

Mears Group PLC
(“Mears” or the “Group” or the “Company”)
Preliminary Results for the year ended 31 December 2022

**Strong financial and operational performance with positive trading outlook
and £20m share buyback approved by the Board**

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 2022 (“FY 2022”).

Financial Highlights

- Strong revenue recovery, Group revenues up 9% year-on-year to £959.6m (FY 2021: £878.4m)
- Adjusted profit before tax¹ increased by 37% to £35.2m (FY 2021: £25.6m)
 - Operating margins continue to strengthen to 3.8%² (FY 2021: 3.4%)
- Exceptional cash performance with average daily adjusted net cash of £42.9m (FY 2021: £0.4m)³
 - Cash conversion at 122% of EBITDA (2020/2021 combined: 117%)
 - Adjusted net cash³ at 31 December 2022 of £100.1m (2021: £54.6m)
- Board is recommending a final dividend of 7.25p, bringing the full year dividend for 2022 to 10.50p (2021: 8.00p) reflecting continued strong cash performance and positive outlook
- £20m share buyback approved by the Board. Return of surplus capital, whilst maintaining a net cash position.

Continuing operations	FY 2022	FY 2021	Change %
Revenue (£m)	959.6	878.4	+9%
Statutory profit / (loss) before tax (£m)	34.9	16.3	
Adjusted profit / (loss) before tax ¹ (£m)	35.2	25.6	+38%
Statutory diluted EPS (p)	24.51	11.50	
Adjusted diluted EPS ⁴ (p)	24.51	18.23	+34%
Dividend per share (p)	10.50	8.00	+31%
Average daily adjusted net cash / (debt) ³ (£m)	42.9	0.4	

Operational Highlights

- Successful mitigation of most of the adverse impacts of inflation, skills shortages and supply chain issues that affected the wider industry in 2022
- Sustained high levels of both customer satisfaction, 88% (2021 86%) and employee engagement level
- Developed further the Mears approach to ESG, including the publication in May 2022 of the Group strategy for ESG and map to zero carbon (Scope 1&2) by 2030
- Positive momentum in bidding pipeline 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”), valued at £250m over the initial 5 years.
 - Mears worked with clients and submitted bids in the second wave of Social Housing Development Fund (SHDF), securing over £100m of potential work in the next 2 years.
 - The Group is well placed in bidding new North Lanarkshire contract estimated to generate more than £1.5bn of revenues over 12 years. The new contract is due to commence in January 2024.
 - Order book now stands at £2.9bn (2021: £2.4bn), reflecting the good progress on contract retentions and extensions.

Current trading and outlook

- Mears has made a positive start to 2023 with current trading in line with the Board's expectations

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

"I am delighted with the strong performance of the Group, and these are a terrific set of financial results. Our market leading position, based on a clear strategy and resilient operating platform, has underpinned this performance, and positions the Group for further sustainable growth in the medium-term."

1. *Adjusted profit before tax stated on continuing activities before non-underlying items of £nil (2021: £1.63m) and before the amortisation of acquired intangibles of £0.25m (2021: £7.65m).*
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 of £225.42m (2021: £216.89m) and includes Treasury deposits of £1.93m (2021: £nil)*
4. *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, providing a range of services to individuals within their homes. We manage and maintain around 450,000 homes across the UK and work predominantly with Central Government and Local Government typically through long-term contracts. We equally consider the residents of the homes that we manage and maintain to be our customers, and we take pride in the high levels of customer satisfaction that we achieve.

Mears currently employs around 5,500 people and provides services in every region of the UK. In partnership with our Housing clients, we provide property management and maintenance services. 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 STATEMENT

Introduction

This is my fourth and final letter to you as Chairman of Mears. Having assumed the role in January 2019, I have decided not to seek re-election at the 2023 AGM and will therefore stand down from the Board at that time.

This period has seen both significant change for the Group and a reaffirmation of the positive qualities which have for many years made Mears a force for good.

Over the course of the last five years, Mears' contract estate has been significantly improved. Within the housing business, there has been considerable growth in the provision of accommodation and support services and the Group is now a UK leader in that activity, reflecting the considerable efforts which have been made to develop effective, successful, and profitable relationships with Central Government departments. In parallel, the financial performance and business mix of the housing business has been improved. The Group has also progressively exited other activities, namely domiciliary care, property data management and housebuilding. Taken together, these initiatives have transformed the Group's financial position: cash generation has returned, and debt has been eliminated.

Mears is positioned to grow in its core housing activities. In 2022, this was epitomized by its success in winning the Ministry of Defence RLAP contract, in retaining its long-standing relationship with the London Borough of Tower Hamlets and in being short-listed for the North Lanarkshire Future Integrated Housing Service contract. Over the last five years, Mears has seen its average contract size grow, both in terms of annual revenues and contract length. Taken together, these developments leave Mears in a much stronger position for the future with far greater visibility of revenue and profit than hitherto.

At the same time, the cultural strengths of Mears continue to be reinforced. It is integral to how Mears does business that it places great emphasis on the welfare of and development opportunities for its staff, that it provides its services in a manner which is sensitive to the needs and lives of its customers and that it adds value to the communities in which it operates. In the last few years, we have created a new Customer Scrutiny Board which works alongside the Group to oversee and help to improve our service standards. We have reinforced the role of the Employee Director with the creation of a new deputy director post with a strong focus on disability and neurodiversity, become one of the best large companies in the UK to work for and continued our excellent record in promoting effective health and safety for our staff and contractors.

In 2022, Mears was declared Employer of the Year by the Chartered Institute of Housing. Our efforts to create equality of opportunity for our workforce can be seen in improving gender pay gap data, an increase in the proportion of women in senior roles and in our efforts to try to ensure that our local workforces better reflect the ethnic mixes of the communities which they serve. And we have continued to promote and measure the social value which we create through a myriad of small schemes up and down the country. While we seek to be the leading provider of housing services and solutions to the affordable housing market in the UK, we do so by working to help staff, customers and communities thrive.

Results

2022 was, for the first time in three years, broadly unaffected by the Covid restrictions which have created so much economic and social damage over recent years. Our results also demonstrate the benefit which has been gained both from our strategic changes and from our continuous focus on operating improvements across our activities. Revenue from continuing activities reached £959.6m, a record for the Group, and an increase of 9% over 2021, while adjusted profit before tax was £35.2m, an increase of 37% over that achieved in 2021. Adjusted Diluted earnings per share rose by 35% to 24.51p.

Cash generation was once again very strong. The adjusted year-end net cash balance reached £100.1m and average net cash throughout the year was £42.9m, both numbers some £40m higher than in 2021. This is the result of a third consecutive year of 100% conversion of profits to cash, a tremendous achievement by the management team and staff across the Group.

This performance was delivered against a backdrop of very different inflation levels and expectations from those of the last decade. Many of our contracts provide for annual price adjustments referenced to a cost index, although these do not necessarily provide full protection as to either timing or amount. We have worked hard to ensure that our procurement processes limit the consequences of higher levels of inflation. Consistent with our focus on staff welfare, we have improved the terms and conditions for staff and implemented a pay increase which was delivered disproportionately to those at lower pay levels. Nevertheless, we have and continue to experience labour shortages and we are constantly reflecting on how we can best attract and retain good people.

Both financially and operationally, the most significant contracts for the Group are those under which we provide accommodation and support for asylum seekers in the north-east of England, Scotland, and Northern Ireland. The number of service users continued to grow in 2022 and these higher numbers are likely to persist in 2023. The continued use of temporary hotel accommodation, while inevitable, is not the preferred solution and we are working hard to increase the number of residential properties which we can use. The development of these contracts has imposed very considerable pressures on the operating teams who run them, and the Board is grateful for their continuing efforts and success.

The Group commenced the new RLAP contract for the Ministry of Defence which has mobilised very smoothly. We look forward to continuing our successful partnership with the MoD for many years to come. We successfully rebid work for repairs for the London Borough of Tower Hamlets and won a new contract with the London Borough of Havering. Most importantly, the Group was shortlisted for the new integrated housing service contract with North Lanarkshire Council and discussions will continue with that client to ensure that if selected, we are ready to commence work, as intended, next January. This contract is worth £1.8bn over 12 years and, if successful, would deliver significant growth for Mears in 2024 and future years.

Dividend

Against the background of the Group's considerable success in 2022, the Board has decided to propose a final dividend of 7.25 pence per share, bringing the total for the year to 10.50 pence, an increase of 31% on 2021. Our policy remains to progressively grow the dividend, keeping cover at between 2 times and 2.5 times normalised earnings.

Consistent with the Group's capital allocation strategy, underpinned by tremendous operating cash generation and strong Balance Sheet, the Board has approved the launch of a £20m share buyback programme.

Strategy

Following a period of strategic reorientation, the Group is now unequivocally focused on being the leader in the UK in providing high-quality housing services to the public sector. That focus distinguishes us from many of our peers who operate broader businesses. It is also leading some Local Authorities and Housing Associations to discuss with us ways in which we can support their housing repair operations. We will seek to grow our business where we believe that there are opportunities to work in partnership with these providers in a cost-effective and value-creating way.

We focus on innovation and customer satisfaction as key determinants of successful performance and delivery for clients. We continue to invest in our in-house IT operations delivery system, which now permits tenants to report the need for repairs and monitor their progress completely online. Our commitment to innovation was illustrated by the acquisition earlier this year of IRT Surveys Limited. While financially this was a relatively small deal, it brought into the Group the capability to deliver new data-led solutions for clients by assessing the energy performance of

housing portfolios, optimising budgets, and providing solutions for the most efficient and cost effective way to complete retrofits. This capability will be crucial to our success in delivering cost-effective decarbonisation solutions for clients as the public sector embarks on what will be a long multi-year programme of work to contribute to the achievement of the nation's net zero targets.

ESG

Mears published its ESG Strategic Approach 2022-2030 earlier this year. This document sets out clear targets in each of the areas of environmental, social and governance and the Board regularly reviews progress against these targets. Mears has also created a small ESG Board with several independent members whose function is to support and challenge the Group in the achievement of its ESG objectives. We are proud of the efforts which the Group has made over many years in demonstrating the positive impact which our activities can have on our workforce, our clients, and our communities and our ESG strategy is consistent with that deeply embedded cultural approach to how we work.

Board developments

Toward the end of 2022, the term of our Employee Director, Claire Gibbard, concluded. The Board is grateful to Claire for her contribution and especially her success in devising and creating the new Employee Forum, a mechanism to allow individuals from across the Group to meet and collectively discuss and make recommendations. As described in the report of the Nominations Committee, the Group ran a process to select Claire's successor and we were pleased to announce the appointment of Hema Nar with effect from 1 January 2023. Hema has worked for the Group since 2020 as a bid manager within the business development function.

Also at the end of 2022, Alan Long, who joined Mears 17 years ago and served as an Executive Director for 9 years, stepped down from the Board. Alan has been critical in developing the Group's workforce initiatives, its social value work and its governance endeavours as well as playing a key role in winning new business and in promoting and overseeing effective operational improvement. I would like to take this opportunity on behalf of the Board to thank Alan for all he achieved with Mears in his time with us and to wish him well for the future.

Lucas Critchley joined the Board as an Executive Director at the start of 2023. Lucas is the Group COO and will succeed David Miles as Group CEO later this year. Lucas joined the business as a graduate in 2004 and has worked across both the operations and business support functions.

Finally, as noted above, I have decided to step down from the Board with effect from the 2023 AGM. Chris Loughlin, the current Senior Independent Director, will succeed me as chairman.

David Miles

In December 2022, Mears announced that David Miles would step down as CEO during 2023 to be succeeded by Lucas Critchley. David has worked for the Group for almost 27 years, twelve of those as CEO. When he joined Mears, the business had just 5 branches, 83 employees and a turnover of some £12m. Since that time, and under his stewardship first as COO and then CEO, the Group has grown to its current size with some 75 branches, over 5,000 employees and turnover approaching £1billion. Much of the credit for this successful growth must go to David who has been central to the Group's development throughout that period.

As importantly, David has been the driving force behind the culture which underpins all that Mears does, combining the need to generate profit and to deliver a return to our owners with the need to provide value to all our stakeholders, staff, clients, service users and the communities in which we operate. In 2023 and for the future, it will be essential for companies to show that they can and do create social value as well as profits in delivering their services. David's focus on this area over many years has been prescient and paved the way for Mears to be recognized as the most trusted private provider working with the public sector.



On behalf of the Board, I would like to thank David for his unique service over so many years and for all the value which he has created and bequeaths to us.

Conclusion

Mears is a very successful Group and punches above its weight in many respects. It has a long and successful future ahead of it as a leader in providing housing services to the public sector. It will continue to be seen as a group which shows how the pursuit of profit for owners can and should be combined with the creation of value for all other stakeholders. In this respect, it is a model for others to follow.

CHIEF EXECUTIVE OFFICER BUSINESS REVIEW

2022 was a tremendous year for the Group. The strong operational and financial performance is further evidence that the strategic actions of recent years and our resilient operating platform are delivering positive results and have positioned the Group well for the future. Mears' market leadership and long track-record for quality and operating excellence ensures that we are seen as a trusted partner to Local and Central Government as they seek to address their challenges.

	2022 £m	2021 £m	2020 £m
Revenue	959.6	878.4	805.8
Operating profit before tax measures:			
Statutory operating profit/(loss) ¹	41.3	24.4	(6.3)
Adjusted operating profit/(loss) (post-IFRS 16) ²	41.5	33.7	6.6
Adjusted operating profit/(loss) (pre-IFRS 16) ²	36.1	29.6	0.6
Adjusted operating margin (pre-IFRS 16)	3.8%	3.4%	0.1%
Profit before tax measures			
Statutory profit/(loss) before tax	34.9	16.3	(15.2)
Adjusted profit/(loss) before tax ²	35.2	25.6	(3.4)

1. Operating profit/(loss) includes share of profit in associates.

2. Adjusted measures are defined in the Alternative Performance Measures section of the Finance Review.

The Group delivered strong revenue growth, up 9% to £959.6m, underpinned by the increased volumes experienced within the Asylum Accommodation and Support Contract ('AASC'). Except for AASC, revenues have been relatively consistent across the remaining contract estate, with a small reduction in our traditional repair activities.

Adjusted profit before tax for the year was £35.2m (2021: £25.6m), benefitting from both higher revenues and strengthening operating margins, reflecting the positive steps taken by the Group over the previous two years. Some actions resulted in a reduction in revenues but they improved profitability. The business has seen the quality of its secured forward order-book improve in terms of both pricing and longevity, and the Directors will continue to be disciplined when bidding new work. Whilst the business has experienced some inflationary and other supply chain pressures, the senior management team have taken steps to absorb the impact. This is covered in greater detail below.

The AASC contract was secured in 2019. The Group anticipated annual revenues of around £120m; the contract has seen revenue of more than double this original expectation with higher service user volumes. This was due to the impact of Covid-19 and situations where residential dispersal accommodation has not been available. The Group is working with the Home Office to accommodate these higher volumes in suitable accommodation. A significant focus is being directed towards sourcing a higher volume of residential properties that can support both the short-term and longer-term requirements. Whilst the use of temporary hotel accommodation in AASC is not preferred, we have and will always continue to place the wellbeing and safety of the service user at the forefront of our delivery. The Group expects these elevated service user numbers to be present across 2023. I would like to place on record my thanks to the Mears operational teams who have done an incredible job in supporting such large numbers of vulnerable people in the most challenging circumstances.

A key operational highlight saw a successful outcome for the Group on the retender of the Residential Living Accommodation Project contract ("RLAP") with the Defence Infrastructure Organisation. Under this contract, Mears provides 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. Mears had been successfully providing similar services since 2016 under the predecessor Substitute Service Accommodation contract. The new contract is for a period of up to seven years and has an annual value of around £50m. The new contract mobilised in April 2022 and has started well with both operational and financial metrics showing good progress.

On a similar note, the Group was delighted to successfully retain its responsive repairs contract with the London Borough of Tower Hamlets, with a total value of £75m over the initial five-year term (with an option to extend for further 5 years). Under the contract Mears will provide a full range of responsive repairs, voids, and planned works services in around 11,500 properties. Strong customer service and customer satisfaction scores were fundamental in retaining this material contract. This award builds on a relationship between Mears and the Council that stretches back over 15 years.

I am pleased with the progress made over recent years to improve the quality of the Group's forward order book. Since the start of the pandemic, the Group has taken robust action to prune its operations and to ensure resources are directed towards those contractual relationships which can provide high levels of customer service and sustainable financial returns, and reflective of the investment of time and resources. Whilst the Group had previously taken steps to exit a small number of contracts, some of those demobilisations concluded during 2022. This approach has resulted in some loss of revenue. However, the priority for the Board has been to drive an improvement to operating margins and improve the quality of the contract portfolio.

The increased focus on operating margin has extended into the bid room where the Group remains highly selective. The Group was pleased to secure a new 10-year contract with London Borough of Havering, delivering repairs and maintenance to around 12,000 homes with an estimated annual value of £5m. This new contract mobilisation went well which was an excellent achievement given the current backdrop of supply chain pressures and skill shortages and reflects the strength of the Mears operating model.

Over the course of the past two years, the Group has seen a high number of existing contracts coming up for re-bid. Positively through this period, the Group has enjoyed several contract extensions (Orbit, Livin and MoJ) and a number of retentions (RLAP, Tower Hamlets, Redbridge, and South Cambridgeshire). Whilst I am pleased with the contract retention rate, it is inevitable that a busy period of re-bids will result in some loss of work. Consequently, in September 2022, the Group bid farewell to its work with Welwyn Hatfield Borough Council, with an annual value of circa £15m, after more than 20-years' service.

Supply chain and inflationary pressures

Given the challenging economic backdrop and the volatility experienced during 2022, a key concern from all our stakeholders is how the Group has managed current inflationary headwinds, labour shortages and challenges within the supply chain.

Positively, most of our customer contracts include an entitlement to an annual price adjustment which is typically benchmarked against a cost index. Whilst this provides the Group significant protection, the Group is not immune to cost pressures, and there may be disparity in the level and timing of the increases received. The increases experienced in the cost of energy has added a significant headwind in respect of the AASC contract where the Group provides light and heating in respect of the c.6,000 dispersed residential properties. The Group has benefitted from the short-term support provided by Government, but energy costs remain a significant uncertainty in respect of that single contract.

Our procurement procedures have meant that we have not experienced significant problems with material supply. Where lead times have lengthened, we manage and plan for this in our operational delivery. The Mears model has always been to prioritise the investment in, and retention of, our own staff, with lesser reliance on sub-contracted and other short-term labour. However, the Group is dependent upon a network of specialist SME subcontractors, and we recognise the difficulties they will be experiencing within their own workforce and supply chains.

Where client spending is funded through social rents, the introduction of the social housing rent cap may encourage clients to look for cost reductions, notwithstanding the fact that much of the Group's activities are backed by legislation and can be considered non-discretionary. Some areas of planned capital spend, and initiatives such as Decarbonisation, could be subject to cost cutting, however this is only a relatively small part of the Group's revenues.

The Directors have recognised the ongoing challenge of retaining and recruiting skilled labour and have endeavoured to balance the pressures being felt by the Group's employees, with what is affordable to the business. Retaining a workforce that is motivated and feels valued is critical. The Group made further improvements during the period to holiday and sick pay entitlements and other terms and conditions, and the 2023 Pay Review applied a flat increase of £2,000 per annum per employee, which ensured that those at the lower end of the pay-scale received higher proportional increases. The Directors awarded an enhanced increase to its front-line Care Workers who are now all paid more than the Real Living Wage rate. The Directors will continue to monitor workforce pay, recognising the importance of being reactive to the Cost-of-Living pressures being felt by many of our Mears' colleagues. The Board would recognise that labour shortages are proving a constraint on our ability to pursue certain new opportunities and we continue to invest and innovate to attract the best talent.

Customer satisfaction

Mears conducts over 3,000 surveys per month and has an independently chaired Customer Scrutiny Board, that reports both to the Board and externally on our performance. Key developments are tried and tested with this group which has customer representation across our core Housing services.

In 2022, overall customer satisfaction was 88% (2021: 86%) and we are pleased to see low levels of complaints across the Group. We seek to resolve complaints efficiently and quickly, with learnings, where appropriate, being transferred into revised operational practices. We continue to enhance the ability for tenants to interact with us digitally while recognising that for many tenants, more traditional routes are still preferred. In 2022, we developed and launched a mobile customer app, which provides residents with more choice and convenience, allowing us to create a more personal service.

De-carbonisation

2022 has seen Mears create a leading end to end decarbonisation service to support our clients with the huge challenge of improving social housing stock. Social Housing landlords need to achieve a minimum EPC rating of C for their stock by 2030. This starts with the ability to help measure existing carbon efficiency, enabling us to design a program to cost effectively deliver improvements and then to measure success. The success of this work was seen first by us working with three clients on the Social Housing Development Fund (SHDF). All three bids were successful, and the resulting work is now being implemented.

The second wave of SHDF bids resulted in Mears working with clients to submit bids, which if successful, might result in over £100m of work over the next 2 years. Further waves of SHDF funding will follow in 2023 and for the foreseeable future. Our ability to support clients was extended by the acquisition of IRT Surveys Limited ('IRT'). IRT technology can model the clients housing stock and make clear recommendations on what precise work should be delivered and the grant funding available. I am delighted in the positive impact IRT has already made and we expect to see significant opportunity in 2023.

ORDER BOOK AND PIPELINE

The order book stands at £2.9bn (31 December 2021: £2.4bn), enhanced by a number of contract extensions. The Group secured contracts in 2022 YTD valued at over £165m with a win rate (by value) of 30%. The key orders secured are detailed below.

Contracts awarded in 2022	Base term (years)	Extension option (years)	Annual value £m	Base contract value £m	New / Retention / Extension
Tower Hamlets Homes	5	5	15	75	Retention
South Cambridgeshire District Council	5	-	7	35	Retention
London Borough of Havering	10	-	5	50	New

Over the course of the last two years, the Group has seen a high number of existing contracts approaching re-bid. Positively, we are now through this period, and the Board is pleased with its contract retention rate. Looking forward, in the coming 12-months, there are few rebids meaning much of the business development focus can be directed towards supporting the Group's organic growth ambitions.

We are seeing an increase in the levels of bid activity after two years of reduced volume following the pandemic. The Group's current bid pipeline for contracts to be awarded in 2023 is currently standing at approximately £750m. The bid pipeline comprises contracts which meet the Group's key bidding criteria such as size, quality, and margin opportunity. This reported pipeline excludes the large contract opportunity with North Lanarkshire Housing and Corporate Maintenance and Investment Services contract estimated to generate more than £1.5bn of revenues over 12 years – to provide reactive maintenance, compliance, servicing as well as programmes of works to the Authority's approximately 37,000 homes and c.1,200 other buildings.

HEALTH, SAFETY AND COMPLIANCE

Building on the success of achieving its 20th consecutive ROSPA Gold Award, the health and safety function continues to perform exceptionally well, with no form of regulatory improvement/enforcement notices, or invoices for HSE Fees for Intervention, being served.

In terms of developing risk, the Group has maintained its focus on the fast-moving area of building safety and is making good progress with its drive to implement robust management systems designed to ensure compliance with the Building Safety Act and the associated secondary legislation which is currently being enacted. However, despite the advances made, this item will remain a key area of focus and scrutiny for the Board moving forward.

Mental health and wellbeing is also an area which has received enhanced scrutiny. The Mental Health and Wellbeing Steering Committee, consisting of key stakeholders across all the Group's operations has a mandate to drive oversight and provide internal challenge to the business' relevant policies and strategic approach. The Group has also increased the range of support services available to its staff and their families, via its Employee Assistance Programme.

The Information Security Team is now well established and making excellent progress with the on-going implementation of enhanced security controls and employee awareness initiatives, which has enabled the business to secure high level, independent security accreditations for its key, strategic contracts. Moving forward, the team is focused on delivering the same validation programme to all areas of the Group's operations.

WORKFORCE

Mears has invested in our workforce for many years and, for the third year running, we have been listed in the Top 25 Sunday Times Big Companies to work for. Each year we have also moved higher up the league table, illustrating the ongoing improvement. This has been further endorsed by Mears being named by the Chartered Institute of Housing, an organisation in which almost all our clients have members, as the Employer of the Year in 2022.

This long-term staff investment in our Workforce, is proving particularly important at a time when employee resource has become critical for many organisations. While we have not been immune to the pressures, our

approach has helped mitigate some of this risk. This commitment starts at Board level, through our ongoing appointment of an Employee Director, now with an employee forum added to widen the circle of engagement with staff at all levels. We have also added a Deputy Employee Director with a focus on making Mears a better place to work for people with disabilities and a Trades representative lead.

We recognise that it has been a difficult year financially for many people, which is why once again, we have focussed on the lowest paid to give the highest percentage rises. We have also improved holidays, sick pay, and other family friendly benefits across the Group. I am very proud of the multiple investments that we have made here and the impact they have on recruitment, retention and employee commitment.

I have been pleased with our progress on Equality, Diversity and Inclusion and, as detailed above, the support given by our dedicated Mental Health Steering Group, designed to help people who need it, through what continues to be a challenging time for many people.

ESG

Adopted by the board and published in May 2022 the 'Mears Environmental, Social and Governance Strategic Approach 2022-2030' sets out our current record in these areas and our ambitious targets and plans. Details can be found on the ESG microsite on the mearsgroup.co.uk website.

In 2022 the Group delivered £16,900 per employee of economic and social value in local communities, as measured by the Social Value portal. The Mears Foundation Charity supported 70 community projects in the year including work to promote digital inclusion and improve the welfare of asylum seekers.

Mears has an independently Chaired ESG Board that reports to the main Mears Board. The role of the ESG Board, which has three independent Directors, is to both support and challenge the development of our ESG work. This is fundamental to our strategy, which is founded on the goal to be seen as the most responsible large private organisation working with the public sector. Again, we set this goal with business development and sustainability in mind. Demonstrating a responsible approach to business mitigates key reputation risks with our clients and enables us to respond well to tenders, for which ESG responses are becoming increasingly important.

We have consulted on and launched Charters in Scotland and the rest of the UK, in which we have clearly set out how we will do business responsibly and we will transparently report each year, as to how we have done against each of these commitments.

We have published our clear plan on how we intend to get to net zero carbon emissions by 2030.

STRATEGY

The strengthening trading performance is evidence that the strategic actions of recent years and Mears' resilient operating platform and market leadership are delivering results and position the Group well for sustainable growth over the medium term. Our strategy, as a housing business working with the Public Sector, is founded on four principles:

Key principle

To be recognised as the most trusted large private provider working with the public sector

- We have commented in the ESG section of this document on the positive progress made in 2022. In 2022 the Group delivered £16,900 per employee of economic and social value in local communities
- Our success with gaining contract extensions and success on rebids demonstrates the trust clients place with us.

To have the highest levels of customer service in the affordable housing sector where we operate

- We have achieved real consistency in our customer satisfaction scores through the year, where we continue to target excellence rather than just satisfactory feedback. Our scores increased overall versus 2021.
- We are receiving an increasing number of requests from Local Government and Housing Associations, who currently operate a largely internal repairs workforce (known as a DLO), for assistance in resolving the problems that have increased for them in the last two years. We will apply a selective approach as to where we can help, without over stretching our own resources. Our position as the go-to provider is underpinned by our reputation that we have built over many years.

To embrace innovation that drives positive change such as digital and carbon reduction

- We have made positive progress in winning carbon reduction work and our enhanced capability will lead to us securing additional work in 2023 and beyond.
- We are investing in the further development of our inhouse core operating system MCM to support our core housing activities. We continue with the development of customer applications that enhance service and lower cost, as demonstrated by the fact that it is now possible for tenants to fully report and see progress on their repair digitally.
- We have made our first bolt on acquisition, IRT, which adds to our innovative carbon offer.

To maintain and grow a resilient business with long term partnerships, a strong balance sheet and cash position, along with a committed, engaged workforce

- Our cash position is now very strong with an average daily net cash of £42.9m.
 - We have secured new work with a contract value of £165m and have continued to develop new partnerships such as with the Ministry of Justice, where we see significant opportunity for growth.
 - We are now bidding on the largest housing contract that we have ever bid, for North
-

Lanarkshire, which has a £150m annual contract value, for a potential 12 years.

- We still see too many tenders where price is the dominating factor, but we will continue to follow our long-standing commitment to quality and we will not extend relationships, where price focus becomes more important than quality and long-term value.
 - Our focus will be on driving the longer-term larger partnerships that we have with Central Government and on Sustainable partnerships with Local Government that both deliver service quality and enable us to maintain a strong balance sheet, Arrangements that do not meet these criteria will be exited.
-

DIVIDEND AND CAPITAL ALLOCATION

Our capital allocation priorities are unchanged. We aim to maintain a strong balance sheet with an average daily net cash balance and consistent with this, the Board's priorities will be to:

- Retain low levels of underlying net cash
- Modest levels of maintenance capex and digitisation spend
- Small-scale property purchases on MOJ and AASC, if absolutely required
- Progressive ordinary dividends; cover reducing towards 2x
- Selective, small-scale acquisitions to enhance product capabilities
- Returns of surplus cash to shareholders kept under review

In 2022, we have deployed all aspects of our capital allocation policy:

- We delivered strong free cash flows, reporting an average daily net cash of £42.9m.
- We have invested to support organic growth with development of our IT systems costing £1.1m during FY 2022, and a further £8.1m incurred on PPE additions.
- The Group has, to date, completed property acquisitions of c.£5m to support the challenging AASC plans to our service users from temporary solutions to dispersed residential accommodation.
- The Board is recommending a final dividend of 7.25p, resulting in a total dividend for the year of 10.50p, an increase of over 30% on 2021.
- We completed the acquisition of IRT Surveys to enhance the Group's offering focused on addressing fuel poverty, decarbonisation and energy efficiency.
- The Board has agreed that it intends to adopt a recurring programme of share buy backs. The Board has approved an initial buy-back of up to £20m of shares, recognising that this may take around 18 months to complete.

The full year ordinary dividend of 10.50p represents dividend cover of 2.33x. Our strong balance sheet, confidence in the outlook and good cash generation, mean we intend to reduce dividend cover progressively towards 2x over the coming years. Regarding potential further share buybacks, we will review our financial position and capital requirements on a regular basis and return surplus capital to shareholders as appropriate.

FINANCE 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 are considered useful to stakeholders in projecting a basis for measuring the underlying performance of the business and exclude 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 form the basis of the performance measures for remuneration.

These APMs should not be considered as 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 with 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 profit before the amortisation of acquisition intangibles and other items that are infrequent or one-off in nature and that management considers not to be part of underlying trading. The normalised results are further adjusted to reflect a full corporation tax charge of 19%, which will increase to 23.5% in 2023. 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 2022 and 2021 is detailed below. In addition, the Group also provides an APM which reports results before the impact of lease accounting under IFRS 16. Management has provided this alternative measure at the request of several 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.

For the purposes of assessing the Group's compliance with its banking covenants, the Group utilises the 'EBITDA pre-IFRS 16 and before non-underlying items' which is defined within the Group's bank facility agreement.

Continuing activities¹	Note	2022 £'000	2021 £'000
Profit/(loss) before tax	Statutory	34,944	16,333
Amortisation of acquired intangibles	Note 4/13	245	7,654
Non-underlying items	See below	-	1,627
Profit/loss before non-underlying items, amortisation of acquired intangible and tax	APM	35,189	25,614
Removal of IFRS 16 profit impact	See below	2,201	2,876
Finance costs (non-IFRS 16)	Note 5	(1,268)	1,148
Operating profit pre-IFRS-16 before non-underlying items and amortisation of acquired intangibles	APM	36,122	29,638
Amortisation of software intangibles	Note 4/13	2,055	2,123
Depreciation and loss on disposal (non-IFRS 16) ³	Note 14	8,023	5,884

EBITDA pre-IFRS 16 and before non-underlying items	APM	46,200	37,644
IFRS 16 profit impact	See below	(2,201)	(2,876)
Finance costs (IFRS 16)	Note 5	7,610	6,921
Depreciation and loss on disposal (IFRS 16) ²	Note 15	43,259	43,386
EBITDA post-IFRS-16 before non-underlying items and amortisation of acquired intangibles	APM	94,868	85,075
Amortisation of software intangibles	Note 13	(2,055)	(2,123)
Depreciation and loss on disposal (IFRS 16) ²	Note 15	(43,259)	(43,386)
Depreciation and loss on disposal (non-IFRS 16) ³	Note 14	(8,023)	(5,884)
Operating profit post IFRS 16 and before non-underlying items	APM	41,531	33,683

1. Operating profit/(loss) and EBITDA measures include share of profits of associates.

2. Includes profit on disposal of £228,000 (2021: £27,000).

3. Includes loss on disposal of £2,000 (2021: £272,000).

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

	2022	2021
	£'000	£'000
Charge to income statement on a post-IFRS 16 basis	(50,869)	(50,307)
Charge to income statement on a pre-IFRS 16 basis	(48,668)	(47,431)
Profit impact from the adoption of IFRS 16	(2,201)	(2,876)

Non underlying items

Non-underlying items are items which are considered outside normal operations. They are material to the results of the Group through either 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. The Directors do not believe there are any items during 2022 which could be considered outside normal operations.

	2022	2021
	£'000	£'000
Repayment or waiver of furlough entitlement	–	1,627

In the prior year, the Directors elected to voluntarily repayment and waiver of amounts paid and due under the Coronavirus Job Retention Scheme ('furlough'). The Directors considered this voluntary repayment to be a non-trading item and, by its nature, unique and non-recurring. The size of this item is considered material and the Directors believe it would distort the readers' understanding of the financial results of the Group.

Amortisation of acquisition intangibles

	2022	2021
	£'000	£'000
Amortisation charge	245	7,654

A charge for amortisation of acquisition intangibles arose in the year of £0.2m (2021: £7.7m). The charge within the comparative period predominantly related to the MPS acquisition in 2018, resulting in intangible assets being identified associated with the order book and customer relationships. This MPS intangible was fully amortised during 2021. The Directors have consistently explained their rationale for adjusting for this charge within the Group's alternative profit measure. Whilst the 2022 PBT on an IFRS basis has increased by 114%, the adjusted measure has increased by 37%, and the Directors believe the lower figure is more reflective of the Group's performance.

The Directors estimate that, in the absence of further acquisitions, the amortisation charge moving forwards will be circa £0.2m per annum. On this basis, and in the absence of new significant acquisitions, the Directors anticipate that this APM adjustment will not be applied from 2023.

Earnings per share (EPS)

A reconciliation between the statutory measure for profit 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)	
	2022	2021	2022	2021	2022	2021
	p	p	p	p	p	p
Earnings per share	24.51	11.50	0.44	0.99	24.94	12.49
Effect of amortisation of acquisition intangibles	0.22	6.77	-	-	0.22	6.77
Effect of full tax charge adjustment	(0.22)	(1.21)	(0.05)	(0.32)	(0.26)	(1.53)
Effect of non-underlying items	-	1.17	-	-	-	1.17
Normalised earnings per share	24.51	18.23	0.39	0.67	24.90	18.90

	Continuing		Discontinued		Continuing and discontinued	
	2022	2021	2022	2021	2022	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Profit attributable to shareholders	27,813	12,997	494	1,122	28,307	14,119
Amortisation of acquisition intangibles	245	7,654	-	-	245	7,654
Full tax adjustment	(245)	(1,365)	(55)	(361)	(300)	(1,726)
Exceptional costs	-	1,318	-	-	-	1,318
Normalised earnings	27,813	20,604	439	761	28,251	21,365

Net cash/(debt)

The Group excludes the financial impact of 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 over 10,000 residential properties to vulnerable service users and key workers. The Group does not recognise these lease obligations as traditional debt instruments given a significant proportion of these leases have break provisions which allow the Group to cancel the associated lease obligation with minimal associated cost. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	Note	2022 £'000	2021 £'000
Cash and cash equivalents		98,138	54,632
Cash deposits (reported in Short-term financial assets)		1,963	-
Revolving Credit Facility		-	-
Adjusted net cash/(debt)	APM	100,101	54,632
Lease liabilities (current)	Note 20	(44,376)	(41,600)
Lease liabilities (non-current)	Note 20	(181,045)	(175,290)
Total	Statutory	(125,320)	(162,258)

DISCONTINUED ACTIVITIES

	2022 £'000	2021 £'000
Expenditure	(261)	(160)
Increase in fair value of contingent consideration	803	1,100
Profit for the year before tax on discontinued operations	542	940
Tax on discontinued operations	(48)	182
Profit for the year after tax on discontinued operations	494	1,122

As detailed within the 2020 Annual Report, the Group completed disposals of both the Domiciliary Care and Planning Solutions businesses. The consideration payable to the Company in respect of the Planning solutions business, 'Terraquest', was structured with a mix of cash and contingent consideration, together with loan notes and a minority shareholding which gives the Group some continued participation at a low level.

The final contingent consideration in respect of Terraquest was settled during 2022 at £7.33m versus the fair value carried in the prior year of £6.50m. This additional profit has been recognised within discontinued activities. A small amount of expenditure was incurred in respect of these historical businesses which is recognised in discontinued operations.

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 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 2022 are detailed below:

	Taxes borne £m	Tax collected £m	Total £m
Corporation tax	5.7	0.0	5.7
VAT and IPT	0.6	110.2	110.8
Construction industry tax	0.0	7.3	7.3
Income taxes	0.8	23.4	24.2
National insurance	12.5	16.8	29.3
Total	19.5	157.7	177.2

BALANCE SHEET

Overall, the Group reported an increase in net assets from £201.0m to £213.8m driven by retained profits generated in the year, net of a reduction in the pension surplus. The key balance sheet categories are reported below together with a brief footnote to provide further explanation:

	Note	2022 £m	2021 £m		Note	2022 £m	2021 £m
Non-current Assets				Current Liabilities			
Goodwill	1	121.9	118.9	Trade payables	7	(171.0)	(184.0)
Intangible assets	2	7.5	6.6	Current lease liabilities	4	(44.4)	(41.6)
PPE	3	20.2	20.7	Provisions	10	(8.8)	(4.5)
Right of use assets	4	213.4	204.9			(224.2)	(230.1)
Investments & Loan Notes	5	5.3	4.2	Non-current Liabilities			
Pension assets	6	26.8	50.6	Pension liabilities	6	(3.1)	(17.0)
		395.1	406.0	Deferred tax liability	11	(4.9)	(6.7)
Current Assets				Non-current lease liabilities	4	(181.0)	(175.3)
Inventories	7	6.9	22.9	Other non-current liabilities	12	(0.7)	-
Trade receivables	7	128.3	148.3	Non-current provisions	13	(3.1)	(3.8)
Corporation tax asset	8	0.5	2.2			(192.9)	(202.8)
Bank, Cash and Deposits	9	100.1	54.6	Total liabilities		(417.0)	(432.9)
		235.8	228.0				
Total assets		630.8	633.9	Total Net Assets		213.8	201.0

1. This is goodwill generated from previous acquisitions; the carrying value is tested at least annually for impairment.
2. This includes software development costs of £5.0m (2021: £4.0m) which primarily relates to in-house developments to our key operational IT platforms. This was increased by the acquisition of IRT which saw a new balance of £1.1m acquired and consolidated; this is being written off over the estimated useful economic life, which is typically 5 years in respect of the Mears IT system development but 10-years in respect of the IRT asset. This balance also includes acquisition intangibles of £2.4m (2021: £2.6m) relating to customer relationships identified and valued on acquisitions and being amortised over the estimated useful economic life of 20 years.
3. Property, plant, and equipment (PP&E) is stated at historical cost of £47.9m (2021: £57.3m) less accumulated depreciation of £27.7m (2021: £36.6m), giving a net carrying value of £20.2m (2021: £20.7m). 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.
4. Leasing properties for rental to tenants is an important part of the Mears' Housing offering. As a result, Mears currently holds leases for over 10,000 residential property leases and this number is increasing over time. The way in which the Group manages and balances the operational and financial risks associated with its contractual obligations and leasing commitments is important. The Group seeks to strike a balance between its operational requirements and the negative financial impact of IFRS 16.

A significant number of leases provide Mears a one-way break option which typically provides the ability to exit the lease, having given 30-days' notice. This provides the Group ultimate flexibility if volumes

reduce. Where the Group does not have the right to break, leases are typically matched to the underlying contract length which gives comfort that an obligation will not remain once the requirement for that asset has passed. The Group has a high number of short-term leases which, as a practical expedient within IFRS 16, are not required to be reflected on the Balance Sheet, but can result in a greater operational risk if suitable properties are in short supply.

In addition to the residential property leases, the Group holds over 3,500 other leases relating to vehicles and offices.

5. This predominantly relates to an investment 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 carrying value reflects the cost of each investment together with the Group's share of the profit generated by that entity since acquisition.

Loan notes are linked to the disposal of Terraquest in 2020. The Group received £3.16m in loan notes accruing an interest rate of 10% per annum, payable on redemption. This carrying value, inclusive of accrued interest, has increased to £4.1m.

6. The Group participates in two principal Group defined benefit pension schemes together with a further 15 individual defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS). These are covered in greater detail below.
7. Working capital balances include trade receivables, trade payables and inventories; further explanation is provided within the working capital management section that follows.
8. All Group profits are chargeable to Corporation Tax at the headline rate of 19%, which increases to 25% in April 2023. The Group is required to make quarterly payments, meaning any creditor outstanding at the period end is relatively low, and in the case of the last two period ends, the Group has been due a Corporation Tax refund.
9. The Group has reported a cash balance at the year-end of £98.1m. Whilst the spot number at the Balance Sheet date drives a key metric, of more importance is the Group's treasury performance over 365-days. This is covered in greater detail below. In addition to the reported cash number, the Group held treasury deposits of £2.0m. However, given the deposits maturity was greater than 3-months, it is not included within the cash figures, but instead classed as a Financial Asset.
10. A provision is a liability of uncertain timing or amount. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. The provision of £8.8m within current liabilities relates to a number of legal claims where the Directors have made an assessment as to the likely loss. Additional detail is provided within note 22 to the financial statements. The provision of £3.1m within non-current liabilities relate to insurance losses which the Group chooses to self-insure.
11. A Deferred Tax liability of £4.9m (2021: £6.7m) is recognised on temporary differences between the treatment of items for tax and accounting purposes. 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. 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.
12. Other payables include provisions relating to the Group's insurance risks and a small number of contract related provisions which arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received.

PENSIONS

The Group's defined benefit pension arrangement can be categorised three ways:

- Two principal Group pension schemes, where the Group is fully at risk over the long-term
- Five indemnified defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS), but where the Group holds a back-to-back indemnity under the associated customer contract which removes the Group's exposure to changes in pension contributions and any future deficit risk.
- Ten other defined benefit schemes, the majority of which are LGPS, but where there is no indemnity in place. However, the risk attached to these schemes matches the time horizon of the underlying contract; whilst not removing risk, it reduces the period over which deficit can arise, and therefore the Group is fully at risk over the medium term

The two principal Group schemes enjoy a strong financial position and have done consistently over the last 10-years. Both schemes are relatively mature, and most assets held are matched to the underlying obligations. It was pleasing to reach a position where both Group schemes have reached a position where they can be considered largely self-sufficient. The Directors are really pleased with the performance of the scheme managers and trustees who have managed this pension risk so well over many years to reach the position reported today.

The Directors are comfortable with the position of the Indemnified and Other schemes. There is only a single scheme reporting a deficit, and in that instance the Group benefits from an indemnity. The Group enjoys a significant surplus on many of other schemes, but these are not recognised as assets as there is uncertainty around the ability to recover a surplus.

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 which complies with accounting standards but is less easy for the reader to understand how the individual components fit together.

	2022	2022	2022	2022	2021	2021	2021	2021
	Group	Indemnified	Other	TOTAL	Group	Indemnified	Other	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total scheme assets	128,023	63,848	52,596	261,712	196,912	214,330	81,749	493,483
Total obligations	(104,351)	(50,995)	(36,748)	(202,763)	(159,261)	(198,887)	(76,423)	(435,089)
Funded status	23,672	12,853	15,848	58,949	37,651	15,443	5,326	58,394
Surpluses not recognised as assets	0	(15,989)	(15,848)	(38,413)	0	(28,418)	(9,320)	(37,738)
Pension surplus / liability	23,672	(3,136)	0	20,536	37,651	(12,975)	(3,994)	20,656
Guarantee asset	0	3,136	0	3,136	0	12,975	0	12,975
Net position	23,672	0	0	23,672	37,651	0	(3,994)	33,631

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. 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 has seen working capital reduced to below £2m (2021: £12m). However, without this enhancement, the Group would still have delivered EBITDA to operating cash of more than 110%.

	2022 £'000	2021 £'000
Profit before tax	34,944	16,333
Net finance costs	6,341	8,069
Amortisation of acquisition intangibles	245	7,654
Depreciation and amortisation	53,562	51,392
EBITDA	95,092	83,448
Other adjustments	376	(1,213)
Change in inventories	15,991	12,944
Change in operating receivables	13,855	(2,244)
Change in operating payables and provisions	(9,760)	(32,573)
Operating cash flow	115,554	60,362
EBITDA to operating cash conversion	122%	72%

The Group reported an adjusted net cash position at the year-end of £100.1m (2021: £54.6m). 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 £42.9m (2021: £0.4m).

	2022 £'000	2021 £'000
Average daily adjusted net cash	42,880	400
Adjusted net cash at 31 December	100,101	54,632

The average month end trade receivable and trade payable balance reflects strong working capital management during the period. The significant reduction is largely due to the unwind of working capital from Development activities which released around £10m during the period. The core Housing activities have historically absorbed a relatively low level of working capital when compared to the size of the business and the profit generated. The business has benefitted from payments received on account; however, even if excluding this temporary benefit, the adjusted measure would reflect strong performance.

	2022 £m	2021 £m
Receivables	153.7	181.5
Payables	(159.7)	(165.1)
Net working capital	(6.0)	16.5

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 of £70m, but allows the Group to draw down monies as required, mirroring an overdraft facility. The Board is grateful for the tremendous support that has been provided to the Group by its banking partners. A number of those relationships extend over decades.

The financial covenants included within the RCF, which are tested twice-yearly on 30 June and 31 December, are detailed below. Given the Group traded on a net-cash basis throughout 2022, and enjoyed an associated finance credit, there is significant headroom. Nevertheless, the Directors have completed a Viability Review and stress testing the Group's resilience given several downside scenarios.

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.

A margin ratchet ranging from 1.75-2.75% is applied to drawdowns under the RCF, determined by the Group's leverage ratio at each quarter end. 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 liquidity and cash performance, the Board's expectation would be for the margin payable during 2023 to be at the bottom end of the range.

Consolidated statement of profit or loss

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Continuing operations			
Sales revenue	2	959,613	878,420
Cost of sales		(763,927)	(697,933)
Gross profit		195,686	180,487
Administrative expenses		(155,259)	(156,940)
Operating profit	4	40,427	23,547
Share of profits of associates	16	858	855
Finance income	5	2,033	835
Finance costs	5	(8,374)	(8,904)
Profit for the year before tax		34,944	16,333
Tax expense	8	(6,441)	(3,192)
Profit for the year from continuing operations		28,503	13,141
Discontinued operations			
Profit from discontinued operations	9	542	940
Tax (charge)/credit on discontinued operations	8	(48)	182
Profit for the year after tax from discontinued operations		494	1,122
Profit for the year from continuing and discontinued operations		28,997	14,263
Attributable to:			
Owners of Mears Group PLC		28,307	14,119
Non-controlling interest		690	144
Profit for the year		28,997	14,263
Earnings per share – from continuing operations			
Basic	11	25.07p	11.72p
Diluted	11	24.51p	11.50p
Earnings per share – from continuing and discontinued operations			
Basic	11	25.51p	12.73p
Diluted	11	24.94p	12.49p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit for the year		28,997	14,263
Other comprehensive income:			
Which will be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Cash flow hedges:			
• gains arising in the year		–	1,023
• reclassification to the Consolidated Statement of Profit or Loss		–	(85)
Decrease in deferred tax asset in respect of cash flow hedges	25	–	(178)
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Actuarial (loss)/gain on defined benefit pension schemes	29	(3,041)	59,721
Pension guarantee asset movements in respect of actuarial gain	29	(6,754)	(19,018)
Increase/(decrease) in deferred tax in respect of defined benefit pension schemes	25	2,449	(8,809)
Other comprehensive income for the year		(7,346)	32,654
Total comprehensive income for the year		21,651	46,917
Attributable to:			
Owners of Mears Group PLC		20,961	46,773
Non-controlling interest		690	144
Total comprehensive income for the year		21,651	46,917
Total comprehensive income for the year attributable to owners of Mears Group PLC arises from:			
Continuing operations		20,467	45,651
Discontinued operations		494	1,122
Total comprehensive income for the year attributable to owners of Mears Group PLC		20,961	46,773

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

Consolidated balance sheet

As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current			
Goodwill	12	121,868	118,873
Intangible assets	13	7,452	6,610
Property, plant and equipment	14	20,188	20,712
Right of use assets	15	213,432	204,949
Investments	16	1,271	713
Loan notes and other non-current receivables	24	4,073	3,476
Pension and other employee benefits	29	23,672	37,651
Pension guarantee assets	29	3,136	12,975
		395,092	405,959
Current			
Inventories	17	6,879	22,869
Trade and other receivables	18	128,334	148,305
Current tax assets		459	2,154
Short-term financial assets	24	1,963	–
Cash and cash equivalents	24	98,138	54,632
		235,773	227,960
Total assets		630,865	633,919
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	26	1,110	1,109
Share premium account		82,351	82,265
Share-based payment reserve		1,801	1,313
Merger reserve		7,971	7,971
Retained earnings		119,100	107,578
Total equity attributable to the shareholders of Mears Group PLC		212,333	200,236
Non-controlling interest		1,492	802
Total equity		213,825	201,038
Liabilities			
Non-current			
Pension and other employee benefits	29	3,136	16,995
Deferred tax liabilities	25	4,898	6,676
Lease liabilities	20	181,045	175,290
Other non-current liabilities	21	682	–
Non-current provisions	23	3,110	3,800
		192,871	202,761

Current			
Trade and other payables	19	171,013	184,047
Lease liabilities	20	44,376	41,600
Provisions	22	8,780	4,473
Current liabilities		224,169	230,120
Total liabilities		417,040	432,881
Total equity and liabilities		630,865	633,919

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 30 March 2023.

D J Miles	A C M Smith
Director	Director
Company number:	03232863

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

Consolidated cash flow statement

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Operating activities			
Result for the year before tax		34,944	16,333
Adjustments	27	60,524	65,902
Change in inventories		15,991	12,944
Change in trade and other receivables		13,855	(2,244)
Change in trade, other payables and provisions		(9,760)	(32,573)
Cash inflow from operating activities of continuing operations before taxation		115,554	60,362
Taxes paid		(4,128)	(3,752)
Net cash inflow from operating activities of continuing operations		111,426	56,610
Net cash (outflow)/inflow from operating activities of discontinued operations	9	(494)	59
Net cash inflow from operating activities		110,932	56,669
Investing activities			
Additions to property, plant and equipment		(8,052)	(7,587)
Additions to other intangible assets		(1,364)	(1,182)
Proceeds from disposals of property, plant and equipment		–	46
Expenditure on acquisition of subsidiary, net of cash acquired	28	(2,928)	–
Loans repaid by related parties		–	500
Distributions from associates	16	300	1,108
Amounts placed on short-term deposit in excess of three months	24	(1,963)	–
Interest received		764	413
Net cash outflow from investing activities of continuing operations		(13,243)	(6,702)
Net cash inflow from investing activities of discontinued operations	9	7,333	500
Net cash outflow from investing activities		(5,910)	(6,202)
Financing activities			
Proceeds from share issue		87	40
Net cash movement in revolving credit facility		–	(40,000)
Loans provided to other entities (non-controlled)		(225)	–
Repayment of loan acquired with subsidiary	28	(37)	–
Discharge of lease liabilities		(43,169)	(40,258)
Interest paid		(8,425)	(8,844)
Dividends paid – Mears Group shareholders	10	(9,692)	(2,773)
Net cash outflow from financing activities of continuing operations		(61,461)	(91,835)
Net cash outflow from financing activities of discontinued operations	9	(55)	(220)
Net cash outflow from financing activities		(61,516)	(92,055)
Cash and cash equivalents, beginning of year		54,632	96,220
Net increase/(decrease) in cash and cash equivalents		43,506	(41,588)
Cash and cash equivalents, end of year		98,138	54,632

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Attributable to equity shareholders of the Company						Non-controlling interest £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000		
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 1 January 2022	1,109	82,265	1,313	–	7,971	107,578	802	201,038
Net result for the year	–	–	–	–	–	28,307	690	28,997
Other comprehensive income	–	–	–	–	–	(7,346)	–	(7,346)
Total comprehensive income for the year	–	–	–	–	–	20,961	690	21,651
Deferred tax on share-based payments	–	–	–	–	–	142	–	142
Issue of shares	1	86	–	–	–	–	–	87
Share options – value of employee services	–	–	599	–	–	–	–	599
Share options – exercised or lapsed	–	–	(111)	–	–	111	–	–
Dividends	–	–	–	–	–	(9,692)	–	(9,692)
At 31 December 2022	1,110	82,351	1,801	–	7,971	119,100	1,492	213,825

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

Notes to the financial statements – Group

For the year ended 31 December 2022

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 2022 or 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the registrar of companies, and those for 2022 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 2022. The adoption of these amendments had no material effect on the Group's financial statements.

The preparation of financial statements in accordance 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 judgements and 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 2022. 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 until 30 June 2024. When making the 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 2023, 31 December 2023 and 30 June 2024. At 31 December 2022, the Group had £70m of committed borrowing facilities, maturing in December 2026; however, no amount was drawn on the facility. The principal borrowing facilities are subject to covenants, as detailed with the Financial review section of the Strategic Report on page 58 of the Annual Report. The Principal Risks and Uncertainties section of the Strategic Report on page 48 of the Annual 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 2024 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 2023, 31 December 2023 and 30 June 2024.

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. Further detail is provided in the Going Concern section of the Report of the Directors on page 99 of the Annual Report. 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 period to 30 June 2024. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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 provisions necessary for certain liabilities, estimates used in forecasts used to assess future 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 acquired intangibles and other similar evaluations. Actual amounts could differ from those estimates. Further details of key estimates and judgements are provided in the appropriate notes.

New standards and interpretations not yet applied

IFRS 17 – 'Insurance Contracts' is a new standard effective for accounting periods commencing on or after 1 January 2023. In addition, a number of standards have been modified with effect for accounting periods commencing on or after 1 January 2023. These include IAS 1 – 'Presentation of Financial Statements', IAS 8 – 'Accounting Policies, Changes in Accounting Estimates and Errors'. 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 or 2022 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 either an input or an output 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:

	2022 £'000	2021 £'000
Revenue from contracts with customers		
Repairs and maintenance	451,063	481,647
Contracting	83,463	101,599
Property income	376,296	240,641
Care services	19,544	19,446
Other	345	295
	930,711	843,628
Lease income	28,902	34,792
	959,613	878,420

A total of £24.3m of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2021: £13.2m).

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:

	2022 £'000	2021 £'000
Less than 1 year	3,245	7,535
Between 1 and 2 years	1,537	2,365
Between 2 and 3 years	1,531	2,060
Between 3 and 4 years	1,531	1,750
Between 4 and 5 years	1,150	1,544
Over 5 years	393	812
	9,387	16,066

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 for the purpose of allocating resources and assessing performance.

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

During the year, the Directors revisited the Group's segmental reporting, resulting in a change in the disclosure with respect to reportable segments. As there has been no change during the year in the financial information reported to the chief operating decision maker, the change has been accounted for as a correction of the prior year, in accordance with IAS 8, paragraph 49, and the prior year comparative figures have been amended accordingly.

The Executive Directors manage the group as a single Housing business, but information provided to the Board and historically to stakeholders has included a split between Maintenance, Management and Development. Therefore, the Directors have concluded that providing segmental information along the same lines would be helpful to the users of the financial statements.

	2022				2021			
	Maintenance £'000	Management £'000	Development £'000	Total £'000	Maintenance £'000	Management £'000	Development £'000	Total £'000
Revenue	535,336	405,776	18,501	959,613	572,377	280,422	25,621	878,420
Profit/(loss) before tax and amortisation of acquisition intangibles	12,022	24,281	(1,114)	35,189	12,718	12,554	(1,285)	23,987
Amortisation of acquisition intangibles				(245)				(7,654)
Profit before tax				34,944				16,333
Tax expense				(6,441)				(3,192)
Profit/(loss) for the year				28,503				13,141

The revenues in respect of the Housing with Care element of the business are included within Maintenance as these services do not include the provision of a property. In the Chief Executive Officer's review in the 2021 Annual Report, these figures were included in the 'Management-led' line.

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 (AASC) with the Home Office, included within the Management segment. 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 30% of Group revenues in 2022 and this elevated position has continued into 2023. 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.

For the purposes of the disaggregation of revenue in note 2, all Property income and Lease income is included within the Management segment and the Development segment contains only Contracting Revenue. All other revenue is included within the Maintenance segment.

4. Operating costs

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

	2022 £'000	2021 £'000
Share-based payments	599	575
Depreciation	51,508	49,029
Amortisation of acquisition intangibles	245	7,654
Amortisation of other intangibles	2,055	2,123
Loss on disposal of property, plant and equipment	2	273
Profit on disposal of right of use assets	(227)	(27)

A current year charge of £5.7m has been incurred in respect of a matter referred to adjudication ruling in favour of a former client for breach of contract (see note 22).

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

	2022 £'000	2021 £'000
In respect of continuing activities:		
Fees payable to the auditor for the audit of the Group's financial statements	416	150
Other fees payable to the auditor in respect of:		
auditing of accounts of subsidiary undertakings pursuant to legislation	500	600
additional fees in respect of the prior year audit	65	273
Total auditor's remuneration	981	1,023

5. Finance income and finance costs

	2022 £'000	2021 £'000
Interest charge on overdrafts and loans	(625)	(1,408)
Interest charge on hedged items	–	(310)
Interest on lease obligations	(7,617)	(6,952)
Other interest	(58)	(3)
Finance costs on bank loans, overdrafts and leases	(8,300)	(8,673)
Interest charge on defined benefit pension obligation	(74)	(231)
Total finance costs	(8,374)	(8,904)
Interest income resulting from short-term bank deposits	870	1
Interest income resulting from defined benefit pension asset	769	106
Income from settlement of hedge instruments	–	395
Other interest income	394	333
Finance income	2,033	835
Net finance charge	(6,341)	(8,069)
Gains and losses on hedged items recognised in other comprehensive income		
Gains/(losses) arising in the year	–	1,023
Reclassification to the Consolidated Statement of Profit or Loss	–	(85)
Changes in mark-to-market of interest rate swaps	–	938

6. Employees

Staff costs during the year were as follows:

	2022 £'000	2021 £'000
Wages and salaries	165,348	166,304
Social security costs	16,795	16,425
Other pension costs	8,797	8,552
	190,940	191,281

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

	2022	2021
Site workers	2,482	2,873
Carers	558	664
Office and management	1,950	1,860
	4,990	5,397

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 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 2022 the Group maintained three (2021: three) active share-based payment schemes for employee remuneration.

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

	2022		2021	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	4,827	110	5,292	131
Granted	442	1	544	1
Forfeited or lapsed	(643)	108	(965)	177
Exercised	(74)	116	(44)	92
Outstanding at 31 December	4,552	99	4,827	110

The weighted average share price at the date of exercise for share options exercised during the period was 199p. At 31 December 2022, 0.7m options had vested and were still exercisable at prices between 1p and 429p. These options had a weighted average exercise price of 245p and a weighted average remaining contractual life of 4.3 years.

The fair values of options granted were determined using the Monte Carlo option pricing model. 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 0.44m options granted during the year and 0.64m options that lapsed during the year. The market price at 31 December 2022 was 208p and the range during 2022 was 182p 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:

	2022 £'000	2021 £'000
Giving rise to share-based payment reserve:		
SAYE	165	295
CSOP	–	133
LTIP	434	147
	599	575

The Group is currently running three 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 within the Annual Report.

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:

	2022 £'000	2021 £'000
United Kingdom corporation tax	6,449	2,407
Adjustment in respect of previous periods	(675)	(450)
Total current tax charge recognised in Consolidated Statement of Profit or Loss	5,774	1,957
Deferred taxation charge:		
on defined benefit pension obligations	(41)	154
on share-based payments	27	–
on capital allowances	65	806
on amortisation of acquisition intangibles	(65)	(1,372)
on short-term temporary timing differences	149	(45)
on corporate tax losses	264	1,003
other timing differences	18	(50)
statutory rate changes	–	742
Adjustment in respect of previous periods	250	(3)
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	667	1,235
Total tax charge recognised in Consolidated Statement of Profit or Loss on continuing operations	6,441	3,192
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss on discontinued operations	48	(182)
Total tax charge recognised in Consolidated Statement of Profit or Loss	6,489	3,010

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

	2022 £'000	2021 £'000
Profit for the year on continuing operations before tax	34,944	16,333
Profit for the year on discontinued operations before tax	542	940
Result for the year before tax	35,486	17,273
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 19.0% (2021: 19.0%)	6,742	3,282
Effect of:		
expenses not deductible for tax purposes	362	112
income not subject to tax	(264)	–
tax impact of employee share schemes	129	102
tax losses not previously recognised in deferred tax	–	(593)
impact of statutory rate changes	–	742
adjustment in respect of prior periods	(480)	(635)
Actual tax charge	6,489	3,010

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 (2021: £25.5m) 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:

	2022 £'000	2021 £'000
Deferred tax charge/(credit) recognised in other comprehensive income		
on defined benefit pension obligations	(2,449)	8,809
on cash flow hedges	–	178
Total deferred tax charge/(credit) recognised in other comprehensive income	(2,449)	8,987
Deferred tax recognised directly in equity		
Deferred tax credit:		
on share-based payments	(142)	(228)
Total deferred tax recognised in equity	(142)	(228)

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 expenditure was incurred in respect of the Domiciliary Care business during 2022, primarily in respect of costs for a number of leased properties that were not included in the sale and whose leases came to an end in March 2022. These transactions are recognised in discontinued operations.

In addition, the consideration for the disposal of the Planning Solutions business included a contingent element that was received during 2022. The amount received of £7.3m exceeded the fair value carried at 31 December 2021 and the resultant profit in 2022 of £0.8m has been recognised in discontinued operations, along with a small amount of costs associated with agreeing the final value.

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

	2022 £'000	2021 £'000
Revenue and profits		
Sales revenue	–	57
Cost of sales	–	(53)
Administrative expenses	(261)	(161)
Increase in fair value of contingent consideration	803	1,100
Finance costs	–	(3)
Profit for the year before tax on discontinued operations	542	940
Tax on discontinued operations	(48)	182
Profit for the year after tax on discontinued operations	494	1,122

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:

	2022 £'000	2021 £'000
Operating activities		
Result for the year before tax	542	940
Net finance costs	–	3
Share-based payments	–	–
Depreciation and amortisation	–	–
Net profit on disposal of investments	–	–
Fair value movement	(803)	(1,100)
Change in operating receivables	–	–
Change in operating payables	(233)	34
Net cash outflow from operating activities before taxation	(494)	(123)
Taxes repaid	–	182
Net cash (outflow)/inflow from operating activities	(494)	59
Investing activities		
Proceeds from disposal of subsidiaries	7,333	500
Net cash inflow from investing activities	7,333	500
Financing activities		
Discharge of lease liabilities	(55)	(217)
Interest paid	–	(3)
Net cash outflow from financing activities	(55)	(220)
Net increase in cash and cash equivalents	6,784	339

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:

	2022 £'000	2021 £'000
Final 2021 dividend of 5.5p (2021: final 2020 dividend of 0p) per share	6,092	–
Interim 2022 dividend of 3.25p (2021: interim 2021 dividend of 2.5p) per share	3,600	2,773
	9,692	2,773

The Directors recommend a final dividend of 7.50p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2022.

11. Earnings per share

	Continuing		Discontinued		Continuing and discontinued	
	2022 p	2021 p	2022 p	2021 p	2022 p	2021 p
Earnings per share	25.07	11.72	0.44	1.01	25.51	12.73
Diluted earnings per share	24.51	11.50	0.43	0.99	24.94	12.49

For the purpose of calculating earnings per share, earnings have been calculated as follows:

	Continuing		Discontinued		Continuing and discontinued	
	2022	2021	2022	2021	2022	2021

	£'000	£'000	£'000	£'000	£'000	£'000
Profit for the year	28,503	13,141	494	1,122	28,997	14,263
Attributable to non-controlling interests	(690)	(144)	–	–	(690)	(144)
Earnings	27,813	12,997	494	1,122	28,307	14,119

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.

	2022 Million	2021 Million
Weighted average number of shares in issue:	110.96	110.93
• Dilutive effect of share options	2.52	2.13
Weighted average number of shares for calculating diluted earnings per share	113.48	113.06

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. 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 2021 and 1 January 2022	114,831	4,042	118,873
Acquisition of subsidiary	2,995	–	2,995
At 31 December 2022	117,826	4,042	121,868
Accumulated impairment losses			
At 1 January 2021, at 1 January 2022 and at 31 December 2022	–	–	–
Carrying amount			
At 31 December 2022	117,826	4,042	121,868
At 31 December 2021	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 CGU groupings to which goodwill is allocated cannot be larger than the operating segments of the business. Following the review of the Group's segmental disclosures, the Directors reassessed the CGU groupings for goodwill, resulting in the previous Housing grouping being split between Maintenance and Management. The revised calculations showed that no impairment is required at either 31 December 2022 or 31 December 2021.

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

	Goodwill arising on consolidation		Purchased goodwill		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Maintenance	65,290	62,295	4,042	4,042	69,332	66,337
Management	33,447	33,447	–	–	33,447	33,447
Housing with Care	19,089	19,089	–	–	19,089	19,089
	117,826	114,831	4,042	4,042	121,868	118,873

The Group's cash inflows are largely independent at the individual branch level and each branch is therefore considered a CGU. However, the goodwill of the Group contributes to the cash inflows of multiple CGUs. It is therefore allocated to groups of CGUs and monitored for internal management purposes primarily at the operating segment level. The goodwill of Housing with Care is separately monitored and therefore allocated to a separate group of CGUs to which it relates.

An asset is impaired if the carrying value exceeds the CGU's recoverable amount, which is based on value in use. At 31 December 2022 impairment reviews were performed by comparing the carrying value with the value in use for the groups of CGUs to which goodwill has been allocated.

The value in use for each group of CGUs 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 relevant 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
Maintenance	11.25%	14.43%	2.00%	1.70%
Management	11.25%	13.38%	2.00%	1.70%
Housing with Care	11.25%	14.55%	3.00%	1.90%

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.

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 the useful life of the resulting software, typically five to ten years
Software	• 25% p.a., reducing balance

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

	Acquisition intangibles				Development expenditure £'000	Software £'000	Total intangibles £'000
	Client relationships £'000	Order book £'000	Supplier relationships £'000	Total acquisition intangibles £'000			
Gross carrying amount							
At 1 January 2021	65,987	17,770	2,172	85,929	19,960	–	105,889
Additions	–	–	–	–	1,182	–	1,182
At 1 January 2022	65,987	17,770	2,172	85,929	21,142	–	107,071
Reclassification	–	–	–	–	–	6,087	6,087
Additions	–	–	–	–	1,090	274	1,364
Acquired with subsidiary	–	–	–	–	1,117	–	1,117
Disposals	(61,097)	(17,770)	(2,172)	(81,039)	–	(85)	(81,124)
At 31 December 2022	4,890	–	–	4,890	23,349	6,276	34,515
Amortisation							
At 1 January 2021	59,782	14,105	1,739	75,626	15,058	–	90,684
Provided in the year	3,556	3,665	433	7,654	2,123	–	9,777
At 1 January 2022	63,338	17,770	2,172	83,280	17,181	–	100,461
Reclassification	–	–	–	–	–	5,426	5,426
Provided in the year	245	–	–	245	1,849	206	2,300
Eliminated on disposal	(61,097)	(17,770)	(2,172)	(81,039)	–	(85)	(81,124)
At 31 December 2022	2,486	–	–	2,486	19,030	5,547	27,063
Carrying amount							
At 31 December 2022	2,404	–	–	2,404	4,319	729	7,452
At 31 December 2021	2,649	–	–	2,649	3,961	–	6,610

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's Housing job management system. During the year, the Group acquired a subsidiary, IRT Surveys Limited, which itself had internally developed software for the purpose of assessing residential properties for decarbonisation retrofits. More details of this acquisition can be found in note 28.

Development expenditure is amortised over its useful economic life of either five or ten years, depending on the resulting software. The weighted average remaining economic life of the asset is 3.9 years (2021: 3.1 years).

During the year, a reclassification was made for purchased software that had historically been recognised in Fixtures, fittings and equipment in Property, Plant and Equipment. This software is now recognised in Software above. The net book value of the software reclassified was £0.7m.

During the year, intangible assets that had been fully amortised in either the current or a prior period were reviewed and, where appropriate, disposed of, resulting in a reduction in gross carrying amount and accumulated amortisation.

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	• 20% p.a., straight line
Equipment	• 20% p.a., straight line
Fixtures and fittings	• 50% p.a., straight line
Motor vehicles	• 25% p.a., reducing balance

During the period, the Group reviewed its estimation of the useful economic lives of plant and machinery and equipment. As a result of this review, the rates of depreciation generally applicable for these categories were changed to 20% straight line from 25% reducing balance. The current year impact of this change in estimate of £2.1m was recognised as an expense during the year in Administrative expenses.

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 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 1 January 2022	1,027	24,395	1,558	29,355	984	–	57,319
Reclassification	–	–	–	(6,087)	–	–	(6,087)
Additions	1,635	4,508	–	1,988	–	–	8,131
Acquired with subsidiary	–	–	–	10	19	–	29
Disposals	–	(2)	(1,166)	(10,386)	(488)	–	(12,042)
At 31 December 2022	2,662	28,901	392	14,880	515	–	47,350
Depreciation							
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 1 January 2022	98	12,129	1,243	22,166	971	–	36,607
Reclassification	–	–	–	(5,426)	–	–	(5,426)
Provided in the year	17	3,914	227	3,856	7	–	8,021
Eliminated on disposals	–	(2)	(1,166)	(10,384)	(488)	–	(12,040)
At 31 December 2022	115	16,041	304	10,212	490	–	27,162
Carrying amount							
At 31 December 2022	2,547	12,860	88	4,668	25	–	20,188
At 31 December 2021	929	12,266	315	7,189	13	–	20,712

During the year, a reclassification was made for purchased software that had historically been recognised in Fixtures, fittings and equipment. This software is now recognised in Software in Intangible assets. The net book value of the software reclassified was £0.7m.

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 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 rolling credit facility (RCF) agreement, added to an appropriate base rate. The Group's RCF is linked to SONIA, so that is considered the most appropriate base rate to use.

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			Total £'000
	Investment property £'000	Residential property £'000	Residential property £'000	Offices £'000	Motor vehicles £'000	
Gross carrying amount						
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 1 January 2022	27,945	113,189	103,466	11,428	31,040	287,068
Additions*	2,193	3,438	38,441	608	8,008	52,688
Disposals	—	(3,019)	(5,921)	(1,529)	(1,491)	(11,960)
At 31 December 2022	30,138	113,608	135,986	10,507	37,557	327,796
Depreciation						
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 1 January 2022	4,583	21,620	40,406	5,399	10,111	82,119
Provided in the year	1,615	7,428	25,422	1,799	7,222	43,486
Eliminated on disposals	—	(2,901)	(5,516)	(1,529)	(1,295)	(11,241)
At 31 December 2022	6,198	26,147	60,312	5,669	16,038	114,364
Carrying amount						
At 31 December 2022	23,940	87,461	75,674	4,838	21,519	213,432
At 31 December 2021	23,362	91,569	63,060	6,029	20,929	204,949

* 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 £2.3m (2021: £1.7m). Direct operating expenses arising from investment property that generated rental income during the period was £3.6m (2021: £3.3m). 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 2021	901	65	966
Share of profit	855	–	855
Distributions received	(1,108)	–	(1,108)
At 1 January 2022	648	65	713
Share of profit	858	–	858
Distributions received	(300)	–	(300)
At 31 December 2022	1,206	65	1,271

Other investments represents the Group's 6.16% holding in Mason Topco Limited, which 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 (2021: none).

Associates

Set out below is the investment in an associate as at 31 December 2022, which in management's opinion is significant to the Group:

	Nature of relationship	Proportion held	Country of registration	Carrying value	
				2022 £'000	2021 £'000
Pyramid Plus South LLP	Associate	30%	England and Wales	1,206	648

Pyramid Plus South LLP is a repairs and maintenance service provider that is central to one of the Group's contracts. The Group's client for the contract holds the remaining 70% interest in the entity.

During the year, the Group received distributions of £0.3m (2021: £1.1m) from Pyramid Plus South LLP. Summarised financial information for Pyramid Plus South LLP for the year is shown below:

	2022 £'000	2021 £'000
Revenue and profits		
Revenue	21,600	19,866
Expenses	(18,738)	(17,017)
Profit for the year	2,862	2,849
Other comprehensive income	–	–
Total comprehensive income	2,862	2,849
Share of profit at 30%	858	855
Net assets		
Non-current assets	–	–
Current assets	7,795	6,498
Current liabilities	(3,763)	(4,291)
Non-current liabilities	–	–
Total assets less total liabilities	4,032	2,207

Cash and cash equivalents of £2.5m (2021: £1.9m) were included in current assets above.

The subsidiary undertakings within the Group at 31 December 2022 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Dormant
Careforce Group Limited	100%	England and Wales	Dormant
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
IRT Energy Limited	100%	Scotland	Dormant
IRT Surveys Limited	100%	Scotland	Housing technology provider
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Housing services
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	Housing services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Homes Limited	100%	England and Wales	Dormant
Mears Housing Management Limited	100%	England and Wales	Housing management 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 4 Limited	100%	England and Wales	Dormant
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services

Mears Learning Limited	90%	England and Wales	Dormant
Mears Limited	100%	England and Wales	Housing services
Mears New Homes Limited	100%	England and Wales	House building
Mears Property Company Limited	100%	England and Wales	Property acquisition
Mears Property Company 2 Limited	100%	Scotland	Property acquisition
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland (Services) Limited	66.67%	Scotland	Dormant
Mears Scotland LLP	66.67%	Scotland	Housing 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	Housing 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
Tando Homes Limited	100%	England and Wales	Housing management services
Tando Property Services Limited	100%	England and Wales	Housing management services

All subsidiary undertakings prepare accounts to 31 December.

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:

	2022 £'000	2021 £'000
Revenue and profits		
Revenue	63,061	54,447
Expenses and taxation	(61,764)	(54,539)
Profit for the year	1,297	(92)
Other comprehensive expense	–	–
Total comprehensive income	1,297	(92)
Profit/(loss) for the year allocated to non-controlling interests	690	144
Total comprehensive expense allocated to non-controlling interests	–	–
Net assets		
Non-current assets	93	178
Current assets	19,643	14,985
Current liabilities	(13,074)	(10,339)
Non-current liabilities	(1,963)	(1,393)
Total assets less total liabilities	4,699	3,431
Equity shareholders' funds	3,207	2,629
Non-controlling interests	1,492	802
Total equity	4,699	3,431

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 2022:

	Registration number
IRT Surveys Limited	SC227199
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 Limited	03662604
Mears Housing Management (Holdings) Limited	04726480
Mears Housing Portfolio (Holdings) Limited	10908305
Mears Housing Portfolio 4 Limited	10952906
Mears New Homes Limited	08780839
Mears Property Company Limited	14425736
Mears Property Company 2 Limited	SC750308
Mears Supported Living Limited	SC662805
MHM Property Services Limited	07448134
Morrison Facilities Services Limited	SC120550
MPM Housing Limited	03528320
MPS Housing Limited	11655167

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 new build residential construction projects where the eventual sale will be of the completed property. 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.

	2022 £'000	2021 £'000
Materials and consumables	1,329	1,650
Work in progress	5,550	21,219
	6,879	22,869

The Group consumed inventories totalling £93.9m during the year (2021: £167.3m). 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.

	2022 £'000	2021 £'000
Current assets:		
Trade receivables	21,483	28,571
Contract assets	84,797	97,680
Contract fulfilment costs	1,283	1,242
Prepayments and accrued income	13,257	9,277
Contingent consideration	–	6,531
Other debtors	7,514	5,004
Total trade and other receivables	128,334	148,305

Included in trade receivables is £4.3m (2021: £4.9m) 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:

	2022			2021		
	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	18,661	(986)	17,675	27,641	(1,110)	26,531
Less than three months past due	3,051	(504)	2,547	2,063	(429)	1,634
More than three months past due	1,946	(685)	1,261	5,873	(5,467)	406
Total trade receivables	23,658	(2,175)	21,483	35,577	(7,006)	28,571

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. During 2022, the Directors took the decision to write off debts of £3.0m in respect of historical ex-tenants where the prospect of recovery is limited. These debts had already been fully provided over a number of years, so there was no impact on the carrying value of trade receivables as a result of this decision.

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

	2022 £'000	2021 £'000
As at 1 January	7,006	8,165
Changes in amounts provided	1,208	196
Amounts utilised	(6,039)	(1,355)
As at 31 December	2,175	7,006

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

	2022 £'000	2021 £'000
As at 1 January	97,680	88,594
Recognised on completion of performance obligations	906,415	843,628
Invoiced during the year	(919,298)	(834,542)
As at 31 December	84,797	97,680

Included in other debtors is an amount of £2.9m (2021: £2.9m) recoverable from the Group's fronting insurers. An equal and opposite amount is also included within other creditors.

19. Trade and other payables

	2022 £'000	2021 £'000
Trade payables	55,854	69,555
Accruals	60,278	51,343
Social security and other taxes	26,343	29,724
Contract liabilities	23,672	27,843

Other creditors	4,866	5,582
	171,013	184,047

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:

	2022 £'000	2021 £'000
As at 1 January	27,843	25,330
Revenue recognised in respect of contract liabilities	(24,296)	(13,197)
Payments received in advance of performance obligations being completed	20,125	15,710
As at 31 December	23,672	27,843

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 (2021: £2.9m) 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:

	2022 £'000	2021 £'000
Current	44,376	41,600
Non-current	181,045	175,290
	225,421	216,890

The Group had not committed to any leases which had not commenced at 31 December 2022. 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:

	2022 £'000	2021 £'000
Short-term leases	46,683	46,780
Low value leases	1,096	879
Variable lease payments	1,236	1,550

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	2022 £'000	2021 £'000
Depreciation of right of use assets during the year	15	43,486	43,413
Additions during the year	15	52,688	50,044
Carrying value at the year end	15	213,432	204,949
Interest on lease liabilities during the year – continuing activities	5	7,617	6,952
Total cash outflow in respect of leases during the year	27	50,827	47,399

The Group's lease liabilities are subject to changes in certain key assumptions in estimating the IBRs used to calculate the liabilities. The IBRs used during the year ranged from 2.79% to 6.90%. The impact of an increase in all IBRs applied during 2022 by 0.5% is a £0.4m reduction in the lease liability and a £0.1m reduction in profit before tax.

21. Other non-current liabilities

Other non-current liabilities of £0.7m (2021: £nil) consist of deferred and contingent consideration due in more than one year, as described in note 24.

22. Provisions

Critical judgements and key sources of estimation uncertainty

By definition, provisions require estimates to be made of future outcomes and the eventual outflow may differ significantly from the amount recognised at the end of the year. The Directors have estimated provisions based on all relevant information available to them. For individually material provisions further information has been provided on the maximum likely outflow, in addition to the best estimate.

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 2022	1,400	730	2,343	4,473
Provided during the year	1,400	360	8,419	10,179
Utilised during the year	(2,800)	(255)	(2,817)	(5,872)
At 31 December 2022	–	835	7,945	8,780

In the year ended 31 December 2021, the Group identified a small number of maintenance contracts where the estimate of unavoidable costs of meeting contractual obligations exceeded the remuneration expected to be received. These were categorised as onerous contracts of £1.4m at 1 January 2022. The contracts all terminated during the course of 2022 and there is no remaining onerous contract provision.

Property provisions have been recognised during the year in respect of the expected costs of reinstating several office properties to their original condition.

At 1 January 2022, legal provisions of £2.3m related to various sub-contractor and employee related legal claims which were largely settled during the year. One of the subcontractor claims increased during the year and is still unresolved, with a provision of £1.5m at 31 December 2022. This is expected to be utilised within one year.

During the year, the Group took legal advice in respect of one particularly challenging client relationship and, believing that the client was acting in breach of contract, served a notice of termination. This matter was subsequently referred to Adjudication and the outcome of that process has ruled in favour of the former client. The consequence of this is that the former client can rely upon the Adjudicator's decision to bring a claim for damages. The Group has received an initial indication of damages from the claimant of £9.3m, however the claimant has refused to provide sufficient detail to support this figure, and the Directors dispute a number of estimates and assumptions which underpin the value. The Directors have carried out their own assessment, mindful of the limitation of the information provided. The Directors have considered a range of possible outcomes and have provided a sum of £5.7m, which they believe represents the best estimate of the likely outcome.

23. 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.

	2022 £'000	2021 £'000
Non-current provisions	3,110	3,800

Non-current provisions represent self-insured claims incurred but for which the final cost hasn't been agreed. £2.0m of the provision was utilised during the year and £1.3m 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.

24. 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 and other non-current debtors 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 trade payables, lease liabilities, deferred and contingent consideration and other creditors. They are included in the Consolidated Balance Sheet line items 'Trade and other payables', 'Lease liabilities' and 'Other non-current liabilities'.

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.

Categories of financial instruments

	2022 £'000	2021 £'000
Non-current assets		
Fair value (level 3)		
Investments – other investments	65	65
Amortised cost		
Loan notes and other non-current debtors	4,073	3,476
Current assets		
Fair value (level 3)		
Contingent consideration	–	6,531
Amortised cost		
Trade receivables	21,483	28,571
Other debtors	7,514	5,004
Short-term financial assets	1,963	–
Cash at bank and in hand	98,138	54,632
	129,098	88,207
Non-current liabilities		
Fair value (level 3)		
Contingent consideration	(438)	–
Amortised cost		
Lease liabilities	(181,045)	(175,290)
Deferred consideration	(244)	–
	(181,289)	(175,290)
Current liabilities		
Amortised cost		
Trade payables	(55,854)	(69,555)
Lease liabilities	(44,376)	(41,600)
Other creditors	(4,614)	(5,582)
Deferred consideration	(252)	–
	(105,096)	(116,737)
	(153,587)	(193,748)

The amount recognised as an allowance for expected credit losses on trade receivables during 2022 was £1.2m (2021: £0.2m).

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 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 approximates to the book value as disclosed above.

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.

The Group had total borrowing facilities of £73.0m with Barclays Bank PLC, HSBC Bank PLC and Citi, of which £nil was utilised at 31 December 2022.

The facilities comprise a committed four-year £60.0m revolving credit facility and unsecured overdraft facilities of £13.0m.

Details of the Group's banking covenants are provided on page 58 of the Annual Report.

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.

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.

At 31 December 2022 the Group had minimal exposure to movements in interest rates as it had no drawn borrowings.

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 undiscounted 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
2022					
Non-derivative financial liabilities					
Trade and other payables	55,854	–	–	–	55,854
Lease liabilities	47,320	37,821	68,502	116,218	269,861
Other creditors	4,614				4,614
Deferred and contingent consideration	260	860			1,120
2021					
Non-derivative financial liabilities					
Trade and other payables	69,555	–	–	–	69,555
Lease liabilities	42,302	30,769	63,899	123,394	260,364
Other creditors	5,582	–	–	–	5,582

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. Their carrying value including accumulated interest at 31 December 2022 was £3.8m (2021: 3.5m).

Short-term financial assets

Short-term financial assets are fixed-term deposits with financial institutions with a maturity of more than three months at inception. Similar deposits with a maturity of three months or less at inceptions are presented within cash and cash equivalents. All short-term financial assets have a maturity at inception of 12 months or less and are held for the purpose of generating returns.

Deferred and contingent consideration receivable

The table below shows the movements in deferred and contingent consideration receivable:

	Deferred £'000	Contingent £'000	Total £'000
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 1 January 2022	–	6,531	6,531
Movement in fair value of contingent consideration	–	802	802
Received during the year	–	(7,333)	(7,333)
At 31 December 2022	–	–	–

Deferred and contingent consideration payable

The table below shows the movements in deferred and contingent consideration payable:

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2021 and 1 January 2022	–	–	–
Fair value of deferred and contingent consideration on acquisition of IRT	496	438	934
At 31 December 2022	496	438	934

Deferred consideration payable is initially measured at fair value by discounting the contractual amount due using a discount rate based on the assessed cost of debt for the Group. It is subsequently measured at amortised cost.

Contingent consideration payable is measured at fair value based on the Director's expectation of the amount that will be payable. The factors determining the amount payable are detailed in note 28. This figure is then discounted at a rate in line with the weighted average cost of capital of the Group. The value of contingent consideration could vary by up to £0.4m based on the factors detailed in note 28.

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.

25. 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 2022 £'000	At 31 December 2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Pension schemes	(5,800)	(8,315)	66	(1,003)	2,449	(8,809)
Share-based payments	704	588	(26)	79	142	228
Cash-flow hedges	–	–	–	–	–	(178)
Tax losses	–	249	(249)	(1,030)	–	–
Provisions	–	149	(149)	73	–	–
Acquisition intangibles	(601)	(662)	61	1,213	–	–
Capital allowances	317	647	(330)	(676)	–	–
Leases	625	668	(43)	107	–	–
Fair value of software development	(143)	–	3	–	(146)	–
	(4,898)	(6,676)	(667)	(1,237)	2,445	(8,759)

Other movements are recognised in the Consolidated Statement of Comprehensive Income in respect of pension schemes and in the Consolidated Statement of Changes in Equity in respect of share-based payments. Deferred tax on the fair value of software development was recognised directly in the balance sheet on the acquisition of IRT Surveys, as described in note 28.

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 (2021: £25.5m) 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.

26. 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 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

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
At 1 January 110,926,510 (2021: 110,881,897) ordinary shares of 1p each	1,109	1,109
Issue of 74,379 (2021: 44,613) shares on exercise of share options	1	–
At 31 December 111,000,889 (2021: 110,926,510) ordinary shares of 1p each	1,110	1,109

During the year 74,379 (2021: 44,613) ordinary 1p shares were issued in respect of share options exercised.

27. 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:

	2022 £'000	2021 £'000
Depreciation	51,508	49,024
(Profit)/loss on disposal of assets	(224)	245
Amortisation	2,299	9,777
Share-based payments	599	575
IAS 19 pension movement	859	(933)
Share of profits of associates	(858)	(855)
Finance income	(2,033)	(835)
Finance cost	8,374	8,904
Total	60,524	65,902

Movements in financing liabilities during the year are as follows:

	Revolving credit facility £'000	Lease liabilities £'000	Total £'000
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	647	–	647
Cash outflows including in respect of interest	(40,966)	(47,430)	(88,396)
At 1 January 2022	–	216,890	216,890
Inception of new leases*	–	52,688	52,688
Termination of leases	–	(947)	(947)
Interest	424	7,617	8,041
Arrangement fees	201	–	201
Cash outflows including in respect of interest	(625)	(50,827)	(51,452)
At 31 December 2022	–	225,421	225,421

* Including modifications to existing leases resulting in a change in lease liabilities.

Cash outflows in respect of lease liabilities include £7.6m (2021: £6.9m) in respect of interest paid and £43.2m (2021: £40.3m) in respect of discharge of the underlying lease liabilities. In 2021, an additional £0.2m was included in cash outflows from financing activities of discontinued operations, in respect of lease liabilities.

28. Business combinations

Accounting policy

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 as well as any other changes in the assets and liabilities acquired, 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.

Critical judgements and key sources of estimation uncertainty

The allocation of the purchase consideration between goodwill and the fair value of the acquired intangible assets involved judgement and estimation in respect of certain key assumptions that underpin the value of the software development intangible. In particular, the useful life of the underlying software resulting from the development expenditure is a key input into the valuation. If the valuation of the intangible assets was changed, this would result in a complementary change in the amount of goodwill recognised.

On 12 August 2022 the Group acquired the entire issued share capital of IRT Surveys Limited (IRT). IRT provides a range of data-led services focused on addressing fuel poverty, decarbonisation and energy efficiency. IRT has developed a proprietary technology platform (DREam) that has been engineered to assess the energy performance of housing portfolios and provide solutions for the most efficient way to complete retrofits.

The acquisition was undertaken in order to enhance the Group's offering in its Housing segment, particularly with respect to future decarbonisation projects that will be increasingly important to clients in reaching their Net Zero targets.

The total consideration for the transaction was up to £4.3m made up of £3.2m cash paid on the acquisition date plus up to £1.1m of consideration payable over the course of two years and partly contingent on the performance of IRT in that time. The Directors have assessed the fair value of this contingent consideration as £0.9m based on the present value of the expected consideration to be paid.

The effect of the acquisition of IRT is disclosed below:

	£'000
Assets	
Non-current	
Intangible assets	1,117
Property, plant and equipment	29
Current	
Trade and other receivables	213
Cash and cash equivalents*	224
Total assets	1,583
Liabilities	
Current	
Trade and other payables	(332)
Lease liabilities	(3)
Non-current	
Lease liabilities	(11)
Total liabilities	(346)
Net assets acquired at fair value	1,237
Deferred tax recognised in respect of fair value adjustments	(146)
	1,091
Goodwill	2,995
	4,086
Satisfied by:	
- cash	3,152
- fair value of deferred consideration	496
- fair value of contingent consideration	438
	4,086

* Cash and cash equivalents includes £0.05m in respect of the exercise price of share options held by employees of IRT and exercised immediately prior to acquisition.

The only significant fair value adjustment to the carrying value of IRT assets and liabilities was for the intangible asset in respect of software development, which was increased by £0.6m from the carrying value. The Group engaged a third-party expert in order to determine the fair value of this asset, using the excess earnings method. The fair value adjustment will be amortised over 10 years, in line with the underlying development expenditure. Due to the relatively short period between the acquisition and the year end, the initial accounting for the acquisition remains provisional. However, the Directors do not anticipate significant movements in the values recognised above in the remaining measurement period.

The valuation of the software development intangible is primarily sensitive to changes in the estimated useful life of the software. This estimated useful life was arrived at through discussions with the developers of the obsolescence rate of the software, taking into account historical information and expected future developments. Reducing the estimated useful life of the software by two years would result in a £0.3m reduction in its fair value.

The Directors consider that the value assigned to goodwill represents the benefits arising from the enhanced offering now available to the Group's existing and future clients. This synergy would not necessarily be available to typical market participants and therefore results in a higher proportion of goodwill arising from this acquisition.

Deferred consideration of £0.5m is payable in two instalments, both one year and two years after acquisition. Contingent consideration is payable two years after acquisition with an undiscounted range of £nil to £0.6m based upon the increase in the number of properties serviced by the DREAm platform over the course of the two years.

The fair value of Trade and other receivables at acquisition was as disclosed in the table above. The gross contractual amounts receivable were £0.3m and £0.1m was not expected to be collected as at the date of acquisition. There has been no change in the Group's assessment of the recoverability of those amounts since acquisition.

In the period ended 31 December 2022, the acquisition contributed revenue of £0.2m and an operating loss of £0.1m. Costs relating to the acquisition of £0.1m have been expensed in the year and are recognised in Administrative expenses in the Consolidated Statement of Profit or Loss.

For the year ended 31 December 2022, had the acquisitions taken place on 1 January 2022, the combined Group full year revenue is estimated at £960.0m and the combined Group profit for the year before taxation is estimated at £34.9m.

Included within Trade and other payables in the table above is £0.04m of bank loans which were repaid following acquisition.

29. 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 advisers 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 £4.4m (2021: £4.0m) to these schemes.

Defined benefit schemes

The Group participated in 17 (2021: 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 Group PLC, 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 (2021: two) Group defined benefit schemes and the 15 (2021: 21) other defined benefit schemes in this note have been aggregated. Details of movements in pension guarantee assets are presented in a separate table.

Costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2022 by qualified independent actuaries using the projected unit funding method.

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

	2022	2021
Rate of increase of salaries	3.00%	3.00%
Rate of increase for pensions in payment – based on CPI with a cap of 5%	2.55%	2.55%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	2.80%	2.90%
Rate of increase for pensions in payment – based on CPI with a cap of 3%	2.05%	2.15%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	2.20%	2.35%
Discount rate	4.75%	2.00%
Retail prices inflation	3.00%	3.00%
Consumer prices inflation	2.60%	2.60%
Life expectancy for a 65-year-old male*	21.5 years	21.5 years
Life expectancy for a 65-year-old female*	24.1 years	24.1 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:

	2022			2021		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Quoted assets						
Equities	–	59,914	59,914	–	139,695	139,695
Bonds	103,829	21,380	125,209	109,157	62,509	171,666
Property	4,193	957	5,150	5,075	22,893	27,968
Pooled investment vehicles						
Multi-asset funds	17,417	1,068	18,485	75,002	4,085	79,087
Alternative asset funds	4,783	78	4,861	9,840	226	10,066
Return seeking funds	2,035	746	2,781	2,035	333	2,368
Other assets						
Equities	–	14,447	14,447	–	14,133	14,133
Bonds	–	4,004	4,004	–	3,170	3,170
Property	–	10,174	10,174	–	4,275	4,275
Derivatives	1,822	291	2,113	1,979	331	2,310
Cash and other	6,153	20,639	26,792	4,470	44,921	49,391
Investment liabilities						
Derivatives	(12,209)	(9)	(12,218)	(10,646)	–	(10,646)
Group's estimated asset share	128,023	133,689	261,712	196,912	296,571	493,483
Present value of funded scheme liabilities	(104,351)	(98,412)	(202,763)	(159,261)	(275,828)	(435,089)
Funded status	23,672	35,277	58,949	37,651	20,743	58,394
Scheme surpluses not recognised as assets	–	(38,413)	(38,413)	–	(37,738)	(37,738)
Pension asset/(liability)	23,672	(3,136)	20,536	37,651	(16,995)	20,656
Pension guarantee assets	–	3,136	3,136	–	12,975	12,975

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

	2022			2021		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	1,705	3,553	5,258	2,154	4,277	6,431
Settlement and curtailment	–	(242)	(242)	–	(687)	(687)
Administration costs	409	–	409	545	–	545
Total operating charge	2,114	3,311	5,425	2,699	3,590	6,289
Net interest	(769)	(464)	(1,233)	(69)	282	213
Effects of limitation of recognisable surplus related to net interest	–	643	643	–	152	152
Total charged to the result for the year	1,345	3,490	4,835	2,630	4,024	6,654

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

	2022			2021		
	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	(70,326)	(25,802)	(96,128)	12,093	11,691	23,784
Actuarial gain arising from changes in demographic assumptions	8	(34)	(26)	292	1,001	1,293
Actuarial gain/(loss) arising from changes in financial assumptions	58,597	86,474	145,071	17,044	31,648	48,692
Actuarial gain/(loss) arising from liability experience	(2,994)	(737)	(3,731)	4,364	8,032	12,396
Effects of limitation of recognisable surplus related to OCI movements	–	(48,227)	(48,227)	–	(26,444)	(26,444)
Total gains and losses recognised in OCI	(14,715)	11,674	(3,041)	33,793	25,928	59,721

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

	2022			2021		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	159,261	275,828	435,089	181,184	320,186	501,370
Current service cost	1,705	3,553	5,258	2,154	4,277	6,431
Interest on obligations	3,144	4,094	7,238	2,413	3,808	6,221
Plan participants' contributions	210	470	680	236	540	776
Benefits paid	(4,358)	(6,407)	(10,765)	(5,026)	(6,348)	(11,374)
Contract transfer	–	(92,419)	(92,419)	–	(2,212)	(2,212)
Settlements	–	(1,004)	(1,004)	–	(3,742)	(3,742)
Actuarial gain arising from changes in demographic assumptions	(8)	34	26	(292)	(1,001)	(1,293)
Actuarial (gain)/loss arising from changes in financial assumptions	(58,597)	(86,474)	(145,071)	(17,044)	(31,648)	(48,692)
Actuarial (gain)/loss arising from liability experience	2,994	737	3,731	(4,364)	(8,032)	(12,396)
Present value of obligations at 31 December	104,351	98,412	202,763	159,261	275,828	435,089

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

	2022			2021		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	196,912	296,571	493,483	185,436	288,491	473,927
Expected return on plan assets	3,913	4,558	8,471	2,482	3,526	6,008
Employer's contributions	2,081	1,432	3,513	2,236	3,279	5,515
Plan participants' contributions	210	470	680	236	540	776
Benefits paid	(4,358)	(6,407)	(10,765)	(5,026)	(6,348)	(11,374)
Scheme administration costs	(409)	–	(409)	(545)	–	(545)
Contract transfer	–	(136,371)	(136,371)	–	(1,553)	(1,553)
Settlements	–	(762)	(762)	–	(3,055)	(3,055)
Return on plan assets above that recorded in net interest	(70,326)	(25,802)	(96,128)	12,093	11,691	23,784
Fair value of plan assets at 31 December	128,023	133,689	261,712	196,912	296,571	493,483

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

	2022 £'000	2021 £'000
Fair value of guarantee assets at 1 January	12,975	30,705
Transferred in on scheme entry	525	5,710
Transferred out on scheme exit	(4,768)	(6,369)
Recognised in the Consolidated Statement of Profit or Loss		
Guarantee asset movement in respect of service cost	1,053	1,707
Guarantee asset movement in respect of net interest	105	240
Recognised in other comprehensive income		
Guarantee asset movement in respect of actuarial losses	(6,754)	(19,018)
Fair value of guarantee assets at 31 December	3,136	12,975

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 2023 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 2022.

	Decrease £'000	Increase £'000
Rate of inflation – decrease/increase by 0.1%	(2,435)	2,435
Rate of increase in salaries – decrease/increase by 0.1%	(723)	723
Discount rate – decrease/increase by 0.1%	3,013	(3,013)
Life expectancy – decrease/increase by 1 year	(6,533)	6,533

30. Capital commitments

The Group had no capital commitments at 31 December 2022 or at 31 December 2021.

31. Contingent liabilities

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2022 these guarantees amounted to £13.1m (2021: £15.7m).

The Group had no other contingent liabilities at 31 December 2022 or at 31 December 2021.

32. Related party transactions

Identity of related parties

The Group has a related party relationship with its pension schemes, its subsidiaries and its Directors.

Pension schemes

Details of contributions to pension schemes are set out in note 29.

Subsidiaries

The Group has a central treasury arrangement in which all subsidiaries participate. Management does not consider it meaningful to set out details of transfers made in respect of this treasury arrangement between companies, nor does it consider it meaningful to set out details of interest or dividend payments made within the Group.

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group PLC.

Key management personnel held the following percentage of voting shares in Mears Group PLC:

	2022 %	2021 %
Directors	0.5	0.6

Key management personnel's compensation is as follows:

	2022 £'000	2021 £'000
Salaries including social security costs	1,714	1,659
Contributions to defined contribution pension schemes	134	134
Share-based payments	434	146
	2,282	1,939

Further details of Directors' remuneration are disclosed within the Remuneration Report.

Dividends totalling £0.06m (2021: £0.02m) were paid to Directors during the year.

Transactions with other related parties

During the year the Group provided maintenance services to Pyramid Plus South LLP, an entity in which the Group is a 30% member, totalling £10.2m (2021: £10.2m). Pyramid Plus South LLP also made recharges of certain staff costs to the Group totalling £0.2m (2021: £0.2m). At 31 December 2022, £1.0m (2021: £1.0m) was due to the Group in respect of these transactions.