateful for the tremendous support that has been provided to the Group by its banking partners; Barclays and HSBC have provided support to the Group for many years and made additional funds available at a time of extreme uncertainty, as the UK entered the first national lockdown. It is pleasing to refinance at levels which are considerably lower, whilst retaining significant headroom. The refinance also saw Citi Bank enter the banking arrangement, and the Mears' team look forward to extending this new relationship.

The financial covenants included within the RCF, which are tested twice-yearly on 30 June and 31 December, are detailed below:

Covenant	Formulae	Covenant ratio
Leverage	Consolidated net borrowing divided by Adjusted consolidated EBITDA*	3.00x
Interest cover	Adjusted Consolidated EBITDA* divided by Consolidated net finance charges**	3.50x

*Adjusted EBITDA on a rolling 12-month basis, pre-IFRS 16, and stated before non-underlying items and share based payments
**Net finance charges comprise all commission, fees and other finance charges payable in respect of Financial Indebtedness. This excludes income / costs relating to Group pension arrangements.

The margin applied to draw downs under the RCF increases is determined by the Group's leverage ratio at each quarter end, as detailed below. This margin is payable in addition to the Sterling Overnight Index Average ('SONIA') being the bank of England risk-free rate for sterling markets. Given the strong cash performance in 2021, the Board's expectation would be for the margin to stay at the bottom end of the ratchet throughout 2022.

Leverage ratio	Margin % p.a.
Greater than or equal to 2.50x	2.75
Less than 2.50x	2.50
Less than 2.00x	2.25
Less than 1.50x	2.00
Less than 1.00x	1.75

Consolidated statement of profit or loss

For the year ended 31 December 2021

	Note	**2021 £'000**	2020 £'000
Continuing operations			
Sales revenue	2	**878,420**	805,817
Cost of sales		**(697,933)**	(649,530)
Gross profit		**180,487**	156,287
Administrative expenses		**(156,940)**	(162,563)
Operating profit/(loss)		**23,547**	(6,276)
Share of profits of associates	16	**855**	1,056
Finance income	5	**835**	293
Finance costs	5	**(8,904)**	(10,291)
Profit/(loss) for the year before tax		**16,333**	(15,218)
Tax (expense)/credit	8	**(3,192)**	3,207
Profit/(loss) for the year from continuing operations		**13,141**	(12,011)
Discontinued operations			
Profit from discontinued operations	9	**940**	56,933
Tax credit/(charge) on discontinued operations	8	**182**	(121)
Profit for the year after tax from discontinued operations		**1,122**	56,812
Profit for the year from continuing and discontinued operations		**14,263**	44,801
Attributable to:			
Owners of Mears Group PLC		**14,119**	44,519
Non-controlling interest		**144**	282
Profit for the year		**14,263**	44,801
Earnings per share - from continuing operations			
Basic	11	**11.72p**	(10.66)p
Diluted	11	**11.50p**	(10.66)p
Earnings per share - from continuing and discontinued operations			
Basic	11	**12.73p**	40.21p
Diluted	11	**12.49p**	40.21p

The accompanying accounting policies and notes form an integral part of this preliminary announcement.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	**2021 £'000**	2020 £'000
Profit for the year		**14,263**	44,801
Other comprehensive income:			
Which will be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Cash flow hedges:			
· gains/(losses) arising in the year	23	**1,023**	(1,139)
· reclassification to the Consolidated Statement of Profit or Loss	23	**(85)**	354
(Decrease)/increase in deferred tax asset in respect of cash flow hedges	24	**(178)**	149
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Actuarial gain/(loss) on defined benefit pension scheme	28	**59,721**	(19,114)
Pension guarantee asset movements in respect of actuarial (gain)/loss	28	**(19,018)**	10,024
(Decrease)/increase in deferred tax in respect of defined benefit pension schemes	24	**(8,809)**	1,727
Other comprehensive income for the year		**32,654**	(7,999)
Total comprehensive income for the year		**46,917**	36,802
Attributable to:			
Owners of Mears Group PLC		**46,773**	36,520
Non-controlling interest		**144**	282
Total comprehensive income for the year		**46,917**	36,802

Total comprehensive income for the year attributable to owners of Mears Group PLC arises from:		
Continuing operations	**45,651**	(19,721)
Discontinued operations	**1,122**	56,241
Total comprehensive income for the year attributable to owners of Mears Group PLC	**46,773**	36,520

The accompanying accounting policies and notes form an integral part of this preliminary announcement.

Consolidated balance sheet

As at 31 December 2021

	Note	**2021 £'000**	2020 £'000
Assets			
Non-current			
Goodwill	12	**118,873**	118,873
Intangible assets	13	**6,610**	15,205
Property, plant and equipment	14	**20,712**	23,600
Right of use assets	15	**204,949**	200,041
Investments	16	**713**	966
Loan notes	23	**3,476**	3,160
Contingent consideration	23	**-**	5,431
Pension and other employee benefits	28	**37,651**	7,068
Pension guarantee assets	28	**12,975**	30,705
Deferred tax asset	24	**-**	3,320
		405,959	408,369
Current			
Inventories	17	**22,869**	31,258
Trade and other receivables	18	**148,305**	139,884
Current tax assets		**2,154**	358
Cash and cash equivalents	23	**54,632**	96,220
		227,960	267,720
Total assets		**633,919**	676,089
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	25	**1,109**	1,109
Share premium account		**82,265**	82,225
Share-based payment reserve		**1,313**	1,312
Hedging reserve	23	**-**	(760)
Merger reserve		**7,971**	7,971
Retained earnings		**107,578**	63,536
Total equity attributable to the shareholders of Mears Group PLC		**200,236**	155,393
Non-controlling interest		**802**	658
Total equity		**201,038**	156,051
Liabilities			
Non-current			
Long-term borrowing and overdrafts	23	**-**	39,353
Pension and other employee benefits	28	**16,995**	45,653
Deferred tax liabilities	24	**6,676**	-
Interest rate swaps	23	**-**	462
Lease liabilities	20	**175,290**	166,183
Non-current provisions	22	**3,800**	3,667
		202,761	255,318
Current			
Trade and other payables	19	**184,047**	221,029
Interest rate swaps	23	**-**	459
Lease liabilities	20	**41,600**	42,888
Provisions	21	**4,473**	344
Current liabilities		**230,120**	264,720
Total liabilities		**432,881**	520,038
Total equity and liabilities		**633,919**	676,089

	Note	2021 £'000	2020 £'000

The accompanying accounting policies and notes form an integral part of this preliminary announcement.

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	**2021 £'000**	2020 £'000
Operating activities			
Result for the year before tax		**16,333**	(15,218)
Adjustments	26	**65,902**	72,761
Change in inventories		**12,944**	4,787
Change in trade and other receivables		**(2,244)**	18,475
Change in trade, other payables and provisions		**(32,573)**	22,418
Cash inflow from operating activities of continuing operations before taxation		**60,362**	103,223
Taxes paid		**(3,752)**	41
Net cash inflow from operating activities of continuing operations		**56,610**	103,264
Net cash inflow from operating activities of discontinued operations	9	**59**	2,527
Net cash inflow from operating activities		**56,669**	105,791
Investing activities			
Additions to property, plant and equipment		**(7,587)**	(5,065)
Additions to other intangible assets		**(1,182)**	(1,717)
Proceeds from disposals of property, plant and equipment		**46**	17
Cash inflow in respect of property for resale		**-**	4,618
Loans repaid by related parties	31	**500**	10
Distributions from associates	16	**1,108**	-
Interest received		**413**	86
Net cash outflow from investing activities of continuing operations		**(6,702)**	(2,051)
Net cash inflow from investing activities of discontinued operations		**500**	54,612
Net cash (outflow)inflow from investing activities		**(6,202)**	52,561
Financing activities			
Proceeds from share issue		**40**	4
Net cash movement in revolving credit facility		**(40,000)**	(84,694)
Discharge of lease liabilities		**(40,258)**	(39,958)
Interest paid		**(8,844)**	(10,056)
Dividends paid - Mears Group shareholders		**(2,773)**	-
Net cash outflow from financing activities of continuing operations		**(91,835)**	(134,704)
Net cash outflow from financing activities of discontinued operations	9	**(220)**	(489)
Net cash outflow from financing activities		**(92,055)**	(135,193)
Cash and cash equivalents, beginning of year		**96,220**	73,061
Net (decrease)/increase in cash and cash equivalents		**(41,588)**	23,159
Cash and cash equivalents, end of year		**54,632**	96,220
The Group considers its revolving credit facility to be an integral part of its cash management:			
· Cash and cash equivalents		**54,632**	96,220
· Revolving credit facility		**-**	(39,353)
Cash and cash equivalents, including revolving credit facility		**54,632**	56,867

The accompanying accounting policies and notes form an integral part of this preliminary announcement.

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Attributable to equity shareholders of the Company							
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2020	1,105	82,224	2,421	(124)	12,956	19,840	(85)	118,337

Net result for the year	-	-	-	-	-	44,519	282	44,801
Other comprehensive income	-	-	-	(636)	-	(7,363)	-	(7,999)
Total comprehensive income for the year	-	-	-	(636)	-	37,156	282	(36,802)
Deferred tax on share-based payments	-	-	-	-	-	10	-	10
Issue of shares	4	1	-	-	-	-	-	5
Share options - value of employee services	-	-	1,029	-	-	-	-	1,029
Share options - exercised or lapsed	-	-	(2,138)	-	-	2,138	-	-
Non-controlling interest eliminated on disposal of subsidiary	-	-	-	-	-	-	(132)	(132)
Transactions with non-controlling interests	-	-	-	-	-	(593)	593	-
Transfer of realised profits	-	-	-	-	(4,985)	4,985	-	-
At 1 January 2021	1,109	82,225	1,312	(760)	7,971	63,536	658	156,051
Net result for the year	-	-	-	-	-	14,119	144	14,263
Other comprehensive income	-	-	-	760	-	31,894	-	32,654
Total comprehensive income for the year	-	-	-	760	-	46,013	144	46,917
Deferred tax on share-based payments	-	-	-	-	-	228	-	228
Issue of shares	-	40	-	-	-	-	-	40
Share options - value of employee services	-	-	575	-	-	-	-	575
Share options - exercised or lapsed	-	-	(574)	-	-	574	-	-
Dividends	-	-	-	-	-	(2,773)	-	(2,773)
At 31 December 2021	**1,109**	**82,265**	**1,313**	**-**	**7,971**	**107,578**	**802**	**201,038**

The accompanying accounting policies and notes form an integral part of this preliminary announcement.

Notes to the preliminary announcement

For the year ended 31 December 2021

1. ACCOUNTING POLICIES

Accounting policies are detailed in their respective notes, where relevant. Policies that are not specific to a particular note are detailed below.

Basis of preparation

The financial information in this announcement does not constitute the Group's or the Company's statutory accounts as defined in section 434 of the Companies Act 2006 for the years ended 31 December 2021 or 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the registrar of companies, and those for 2021 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted international accounting standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of contingent consideration, derivative financial instruments and share-based payments. They are presented in Sterling and all values are rounded to the nearest thousand (£'000).

The accounting policies remain unchanged from the previous year except for the modification of a number of standards with effect from 1 January 2021. The adoption of these amendments had no material effect on the Group's financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amounts, actual results may ultimately differ from those estimates. The most significant estimates made by management in these financial statements are set out in the accounting policies to which they relate.

Government and societal responses to climate change are still developing and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. There were no material impacts of climate change in determining asset and liability valuations and the timing of future cash flows to be incorporated into these financial statements.

Mears Group PLC is incorporated and domiciled in England and Wales (registration number 03232863). Its registered office and principal place of business is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH. Mears Group PLC's shares are listed on the Main Market of the London Stock Exchange.

Basis of consolidation

The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2021. Entities for which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is achieved where the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

All significant intercompany transactions and balances between Group enterprises, including unrealised profits arising from intra-group transactions, are eliminated on consolidation; no profit is taken on sales between Group companies.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement. Associates are entities over which the Group does not have control, but has significant influence. Investments in joint ventures and associates are accounted for using the equity method of accounting. Under this method, the Group's share of post-acquisition profits or losses is recognised in the Consolidated Statement of Profit or Loss; the cost of the investment in a given joint venture or associate, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included in investments within the Consolidated Balance Sheet.

Going concern

The Directors consider that, as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to at least 30 June 2023. When making this assessment, management considers whether the Group will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants applicable to those facilities, which will be measured at 30 June 2022, 31 December 2022 and 30 June 2023. At 31 December 2021, the Group had £70m of committed borrowing facilities, maturing in December 2025; however, no amount was drawn on the facility. The principal borrowing facilities are subject to covenants, as detailed within the Financial review section of the Strategic Report. The Strategic Report also details the principal risks and uncertainties and how the Group manages its risks. The Group has modelled its cash flow outlook for the period to 30 June 2023 and the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and that financial covenants will be met throughout the period, including the covenant tests at 30 June 2022 and 31 December 2022.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to £nil. The Directors have modelled a number of downside scenarios, which are covered in more detail in the Financial viability review section on pages 62 and 63. After making these assessments, the Directors consider any scenario or combination of scenarios that could cause the business to be no longer a going concern to be implausible. The Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Where applicable, the consideration for an acquisition includes any assets or liabilities arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information obtained up to one year from the acquisition date about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IFRS 9 in the Consolidated Statement of Profit or Loss.

For transactions with non-controlling parties that do not result in a change of control, the difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognised in equity.

Any business combinations prior to 1 January 2010 were accounted for in accordance with the standards in place at the time, which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Fair value

The Group measures certain assets and liabilities at fair value on a recurring basis, including its interest rate swaps, contingent consideration and assets in the Group's defined benefit pension schemes.

Trade and other receivables, trade and other payables and other loans are initially measured at fair value and are subsequently held at amortised cost. Other assets are measured at fair value when they are assessed for impairment or on classification as held for sale.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses valuation techniques that maximise the use of relevant observable inputs using the following valuation hierarchy, ordered from highest to lowest priority:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in level 1 that are observable either directly or indirectly.

Level 3 - Unobservable inputs, typically derived from the Group's own information with any necessary adjustments to eliminate factors specific to the Group.

For assets and liabilities measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by assessing the lowest level input that is significant to the most recent measurement.

Details of the particular valuation techniques used by the Group are provided in the relevant notes for each type of asset or liability measured at fair value.

Use of judgements and estimates
The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, key estimates and judgements have been made by management concerning whether an entity should be consolidated, provisions necessary for certain liabilities, estimates used in forecasts used to assess future expected profitability, the discount rates used and other judgements when recognising right of use assets for lease accounting, the timing of revenue recognition, the recoverability of contract assets and work in progress, actuarial estimates in respect of defined benefit pension schemes, the fair value of contingent consideration in respect of disposed entities and other similar evaluations. Actual amounts could differ from those estimates. Further details of key estimates and judgements are provided in the appropriate notes, with the exception of the consolidation judgement described below.

The impact of Covid-19 has been considered when making the estimates and judgements above. The global and local effects of the pandemic have primarily affected the discount rates used for lease accounting as well as the assumptions of discount rate and inflation rate used in calculating the Group's liabilities in respect of defined benefit pension schemes.

Consolidation judgement

An investor, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls an investee. An investor controls an investee if and only if the investor has power over the investee. In assessing whether it has power, an investor considers only substantive rights relating to an investee. For a right to be substantive, the holder must have the practical ability to exercise that right.

The Group holds a beneficial interest in 49% of the shares in a company, Haydon Mechanical and Electrical LLC ('Haydon LLC'), registered in the UAE. In assessing whether the Group has power over the investee, the Directors have considered several operational barriers which prevent Mears from exercising its rights. These barriers included the absence of suitable individuals willing to provide an executive management service and restrictions placed upon the trade licence. The Directors have therefore taken the judgement that Mears does not have the practical ability to direct the activities of Haydon LLC and as such does not meet the criteria for control. The results of the entity are therefore not consolidated within the financial statements.

Haydon LLC ceased trading during 2017 and reports a net liability position. The carrying value of the Group's investment in this associate has previously been reduced to £nil, and the Directors do not believe that the Group has incurred any legal or constructive obligations on behalf of this associate.

New standards and interpretations not yet applied
A number of standards have been modified with effect for accounting periods commencing on or after 1 January 2022. These include IAS 37 - 'Cost of Fulfilling a Contract', IAS 16 - 'Proceeds Before Intended Use' and other existing standards arising from the Annual Improvements to IFRSs 2018 - 2020 cycle. None of these amendments are expected to have a material effect on the Group's financial statements.

2. REVENUE

Accounting policy
Revenue is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts. It is based on the transfer of control of goods and services to customers. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

Repair and maintenance contracts
For contracts in this category, the customer raises orders on demand, for example to carry out responsive repairs. Revenue is derived from a mixture of lump-sum periodic payments and task-based payments depending on the terms of the individual contract.

Where a lump-sum payment is in place it may cover the administrative element of the contract or may cover the majority of the tasks undertaken within that contract with exclusions to this being charged in addition to the lump-sum charge. For the works covered by the lump-sum payment, the performance obligation is being available to deliver the goods and services in the scope of the contract, not the performance of the individual works orders themselves. Revenue is recognised on a straight-line basis as performance obligations are being met over time.

For works orders not covered by a lump-sum payment, each works order represents a distinct performance obligation and, as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. Each works order can be broken down into one or more distinct tasks which are either complete or not complete. The stage of completion of the works order is assessed by looking at which tasks are complete. The transaction price for partly completed works orders is recognised as cost plus expected margin. The transaction price for completed works orders is the invoice value, which is typically determined by a pricing schedule referred to as a Schedule of Rates that provides a transaction price for each particular task.

Some contracts may include an element of variable revenue based on certain KPIs. These are recognised either at a point in time or over time, depending on the nature of the KPI and the contractual agreement in which it is contained. Where there is uncertainty in the measurement of variable consideration, at both the start of the contract and subsequently, management will consider the facts and circumstances of the contract in determining either the most likely amount of variable consideration when the outcome is binary, or the expected value based on a range of possible considerations. Included within this assessment will be the extent to which there is a high probability that a significant reversal in variable consideration revenues will not occur once the uncertainty is subsequently resolved. This assessment will include consideration of the following factors: the total amount of the variable consideration; the proportion of consideration susceptible to judgements of customers or third parties, for example KPIs; the length of time expected before resolution of the uncertainty; and the Group's previous experience of similar contracts.

Property income

Where the Group is acting as principal, lessor operating lease revenue is recognised in revenue on a straight-line basis over the tenancy.

Where the Group is providing a management service, Mears recognises revenue as an agent (the net management fee) on a straight-line basis. Where significant initial costs are required to make good the housing to perform Housing Management activities, the costs directly attributable to the initial upgrade will be recognised as costs incurred to fulfil a contract and held within current assets, to the extent that it is determined that costs are recoverable.

Where the Group is providing an accommodation and support service, revenue is recognised at a point in time for each night that the accommodation is occupied.

Some contracts may include an element of variable revenue based on certain KPIs. This is recognised on the same basis as above.

Where the Group enters into arrangements with customers for the provision of housing, an assessment is made as to whether this income is recognised under IFRS 15 or IFRS 16. The contract between the Group and the customer is deemed to contain a lease where the contract conveys the right to control an identified asset for a period of time in exchange for consideration. In this instance, the rental income is recognised on a straight-line basis over the life of the lease. All such sub-leased residential property leases are classified as operating leases. Revenue in respect of sub-leased residential property is disclosed separately.

Care services
The standalone selling prices for providing care are overtly stated in the contract, and the method of application of the rate of charge is on a unit of time basis, usually expressed as a rate per visit. Revenue will be recognised in respect of this single performance obligation, by reference to the chargeable rate and time for completed care visits in the period.

From time to time, care contracts with customers include a fixed fee per period for performing a consistent scope of care services. For these contract types, the revenue recognition is consistent with lump-sum payments included in repair and maintenance contracts, as described above.

Mobilisation
Across all revenue types, where a contract includes a mobilisation element, consideration is initially given to whether the mobilisation element contains any discrete performance obligations. If this is the case, an element of the total contract price is allocated to those performance obligations and recognised either at a point in time or over time, depending on the nature of the performance obligation. Mobilisation income is included in the revenue category to which the contract relates.

Where amounts are received for mobilisation elements that are not performance obligations, these amounts are allocated to the performance obligations in the contract to which they relate.

No revenue was recognised during 2021 in respect of mobilisation performance obligations.

Contracting projects
For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. Mears is continuously satisfying this single performance obligation as cost is incurred, determining progress against the performance obligation on an input basis. The customer controls the site or output as the work is being performed on it and therefore revenue is recognised over time where there is an enforceable right to payment for works completed to date and the work completed does not create an asset with an alternative use to the Group. An assessment is made of costs incurred to date and the costs required to complete the project. If a project is not deemed to be profitable, the unavoidable costs of fulfilling the contract are provided for immediately. This category also includes construction contracts where an end customer has not yet been identified and the revenue is recognised at the point of sale of the property, rather than over time.

Other
From time to time, the Group receives revenue that does not fall within any of the categories above but is not individually significant enough to require a specific policy. In these cases, the revenue is considered separately and recognised in accordance with IFRS 15.

Key sources of estimation uncertainty
Contract recoverability

Determining future contract profitability requires estimates of future revenues and costs to complete. In making these assessments there is a degree of inherent uncertainty. The Group utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

Critical judgements in applying the Group's accounting policies
Revenue recognition

The estimation techniques used for revenue and profit recognition in respect of contracting and variable consideration contracts require judgements to be made about the stage of completion of certain contracts and the recovery of work in progress, mobilisation costs and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2021 £'000	2020 £'000
Revenue from contracts with customers		
Repairs and maintenance	**481,647**	449,974
Contracting	**101,599**	103,643
Property income	**240,641**	199,718
Care services	**19,446**	19,825
Other	**295**	109
	843,628	773,269
Lease income	**34,792**	32,548
	878,420	805,817

All of the above categories fall exclusively within the Housing segment.

A total of £13.2m of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2020: £2.1m).

Repairs and maintenance and care service revenue is typically invoiced between one and 30 days from completion of the performance obligation. Contracting revenue is typically invoiced based on the stage of completion of the overall contract. Property income is typically invoiced monthly in advance. Payment terms for revenue invoiced are typically 30 to 60 days from the date of invoice.

A maturity analysis of future minimum lessor income as at 31 December is shown in the table below:

	2021 £'000	2020 £'000
Less than 1 year	**7,535**	7,963
Between 1 and 2 years	**2,365**	2,938
Between 2 and 3 years	**2,060**	2,385
Between 3 and 4 years	**1,750**	2,087
Between 4 and 5 years	**1,544**	1,683
Over 5 years	**812**	2,296
	16,066	19,352

3. SEGMENT REPORTING

Accounting policy

Segment information is presented in respect of the Group's operating segments based on the format that the Group reports to its chief operating decision maker.

The Group considers that the chief operating decision maker comprises the Executive Directors of the business.

The Group had one continuing operating segment during the year:

- Housing - following the disposal of the Group's domiciliary care operations, all services provided by the Group fall within this segment. This includes housing repairs and maintenance services, a full housing management service and Care services directly related to housing provision.

All of the Group's activities are carried out within the United Kingdom and the Group's principal reporting to its chief operating decision maker is not segmented by geography. As such, the results for the Group as a whole represent the results for the single segment.

All revenue and all non-current assets arise within the United Kingdom. All of the revenue reported is external to the Group. The Group's largest single customer relationship is in respect of the Asylum Accommodation and Support Contract with the Home Office. At the time that this contract was won, the Group expected to report annual revenues of around £120m, which would, under normal conditions, amount to around 15% of Group revenues. The AASC contract has experienced elevated volumes as a result of a backlog linked to the challenges of Covid-19. As a result, this customer relationship accounted for over 20% of Group revenues in 2021 and this elevated position has continued into 2022. In the longer term, this contract is expected to reduce back down to a normal level. No other customer comprises more than 10% of reported revenue.

4. OPERATING COSTS

Operating costs, relating to continuing activities, include the following:

	2021 £'000	2020 £'000
Share-based payments	**575**	993
Depreciation	**49,029**	47,688
Impairment of fixed assets	**-**	1,500
Amortisation of acquisition intangibles	**7,654**	9,525
Amortisation of other intangibles	**2,123**	2,211
Loss on disposal of property, plant and equipment	**273**	231

Fees payable for audit and non-audit services during the year were as follows:

	2021 £'000	2020 £'000
In respect of continuing activities:		
Fees payable to the auditor for the audit of the Group's financial statements	**150**	130
Other fees payable to the auditor in respect of:		
· auditing of accounts of subsidiary undertakings pursuant to legislation	**600**	485
· additional fees in respect of the 2020 audit	**273**	-
Fees payable to the auditor in respect of discontinued activities	**-**	70
Total auditor's remuneration	**1,023**	685

5. FINANCE INCOME AND FINANCE COSTS

	2021 £'000	2020 £'000
Interest charge on overdrafts and loans	**(1,408)**	(2,663)
Interest charge on hedged items	**(310)**	(354)
Interest on lease obligations	**(6,952)**	(7,123)

	2021 £'000	2020 £'000
Other interest	**(3)**	(19)
Finance costs on bank loans, overdrafts and leases	**(8,673)**	(10,159)
Interest charge on defined benefit pension obligation	**(231)**	(132)
Total finance costs	**(8,904)**	(10,291)
Interest income resulting from short-term bank deposits	**1**	6
Interest income resulting from defined benefit pension asset	**106**	234
Income from settlement of hedge instruments	**395**	-
Other interest income	**333**	53
Finance income	**835**	293
Net finance charge	**(8,069)**	(9,998)
Gains and losses on hedged items recognised in other comprehensive income		
Gains/(losses) arising in the year	**1,023**	(1,139)
Reclassification to the Consolidated Statement of Profit or Loss	**(85)**	354
Changes in mark-to-market of interest rate swaps	**938**	(785)

6. EMPLOYEES

Staff costs during the year were as follows:

	2021 £'000	2020 £'000
Wages and salaries	**166,304**	161,128
Social security costs	**16,425**	17,380
Other pension costs	**8,552**	9,454
	191,281	187,962

Wages and salaries are presented net of Coronavirus Job Retention Scheme of £nil (2020: £15.7m).

The average number of employees of the Group during the year was:

	2021	2020
Site workers	**2,873**	3,474
Carers	**664**	703
Office and management	**1,860**	2,150
	5,397	6,327

7. SHARE-BASED EMPLOYEE REMUNERATION

Accounting policy

All share-based payment arrangements are recognised in the consolidated financial statements in accordance with IFRS 2.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value (excluding the effect of non-market-based vesting conditions) of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Monte Carlo option pricing model (2020: Black-Scholes) and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period. For Save As You Earn (SAYE) plans, employees are required to contribute towards the plan. This non-vesting condition is taken into account in calculating the fair value of the option at the grant date.

All share-based remuneration is ultimately recognised as an expense in the Consolidated Statement of Profit or Loss. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital, with any excess being recorded as share premium.

As at 31 December 2021 the Group maintained four (2020: four) active share-based payment schemes for employee remuneration.

Details of the share options outstanding and movement during the year are as follows:

	2021		2020	
Operating segments	**Number '000**	**Weighted average exercise price p**	Number '000	Weighted average exercise price p
Outstanding at 1 January	**5,292**	**131**	3,325	217
Granted	**544**	**1**	4,004	93
Forfeited or lapsed	**(965)**	**177**	(1,647)	240
Exercised	**(44)**	**92**	(390)	7
Outstanding at 31 December	**4,827**	**110**	5,292	131

The weighted average share price at the date of exercise for share options exercised during the period was 195p. At 31 December 2021, 0.5m options had vested and were still exercisable at prices between 1p and 429p. These options had a weighted average exercise price of 284p and a weighted average remaining contractual life of 6.7 years.

The fair values of options granted were determined using the Monte Carlo option pricing model (2020: Black-Scholes). Significant inputs into the calculation include the market price at the date of grant, the exercise price and share price volatility. Furthermore, the calculation incorporates an estimate of the future dividend yield and the risk-free interest rate. The share price volatility was determined from the daily log normal distributions of the Company share price over a period commensurate with the expected life as calculated back from the date of grant. The risk-free interest rate utilised the zero-coupon bond yield derived from UK Government bonds as at the date of calculation for a life commensurate with the expected life. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions.

There were 0.54m options granted during the year and 0.97m options that lapsed during the year. The market price at 31 December 2021 was 189p and the range during 2021 was 148p to 224p.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

The Group recognised the following expenses related to share-based payments:

	2021 £'000	2020 £'000
Giving rise to share-based payment reserve:		
· SAYE	**295**	682
· CSOP	**133**	347
· LTIP	**94**	-
· DSBP	**53**	-
	575	1,029

The Group is currently running four active schemes, detailed below:

Share save plan (Save As You Earn)
Options are available to all employees. Options are granted for a period of three years. Options are exercisable at a price based on the quoted market price of the Company's shares at the time of invitation, discounted by up to 20%. Options are forfeited if the employee leaves Mears Group before the options vest, which impacts on the number of options expected to vest. If an employee stops saving but continues in employment, this is treated as a cancellation, which results in an acceleration of the share-based payment charge.

Company Share Option Plan
The Company operates a discretionary unapproved share plan and a Company Share Option Plan. Options are exercisable at a price below market value at the date of grant and often at nominal value. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves Mears Group before the options vest. No awards to Executive Directors are proposed under these plans.

Long-term incentive plan
The LTIP provides for awards of free shares (i.e. either conditional shares or nil or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. The first award under this scheme was made during 2021. Options are granted under this scheme to key senior management subject to performance conditions as detailed on page 92 of the Remuneration Report.

Deferred share bonus plan (DSBP)
The deferred share bonus plan relates to Annual Bonus payments where typically 33% are deferred into shares and vest subject to continued employment. Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends that would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis. Clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award.

8. TAX EXPENSE

Accounting policy
Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the accounting periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the Consolidated Statement of Profit or Loss, any related tax generated is recognised as a component of tax expense in the Consolidated Statement of Profit or Loss. Where an item is recognised directly to equity or presented within the Consolidated Statement of Comprehensive Income, any related tax generated is treated similarly.

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated using the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation 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 against which taxable temporary differences can be utilised. Deferred tax is charged or credited to either the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited. Deferred tax relating to items charged or credited directly to equity is also credited or charged to equity.

Tax recognised in the Consolidated Statement of Profit or Loss:

	2021 £'000	2020 £'000
United Kingdom corporation tax	**2,407**	(785)
Adjustment in respect of previous periods	**(450)**	674
Total current tax charge/(credit) recognised in Consolidated Statement of Profit or Loss	**1,957**	(111)
Deferred taxation charge:		
· on defined benefit pension obligations	**154**	(167)
· on share-based payments	**-**	101
· on capital allowances	**806**	(26)
· on amortisation of acquisition intangibles	**(1,372)**	(1,553)
· on short-term temporary timing differences	**(45)**	144
· on corporate tax losses	**1,003**	(324)
· other timing differences	**(50)**	43
· statutory rate changes	**742**	-
Adjustment in respect of previous periods	**(3)**	(1,314)
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	**1,235**	(3,096)
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss on continuing operations	**3,192**	(3,207)
Total tax (credit)/charge recognised in Consolidated Statement of Profit or Loss on discontinued operations	**(182)**	121
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss	**3,010**	(3,086)

The charge for the year can be reconciled to the result for the year as follows:

	2021 £'000	2020 £'000
Profit/(loss) for the year on continuing operations before tax	**16,333**	(15,218)
Profit for the year on discontinued operations before tax	**940**	56,933
Result for the year before tax	**17,273**	41,715
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 19.0% (2020: 19.0%)	**3,282**	7,926
Effect of:		
· expenses not deductible for tax purposes	**321**	142
· fixed asset impairment	**-**	285
· net proceeds of disposals of subsidiaries not subject to tax	**(209)**	(9,760)
· income not subject to tax	**-**	(248)
· tax impact of employee share schemes	**102**	201
· tax losses not previously recognised in deferred tax	**(593)**	(35)
· impact of statutory rate changes	**742**	-
· adjustment in respect of prior periods	**(635)**	(1,597)
Actual tax charge/(credit)	**3,010**	(3,086)

Deferred tax is recognised on both temporary differences between the treatment of items for tax and accounting purposes. Deferred tax on the amortisation of acquisition intangibles is a temporary difference and arises because no tax relief is due on this kind of amortisation.

Tax losses generated in previous years which are expected to be utilised against future profits are recognised as a deferred tax asset and a subsequent charge arises as those losses are utilised. No deferred tax asset is recognised in respect of losses of £25.5m (2020: £29.0m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the future.

Deferred tax is also recognised on short-term temporary timing differences, primarily relating to provisions. These differences are expected to reverse in the following year and arise because tax relief is only available when the costs are incurred.

Capital allowances represent tax relief on the acquisition of property, plant and equipment and are spread over several years at rates set by legislation. These differ from depreciation, which is an estimate of the use of an item of property, plant and equipment over its useful life. Deferred tax is recognised on the difference between the remaining value of such an asset for tax purposes and its carrying value in the accounts.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end, to the extent those balances are expected to impact on current tax after 1 April 2023.

The following tax has been charged to other comprehensive income or equity during the year:

	2021 £'000	2020 £'000
Deferred tax charge/(credit) recognised in other comprehensive income		
· on defined benefit pension obligations	**8,809**	(1,727)
· on cash flow hedges	**178**	(149)

	2021	2020
Total deferred tax charge/(credit) recognised in other comprehensive income	**8,987**	(1,876)

Deferred tax recognised directly in equity	**£'000**	£'000
Deferred tax credit:		
· on share-based payments	**(228)**	(10)
Total deferred tax recognised in equity	**(228)**	(10)
Total tax		
Total current tax	**1,775**	10
Total deferred tax	**9,994**	(4,982)

9. DISCONTINUED ACTIVITIES

During 2020, the Group completed the disposal of its Domiciliary Care business and disposed of its Planning Solutions business.

A small amount of income and expenditure were incurred in respect of the Domiciliary Care business during 2021, primarily for transitional services as a result of the separation of the disposed business from the continuing business. These transactions are recognised in discontinued operations.

In addition, the consideration for the disposal of the Planning Solutions business included a contingent element to be received in April 2022. The fair value of this contingent consideration has been reassessed at 31 December 2021 and the resultant profit has been recognised in discontinued operations.

The results of the operations which have been included in the consolidated financial statements are as follows:

	2021 **£'000**	2020 £'000
Revenue and profits		
Sales revenue	**57**	35,388
Cost of sales	**(53)**	(20,787)
Administrative expenses	**(161)**	(11,738)
Profit on disposal	**-**	54,074
Increase in fair value of contingent consideration	**1,100**	-
Finance costs	**(3)**	(4)
Profit for the year before tax on discontinued operations	**940**	56,933
Tax on discontinued operations	**182**	(121)
Profit for the year after tax on discontinued operations	**1,122**	56,812

The results of all disposed businesses prior to their disposal are presented within discontinued cash flows in the Consolidated Cash Flow Statement.

The results of the operations which have been included in the Consolidated Cash Flow Statement are as follows:

	2021 **£'000**	2020 £'000
Operating activities		
Result for the year before tax	**940**	56,933
Net finance costs	**3**	4
Share-based payments	**-**	36
Depreciation and amortisation	**-**	1,004
Net profit on disposal of investments	**-**	(58,993)
Fair value movement	**(1,100)**	-
Change in operating receivables	**-**	586
Change in operating payables	**34**	2,962
Net cash (outflow)/inflow from operating activities before taxation	**(123)**	2,532
Taxes paid	**182**	(5)
Net cash inflow from operating activities	**59**	2,527
Investing activities		
Additions to property, plant and equipment	**-**	(305)
Additions to other intangible assets	**-**	(3,141)
Proceeds from disposal of subsidiaries	**500**	63,676
Net cash disposed of with subsidiaries	**-**	(5,618)
Net cash inflow from investing activities	**500**	54,612
Financing activities		
Discharge of lease liabilities	**(217)**	(485)
Interest paid	**(3)**	(4)
Net cash outflow from financing activities	**(220)**	(489)
Net increase in cash and cash equivalents	**339**	56,650

10. DIVIDENDS

Accounting policy
Dividend distributions payable to equity shareholders are included in 'Current financial liabilities' when the dividends are approved in a general meeting prior to the balance sheet date.

The following dividends were paid on ordinary shares in the year:

	2021	2020

	£'000	£'000
Final 2020 dividend of 0p (2020: final 2019 dividend of 0p) per share	**-**	-
Interim 2021 dividend of 2.5p (2020: interim 2020 dividend of 0p) per share	**2,773**	-
	2,773	-

No dividend was declared in respect of 2020. An interim dividend in respect of 2021 of 2.50p was paid to shareholders in October 2021. The Directors recommend a final dividend of 5.50p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2021.

11. EARNINGS PER SHARE

	Continuing		**Discontinued**		**Continuing and discontinued**	
	2021	2020	**2021**	2020	**2021**	2020
	p	p	**p**	p	**p**	p
Basic earnings per share	**11.72**	(10.66)	**1.01**	50.87	**12.73**	40.21
Diluted earnings per share	**11.50**	(10.66)	**0.99**	50.87	**12.49**	40.21

The calculation of EPS is based on a weighted average of ordinary shares in issue during the year. The diluted EPS is based on a weighted average of ordinary shares calculated in accordance with IAS 33 'Earnings per Share', which assumes that all dilutive options will be exercised. IAS 33 defines dilutive options as those whose exercise would decrease earnings per share or increase loss per share from continuing operations.

	2021 Million	2020 Million
Weighted average number of shares in issue:	**110.93**	110.56
· Dilutive effect of share options	**2.13**	-
Weighted average number of shares for calculating diluted earnings per share	**113.06**	110.56

As the Group made a loss from continuing operations during 2020, there were no dilutive options during that period. The number of antidilutive potential shares not included in the above table for 2020 was 0.39 million.

12. GOODWILL

Accounting policy

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off directly to reserves under UK GAAP is not recycled to the Consolidated Statement of Profit or Loss on calculating a gain or loss on disposal.

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows: CGUs. As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill or CGUs that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Consolidated Statement of Profit or Loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

	Goodwill arising on consolidation £'000	**Purchased goodwill £'000**	**Total £'000**
Gross carrying amount			
At 1 January 2020	114,954	8,250	123,204
Reclassification	4,208	(4,208)	-
Disposal of subsidiary	(4,331)	-	(4,331)
At 1 January 2021 and 31 December 2021	**114,831**	**4,042**	**118,873**
Accumulated impairment losses			
At 1 January 2020, at 1 January 2021 and at 31 December 2021	-	-	-
Carrying amount			
At 31 December 2021	**114,831**	**4,042**	**118,873**
At 31 December 2020	114,831	4,042	118,873

Goodwill on consolidation arises on the excess of cost of acquisition over the fair value of the net assets acquired on purchase of a company.

Purchased goodwill arises on the excess of cost of acquisition over the fair value of the net assets acquired on the purchase of the trade and assets of a business by the Group.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there are any indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which management monitors that goodwill. Goodwill is carried at cost less accumulated impairment losses.

The carrying value of goodwill is allocated to the following CGUs:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Housing	95,742	4,042	99,784
Housing with Care	19,089	-	19,089
	114,831	4,042	118,873

Housing with Care is delivered through two standalone subsidiaries of the Group and includes those activities that include an element of personal care as part of the service to the end user. The cash flows in respect of these two subsidiaries are separately identifiable and hence this is a CGU in its own right. All other activities fall within the Housing CGU.

An asset is impaired if the carrying value exceeds the CGU's recoverable amount, which is based on value in use. At 31 December 2021 impairment reviews were performed by comparing the carrying value with the value in use for the CGUs to which goodwill has been allocated.

The value in use for each CGU is calculated from the Board-approved one-year budgeted cash flows and extrapolated cash flows for the next four years discounted at a post-tax discount rate of over a five-year period with a terminal value. The impairment reviews incorporated a terminal growth assumption, which is conservative when compared with the UK long-term growth rate and the underlying demographics, which will be positive for the Group's core markets.

The estimated growth rates are based on knowledge of the individual CGU's sector and market and represent management's base level expectations for future growth. Changes to revenue and direct costs are based on past experience and expectation of future changes within the markets of the CGUs. All CGUs have the same access to the Group's treasury function and borrowing arrangements to finance their operations.

Management considers that reasonably possible changes in these assumptions would not cause a CGU's carrying amount to exceed its recoverable amount.

The rates used were as follows:

	Post-tax discount rate	Pre-tax discount rate	Volume growth rate (years 1-5)	Terminal growth rate
Housing	9.00%	11.50%	2.00%	1.70%
Housing with Care	9.00%	11.45%	2.00%	1.70%

13. OTHER INTANGIBLE ASSETS

Accounting policy

In accordance with IFRS 3 (Revised) 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

Development costs incurred on software development are capitalised when all the following conditions are satisfied:

- Completion of the software module is technically feasible so that it will be available for use.
- The Group intends to complete the development of the module and use it.
- The software will be used in generating probable future economic benefits.
- There are adequate technical, financial and other resources to complete the development and to use the software.
- The expenditure attributable to the software during its development can be measured reliably.

Costs incurred making intellectual property available for use (including any associated borrowing costs) are capitalised when all of the following conditions are satisfied:

- Completion of the data set is technically feasible so that it will be available for use.
- The Group intends to complete the preparation of the data and use it.
- The data will be used in generating probable future economic benefits.
- There are adequate technical, financial and other resources to complete the data set and to use it.
- The expenditure attributable to the intellectual property during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software are continually monitored by management.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on software development.

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until the asset is available for use on completion of the project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

The identifiable intangible assets and associated periods of amortisation are as follows:

Order book	- over the period of the order book, typically three years
Client relationships	- over the period expected to benefit, typically five years
Supplier relationships	- over the period expected to benefit, typically two years
Development expenditure	- over four to five years, straight line
Software	- 25% p.a., reducing balance

The useful economic lives of intangible assets are reviewed annually and amended if appropriate.

	Acquisition intangibles					
	Client relationships £'000	**Order book £'000**	**Supplier relationships £'000**	**Total acquisition intangibles £'000**	**Development expenditure £'000**	**Total intangibles £'000**
Gross carrying amount						
At 1 January 2020	65,987	17,770	2,172	85,929	22,998	108,927
Additions	-	-	-	-	4,858	4,858
Disposal of subsidiaries	-	-	-	-	(7,896)	(7,896)
At 1 January 2021	65,987	17,770	2,172	85,929	19,960	105,889
Additions	-	-	-	-	1,182	1,182
At 31 December 2021	**65,987**	**17,770**	**2,172**	**85,929**	**21,142**	**107,071**
Accumulated amortisation						
At 1 January 2020	51,431	13,580	1,089	66,100	14,185	80,285
Amortisation charge for period	8,351	525	650	9,526	2,625	12,151
Disposal of subsidiaries	-	-	-	-	(1,752)	(1,752)
At 1 January 2021	59,782	14,105	1,739	75,626	15,058	90,684
Amortisation charge for period	3,556	3,665	433	7,654	2,123	9,777
At 31 December 2021	**63,338**	**17,770**	**2,172**	**83,280**	**17,181**	**100,461**
Carrying amount						
At 31 December 2021	**2,649**	**-**	**-**	**2,649**	**3,961**	**6,610**
At 31 December 2020	6,205	3,665	433	10,303	4,902	15,205

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's Housing job management system. Development expenditure is amortised over its useful economic life of 5.0 years. The weighted average remaining economic life of the asset is 3.1 years (2020: 3.1 years).

All amortisation is included within other administrative expenses.

14. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated to write down the cost less estimated residual value over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	-	2% p.a., straight line
Leasehold improvements	-	over the period of the lease, straight line
Plant and machinery	-	25% p.a., reducing balance
Equipment	-	25% p.a., reducing balance
Fixtures and fittings	-	50% p.a., straight line
Motor vehicles	-	25% p.a., reducing balance

Residual values are reviewed annually and updated if appropriate. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the Consolidated Statement of Profit or Loss.

Identifying whether there are indicators of impairment in respect of property, plant and equipment involves some judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance at both a contract and business level, and any significant changes to the markets in which we operate. This is not considered to be a critical judgement or an area of significant uncertainty.

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
Gross carrying amount							
At 1 January 2020	822	22,497	2,933	47,440	1,008	4,726	79,426
Additions	-	2,969	28	846	-	1,113	4,956
Disposals	(6)	(6,080)	(151)	(10,755)	(24)	-	(17,016)
Reclassification	-	(104)	-	104	-	-	-
Disposal of subsidiaries	-	(241)	(761)	(2,005)	-	-	(3,007)
Transferred from disposal group	110	129	-	17	-	-	256
At 1 January 2021	926	19,170	2,049	35,647	984	5,839	64,615
Additions	101	5,225	9	2,051	-	216	7,602
Disposals	-	-	(500)	(8,343)	-	-	(8,843)
Transfer to inventories	-	-	-	-	-	(6,055)	(6,055)
At 31 December 2021	**1,027**	**24,395**	**1,558**	**29,355**	**984**	**-**	**57,319**
Depreciation							
At 1 January 2020	46	12,824	2,113	37,135	982	-	53,100
Provided in the year	28	2,226	214	3,205	7	-	5,680
Eliminated on disposals	(6)	(6,080)	(135)	(10,496)	(23)	-	(16,740)
Impairment	-	-	-	-	-	1,500	1,500
Reclassification	-	2	-	(2)	-	-	-
Disposal of subsidiaries	-	(102)	(641)	(1,808)	-	-	(2,551)
Transferred to disposal group	-	18	-	8	-	-	26
At 1 January 2021	68	8,888	1,551	28,042	966	1,500	41,015
Provided in the year	30	3,241	118	2,222	5	-	5,616
Eliminated on disposals	-	-	(426)	(8,098)	-	-	(8,524)
Transfer to inventories	-	-	-	-	-	(1,500)	(1,500)
At 31 December 2021	**98**	**12,129**	**1,243**	**22,166**	**971**	**-**	**36,607**
Carrying amount							
At 31 December 2021	**929**	**12,266**	**315**	**7,189**	**13**	**-**	**20,712**
At 31 December 2020	858	10,282	498	7,605	18	4,339	23,600

During the year, the property previously presented as an asset under construction was reclassified to inventories as it is now expected to be sold to a third party on completion, rather than used within the business.

15. RIGHT OF USE ASSET

Accounting policy

Where an asset is subject to a lease, the Group recognises a right of use asset and a lease liability on the balance sheet. The right of use asset is measured at cost, which matches the initial measurement of the lease liability and any costs expected at the end of the lease, and then depreciated on a straight-line basis over the lease term.

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate. Lease payments include fixed payments, variable payments based on an index and payments arising from options reasonably certain to be exercised.

The Group has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right of use assets and lease liabilities are presented separately.

Critical judgements in applying the Group's accounting policies

The Group holds more than 15,000 leases across its portfolio of residential properties, offices and vehicles. Whilst the Group endeavours to standardise the form of leases, operational demands dictate that many leases have specific wording to address particular operational needs and also to manage the associated operational and financial risks. As such, each lease requires individual assessment and the Group is required to make key judgements which include:

- the identification of a lease;
- assessing the right to direct the use of the underlying asset;
- determining the lease term; and
- the assessment as to the level of future lease payments, including fixed and variable payments.

The most typical challenges encountered and which form the key judgements are:

- where the lease contains a one-way no-fault break in Mears' favour, the Group measures the obligation based on the Group's best estimate of its future intentions;
- where a unilateral break is in place, assessing whether the lease can be terminated with no more than an insignificant penalty;
- where the lessor has a right of substitution meaning that the lessor can swap one property for another without Mears' approval;
- where Mears does not in practice have the right to control the use of the asset and the key decision making rights are retained by the supplier;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under

IFRS 16; and

- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which Mears only makes lease payments to the owner to the extent that the property is occupied and to the extent that rents are received from the tenant.

Key sources of estimation uncertainty
Additions and remeasurements to right of use assets in respect of lease agreements are equivalent to the present value (or change in present value) of the relevant lease obligation. Unless there is an interest rate implicit in the lease itself, the Group's Incremental Borrowing Rate (IBR) is used to calculate the present value of future lease payments. Estimation is required in deriving an appropriate IBR. The Directors believe that the best approximation for IBR is the currently applicable margin from the grid contained within the Group's RCF agreement, added to an appropriate base rate. For the current period, that base rate was LIBOR, as that was the base rate under the RCF agreement throughout the year. For 2022, the base rate will switch to SONIA as that is the base rate under the new RCF agreement, finalised in December 2021. This change is not expected to have a material impact on the calculation of IBR.

The above represents a change in estimation methodology for IBR from that used during the previous year. In 2020, the Group had a low level of headroom on its RCF and a reduced ability for additional borrowing. It was therefore not considered appropriate at that time to utilise the RCF rate. Instead, the Directors determined a synthetic credit rating and used this to select appropriate corporate bond yield curves at varying tenors to determine an appropriate IBR for leases entered into during the year.

The Directors believe that the methodology applied in 2021 is both a simplification of and an improvement to the method applied in the prior year. Given the significant reduction in the Group's leverage, the RCF would now be utilised to fund the underlying assets were the Directors to choose to purchase rather than lease. The RCF rates are real commercial rates of interest that the Group has access to and therefore represent more reliable information on which to base this estimate. The sensitivity of the lease liability to the assumptions used in these estimations is indicated in note 20.

Investment property
Included within right of use assets are certain properties classified as investment properties in accordance with IAS 40. These properties are held primarily in order to earn rentals. The Group has chosen to apply the cost model to all investment property and therefore measurement is in line with IFRS 16 as described in the Leased assets accounting policy.

Properties that generate rentals but are primarily held for the provision of social benefits are not considered to meet the definition of investment property.

	Assets that are sub-leased to customers		Assets that are used directly within the business			
	Investment property £'000	**Residential property £'000**	**Residential property £'000**	**Offices £'000**	**Motor vehicles £'000**	**Total £'000**
Gross carrying amount						
At 1 January 2020	27,052	115,592	42,352	11,961	32,109	229,066
Additions*	476	2,999	33,462	1,479	8,187	46,603
Disposals	-	(6,552)	(507)	(1,105)	(2,390)	(10,554)
Disposal of subsidiaries	-	-	-	(1,259)	-	(1,259)
At 1 January 2021	27,528	112,039	75,307	11,076	37,906	263,856
Additions*	417	5,824	29,646	1,262	12,895	50,044
Disposals	-	(4,674)	(1,487)	(910)	(19,761)	(26,832)
At 31 December 2021	**27,945**	**113,189**	**103,466**	**11,428**	**31,040**	**287,068**
Depreciation						
At 1 January 2020	1,509	11,874	3,460	3,282	10,557	30,682
Provided in the year	1,521	10,832	16,292	2,753	11,112	42,510
Eliminated on disposals	-	(5,555)	(140)	(1,063)	(2,215)	(8,973)
Disposal of subsidiaries	-	-	-	(404)	-	(404)
At 1 January 2021	3,030	17,151	19,612	4,568	19,454	63,815
Provided in the year	1,553	8,609	21,589	1,741	9,921	43,413
Eliminated on disposals	-	(4,140)	(795)	(910)	(19,264)	(25,109)
At 31 December 2021	**4,583**	**21,620**	**40,406**	**5,399**	**10,111**	**82,119**
Carrying amount						
At 31 December 2021	**23,362**	**91,569**	**63,060**	**6,029**	**20,929**	**204,949**
At 31 December 2020	24,498	94,888	55,695	6,508	18,452	200,041

* Additions includes both new underlying assets and remeasurement of the right of use asset for changes in the lease terms.

Investment property included above represents properties held by the Group primarily to earn rentals, rather than for use in the Group's other activities. The amount included in lease income in note 2 in respect of these properties is £1.7m (2020: £2.9m). Direct operating expenses arising from investment property that generated rental income during the period was £3.3m (2020: £3.4m). The carrying value of the right of use asset in respect of investment property is considered to be approximately equal to its fair value.

16. INVESTMENTS

Accounting policy
Investments include those over which the Group has significant influence but which it does not control. These are categorised as associates. It is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. The Group also holds investments in joint ventures where the Group and other parties have joint control over their activities.

The basis by which associates and joint ventures are consolidated in the Group financial statements is through the equity method, as outlined in the basis of consolidation.

In addition to associates and joint ventures, the Group holds investments in entities over which it does not exert significant influence. These are accounted for at fair value through profit or loss.

	Associates £'000	Other investments £'000	Total £'000
At 1 January 2020	536	-	536
Share of profit	1,056	-	1,056
Distributions received	(691)	-	(691)
Acquisition	-	65	65
At 1 January 2021	901	65	966
Share of profit	855	-	855
Distributions received	(1,108)	-	(1,108)
At 31 December 2021	**648**	**65**	**713**

On 9 December 2020, as part of the disposal of the Group's Planning Solutions business, the Group acquired 6.16% of the ordinary share capital of Mason Topco Limited, the new owner of the disposed business. This investment is presented in Other investments and is mandatorily held at fair value through profit or loss. There have been no changes in the fair value of the investment during the year (2020: none).

Associates

Set out below is the investment in an associate as at 31 December 2021, which in management's opinion is significant to the Group:

	Nature of relationship	Proportion held	Country of registration	Carrying value 2021 £'000	2020 £'000
Pyramid Plus South LLP	Associate	30%	England and Wales	**648**	901

Pyramid Plus South LLP is a repairs and maintenance service provider that is central to one of the Group's contracts.

During the year, the Group received distributions of £1.1m (2020: £0.7m) from Pyramid Plus South LLP. Summarised financial information for Pyramid Plus South LLP for the year is shown below:

	2021 £'000	2020 £'000
Revenue and profits		
Revenue	**19,866**	18,413
Expenses	**(17,017)**	(14,895)
Profit for the year	**2,849**	3,518
Other comprehensive income	**-**	-
Total comprehensive income	**2,849**	3,518
Share of profit at 30%	**855**	1,056
Net assets		
Non-current assets	**-**	-
Current assets	**6,498**	6,275
Current liabilities	**(4,291)**	(3,257)
Non-current liabilities	**-**	(4)
Total assets less total liabilities	**2,207**	3,014

Cash and cash equivalents of £1.9m (2020: £0.9m) were included in current assets above.

The subsidiary undertakings within the Group at 31 December 2021 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Dormant
Careforce Group Plc	100%	England and Wales	Dormant
Evolve Housing Limited	50%	England and Wales	Dormant
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Maintenance services
Mears Direct Limited	80%	England and Wales	Dormant
Mears Energy Limited	100%	England and Wales	Dormant
Mears Estates Limited	100%	England and Wales	Grounds maintenance
Mears Extra Care Limited	100%	England and Wales	Provision of care
Mears Facility Management Limited	100%	England and Wales	Dormant
Mears Home Improvement Limited	100%	England and Wales	Maintenance services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Homes Limited	100%	England and Wales	Dormant
			Housing management

	Proportion held	Country of registration	Nature of business
Mears Housing Management Limited	100%	England and Wales	services
Mears Housing Management (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (London) Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 1 Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 3 Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 4 Limited	100%	England and Wales	Property acquisition
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services
Mears Learning Limited	90%	England and Wales	Dormant
Mears Limited	100%	England and Wales	Maintenance services
Mears Modular Homes Limited	100%	England and Wales	Dormant
Mears New Homes Limited	100%	England and Wales	House building
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland (Services) Limited	66.67%	Scotland	Dormant
Mears Scotland LLP	66.67%	Scotland	Maintenance services
Mears Social Housing Limited	100%	England and Wales	Dormant
Mears Supported Living Limited	100%	Scotland	Provision of care
Mears Wales Limited	100%	England and Wales	Dormant
MHM Property Services Limited	100%	England and Wales	Maintenance services
Morrison Facilities Services Limited	100%	Scotland	Maintenance services
MPM Housing Limited	100%	England and Wales	Dormant
MPS Housing Limited	100%	England and Wales	Maintenance services
O&T Developments Limited	100%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
Scion Group Limited	100%	England and Wales	Dormant
Scion Property Services Limited	100%	England and Wales	Dormant
Scion Technical Services Limited	100%	England and Wales	Maintenance services
Supporta Limited	100%	England and Wales	Dormant
Tando Homes Limited	100%	England and Wales	Housing management services
Tando Property Services Limited	100%	England and Wales	Housing management services

All subsidiary undertakings with the exception of Evolve Housing Limited prepare accounts to 31 December. Evolve Housing Limited prepares accounts to 30 June in line with its historical accounting reference date.

The Group includes the following three subsidiaries with non-controlling interests: Manchester Working Limited, Mears Learning Limited and Mears Scotland LLP. The table below sets out selected financial information in respect of those subsidiaries:

	2021 £'000	2020 £'000
Revenue and profits		
Revenue	**54,447**	46,586
Expenses and taxation	**(54,539)**	(47,685)
Profit for the year	**(92)**	(1,099)
Other comprehensive expense	**-**	-
Total comprehensive income	**(92)**	(1,099)
Profit/(loss) for the year allocated to non-controlling interests	**144**	(68)
Total comprehensive expense allocated to non-controlling interests	**-**	-
Net assets		
Non-current assets	**178**	305
Current assets	**14,985**	17,538
Current liabilities	**(10,339)**	(12,899)
Non-current liabilities	**(1,393)**	(1,421)
Total assets less total liabilities	**3,431**	3,523
Equity shareholders' funds	**2,629**	2,865
Non-controlling interests	**802**	658
Total equity	**3,431**	3,523

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2021, except MPM Housing Limited, which will take the same exemption for the 15-month period ended 31 December 2021:

	Registration number
3C Asset Management Limited	02859913
Let to Birmingham Limited	08757503
Mears Estates Limited	03720903
Mears Extra Care Limited	03689426
Mears Homecare Limited	02744787
Mears Home Improvement Limited	03716517
Mears Housing Management (Holdings) Limited	04726480

Mears Housing Portfolio (Holdings) Limited	10908305
Mears Housing Portfolio 4 Limited	10952906
Mears New Homes Limited	08780839
Mears Supported Living Limited	SC662805
MHM Property Services Limited	07448134
MPM Housing Limited	03528320
O&T Developments Limited	05692853
Scion Group Limited	03905442
Scion Technical Services Limited	03671450
Tando Homes Limited	09260353
Tando Property Services Limited	07405761

17. INVENTORIES

Accounting policy
Inventories are stated at the lower of cost and net realisable value. Cost is the actual purchase price of materials.

Work in progress is included in inventories after deducting any foreseeable losses and payments on account not matched with revenue. Work in progress represents costs incurred on speculative construction projects where a customer has not yet been identified. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any sub-contracted work that has been incurred in bringing the inventories and work in progress to their present location and condition.

	2021 **£'000**	2020 £'000
Materials and consumables	**1,650**	3,558
Work in progress	**21,219**	27,700
	22,869	31,258

The Group consumed inventories totalling £167.3m during the year (2020: £163.3m). No items are being carried at fair value less costs to sell (2020: £nil).

18. TRADE AND OTHER RECEIVABLES

Accounting policy
Trade receivables represent amounts due from customers in respect of invoices raised. They are initially measured at their transaction price and subsequently remeasured at amortised cost.

Retention assets represent amounts held by customers for a period following payment of invoices, to cover any potential defects in the work. Retention assets are included in trade receivables and are therefore initially measured at their transaction price.

Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

Critical judgements and key sources of estimation uncertainty
The estimation techniques used for revenue in respect of contracting require judgements to be made about the stage of completion of certain contracts and the recovery of contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract. Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts.

	2021 **£'000**	2020 £'000
Current assets:		
Trade receivables	**28,571**	39,831
Contract assets	**97,680**	88,594
Contract fulfilment costs	**1,242**	1,408
Prepayments and accrued income	**9,277**	6,517
Contingent consideration	**6,531**	500
Other debtors	**5,004**	3,034
Total trade and other receivables	**148,305**	139,884

Included in trade receivables is £4.9m (2020: £4.7m) in respect of retention payments due in more than one year.

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income are subject to credit risk exposure.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customers are primarily a mix of Local and Central Government and Housing Associations where credit risk is minimal. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

The ageing analysis of trade receivables is as follows:

	2021			2020		
	Gross amount due £'000	**Expected credit loss £'000**	**Carrying value £'000**	Gross amount due £'000	Expected credit loss £'000	Carrying value £'000
Not past due	**27,641**	**(1,110)**	**26,531**	33,279	(722)	32,557
Less than three months past due	**2,063**	**(429)**	**1,634**	5,496	(479)	5,017
More than three months past due	**5,873**	**(5,467)**	**406**	9,221	(6,964)	2,257
Total trade receivables	**35,577**	**(7,006)**	**28,571**	47,996	(8,165)	39,831

For expected credit losses with large organisations, such as Government bodies or Housing Associations, expected credit losses are calculated on an individual basis, taking account of all the relevant factors applicable to the amount outstanding. The Group has no history of defaults with these types of customers, so expected credit losses relate to specific disputed balances.

For individual tenant customers, expected credit losses are calculated based on the Group's historical experience of default by applying a percentage based on the age of the customer's balance.

The movement in expected credit loss during the period is shown below:

	2021 £'000	2020 £'000
As at 1 January	**8,165**	7,122
Changes in amounts provided	**196**	2,958
Amounts utilised	**(1,355)**	(1,915)
As at 31 December	**7,006**	8,165

The movement in contract assets during the period is shown below:

	2021 £'000	2020 £'000
As at 1 January	**88,594**	110,263
Recognised on completion of performance obligations	**843,628**	773,269
Invoiced during the year	**(834,542)**	(794,938)
As at 31 December	**97,680**	88,594

Contingent consideration of £6.5m (2020: £0.5m) is consideration receivable in respect of the disposal of subsidiaries. The 2021 balance is in respect of the disposal of the Group's Planning Solutions business in December 2020. The 2020 balance was in respect of the disposal of the final element of the Group's Domiciliary Care business in September 2020. This balance was received in full during 2021.

Included in other debtors is an amount of £2.9m (2020: £nil) recoverable from the Group's fronting insurers. An equal and opposite amount is also included within other creditors.

19. TRADE AND OTHER PAYABLES

	2021 £'000	2020 £'000
Trade payables	**69,555**	114,711
Accruals	**51,343**	42,797
Social security and other taxes	**29,724**	34,983
Contract liabilities	**27,843**	25,330
Other creditors	**5,582**	3,208
	184,047	221,029

Due to the short duration of trade payables, management considers the carrying amounts recognised in the Consolidated Balance Sheet to be a reasonable approximation of their fair value.

The movement in contract liabilities during the period is shown below:

	2021 £'000	2020 £'000
As at 1 January	**25,330**	2,112
Revenue recognised in respect of contract liabilities	**(13,197)**	(2,112)
Payments received in advance of performance obligations being completed	**15,710**	25,330
As at 31 December	**27,843**	25,330

Contract liabilities relate to payments received from the customer on the contract, and/or amounts invoiced to the customer in advance of the Group performing its obligations on contracts where revenue is recognised either over time or at a point in time. These amounts are expected to be recognised within revenue within one year of the balance sheet date.

Included in other creditors is an amount of £2.9m (2020: £nil) payable to the Group's fronting insurers. An equal and opposite amount is also included within other debtors reflecting the subsequent reimbursement due to the Group's insurance captive.

20. LEASE LIABILITIES

Lease liabilities are separately presented on the face of the Consolidated Statement of Financial Position as shown below:

	2021 £'000	2020 £'000

Current	**41,600**	42,888
Non-current	**175,290**	166,183
	216,890	209,071

The Group had not committed to any leases which had not commenced at 31 December 2021. The majority of the Group's property leases contain variable lease payments that vary annually either by reference to an index, such as the Consumer Prices Index (CPI), or based on market conditions each year. The potential impact of this variation depends on future events and therefore cannot be quantified, but the Group would typically expect commensurate adjustments to income derived from these properties.

A smaller number of property leases contain termination or extension options. Management has assessed whether it is reasonably certain that the longer term will apply. In some cases, a portfolio of leases with similar lease terms is considered together and, where a rolling notice period is available to the Group, an average expected lease life may be applied.

The Group has elected not to recognise a lease liability for short-term leases and leases of low value. Payments made under such leases are expensed on a straight-line basis. Certain leases incorporate variable lease payments that are not included in the measurement of lease liabilities in accordance with IFRS 16. The expense relating to payments not included in the measurement of the lease liability is as follows:

	2021 **£'000**	2020 £'000
Short-term leases	**46,780**	45,846
Low value leases	**879**	839
Variable lease payments	**1,550**	2,737

The portfolio of short-term leases to which the Group is committed at the end of the reporting period is not dissimilar to the portfolio to which the above disclosure relates.

Other disclosures relating to lease liabilities are provided in the table below:

	Note	**2021** **£'000**	2020 £'000
Depreciation of right of use assets during the year	15	**43,413**	42,510
Additions during the year	15	**50,044**	46,603
Carrying value at the year end	15	**204,949**	200,041
Interest on lease liabilities during the year - continuing activities	5	**6,952**	7,123
Total cash outflow in respect of leases during the year	26	**47,399**	47,470

The Group's lease liabilities are subject to changes in certain key assumptions in estimating IBRs used to calculate the liabilities. The IBRs used during the year ranged from 2.11% to 3.54%. The impact of an increase in all IBRs applied during 2021 by 0.5% is a £0.6m reduction in the lease liability and a £0.1m reduction in profit before tax.

21. PROVISIONS

A summary of the movement in provisions during the year is shown below:

	Onerous contract provisions £'000	**Property provisions £'000**	**Legal provisions £'000**	**Total £'000**
At 1 January 2021	344	-	-	344
Utilised during the year	(232)	-	-	(232)
Provided during the year	1,288	730	2,343	4,361
At 31 December 2021	**1,400**	**730**	**2,343**	**4,473**

The provision of £0.3m at 1 January 2021 was in respect of property costs related to the discontinued care business. The remaining £0.1m of this provision is expected to be utilised within one year.

At 31 December 2021, the Group identified a small number of maintenance contracts where the estimate of unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. These have been categorised as onerous contracts. In each case, the Group has triggered the contractual break clause and the respective contracts will conclude during the course of 2022; a provision of £2.0m has been made for the remaining lifetime losses on those contracts.

Property provisions have been recognised during the year in respect of the expected costs of reinstating several properties to their original condition. These are expected to be utilised within one year.

Legal provisions relate to sub-contractor and employee related legal claims which are also expected to be utilised within one year.

22. NON-CURRENT PROVISIONS

Accounting policy

The Group self-insures certain fleet and liability risks. A provision for claims incurred but not received is recognised in respect of these potential claims. The value of this provision is estimated based on past experience of claims.

	2021 **£'000**	2020 £'000
Non-current provisions	**3,800**	3,667

Non-current provisions represent self-insured claims incurred but not yet reported. £1.7m of the provision was utilised during the year and £1.8m of additional amounts were provided. The timing of the utilisation of the provision is uncertain as it depends upon the timing of insurance claims against the Group. However, the majority of the carrying value is expected to be utilised in more than one year and, as such, the provision is considered to be non-current.

23. FINANCIAL INSTRUMENTS

Accounting policy
The Group uses a limited number of financial instruments comprising cash and liquid resources, borrowings, interest rate swaps and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group seeks to finance its operations through a combination of retained earnings and borrowings and investing surplus cash on deposit. The Group uses financial instruments to manage the interest rate risks arising from its operations and sources of finance but has no interests in the trade of financial instruments.

Financial assets and liabilities are recognised in the Consolidated Balance Sheet when the Group becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

Financial assets
Investments in unlisted equities that do not convey control or significant influence over the underlying entity are recognised at fair value. They are subsequently remeasured at fair value with any changes being recognised in the Consolidated Statement of Profit or Loss.

Contingent consideration is held by the Group in order to collect the associated cash flows but until the amount is determined, these are not solely payments of principal and interest and therefore these assets are measured both initially and subsequently at fair value, with any changes being recognised in the Consolidated Statement of Profit or Loss.

Loan notes are held by the Group in order to collect the associated cash flows and not for trading. They are therefore initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Financial assets generated from goods or services transferred to customers are presented as either trade receivables or contract assets. All of the Group's trade receivables are short-term in nature, with payments typically due within 60 days of the works being performed. The Group's contracts with its customers therefore contain no significant financing component.

Mears recognises a loss allowance for expected credit losses on financial assets subsequently measured at amortised cost using the 'simplified approach'. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

Trade receivables and cash at bank and in hand are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Consolidated Statement of Profit or Loss.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances. The Group considers its revolving credit facility to be an integral part of its cash management.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

Financial liabilities
The Group's financial liabilities are overdrafts, trade and other payables and interest rate swaps. They are included in the Consolidated Balance Sheet line items 'Long-term borrowings and overdrafts', 'Trade and other payables', 'Interest rate swaps' and 'Other payables'.

All interest related charges are recognised as an expense in 'Finance costs' in the Consolidated Statement of Profit or Loss with the exception of those that are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance income and finance costs. Borrowing costs are recognised as an expense in the period in which they are incurred with the exception of those which are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Trade payables on normal terms are not interest bearing and are stated at their fair value on initial recognition and subsequently at amortised cost.

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational and financing activities.

Derivative financial instruments are recognised initially and subsequently at fair value, with mark-to-market movements recognised in the Consolidated Statement of Profit or Loss except where cash flow hedge accounting is applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Hedge accounting for interest rate swaps
Where an interest rate swap is designated as a hedge of the variability in cash flows of an existing or highly probable forecast loan interest payment, the effective part of any valuation gain or loss on the swap instrument is recognised in other comprehensive income in the hedging reserve. The cumulative gain or loss is removed from equity and recognised in the Consolidated Statement of Profit or Loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Consolidated Statement of Profit or Loss immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the Consolidated Statement of Profit or Loss immediately.

Categories of financial instruments

	2021 £'000	2020 £'000
Non-current assets		
Fair value (level 3)		
Investments - other investments	**65**	65
Contingent consideration	**-**	5,431
	65	5,496
Amortised cost		
Loan notes	**3,476**	3,160
Current assets		
Fair value (level 3)		
Contingent consideration	**6,531**	-
Amortised cost		
Trade receivables	**28,571**	39,831
Deferred consideration	**-**	500
Other debtors	**5,004**	3,034
Cash at bank and in hand	**54,632**	96,220
	88,207	139,585
Non-current liabilities		
Fair value (level 2)		
Interest rate swaps - effective	**-**	(479)
Interest rate swaps - ineffective	**-**	17
Interest rate swaps	**-**	(462)
Amortised cost		
Long-term borrowing and overdrafts	**-**	(39,353)
Lease liabilities	**(175,290)**	(166,183)
	(175,290)	(205,536)
Current liabilities		
Fair value (level 2)		
Interest rate swaps - effective	**-**	(484)
Interest rate swaps - ineffective	**-**	25
Interest rate swaps	**-**	(459)
Amortised cost		
Trade payables	**(69,555)**	(114,711)
Lease liabilities	**(41,600)**	(42,888)
Other creditors	**(5,582)**	(3,208)
	(116,737)	(160,807)
	(193,748)	(219,023)

The amount recognised as an allowance for expected credit losses on trade receivables during 2021 was £0.2m (2020: £3.0m).

The IFRS 13 hierarchy level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1, where instruments are quoted on an active market, through to level 3, where the assumptions used to arrive at fair value do not have comparable market data.

The fair values of interest rate swaps have been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates (level 2).

The amount of contingent consideration receivable is typically determined by future expected profits of the sold businesses. The fair value of contingent consideration has been calculated by management by reference to the draft income and expenditure of the disposed business during 2021 and the terms of the sale (level 3). Where appropriate, the fair value of contingent consideration is discounted at the Group's weighted average cost of capital. A £0.1m increase in the 2021 profits of the disposed business would increase the fair value of contingent consideration by £0.3m.

The increase in the fair value of contingent consideration of £1.10m (2020: £0.04m) during the year was recognised in the Consolidated Statement of Profit or Loss.

The fair values of investments in unlisted equity instruments are determined by reference to an assessment of the fair value of the entity to which they relate. This is typically based on a multiple of earnings of the underlying business.

There have been no transfers between levels during the year.

Fair value information
The fair value of the Group's financial assets and liabilities is as disclosed above and approximates to the book value.

Financial risk management
The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk); credit risk; and liquidity risk. The main risks faced by the Group relate to the availability of funds to meet business needs and the risk of credit default by customers. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies and guidelines approved by the Board of Directors.

Borrowing facilities
The Group's borrowing facilities are drawn on as required to manage its cash needs. Banking facilities are reviewed regularly

and extended and replaced in advance of their expiry.

During the year, the Group agreed a replacement borrowing facility of £70.0m with Barclays Bank PLC, HSBC Bank PLC and Citi, of which £nil was utilised at 31 December 2021.

The facilities comprise a committed four-year £60.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The entire amount of both elements was undrawn at 31 December 2021.

Details of the Group's banking covenants are provided on page 61.

Interest rate risk management
The Group finances its operations through a mixture of retained profits and bank borrowings from major banking institutions at floating rates of interest based on SONIA. During the year, the Group settled its outstanding interest rate swaps due to its reduction in borrowing requirements and consequential ineffectiveness of the hedging relationships.

The Group's policy is to accept a degree of interest rate risk, provided the effects of the various potential changes in rates remain within certain prescribed parameters.

Effective interest rates
The Group's overall average cost of debt was 2.3% during the year to 31 December 2021 (2020: 2.4%).

Cash flow hedging reserve
The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

Movements during the year were:

	£'000
At 1 January 2020	(124)
Amounts transferred to the Consolidated Statement of Profit or Loss	354
Revaluations during the year	(1,139)
Deferred tax movement	149
At 1 January 2021	(760)
Amounts transferred to the Consolidated Statement of Profit or Loss	(85)
Revaluations during the year	1,023
Deferred tax movement	(178)
At 31 December 2021	**-**

At 31 December 2021 the Group had minimal exposure to movements in interest rates as it had no drawn borrowings.

If the interest rates had been 0.5% higher and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2021 and reserves would have decreased, by £0.2m (2020: £0.6m).

Liquidity risk management
The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with the practice and limits set by the Group. These limits vary by location and take into account the liquidity and nature of the market in which the entity operates.

The quantum of committed borrowing facilities of the Group is regularly reviewed and is designed to exceed forecast peak gross debt levels. For short-term working capital purposes, the Group utilises bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

The table below shows the maturity profile of the Group's financial liabilities:

	Within 1 year £'000	**1-2 years £'000**	**2-5 years £'000**	**Over 5 years £'000**	**Total £'000**
2021					
Non-derivative financial liabilities					
Bank borrowings	**-**	**-**	**-**	**-**	**-**
Trade and other payables	**75,137**	**-**	**-**	**-**	**75,137**
Lease liabilities	**42,302**	**30,769**	**63,899**	**123,394**	**260,364**
Derivative financial liabilities					
Interest rate swaps - effective	**-**	**-**	**-**	**-**	**-**
2020					
Non-derivative financial liabilities					
Bank borrowings	-	39,353	-	-	39,353
Trade and other payables	117,919	3,667	-	-	121,586
Lease liabilities	55,237	33,777	54,774	121,603	265,391
Derivative financial liabilities					
Interest rate swaps - effective	459	246	216	-	921

Credit risk management
The Group's credit risk is primarily attributable to its trade receivables, contract assets and work in progress.

Trade receivables are normally due within 30 to 60 days. Trade and other receivables included in the Consolidated Balance Sheet are stated net of an expected credit loss provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the expected credit loss provision when management considers that the debt is no longer recoverable.

Housing customers are typically Local and Central Government and Housing Associations. The nature of these customers means that credit risk is minimal. Other trade receivables contain no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

The Group continually monitors the position of major customers and incorporates this information into its credit risk controls. External credit ratings are obtained where appropriate.

Details of the ageing of trade receivables are shown in note 18.

Loan notes receivable
The loan notes included within non-current assets were received as part of the disposal of the Terraquest Group. They are repayable in December 2028 and accrue interest at 10% per annum.

Deferred and contingent consideration

The table below shows the movements in deferred consideration receivable:

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2020	4,618	-	4,618
Increase due to disposal of Domiciliary Care businesses	1,500	-	1,500
Fair value of contingent consideration on disposal of Planning Solutions business	-	5,395	5,395
Movement in fair value of contingent consideration	-	36	36
Received during the year	(5,618)	-	(5,618)
At 1 January 2021	500	5,431	5,931
Movement in fair value of contingent consideration	-	1,100	1,100
Received during the year	(500)	-	(500)
At 31 December 2021	**-**	**6,531**	**6,531**

The balance of contingent consideration is expected to be received in April 2022.

Capital management
The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of net debt as disclosed below and equity as disclosed in the Consolidated Statement of Changes in Equity.

	2021 £'000	2020 £'000
The Group considers its revolving credit facility to be an integral part of its cash management:		
· Cash at bank and in hand	**54,632**	96,220
· Revolving credit facility	**-**	(39,353)
Cash and cash equivalents, including revolving credit facility	**54,632**	56,867

24. DEFERRED TAXATION

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

Deferred tax relates to the following:

	Balance sheet		Consolidated statement of profit or loss		Other movements	
	At 31 December 2021 £'000	At 31 December 2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Pension schemes	(8,315)	1,497	(1,003)	167	(8,809)	1,726
Share-based payments	588	281	79	(100)	228	10
Cash-flow hedges	-	178	-	-	(178)	149
Tax losses	249	1,279	(1,030)	1,215	-	-
Provisions	149	76	73	(143)	-	-
Acquisition intangibles	(662)	(1,875)	1,213	1,553	-	-
Capital allowances	647	1,323	(676)	439	-	-
Leases	668	561	107	(32)	-	-

	(6,676)	**3,320**	**(1,237)**	**3,099**	**(8,759)**	**1,885**

Other movements are recognised in the Consolidated Statement of Comprehensive Income, except those in respect of share-based payments which are recognised in the Consolidated Statement of Changes in Equity.

In accordance with IFRS 2 'Share-based Payment', the Group has recognised an expense for the consumption of employee services received as consideration for share options granted. A tax deduction will not arise until the options are exercised. The tax deduction in future periods is dependent on the Company's share price at the date of exercise. The estimated future tax deduction is based on the options' intrinsic value at the balance sheet date.

The cumulative amount credited to the Consolidated Statement of Profit or Loss is limited to the tax effect of the associated cumulative share-based payment expense. The excess has been credited directly to equity. This is presented in the Consolidated Statement of Comprehensive Income.

In addition to those recognised, unused tax losses totalling £25.5m (2020: £29.0m) have not been recognised as management does not consider that it is probable that they will be recovered.

Intangible assets acquired as part of a business combination are capitalised at fair value at the date of the acquisition and amortised over their useful economic lives. The UK tax regime calculates tax using the individual financial statements of the members of the Group and not the consolidated accounts. Hence, the tax base of acquisition intangible assets arising on consolidation is £nil. Furthermore, no UK tax relief is available on the majority of acquisition intangibles within individual entities, so the tax base of these assets is also £nil. The estimated tax effect of this £nil tax base is accounted for as a deferred tax liability which is released over the period of amortisation of the associated acquisition intangible asset.

25. SHARE CAPITAL AND RESERVES

Classes of reserves

Share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Share-based payment reserve represents employee remuneration which is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

The merger reserve relates to the difference between the nominal value and total consideration in respect of acquisitions, where the Company was entitled to the merger relief offered by the Companies Act 2006.

Share capital

	2021 £'000	**2020 £'000**
Allotted, called up and fully paid		
At 1 January 110,881,897 (2020: 110,490,459) ordinary shares of 1p each	**1,109**	1,105
Issue of 44,613 (2020: 391,438) shares on exercise of share options	**-**	4
At 31 December 110,926,510 (2020: 110,881,897) ordinary shares of 1p each	**1,109**	1,109

During the year 44,613 (2020: 391,438) ordinary 1p shares were issued in respect of share options exercised.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The following non-operating cash flow adjustments have been made to the result for the year before tax:

	2021 £'000	2020 £'000
Depreciation	**49,024**	47,688
Impairment of fixed assets	**-**	1,500
Loss on disposal of assets	**245**	231
Amortisation	**9,777**	11,736
Share-based payments	**575**	993
IAS 19 pension movement	**(933)**	878
Share of profits of associates	**(855)**	(365)
Finance income	**(835)**	(86)
Finance cost	**8,904**	10,186
Total	**65,902**	72,761

Movements in financing liabilities during the year are as follows:

	Revolving credit facility £'000	**Lease liabilities £'000**	**Total £'000**
At 1 January 2020	124,047	205,175	329,222
Inception of new leases	-	46,603	46,603
Termination of leases	-	(1,611)	(1,611)
Interest	2,711	7,254	9,965
Arrangement fees expensed during the year	515	-	515
Disposal of subsidiaries	-	(880)	(880)
Cash outflows including in respect of interest	(87,920)	(47,470)	(135,390)
At 1 January 2021	39,353	209,071	248,424

Inception of new leases	-	50,044	50,044
Termination of leases	-	(1,750)	(1,750)
Interest	966	6,955	7,921
Arrangement fees expensed during the year	647	-	647
Cash outflows including in respect of interest	(40,966)	(47,430)	(88,396)
At 31 December 2021	**-**	**216,890**	**216,890**

27. DISPOSALS OF SUBSIDIARIES

No disposals of subsidiaries were made during 2021. During 2020, the Group disposed of its Scotland Domiciliary Care business in the form of Mears Care (Scotland) Limited and its Planning Solutions business in the form of Terraquest Solutions Limited and Portalplanquest Limited.

During 2021, the deferred consideration of £0.5m in respect of the sale of Mears Care (Scotland) Limited was received in full.

The contingent consideration in respect of the disposal of the Planning Solutions business is carried at fair value as a current debtor and is due to be received in April 2022. The fair value was estimated to be £6.3m as at 31 December 2021 (2020: £5.4m).

28. PENSIONS

Accounting policy

Retirement benefit obligations

The Group operates both defined benefit and defined contribution pension schemes as follows:

Defined contribution pensions

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

Defined benefit pensions

The Group contributes to defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. In accordance with IFRIC 14, the asset that is recognised is restricted to the amount by which the IAS 19 service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the Group has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that guarantee asset has been recognised and disclosed. Movements in the guarantee asset are taken to the Consolidated Statement of Profit or Loss and to the Consolidated Statement of Comprehensive Income to match the movement in pension assets and liabilities.

The Group recognises the pension liability and guarantee assets separately on the face of the Consolidated Balance Sheet.

Actuarial gains and losses are taken to the Consolidated Statement of Comprehensive Income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the Consolidated Statement of Profit or Loss, including the current service cost, any past service cost and the effect of curtailments or settlements. The net interest cost is also charged to the Consolidated Statement of Profit or Loss. The amount charged to the Consolidated Statement of Profit or Loss in respect of these plans is included within operating costs.

When the Group ceases its participation in a defined benefit pension scheme, the difference between the carrying value of the scheme as calculated on an IAS 19 basis and any deficit payment or surplus receipt due are recognised in the Consolidated Statement of Profit or Loss as a settlement.

The Group's contributions to the scheme are paid in accordance with the rules of the scheme and the recommendations of the scheme actuary.

Defined benefit assets

Scheme assets for LGPS have been estimated by rolling forward the published asset position from the previous year using market index returns over the period. This is considered to provide a good estimate of the fair value of the scheme assets and the values will be updated to actuals each time a triennial valuation takes place.

Defined benefit liabilities

A number of key estimates have been made, which are given below, and which are largely dependent on factors outside the control of the Group:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used are included in this note. Sensitivity analysis for these key estimates is included below.

Where the Group has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. Management has made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Group is not set so as to contribute to reducing the deficit in the scheme. Management, in conjunction with the scheme actuaries, has made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised.

Key sources of estimation uncertainty
The net position on defined benefit pension schemes is a key source of estimation uncertainty. Given the importance of this area and to ensure appropriate estimates are made based on the most relevant information available, management has continued to engage with third party advisors in assessing each of the underlying assumptions. The discount rate is derived from the return on corporate bond yields, and whilst this is largely observable, any change in discount rates in the future could have a material impact on the carrying value of the defined benefit obligation. Similarly, inflation rates and mortality assumptions impact the defined benefit obligation as they are used to model future salary increases and the duration of pension payments. Whilst current assumptions use projected future inflation rates and the most up to date information available on expected mortality, if these estimates change, the defined benefit obligation could also change materially in future periods.

Defined contribution schemes
The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £4.0m (2020: £4.5m) to these schemes.

Defined benefit schemes
The Group participated in 23 (2020: 23) principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

These pension schemes are operated on behalf of Mears Limited, Morrison Facilities Services Limited and their subsidiary undertakings. The assets of the schemes are administered by trustees in funds independent from the assets of the Group.

The Group schemes are no longer open to new members and have no particular concentration of investments, so expose the Group only to typical risks associated with defined benefit pension schemes including the risk that investments underperform compared with movements in the scheme liabilities.

In certain cases, the Group will participate under Admitted Body status in the LGPS. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Group has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised as a separate pension guarantee asset. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

The disclosures in respect of the two (2020: two) Group defined benefit schemes and the 21 (2020: 21) other defined benefit schemes in this note have been aggregated. Details of movements in pension guarantee assets are presented in a separate table and the disclosures for 2019 have been re-presented in the same way in order to aid comparability.

Costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2021 by qualified independent actuaries using the projected unit funding method.

The principal actuarial assumptions at the balance sheet date are as follows:

	2021	2020
Rate of increase of salaries - first year	**3.00%**	2.85%
Rate of increase of salaries - second year	**3.00%**	2.85%
Rate of increase of salaries - long term	**3.00%**	2.85%
Rate of increase for pensions in payment - based on CPI with a cap of 5%	**2.55%**	2.45%
Rate of increase for pensions in payment - based on RPI with a cap of 5%	**2.90%**	2.80%
Rate of increase for pensions in payment - based on CPI with a cap of 3%	**2.15%**	2.10%
Rate of increase for pensions in payment - based on RPI with a cap of 3%	**2.35%**	2.30%
Discount rate	**2.00%**	1.35%
Retail prices inflation	**3.00%**	2.85%
Consumer prices inflation	**2.60%**	2.45%
Life expectancy for a 65-year-old male*	**21.5 years**	21.8 years
Life expectancy for a 65-year-old female*	**24.1 years**	24.0 years

*This assumption is set on a scheme-by-scheme basis, taking into account the demographics of the relevant members. The figures disclosed are an average across all schemes.

The amounts recognised in the Consolidated Balance Sheet and major categories of plan assets are:

	2021			2020		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Quoted assets						
Equities	**-**	**139,695**	**139,695**	-	180,791	180,791
Bonds	**109,157**	**62,509**	**171,666**	92,356	66,618	158,974
Property	**5,075**	**22,893**	**27,968**	4,325	29,857	34,182
Pooled investment vehicles						
Multi-asset funds	**75,002**	**4,085**	**79,087**	82,147	-	82,147

Alternative asset funds	**9,840**	**226**	**10,066**	10,604	-	10,604
Return seeking funds	**2,035**	**333**	**2,368**	2,089	-	2,089
Other assets						
Equities	**-**	**14,133**	**14,133**	-	-	-
Bonds	**-**	**3,170**	**3,170**	-	-	-
Property	**-**	**4,275**	**4,275**	-	361	361
Derivatives	**1,979**	**331**	**2,310**	2,284	-	2,284
Cash and other	**4,470**	**44,921**	**49,391**	3,823	10,864	14,687
Investment liabilities						
Derivatives	**(10,646)**	**-**	**(10,646)**	(12,192)	-	(12,192)
Group's estimated asset share	**196,912**	**296,571**	**493,483**	185,436	288,491	473,927
Present value of funded scheme liabilities	**(159,261)**	**(275,828)**	**(435,089)**	(181,184)	(320,186)	(501,370)
Funded status	**37,651**	**20,743**	**58,394**	4,252	(31,695)	(27,443)
Scheme surpluses not recognised as assets	**-**	**(37,738)**	**(37,738)**	-	(11,142)	(11,142)
Pension asset/(liability)	**37,651**	**(16,995)**	**20,656**	4,252	(42,837)	(38,585)
Pension guarantee assets	**-**	**12,975**	**12,975**	-	30,705	30,705

The amounts recognised in the Consolidated Statement of Profit or Loss are as follows:

	2021			**2020**		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	**Group schemes £'000**	**Other schemes £'000**	**Total £'000**
Current service cost	**2,154**	**4,277**	**6,431**	2,029	4,244	6,273
Settlement and curtailment	**-**	**(687)**	**(687)**	-	(22)	(22)
Administration costs	**545**	**-**	**545**	375	-	375
Total operating charge	**2,699**	**3,590**	**6,289**	2,404	4,222	6,626
Net interest	**(69)**	**282**	**213**	(206)	466	260
Effects of limitation of recognisable surplus related to net interest	**-**	**152**	**152**	-	56	56
Total charged to the result for the year	**2,630**	**4,024**	**6,654**	2,198	4,744	6,942

Cumulative actuarial gains and losses recognised in other comprehensive income (OCI) are as follows:

	2021			**2020**		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	**Group schemes £'000**	**Other schemes £'000**	**Total £'000**
Return on plan assets in excess of that recorded in net interest	**12,093**	**11,691**	**23,784**	21,081	20,766	41,847
Actuarial gain arising from changes in demographic assumptions	**292**	**1,001**	**1,293**	1,693	8,364	10,057
Actuarial gain/(loss) arising from changes in financial assumptions	**17,044**	**31,648**	**48,692**	(25,060)	(62,337)	(87,397)
Actuarial gain/(loss) arising from liability experience	**4,364**	**8,032**	**12,396**	(350)	25,300	24,950
On scheme transfer	**-**	**-**	**-**	-	(157)	(157)
Effects of limitation of recognisable surplus related to OCI movements	**-**	**(26,444)**	**(26,444)**	-	(8,414)	(8,414)
Total gains and losses recognised in OCI	**33,793**	**25,928**	**59,721**	(2,636)	(16,478)	(19,114)

Changes in the present value of the defined benefit obligations are as follows:

	2021			**2020**		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	**Group schemes £'000**	**Other schemes £'000**	**Total £'000**
Present value of obligations at 1 January	**181,184**	**320,186**	**501,370**	156,379	327,460	483,839
Current service cost	**2,154**	**4,277**	**6,431**	2,029	4,244	6,273
Interest on obligations	**2,413**	**3,808**	**6,221**	3,241	5,974	9,215
Plan participants' contributions	**236**	**540**	**776**	264	763	1,027
Benefits paid	**(5,026)**	**(6,348)**	**(11,374)**	(4,446)	(,4189)	(8,635)
Contract transfer	**-**	**(2,212)**	**(2,212)**	-	(42,595)	(42,595)
Settlements	**-**	**(3,742)**	**(3,742)**	-	(144)	(144)
Actuarial gain arising from changes in demographic assumptions	**(292)**	**(1,001)**	**(1,293)**	(1,693)	(8,364)	(10,057)
Actuarial (gain)/loss arising from changes in financial assumptions	**(17,044)**	**(31,648)**	**(48,692)**	25,060	62,337	87,397
Actuarial (gain)/loss arising from liability experience	**(4,364)**	**(8,032)**	**(12,396)**	350	(25,300)	(24,950)

Present value of obligations at 31 December	**159,261**	**275,828**	**435,089**	181,184	320,186	501,370

Changes in the fair value of the plan assets are as follows:

	2021			2020		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	**Group schemes £'000**	**Other schemes £'000**	**Total £'000**
Fair value of plan assets at 1 January	**185,436**	**288,491**	**473,927**	163,250	303,464	466,714
Expected return on plan assets	**2,482**	**3,526**	**6,008**	3,447	5,508	8,955
Employer's contributions	**2,236**	**3,279**	**5,515**	2,215	1,805	4,020
Plan participants' contributions	**236**	**540**	**776**	264	763	1,027
Benefits paid	**(5,026)**	**(6,348)**	**(11,374)**	(4,446)	(4,189)	(8,635)
Scheme administration costs	**(545)**	**-**	**(545)**	(375)	-	(375)
Contract transfer	**-**	**(1,553)**	**(1,553)**	-	(39,836)	(39,836)
Settlements	**-**	**(3,055)**	**(3,055)**	-	(122)	(122)
Return on plan assets above that recorded in net interest	**12,093**	**11,691**	**23,784**	21,081	21,098	42,179
Fair value of plan assets at 31 December	**196,912**	**296,571**	**493,483**	185,436	288,491	473,927

Changes in the fair value of guarantee assets are as follows:

	2021 £'000	**2020 £'000**
Fair value of guarantee assets at 1 January	**30,705**	23,810
Transferred in on scheme entry	**5,710**	-
Transferred out on scheme exit	**(6,369)**	(5,173)
Recognised in the Consolidated Statement of Profit or Loss		
Guarantee asset movement in respect of service cost	**1,707**	1,626
Guarantee asset movement in respect of net interest	**240**	418
Recognised in other comprehensive income		
Guarantee asset movement in respect of actuarial losses	**(19,018)**	10,024
Fair value of guarantee assets at 31 December	**12,975**	30,705

Funding arrangements are agreed for each of the Group's defined benefit pension schemes with their respective trustees. The employer's contributions expected to be paid during the financial year ending 31 December 2022 amount to £3.5m.

Each of the schemes manages risks through a variety of methods and strategies to limit downside in falls in equity markets, movement in inflation and movement in interest rates.

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below, prepared using the same methods and assumptions used above, shows how a reasonably possible increase or decrease in a particular assumption, in isolation, results in an increase or decrease in the present value of the defined benefit obligation as at 31 December 2021.

	Decrease £'000	**Increase £'000**
Rate of inflation - decrease/increase by 0.1%	(7,287)	7,296
Rate of increase in salaries - decrease/increase by 0.1%	(1,344)	1,344
Discount rate - decrease/increase by 0.1%	8,450	(8,441)
Life expectancy - decrease/increase by 1 year	(18,403)	18,402

29. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2021 or at 31 December 2020.

30. CONTINGENT LIABILITIES

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2021 these guarantees amounted to £15.7m (2020: £14.7m).

The Group had no other contingent liabilities at 31 December 2021 or at 31 December 2020.